

REPORT TO: CHIEF EXECUTIVE

DATE: 21 APRIL 2020

TITLE: HTS (HOUSING AND REGENERATION)
COMPANY BUSINESS PLAN

PORTFOLIO HOLDER: COUNCILLOR MARK INGALL, LEADER OF THE
COUNCIL

LEAD OFFICERS: SENIOR MANAGEMENT BOARD (01279) 446004

This is a Key Decision
It is on the Forward Plan as Decision Number I011169
Call-in Procedures may apply
This decision will affect no ward specifically.

RECOMMENDED that:

- A** The HTS (Housing & Regeneration) Limited Business Plan (attached as Appendix A to the report) is approved.
- B** Decisions relating to the details of the loans and/or equity investments in the company are delegated to the Chief Executive and Deputy to the Chief Executive and Head of Finance and Property in consultation with the Leader of the Council and Portfolio Holder for Resources.
- C** The approval of the Company Memorandum and Articles of HTS (H&R) Limited to facilitate the objectives set out in this report and to enable the company to commence trading is delegated to the Chief Executive in consultation with the Leader of the Council
- D** Operational matters relating to the start-up of the company such as banking arrangements, VAT registrations and other administrative matters are delegated to the Deputy to the Chief Executive and Head of Finance and Property in consultation with the Portfolio Holder for Resources and Portfolio Holder for Regeneration.

REASON FOR DECISION

- A** To enable Harlow Trading Services (Housing & Regeneration) Limited, a company wholly owned by the Council, to commence trading. Activity will initially be focussed on the acquisition, renovation, management and development of properties for rent with an intention to broaden trading to include house building and other regeneration schemes subject to satisfying viability assessments.

BACKGROUND

1. Harlow is a compact New Town at the heart of the London to Cambridge Innovation Corridor consisting of self-contained local neighbourhoods with a variety of shopping hatches and employment areas aligned with the design principles of Sir Frederick Gibberd.
2. The Council continues to work with its partners to deliver the Harlow and Gilston Garden Town initiative intended to generate new communities in and around Harlow and to stimulate to regeneration of the Town Centre. Whilst this project is progressing well the delivery of homes will be in future years with significant infrastructure projects to be delivered to enable sustainable development.
3. Harlow's proximity to London, the issues brought about by the national and worldwide economy, welfare reforms and more recently the country's exit from the European Union have all contributed to a unique housing pressure locally.
4. The local Housing Needs Register currently has around 4,500 people and families waiting to be suitably housed and there is a growing issue both nationally and locally in respect of homelessness. Housing and social issues created through the use of the conversion of commercial properties to residential accommodation through the Permitted Development planning regulations has been a particular problem for Harlow in recent years. People and families have been removed from their social and support networks and placed in unfamiliar and unsuitable temporary accommodation created through permitted development.
5. The need for more housing of all tenures is acutely apparent with the Corporate Plan identifying that the top priority for the Council remains the delivery of 'More and Better Housing'. As a driver to deliver this ambition the Council has continued to define its capital programme as approved at the February Council meeting to include the funding for schemes within its own ownership and control.
6. The Council has also established its own housing company, Harlow Trading Services (Housing and Regeneration) Ltd (HTS (H&R)), with the ambition to utilise the business to further help and support the Council in its delivery of housing and supporting other regeneration schemes within the town.

ISSUES/PROPOSALS

7. Having registered HTS (H&R) Ltd as a company detailed work has been undertaken to determine the best and lowest risk options for its initial period of trading. During this time the Council has also worked to develop its own projects for housing delivery as reflected within the Housing and Non Housing Capital Programmes previously presented to Cabinet and Council.
8. Key issues impacting on the company have involved the difficulty of establishing a new start-up business with no asset holdings and no immediate cash flow or trading capital to facilitate property development schemes. Such schemes can

take time and financial investment to bring to fruition before any trading income or profits can be generated.

9. Current Government policy is also creating a barrier to the delivery of new housing through the restriction on the use of the retained pooled receipts generated from the sale of existing council housing through the Right to Buy scheme (RTB).
10. Having evaluated the options for the company and further developed its Business Plan this report recommends that the company commences trading, subject to finalising all related administrative and legal matters.
11. Within the rental portfolio, rental levels cannot be specifically determined at this stage. The rents will be set commensurate with the company's need to remain financially viable in the long term but will be aimed at a balanced mix of social, affordable and market rents as required and influenced by the costs to the company of acquiring, preparing the properties and ongoing management and maintenance costs over the long term.
12. The long term aim of the company in the rental area will to be seen as an exemplar landlord operating to high standards and offering high quality homes to those in housing need within Harlow, providing the maximum ratio of social rents possible.
13. Whilst initial trading will be focussed on the development of a sustainable rental property portfolio the company will also continue to explore options to become a viable developer of other housing projects and regeneration schemes. The schemes must be able to deliver a profit to the business and within the legislative framework at the time.

Business Plan and Financial Performance.

14. HTS (H&R) Limited is a property development company with a focus on providing high quality and affordable residential properties through acquisition and development.
15. Aligned with the current group structure key decisions will be overseen by the Shareholder Sub Committee within its existing approved Terms of Reference which may be subject to review.
16. Governance arrangements for the company are referred to within the initial Business Plan appended to this report and are aligned with the current HTS Group governance structure.
17. The company is wholly owned by HTS Group Limited and hence ultimately by the Council as the sole shareholder. The company will initially be funded by debt and/or equity provided by the Council and it is anticipated that the initial facility will be for up to £1.5 million enabling initial trading and acquisition of between 5 and 10 rental units.

18. The Council's interest in the company will be secured against the asset value held by the company in the form of the properties acquired with debt and interest being repaid as rental income is secured.
19. All details relating to the loans and/or equity relating to the initial financing deal will be dealt with under delegations by the Chief Executive and Head of Finance and Deputy to the Chief Executive.
20. Key drivers for success are set out in the Business Plan and will be underpinned by:
 - a) The ability to acquire homes at competitive prices
 - b) Securing competitive management and maintenance costs for rented homes whilst achieving high quality standards.
 - c) Keeping rental void periods and void repairs periods to a minimum through effective marketing, letting and property turnaround.
 - d) Keeping rent loss to a minimum by taking appropriate debt recovery action including property repossession if needed.
 - e) Ensuring cashflow is sufficient to cover debt interest charges and repayments.
21. The principle terms of the loan agreements to the company will include:
 - a) Provided for the purposes of acquisition of affordable housing delivery.
 - b) Security against the Company's assets in favour of the Council as lender in the form of a first charge on the properties.
 - c) Requirements for the Company to provide full acquisition/development details to the lender before the loan facility can be drawn down.
 - d) Applicable interest rates which will be deemed commercially sensitive will be determined at the point of draw down and in line with legal advice.
22. The business plan will be monitored against a range of performance indicators both financial and non-financial to include but not exclusively:
 - a) Rental Yield (Net Rent/Asset Value)
 - b) Rent collection %
 - c) Occupancy Rate
 - d) Debt/Equity Ratio

- e) Void %
- f) Void turnaround
- g) Rent Arrears.

IMPLICATIONS

Environment and Planning (Includes Sustainability)

The company can contribute towards the Council's objectives of increasing housing supply, creating a wider choice of housing and delivering the Local Plan. Should the opportunity to undertake housing development become viable each site will be required to secure planning consent and there is also an opportunity for the company to utilise the Council's Building Control services in the delivery of its projects.

Author: Andrew Bramidge, Head of Environment and Planning

Finance (Includes ICT, and Property and Facilities)

The financial implications are set out in the report. The Council will be the provider of loan finance and equity finance to the company secured against the asset portfolio.

Author: Simon Freeman, Head of Finance and Deputy to the Chief Executive

Housing

As contained within the report.

Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)

As contained within the report.

Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)

The report ensures that the Council complies with Regulation 2 of The Local Government (Best Value Authorities (Power to Trade) (England) Order 2009 through the approval of the business plan prior to trading. The Council has a public sector equality duty (Equality Act 2010 s149) to effectively minimise disadvantage to people who share protected characteristics. This proposal positively supports the duty by seeking to improve the provision of Council housing increasing the availability of decent accommodation for those qualifying for such assistance.

Author: Simon Hill, Head of Governance

Appendices

Appendix A – HTS (Housing & Regeneration) Limited Business Plan.

Background Papers

None.

Glossary of terms/abbreviations used

None.