

**REPORT TO:** SHAREHOLDER SUB COMMITTEE

**DATE:** 20 APRIL 2023

**TITLE:** CONSIDERATION OF THE FUTURE OF THE BUSINESS PLAN PROPOSALS REGARDING HTS HOUSING AND REGENERATION AND HTS CONSTRUCTION COMPANIES.

**LEAD OFFICER:** SENIOR MANAGEMENT BOARD (01279) 446004

**RECOMMENDED that the Sub Committee:**

- A** Notes the findings of the independent reports that have been commissioned regarding the Housing and Regeneration Company and the Construction Company proposals.
- B** Approves the Housing and Regeneration company is not expanded as proposed in the March 2022 Business Plan.
- C** Subject to recommendation B, requests that the HTS (H&R) Board consider the following options and report back to the shareholder on the decisions taken -
  - (i) Considers the disposal of the 5 (five) properties currently operated by the company and the repayment of the outstanding debt associated with them to the council (its lender) as soon as is practicably possible and once any existing tenancies have been terminated/vacated or
  - (ii) Agrees that the properties remain in the ownership of HTS (H&R) Ltd and continue to be managed and let by the company for the foreseeable future.
- D** Agrees not to proceed with the creation and expansion of the Construction Company as set out in the March 2022 HTS Business.
- E** Agrees the proposals set out in the Construction Company report undertaken by Local Partnerships to deliver the new build programme through a Joint Venture arrangement.

## **BACKGROUND**

1. In recommending that the HTS Business Plan was approved in March 2022, the SSC also requested that further work was carried out to assess two of the proposals set out within the plan. The proposals related to the significant expansion of the Housing and Regeneration subsidiary and the establishment of a new Construction subsidiary.
2. Two independent reports were subsequently commissioned as a result of the requirements of the SSC, one to consider the expansion of the Housing and

Regeneration Company and one to consider the establishment of a Construction Company. Both reports are attached to this report at Appendix A and Appendix B respectively.

## **ISSUES/PROPOSALS**

### **Housing and Regeneration Ltd**

3. Madison Brook was commissioned by HTS to undertake an independent assessment of the viability of significant upscaling of the current Housing and Regeneration subsidiary. The business Plan proposals in respect of the subsidiary were to increase the property portfolio from the existing 5 properties to 125 properties to let over a five-year period.
4. The work carried out by Madison Brook and detailed within their report identified that the current market conditions (as at June 2022) were strong in terms of an excess of demand in the private rented sector across Harlow and with house prices in some areas of the town below the market average. It also highlighted that the major demand existed for two-bedroom properties and that the demand was being driven by first time buyers and upsizing young families.
5. The review work identified that the optimum model to ensure that a return on investment was achieved (other than capital appreciation) required circa 30% equity in cash with 70% commercial loans to finance the remaining acquisition costs. This provided a projected positive return on both 2 and 3 bed properties at interest rates of up to 4%.
6. To expand the rental activity up to 125 properties (i.e a growth of 120 properties compared with the current portfolio) would require equity input in the region of £13million. At the current time neither HTS nor HDC has that level of available funding to make the required equity investment without reverting to external borrowing to fund the equity.
7. Given this situation the modelling carried out within the report identifies that should the equity be funded through Public Works Loan Board borrowing then the expansion proposals cannot provide a positive commercial model for the business – and this modelling was at interest rates which have now been exceeded (PWLB is currently available at rates in the region of 4.6 – 4.8 % compared to the modelling at 3.5 -4.0%)
8. Whilst the opportunity offered by expansion of the rental business is on the face of it attractive the modelling has clearly demonstrated that it is not possible to do this in a commercially viable way when equity injections require external borrowing to facilitate it.

### **Construction Company subsidiary.**

9. As with the H&R review, Local Partnerships were commissioned by the Council

as shareholder to undertake an options appraisal regarding the proposals to establish a construction company as a further HTS subsidiary as agreed by the Shareholder Sub Committee in March 2022.

10. The full report produced by Local Partnerships is attached as Appendix B to this report and the scope of that commission is detailed within the introduction section. The report was undertaken and completed in final draft in November 2022 with the main focus being on the Councils' ambitions and requirement for new housebuilding over the next five years and the optimum delivery vehicles that could be available to ensure that delivery.
11. The review considered the housebuilding ambitions and the proposed phasing of the delivery of the targeted new house building programme.
12. The Local Partnerships report considered the local market, other competitors already operating under a LATCo or similar model and the economic climate in which any house building operation would be required to operate. The research carried out identified an initial long list of 8 potential operating models which were then evaluated and scored against a set of predetermined criteria as set out in section 8 of the attached report.
13. Having undertaken the initial evaluation the results identified that the highest scoring option that would or could meet the majority of the Council's objectives would be the establishment of a joint venture (JV) with an existing housebuilder/Housing Association where there would be no involvement of HTS in housing delivery.
14. The report considered that the risks, both financial and other, of other options that scored less well than the JV option would either not be acceptable to the Council or could put the delivery aspirations for new homes at significant risk.
15. The report also determines that in order to have confidence in relation to the delivery of the new house building programme that upfront investment will be required to provide detailed and site-specific survey work on each of the proposed house building sites. This will be essential to ensure that the Council receives high quality bids from potential JV partners.

## **CONCLUSIONS**

16. The committee requested specific review work was carried out during 2022/23 to determine what options should be pursued by the Council with regard to HTS Housing and Regeneration Ltd and the proposals to establish a further subsidiary to undertake house building on behalf of the shareholder.
17. The reviews were carried out by independent consultancies and have identified the findings as set out in this report and as detailed in the associated appendices to it.

18. In respect of the expansion of the H&R company the Madison Brook report clearly identifies that the viability of the expansion of the rental property activity is dependent on the availability funding for the injection of equity into the expansion proposal. At the current time that funding is not available through either HTS or HDC without undertaking additional external borrowing and if this borrowing was to be secured the funding model cannot deliver a positive return on the investment made after servicing debt. It should also be noted that the underlying interest rates in the market have increased since the study was concluded and that the current rates would worsen the forecasts that were produced from the modelling.
19. The options for scaling up the delivery of the new house building programme involved the evaluation of a range of delivery vehicles including a number involving HTS. Through the evaluation process undertaken by Local Partnerships it has been determined that the options with the greatest probability of success would be through the appointment of a programme wide or site specific joint venture partner.

## **IMPLICATIONS**

### **Strategic Growth and Regeneration**

On the basis of the recommendations set out in the attached reports, the Council is now moving forward with the appointment of a Joint Venture Investment Partner to work with the Council on the delivery of its housebuilding and regeneration programmes.

**Author: Andrew Bramidge, Chief Executive**

### **Finance**

None Specific. although subject to the decisions taken the impacts on the overall HTS Business Plan will need to be considered.

**Author: Simon Freeman, Deputy Chief Executive and Director of Finance**

### **Housing**

As contained in the report.

**Author: Andrew Murray, Director of Housing**

### **Communities and Environment**

As set out in the report.

**Author: Norah Nolan, Assistant Director – Environment**

### **Governance and Corporate Services**

Proposals concur with the caveated decision taken on the original business plan and if approved will require the winding up of the Company accordingly.

**Author: Simon Hill, Director of Governance and Corporate Services**

## **Appendices**

Appendix A – Madison Brooke – Feasibility Report for HTS

Appendix B – Construction Company Report.

**Background Papers**

None.

**Glossary of terms/abbreviations used**

HTS – HTS (Property and Environment) Ltd