

HTS (Housing and Regeneration) Property Options



Report to: Shareholder Sub Committee

Date: 27 September 2023

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Recommended that:

- A** The Committee note the progress outlined in the report and the preferred option to be agreed by the HTS Board for the disposal of the rental properties held by the company.

Background

1. At the Shareholder Sub Committee meeting held on 20 April 2023 the HTS (H&R) Board were requested to consider -
 - (i) 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.
2. This report highlights options that have been identified in addition to those set out in the April report and proposes preferred options for the disposal of the 5 rental properties.

Issues/Proposals

3. The properties are currently all occupied by tenants on non-secured shorthold tenancies. There are two properties let on a social rent, two on affordable rents and one property is let at a full market rent. Two properties (neither of which are the social rent properties) have arrears but both are on a payment plan and have engaged with HTS as the landlord on these issues.

4. Having considered the recommendations made by the Committee in April, further work has been undertaken following the appointment of the Interim HTS Managing Director and Interim HTS Finance Director. Discussions have taken place with the company's financial advisors, Ensors, and the following options have been identified –

Option 1 – Sell all five properties at Existing Use Value (EUV) to Harlow Council with existing tenants in place. HDC would effectively bring the properties in to its own housing stock and undertake the ongoing management of the properties and the tenancies. This option could open up the opportunity to utilise some of the retained Right to Buy receipts to meet part of the costs of the acquisition. With this option, the existing tenants will remain in situ on their existing lease terms.

Option 2 – Sell all five properties at Open Market Value (OMV) to Harlow Council. This option requires that vacant possession is obtained prior to sale requiring existing tenancies to be terminated via notice by HTS. This option would create maximum financial return to HTS but would cause significant disruption to the families already housed in the properties and create a need for at least two of the tenants to be rehoused by HDC. Again, it may be possible to apply RTB receipts to meet part of the purchase costs.

Option 3 – Sell all five properties at EUV to third party on an existing use basis (investor or existing landlord private or RSL) with current tenants in place. Under this option, HTS and HDC would lose control of the properties for the purposes of housing need. Significantly, this option would mean that there would be no guarantee that the tenants, particularly those on social and affordable rents, would be able to remain on their existing lease terms. It is also highly unlikely that another social landlord would wish to acquire properties in various locations around the town with the existing tenure mix in place.

Option 4 – Sell all five properties at OMV to third parties (possible investor/landlord) but with vacant possession. As with Option 2, this option has the potential to create maximum financial return to HTS but would cause significant disruption to the families already housed in the properties and create a need for at least two of the tenants to be rehoused by HDC.

Option 5 – HTS(H&R) Ltd is transferred as a going concern to the Shareholder with the assets and tenancies in place placing the company under the direct management of the Council. This option is initially likely to be the cheapest solution but has long term costs. The borrowing undertaken to purchase the properties would remain in place and would continue to attract interest charges effectively between the company and the Council (the owner). Accounting and governance arrangements including audit functions would need to be established and paid for the duration of the operation of the company including Company Secretary appointment and a periodic Board meeting and annual submission of accounts and taxation submissions would be required.

Option 6 – Do nothing with all five properties continuing to be managed by HTS for the foreseeable future. This option does not currently achieve the ambition expressed by the

Shareholder for the focus of the HTS business to be on the delivery of the core housing and environment services.

5. Options 2, 3 and 4 above require either the termination of the existing tenancies or remove the availability/flexibility for the council to house local residents in the properties. The evaluation work for the three options has therefore concluded that these options for the disposal under these methodologies should not be considered further.
6. An evaluation of the costs and potential benefits of options 1, 5 and 6 have been included in the table contained in Appendix 1 to this report.
7. The evaluation of the costs and benefits as set out in Appendix A indicates that –
 - Option 6 is the lowest cost option but would not deliver the ambition to rationalise the HTS Group and focus company activity on core businesses.
 - Option 1 has the overall higher cost for the council, generates a capital receipt to the company, but has no specific ongoing administrative or legal costs associated with it for the Council once the transactions are complete.
 - Option 5 produces similar outcomes to Option 1. However, whilst this is at the lowest initial cost there will be ongoing administrative costs for the Council in running the company, completing statutory returns (accounts, tax etc) and will perpetuate the arrangement where effectively the Council is lender to itself whilst debt remains in place for the properties.
8. Subject to the views of the Committee, it is proposed that the option to purchase the properties at EUV (Option 1) is recommended to the HTS(H&R) Board and that both the Council and HTS work collectively to achieve this outcome once the Board decision has been agreed. Option 1 will ensure that the original loan to HTS can be repaid, ensures an early closure of the H&R company, whilst protecting the existing tenancies.

Next Steps

9. Once the decision is ratified by the HTS (H&R) Board, the Council will proceed to purchase the properties using a combination of Right to Buy and Housing Capital programme funds and the remaining balance of the loan will be repaid to the Council. The properties will be managed by the Council's Housing team. Following the transfer of the properties, the company will become dormant and will be wound up through Companies House.

Implications

Equalities and Diversity

None.

Climate Change

None.

Finance

The details of the financial impacts of the options set out in the report are detailed within the body of the report and its appendix.

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

Governance and Corporate Services

The Council, as Shareholder, is taking advice on the best method to achieve a structure of one company from the current four, that is subject to different report. Options within that report will need to take account of wishes of Shareholder should the decision be made not to wind down the company.

Author: Simon Hill, Director of Governance and Corporate Services

Housing

It is important that we retain the use of the 5 homes as future housing for the Council to manage and to protect the residents that currently live in the homes. Option 1 offers that opportunity and the potential of using Right to Buy receipts to offset some expenditure. This would also allow governance reforms to continue as planned.

Author: Neil Euesden, Interim Director of Housing

Appendices

Appendix A – HTS (H and R) Options

Background Papers

None.

Glossary of terms/abbreviations used

None.