

HTS (Housing and Regeneration) Property Options



Report to: Shareholder Sub Committee

Date: 15 November 2023

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Recommended that:

- A** The Sub Committee notes the progress outlined in the report.
- B** The Sub Committee approves Option 1 as set out in the report as the preferred option for the disposal of the properties held by HTS (H&R) Ltd and requests that the HTS (H&R) Ltd Board ratifies this approach.
- C** Following the approval by the HTS (H&R) Ltd Board, the company should then expediate the sale of the two market rental properties on the open property market with existing use restrictions and that the remaining three properties are sold to Harlow Council again under existing use restriction.
- D** On completion of the sales the shareholder requires HTS (H&R) Ltd to repay the outstanding loan associated with the original purchase of the five properties.
- E** The Sub Committee note that there will be Capital financing implications resulting from the preferred option set out in this report. The capital financing arrangements to facilitate the delivery of the preferred option will be agreed through the Cabinet meeting to be held on 30 November 2023.

Background

1. At the Shareholder Sub Committee meeting held on 20 April 2023 the HTS (H&R) Board were requested to consider:
 - a) 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

- b) 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. However, in the August meeting of the of the Shareholder Sub Committee, the committee agreed to:

- a) Simplify the HTS Group and company structure to achieve one delivery company named HTS Property and Environment with the winding up of all other companies within the HTS Group and associated necessary actions;

- b) Further noting that it had “been decided that the Housing and Regeneration company will be closed. The most tax efficient way of dealing with those five properties is currently being explored with tax advisers and therefore, a decision as to whether the properties are transferred to the Harlow Council Housing Revenue Account or as to whether the properties are disposed of will be taken at the next meeting of the Shareholder Sub Committee.”

3. The September meeting of the Shareholder Sub Committee considered the options put forward as to how this could be achieved and also agreed that any options that would involve any terminations of tenancies should not be pursued further. Therefore options 2, 3, 4 and 6 from the September report have not been considered in this update. The committee asked for more detail on the remaining two options to make an informed decision.

Issues/Proposals

- 4. As previously reported, the properties are currently all occupied by tenants on non-secured shorthold tenancies. There are two properties let on a social rent, two on market rents and one property is let at an affordable rent. Two properties (neither of which are the social rent properties) have arrears but both are on a payment plan and the tenants have engaged with HTS as the landlord on these issues. In addition, the company hold a rent deposit from the tenants as further security. Details of the properties are contained in Appendix B to this report but for confidentiality addresses and tenants’ details have been omitted. The five properties were all acquired in October 2020 and to date, HTS (H&R) Ltd has spent £27,759 on the properties to initially bring them up to a lettable standard and subsequently to deal with any ongoing repairs.
- 5. Having considered the discussions at the September Committee meeting the remaining options have been updated to reflect an option to dispose of both market rented properties on the open housing market but with the tenancies in place. The options for decision therefore are –

Option 1 – To treat the five properties differently based on their rental status, rather than treating all five properties in the same way. Therefore, both market rental properties will be disposed of privately through normal property sale channels and with the current tenants in place on an existing use basis. The remaining three properties will be purchased by Harlow Council with existing tenants in place. HDC would effectively bring the three properties into its own housing stock and undertake the ongoing property and tenancy management.

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.

6. An evaluation of the costs and potential benefits of options 1 and 5 have been included in the table contained in Appendix A to this report.
7. The evaluation of the costs and benefits as set out in Appendix A indicates that –
 - Option 1 has the overall initial 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. Taking the costs and benefits across HTS and the Council in to account this is the lower cost option when compared to Option 5.
 - Option 5 results in a similar outcome to Option 1. However, as a result of the ongoing costs of running and administering the company (completing statutory returns, preparing accounts, independent audit work and ensuring tax compliance etc) which is estimated to be £28,000 per annum, this option has a higher initial and ongoing cost when compared to the combined costs and benefits of option 1.
8. Subject to the views of the Committee, it is proposed that the 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.
9. If Option 1 is agreed then the council's HRA will finance the purchases and meet the initial purchasing costs. Appendix B sets out the details of the financing required and can be summarised as follows:

	£
EUV Valuations	890,400
Stamp Duty and fees	35,232
TOTAL	925,632
Less Expected RTB Contribution	462,816
Balance to Finance	462,816

10. The required financing will be recommended for approval at the Cabinet meeting on 30 November 2023. The financing will be reallocated from within the existing resources within the approved Housing Capital Programme from one scheme that is no longer progressing within the New Council House Building Programme. This will release up to £600,000 and will also make RTB receipts from the scheme available. The 3 units to be acquired through the proposals set out in this report will compensate for the 4 units no longer being delivered through the Red Lion Lane scheme which is no longer progressing as it was deemed unviable.

Next Steps

11. 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 receipts and Housing Capital Programme funds as set out above 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 appendices. The sale of the properties will generate capital receipts for HTS and will facilitate the repayment of the outstanding loans advanced by the Council. Funding for the acquisitions by the Council will be dealt with by Cabinet at its November meeting but the existing approved capital programme has sufficient flexibility to accommodate the required funding.

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

Governance and Corporate Services

The Council, as Shareholder, is seeking to achieve a structure of one company from the current four, the decision to proceed to sell/sell to the Council under option 1 aligns with that previous resolution and will allow the winding up of the Company once dormant.

Author: Simon Hill, Director of Governance and Corporate Services

Housing

It is important that we retain the use of the 3 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. The management of the three properties will be undertaken by the Housing service within existing resources.

Author: Neil Euesden, Interim Director of Housing

Strategic Growth and Regeneration

The acquisition of these three properties will be a good use of the Council's capital programme funding previously allocated to the Red Lion Lane scheme and ensure an increase in the Council's housing stock.

Author: Andrew Bramidge, Chief Executive.

Appendices

Appendix A – HTS (H and R) Options

Appendix B – HTS Property Portfolio Overview.

Background Papers

None.

Glossary of terms/abbreviations used

EUV – Existing Use Valuation

HTS – Harlow Trading Services

OMV – Open Market Value

RTB receipts – Right to Buy Receipts