

TO: EXECUTIVE
17TH JULY 2018

DOWNSHIRE HOMES LTD
Director of Adult Social Care, Health and Housing / Borough Treasurer

1 PURPOSE OF REPORT

- 1.1 The purpose of the report is to receive a report from the Downshire Homes Ltd (DHL) Board and also to consider extending the role it can fulfil in meeting the needs of the Council in terms of residential accommodation provision.

2 RECOMMENDATIONS

Executive is asked to agree;

- 2.1 **To note the report received from the Downshire Homes Board as at Appendix A.**
- 2.2 **To agree that the Council will extend nomination of households beyond those who are homeless, who have a learning disability and or autism or care leavers to include households where provision of accommodation can be demonstrated it is in the Council's interests to nominate.**
- 2.3 **To note the findings of the Social Finance Review of Downshire Homes Ltd.**
- 2.4 **To agree changes to the mortgage the Council provides to DHL to enable purchase of properties as set out in paragraph 5.11 of this report.**
- 2.5 **To agree that DHL is authorised to enter into a shared ownership agreement for a specific property purchase described in paragraph 5.13, with the Borough Treasurer and Legal Services authorised to approve the specific terms of the agreement.**

3 REASONS FOR RECOMMENDATIONS

- 3.1 DHL was established with a narrow focus to provide accommodation for homeless households, those with learning disabilities and care leavers. It has become apparent that DHL may be able to provide accommodation which the Council can nominate to that will meet other Council corporate objectives.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 If the Council were to offer secure tenancies to households there would come a time when the number of tenancies would require the Council to re-open the housing revenue account. The present threshold is 200 properties.

5 SUPPORTING INFORMATION

- 5.1 DHL has received loan finance from the Council in 2016/17 and 2017/18 to enable it to purchase homes so that the Council can nominate homeless households or people with learning disabilities.
- 5.2 When the Executive agreed to establish Downshire Homes at its meeting on the 31/3/2015 it agreed,
- Development of Local Housing Company (LHC) **to procure accommodation to provide homes for homeless households, households with learning disabilities and/or autism and care leavers so as to reduce Council expenditure on accommodation**
 - The Council provide a **short term loan as start-up funding**
 - The Council **provides loan finance to the company so that it can acquire properties**, the loan **to be repaid from the surplus income** it generates
 - The structure of the company will be as a company limited by shares, initially set up as a **wholly owned subsidiary of the Council**
 - Minimum Council representation on LHC Board: Executive Member Adult Social Care... Executive Member Transformation and Finance, Chief Executive (Chair), Borough Treasurer and Borough Solicitor
- 5.5 The Council entered into a nomination agreement with DHL reflecting the Executive decision concerning nomination of homeless households or those households with learning disabilities and or autism as well as care leavers. The nomination agreement catered for an annual review for DHL and the Council. Practice over the last two years and the introduction of the Homeless Reduction Act 2017 requires a review of the nominations agreement.
- 5.6 The Homeless Reduction Act 2017 requires Local Authorities to prevent homelessness where a household is threatened with homelessness for 56 days and if that is not achieved relieve homelessness for at least 56 days pending a duty to provide a settled home when the household is actually homeless. The relief duty can be discharged by helping a household secure a home in the private rented sector. DHL is a private rented sector landlord and thus rather than require a household that is homeless to move into temporary accommodation for a period of time and then eventually move into a DHL home it would be in the Council's and the household's interests if they were able to move into a DHL property at an earlier stage. In particular this would be advantageous where a household has specific needs that would be difficult to accommodate in the private rented sector or in the temporary accommodation available to the Council.
- 5.7 There are other areas where the nominations agreement could be extended. Firstly, there are examples where DHL could provide residential accommodation that will meet the corporate needs of the Council. For example, there may be occasions where a family supported by Children's Social Care need to move home as their current living conditions are impacting on the welfare of the children. Although households can join the housing register their specific needs and the shortage of available affordable housing means they will wait a considerable time before they are rehoused. That wait will impact on the families' ability to meet the needs of the children and could ultimately generate significant costs for the Council. In such circumstances it would be preferable for DHL to be commissioned to procure accommodation that meets the specific needs. Secondly, the Council can face difficulty in recruiting and retaining key members of staff. DHL could provide key worker housing for Council nominees if requested to do so. Lastly, experience shows that DHL can procure properties that have been adapted for households with disabilities (funded through disabled facility grants) and let them to families in need of such accommodation thus obviating the need to undertake adaptations to another

property and in so doing saving disabled facility grant expenditure whilst making best use of the housing stock.

- 5.8 As can be seen DHL can procure property so as to meet the corporate needs of the Council in a variety of ways. It would be difficult to reflect all the possible situations where DHL could help in a nomination agreement. Therefore, it is recommended that the Council makes nominations where meeting defined housing need will meet the Council's interests. Where this discretion is exercised and a nomination is made of a household who is neither homeless, has a learning disability and or autism or a care leaver the decision is considered by the Director of People Department and the decision recorded.
- 5.9. In November 2017 Social Finance Ltd were commissioned to review future options for DHL. They confirmed that DHL was meeting the original objective of helping the Council avoid costs. It was estimated that DHL had achieved a total net saving for the Council in 2016/17 of around £ 560,000 through avoiding temporary accommodation costs for homeless households, reduced support costs for households with learning disabilities living in shared housing provided through DHL and the margin the Council achieved through the loans it made to DHL as well as the value of services that the Council provided for DHL. It was predicted that DHL would not trade at a profit until 2020/21. The original business case for DHL predicted that the company would not trade at a profit for a number of years but that business plan was developed before the impact of stamp duty (SDLT) changes in 2016/17 where SDLT was increased to an average of 8% for the properties that DHL would purchase compared to original calculations of 5%. The Social Finance report noted that DHL was not capable of achieving the rate of return that was industry standard for residential property companies and also that it was not capable of repaying principal on loan finance and that loans would be repaid on maturity.
- 5.10. There are circumstances where the current mortgage requirements on DHL require a report to be presented back to the Council seeking consent for disposals. For example a situation has arisen whereby the needs of a homeless household that has specific requirements for an adapted property can be met by DHL purchasing a property. The household has the ability to purchase some of the equity of the DHL property and pay rent on the unsold equity. The current loan arrangements will require DHL to obtain Council consent to be able to sell a percentage of the equity of the property.
- 5.11. In order to streamline current approval processes in relation to property disposal by DHL in specific circumstances, it is recommended that the Council offers a revised mortgage to DHL to enable the purchase of properties,
- Allows DHL ability to re-mortgage property with consent of the Borough Treasurer, subject to the Council's outstanding loan on such property being repaid simultaneously.
 - Allows DHL to dispose of its property without the prior consent of the Council as long the Council's outstanding loan is redeemed at the point of disposal.
 - Allows DHL to enter into leases /tenancies without consent of the Council providing they are assured shorthold tenancies or short term leases less than 7 years
- 5.12 It is recommended that DHL notify the Borough Treasurer at least a month in advance of their intentions to dispose of any interest in a property, save for assured shorthold tenancy agreements.

- 5.13 A specific situation has arisen where DHL is able to fulfil a housing need for a family including a disabled adult through purchasing a specific property that already has suitable adaptations. The family is in a position to purchase an equity share in the property through a shared ownership arrangement with DHL. Shared equity properties have complex alienation provisions and would not normally be favoured by the Council as lender. However, it is recommended that this specific proposal is approved, with the Borough Treasurer and Legal Services determining the terms of the nomination agreement to ensure that the Council's interests are best protected.

6. **STATUTORY AND OTHER OFFICERS**

Borough Solicitor

- 6.1 Awaiting comments

Borough Treasurer

- 6.2 Awaiting comments

Equalities Impact Assessment

- 6.3 Not applicable.

Strategic Risk Management Issues

- 6.4 As DHL is wholly owned by the Council the strategic risks are those that DHL face. Social Finance has reviewed the DHL operation. Loan finance provided by the Council will be repaid at maturity so the main risk is ability to repay those loans if property values have not increased so that either disposals to enable the loans to be repaid or that equity does not exist to enable re-financing.

7 **CONSULTATION**

- 7.1 Not applicable

Background Papers

Social Finance report November 2017

Contact for further information

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Appendix A

Report to Bracknell Forest Council from the Downshire Homes Board

- 1.1. A presentation was made by the Chairman of Downshire Homes Ltd to the Council's Overview and Scrutiny Commission at its meeting on the 10th May based on the contents of this report.
- 1.2. The current DHL board members as nominated by the Council are Timothy Wheadon, Sanjay Prashar, Simon Hendey, Julian McGowan, Dale Birch and Peter Heydon. The Directors are not remunerated for the role and there are no plans for that to be the case. Directors have received advice on potential conflicts of interest between their role for Bracknell Forest Council and as a Director of DHL. The Council established DHL so that it could enable the Council to avoid costs. Therefore, there is a synergy in the roles of Director of DHL and the Director's position in the Council.
- 1.3. At the end of 2017/18, DHL owns 39 properties valued at £ 11.477 million (March 2018). All the properties are charged via a mortgage to the Council.
- 1.3. The Council has agreed to provide loan finance of £ 8 million to DHL in 2018/19 and together with the carried forward budget of £ 1.254 million from 2017/18 DHL has a total budget of £ 9.254 million in 2018/19. Based on current prices, this should enable purchase of 30 properties. Thus by the end of 2018/19 the DHL portfolio should reach in the region of 69 properties. Appendix B in the Exempt agenda contains the addresses of the properties.
- 1.4. The current annual rent liability across all properties is £ 521,000. Rents are set at Local Housing allowance levels and as such are sub market. There are arrears on some accounts but repayments plans are in place on all those accounts. True arrears are low, although at any point in time the arrears against rent debit may be higher due to payment cycles of customers and any housing benefit payment which is paid in arrears.
- 1.5. To date over the last two financial years DHL has incurred £ 56,000 of repair and maintenance expenditure.
- 1.6. DHL contributed to the Social Finance review that was commissioned by the Council. The review demonstrated that DHL has generated significant revenue savings for the Council over the last two finance years.
- 1.7. Draft DHL accounts for 2017/18 show a loss of £ 526,949. This is explained in the following manner. Firstly, there is a depreciation charge of £ 142,032 in the accounts. This represents the accounting of the depreciation of the assets over a 50 year period. Secondly, there is an impairment charge of £ 348,565. This is largely the cost of stamp duty and downward valuation of the properties compared to the original purchase price. DHL properties fell in value in total by 1.7% so they performed better than national residential property falls in value in 2017/18 (Halifax April 2018 3.1% drop in average prices). Lastly, DHL sold two properties to Places for people during the year so that they could be provided for people with learning disabilities and there was a loss of £ 18,493. If those items are deducted from the loss then DHL made an operating loss of £ 17,859 for the year. DHL accounts are independently audited each year.