

Agenda Item No:	5	
Committee:	Investment Board	
Date:	16 March 2021	
Report Title:	Consideration of investment in impaired Residential Housing	

1.1. Purpose

- To provide the Investment Board with an opportunity to consider investing in impaired residential property as part of the Commercial and Investment Strategy.

1.2. Key issues

- Recent changes in PWLB rules prohibiting borrowing purely for yield ;
- Management of such assets;
- Initial funding proposals and Return on investment;
- Business arrangements and delivery methodology;
- Risk assessment and resourcing

1.3. Recommendations

- It is requested that the Investment Board:
 - Maintain a watching brief to identify such opportunities if this direction is followed;
 - Establish an Outline Business Case process to evaluate any such opportunities;
 - Request a full business case on each potential acquisition when identified;
 - Agree that this should be delivered through Fenland Future Ltd and ask the Board of Directors to update their Business Plan accordingly.

Wards Affected	All
Portfolio Holder(s)	Cllr Chris Boden, Leader and Portfolio Holder, Finance
Report Originator(s)	Paul Medd, Chief Executive Officer Peter Catchpole, Chief Finance Officer and Corporate Director Carol Pilson, Corporate Director and Monitoring Officer Amy Brown, Deputy Monitoring Officer

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Background Paper(s)	<p>Cabinet Report 9th June 2020 Approval of the Business Case to set up a Local Authority Trading Company (LATCo)</p> <p>Investment Board Report 21st October 2020 Consideration of Investment in Residential Housing</p>

Fenland District Council

Investing in Impaired Residential

Property (Wisbech)

March 2021

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1. Summary

Following on from the Residential Property paper presented to the Investment Board on 21st October 2020 changes have been made to the PWLB lending rules which affectively prohibit Councils from borrowing to invest purely for yield. This change has initiated a change of tact following a steer from the Investment Board and this paper seeks to build on this by looking at bringing “impaired” properties back into use. There are many ways in which this can be approached and some of the options to be discussed include but are not limited to the following:-

- Buying long term empty properties and investing in them to bring them back into use. This could be potentially to let out or to market them for sale.
- Looking at properties that are impaired by legal matters and again trying to find resolutions to bring them back into the market.
- Targeting potential areas of Fenland where these issues are deemed to be most prevalent and this initial paper is looking at Wisbech in particular.
- What is our minimum standard of property to invest in? refurb needed, rebuild etc.?
- We can of course retain new properties from our own development schemes if so desired

2. Background

In view of the reduction in central government support the Council has a responsibility to consider smarter ways of working and providing additional income. It is therefore undertaking a review of how it manages property investment to generate income to continue to maintain services and to live within its means.

The Commercial and Investment Strategy which was approved by Full Council in January 2020 identified the need for the creation of a Local Authority Trading company to engage in property development and investment at arm's length from the Council for a commercial purpose. Further advice has been received which enables both residential and commercial activities to be undertaken by one arm's length company which will be solely owned by the Council.

The Council's business plan 2020/21 shows that improving infrastructure and housing growth is a priority and the establishment of a separate property company will provide the means to proactively explore new methods of property investment and housing delivery across the district.

In the Business case to establish the company presented to Cabinet on 9th June 2020 the objectives for Fenland Future Ltd (“FFL”) were agreed as follows:-

- (a) Maximise the return to the Council as shareholder from its asset portfolio and exploit opportunities for acquisitions, development and commercial return from assets;
- (b) Create a delivery model that operates with a degree of commerciality in line with aspirations that mirror the Council's Corporate Plans;
- (c) Hold, manage and operate private lettings directly or via procuring landlord services to the tenants of any rented housing;
- (d) Act as a responsible and equitable landlord;
- (e) Deliver capital appreciation;
- (f) Generate income from commercial investments;
- (g) Always seek to obtain the lowest price for purchases and best consideration on sales.

This paper builds on these objectives with a particular focus on bringing impaired properties back into use and for the purposes of this discussion paper it is assumed that FFL will be the acquiring organisation and will therefore hold the assets on its Balance Sheet.

Although this is only the first stage of the process it might be worth noting that a Local Authority can own up to 199 residential properties before a Housing Revenue Account (HRA) is required and further legal advice would be sought well before this trigger point is reached.

3. Business Arrangements

Each property will be subject to a financial appraisal to determine whether to keep and maintain the property or sell the property after it has been brought back to the market.

It is proposed that the management, maintenance and statutory compliance services will be acquired either through the Fenland Future Ltd or an external provider depending on the volume and nature of the properties. It is envisaged that this would be outsourced initially until there is sufficient critical mass to manage directly through FFL.

4. Financial Analysis

Detailed financial modelling on more specific and targeted investments would need to be carried out to assess the potential viability of acquiring properties in the District.

Other considerations would include agreeing exit strategies and holding periods. It may be beneficial to strike a balance between acquisitions, holdings and sales at any given time which is in essence an effective asset management process. This would need to allow for disposal of troublesome/void properties and continual refinement of the asset base.

Capital appreciation would also be a key factor in this strategy and will be considered when looking at any property acquisition.

5. Financing

Potential Funding Sources

It has been assumed that the Council will make loan finance available to FFL through the use of prudential borrowing. This would be based on a secured loan at market rates including a margin which will provide FDC a return on the funds invested.

Funding initial schemes

It is envisaged that the Council will need to loan FFL sufficient sums to enable the purchase of the first properties including all acquisition expenses.

Stamp Duty Land Tax (SDLT)

SDLT is a charge on property transactions. The sale of land and / or property from a third party to FFL has the potential to incur an SDLT charge. This will be allowed for in the calculation of the initial purchase cost of the properties.

6. Risk Management

The key delivery risks and their likely impact are summarised below along with mitigating actions. A robust risk management plan will be developed as part of the business plan.

In undertaking acquisitions, the Council will need to consider the capacity of FFL to deliver and manage these investments and to ensure statutory compliance and financial sustainability in the

future.

In practice this will require it being able to evidence that it has:

- Assets it can use as security;
- Managed operational properties effectively, with good void and bad debt performance;
- Met debt servicing requirements of loans from the Council; and
- Managed the business of the FFL effectively from corporate governance and reporting perspective.

7. Resources

Further consideration around resources needed to deliver this strategy will need to be taken into account. These include but are limited to:-

- Day to day management
- Lettings management
- Repairs and maintenance
- Financial management
- Debt control and enforcement
- Statutory testing and compliance
- Sales and purchases management
- Legal advice and leasing

As referenced above under 3. Business Arrangements, it will almost certainly be necessary to "buy in" these skills in the first instance until such time that "critical mass" is achieved.