

CLYDEBANK HOUSING ASSOCIATION LTD.

TO: Management Committee (28-Apr-2020) **DATE:** 24.04.2020
FROM: Head of Finance and Corporate Services
SUBJECT: **Proposed Mortgage to Rent Purchase – Montrose Street, Clydebank* - Agenda Item 17 (Decision Required)**

Purpose of Report

The purpose of the report is to update the Management Committee on a Mortgage to Rent application that has been referred by the Scottish Government and to allow consideration of the information and any recommendations and arrive at decisions where required.

Potential impact on tenants and service users/Tenant Consultation requirements

There is no adverse impact on tenants and other service users as a result of information and decisions required in this report.

Value for Money

CHA considers Value for Money in all aspect of its business including: -

- Managing our resources to provide quality services and homes to meet the needs of customers and the local community.
- Delivering the right service at the right time at the right cost.
- Planning for and delivering year on year improvements on our services based on customer priorities.
- Getting the most out of our assets and staff by operating efficiently and effectively.

The provision of acquiring additional homes via our property acquisitions budget demonstrates Value for Money in terms of delivering homes at affordable rent levels, whilst ensuring the close monitoring of overall costs.

Risk

There is no risk, financial or otherwise associated with any of the recommendations/updates contained within this report in relation to property purchase expenditure that cannot be facilitated within the short , medium or long term business plan. Any property purchases should not be confirmed until the Management Committee have considered budget considerations and the Association must demonstrate that it places importance on strong financial health and robust financial controls.

Legal/constitutional Implications (Reference to Model Rules)

There are no adverse legal implications as a result of this report and/or any decision required.

Relevant CHA Objectives:

- To provide quality, affordable housing that meets the changing needs of our customers and to ensure fair access to housing within our area.
- To manage the houses provided, in a professional and cost effective manner, for the benefit of our local community and the environment.
- To ensure that our resources are adequate to deliver our objectives by investing in our people, demonstrating value for money and through robust procurement practices.
- To promote social inclusion by applying principles of equality and diversity to everything we do.

Relevant SHR Regulatory Standards of Governance and Financial Management

- The governing body leads and directs the RSL to achieve good outcomes for its tenants and other service users.
- The RSL is open about and accountable for what it does. It understands and takes account of the needs and priorities of its tenants, service users and stakeholders. And its primary focus is the sustainable achievement of these objectives.
- The RSL manages its resources to ensure its financial well-being while maintaining rents at a level that tenants can afford to pay.
- The governing body bases its decision on good quality information and advice and identifies and mitigates risks to the organisation's purpose.
- The RSL conducts its affairs with honesty and integrity.
- The governing body and senior officers have the skills and knowledge they need to be effective.

The Management Committee will require confirming that the contents of this report and decisions required do not constitute a breach, material or otherwise, of the above Standards and there is no requirement to report a Notifiable Event to the Regulator.

Equalities

No protected group is adversely affected by the proposals, recommendations or updates within this report. Our commitment to equal opportunities and fairness applies irrespective of factors such as race, sex, disability, age, gender reassignment, marriage & civil partnership, pregnancy & maternity, religion or belief and sexual orientation.

Introduction

To date, the Association has purchased 11 properties through the Mortgage to Rent Scheme, which is part of the Home Owners' Support Fund operated by The Scottish Government.

This scheme assists owners who are in severe financial difficulty and who are in danger of losing their home, to repay debts from the sale of their home and enabling them to remain as a tenant post sale. To date, we have received over £414k in purchase subsidies with the level of grant funding for recent purchases being, on average, c. 48%.

Application Details

I can confirm that the following application has been received from the Scottish Government: -

Address	Details	Apartment Size	Market Value & repairs required	Est. capital & repairs grant	Est. cost to CHA inc repairs
Montrose Street	Semi-detached property. There is no factor.	4 apartment 5 person property	████████	████████	£48,700

Cash flows demonstrate that the cost of this property would be recouped in year 19, within our 20 years requirements laid down in our Mortgage to Rent Policy (see attached).

No problems are envisaged from a housing management perspective. The Head of Housing Services has confirmed that the property is in a good area, with high demand on our waiting list for future lets.

The Maintenance team have identified a total of ████████ of repairs during their inspection which are required immediately. The subsidy receivable for repairs has been capped at ████████ with the remaining having to be paid from ████████ from the owner's equity and ████████ from the Association. These additional costs have been incorporated into these cash flows.

The Association's budget for capital purchases of £100k per annum is set aside to allow for purchases through the Mortgage to Rent Scheme/Open Market Policy/Shared ownership buy-backs. However, an amount of £18,600 from this budget has been used in 2019/20 therefore reducing the overall amount available to £81,400 for purchases in 2020/21.

PTO/...

2020/21	£
Budget allowance	81,400
Less proposed application:	
MTR costs including additional repairs and legal fees	(49,312)
Available left to spend to 31 March 2021	<u>32,088</u>

Recommendation/Decision required

If approved, the cost of this purchase will come out of the 2020/21 budget leaving a balance of £32k available for the rest of the financial year.

It is recommended that the application is provisionally agreed on the condition that the owner has sufficient equity to contribute towards the cost of the additional repairs. Given the current climate, the redemption statement from the owner's mortgage provider is not yet available meaning that any equity there might be may reduce.

This decision would not bind the Association to a binding offer and can be withdrawn should the equity information change. The Scottish Government need confirmation that the Association is interested in proceeding and then will place the case on hold until such times as they are able to obtain more accurate figures for the excess repairs and provide the Association with a final redemption statement.

Mortgage to Rent - Montrose Street	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
4 apartment 6 person (semi)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
																				TARGET
Opening Balance	-	-48,578.56	-46,277.98	-43,922.50	-41,511.02	-39,042.43	-36,516.60	-33,932.39	-31,288.66	-28,584.25	-25,817.99	-22,988.70	-20,095.16	-17,136.16	-14,110.47	-11,016.83	-7,853.99	-4,620.67	-1,315.57	2,062.61
	3,026.67																			
Income																				
Rent 2020/21	3,026.67	4,630.80	4,723.42	4,817.88	4,914.24	5,012.53	5,112.78	5,215.03	5,319.33	5,425.72	5,534.23	5,644.92	5,757.82	5,872.97	5,990.43	6,110.24	6,232.45	6,357.10	6,484.24	6,613.92
	8 months (say)	2%																		
		increases																		
Costs																				
Purchase Price (less grant based on est 65% subsidy)	46,000.00																			
Essential Repairs not covered by grant & not recoverable from owner (£6k subsidy)	2,700.00																			
CHA Solicitor's Fee	612.00																			
Loan Repayments - Actual	-																			
Management Costs per SHR Return for Budget 2020/21	794.00	817.82	842.35	867.63	893.65	920.46	948.08	976.52	1,005.82	1,035.99	1,067.07	1,099.08	1,132.05	1,166.02	1,201.00	1,237.03	1,274.14	1,312.36	1,351.73	1,392.28
Maintenance (based on actual + 3%)	363.87	374.79	385.70	396.62	407.53	418.45	429.37	440.28	451.20	462.11	473.03	483.95	494.86	505.78	516.70	527.61	538.53	549.44	560.36	571.28
Major Repair Contribution per LCC	813.36	813.36	813.36	813.36	813.36	813.36	813.36	813.36	813.36	813.36	813.36	813.36	813.36	813.36	813.36	813.36	813.36	813.36	813.36	813.36
Loss of Term Deposit interest (based on avg rate 0.7%)	322.00	324.25	326.52	328.81	331.11	334.42	337.77	341.14	344.56	348.00	351.48	355.00	358.55	362.13	365.75	369.41	373.10	376.84	380.60	384.41
	51,605.23	2,330.22	2,367.94	2,406.41	2,445.66	2,486.69	2,528.57	2,571.30	2,614.93	2,659.46	2,704.94	2,751.38	2,798.82	2,847.28	2,896.80	2,947.40	2,999.12	3,052.00	3,106.05	3,161.33
Balance	- 48,578.56	-46,277.98	- 43,922.50	-41,511.02	-39,042.43	-36,516.60	- 33,932.39	-31,288.66	-28,584.25	-25,817.99	-22,988.70	-20,095.16	-17,136.16	-14,110.47	-11,016.83	- 7,853.99	- 4,620.67	- 1,315.57	2,062.61	5,515.21