

REPORT TO: Cabinet

MEETING DATE: 19 January 2021

BY: Executive Director of Place / Executive Director for Council Resources

SUBJECT: Grant Funding of East Lothian Mid-Market Rent Homes LLP from the Council's Second Homes Council Tax Fund.

1 PURPOSE

- 1.1 To seek formal approval of the decision to grant East Lothian Mid Market Homes LLP, funding from the Council's Second Homes Council Tax budget to enable the LLP to purchase a discounted property for sale in Haddington. This has ensured that this unit is retained as an affordable intermediate tenure home by renting as a mid-market property.

2 RECOMMENDATIONS

- 2.1 To endorse the decision taken by the Executive Director of Council Resources to grant the sum of £147,155 (£136,255 discounted sales price plus £10,900 additional dwelling tax) from East Lothian Council's Second Homes Council Tax Fund to East Lothian Mid Market Homes to purchase one unit at the discounted sale price and rent as a mid-market unit in accordance with the Council's Mid-Market rent criteria.

3 BACKGROUND

- 3.1 In January 2015, East Lothian Council were given approval to deliver a Discounted Housing for Sale model to help meet the range of tenures accepted as part of the Council's Affordable Housing Policy.
- 3.2 The Discounted Housing for Sale model has delivered a number of units across East Lothian in the last four years. The model is administered by the Council through the Section 75 agreements that secure the provision of affordable housing. The units are marketed at a discounted price below the open market value and are marketed to applicants who meet the Council's discounted sale eligibility criteria. The percentage difference between the discounted price and the open market value price is secured by a standard security in favour of the Council. The purpose of the standard security is to ensure that the property can remain affordable to

future first time buyers with conditions attached to the property. The standard security is ranked after any granted by the mortgage provider.

- 3.3 The terms of the discounted sale model restrict future resales to ensure they are marketed at the same level of discount which was initially applied. The terms also restrict any future purchaser to ensure they meet the Council's eligibility criteria. If an eligible purchaser is not identified within a thirteen week period (advised by the Council of Mortgage Lenders) then the Council would have first refusal to buy the property.
- 3.4 If the Council had not wished to purchase the property, it would have been sold on the open market for the full market value. The Council would then have received the equivalent value of the discount from the open market value which would have been reinvested into delivering affordable housing within the same ward area in East Lothian.
- 3.5 The property in question came on to the market at a discounted price of £136,255. Whilst there were a number of applications for this property no applicants were successful in securing a mortgage for this property. As a result, unless the Council elected to purchase the property, the property would have been remarketed at the full market value, resulting in the property being lost as an affordable unit.
- 3.6 Council officers considered purchasing this unit to augment its council housing stock however officers did not feel that the property was suitable for social rent based on the house type, location and surrounding tenures, it would have been the only social rented unit in the estate.
- 3.8 Through exploration of potential funds, the Housing Strategy & Development team looked at the possibility of the newly established Mid-Market Homes LLP purchasing this unit. The company is still very new and has not been established long enough to accumulate reserves to enable new acquisitions. The team therefore explored other opportunities to assist and investigated the use of the Council's Second Homes Council Tax Monies. The Scottish Government's guidance for the use of this fund states that *This income can be used by local authorities to support revenue and capital expenditure related to a range of affordable housing activity including (but not limited to): providing new-build affordable housing through Registered Social Landlords (RSLs) or new council house building.*
- 3.9 Scottish Government confirmed that they would support the use of this fund to allow East Lothian Council to provide a grant to East Lothian Mid Market Homes to purchase 100% of this property and retain as an affordable mid-market rent unit.
- 3.10 The Council exercised its option to purchase the property. The property was then acquired by East Lothian Mid Market Homes Ltd following the release of grant. East Lothian Mid Market Homes Ltd purchased the property at the discounted sale price of £136,225 which is a 19.72% reduction in the market value. As part of the terms of sale East Lothian Mid Market Homes entered into an agreement secured by a Standard

Security with the Council to ensure the property would remain affordable. Although the purchase price of the property is below the threshold at which a liability to Land & Buildings Transaction Tax would be incurred, it did incur an additional LBTT charge known as Additional Dwelling Supplement, which is chargeable irrespective of whether the price is too low to attract the mainstream charge or not. This incurred an additional cost of £10,900, resulting in a total cost of £147,155.00

3.11 The rent for this property has been set by East Lothian Mid Market Homes Ltd in line with the Council's Affordable Housing Policy and consistent with other similar properties of that tenure in Haddington. The property was subsequently let on the 22nd December at a mid-market rent of £640/month which represents 95% of the current Local Housing Allowance

3.12 This property will now be retained as an affordable unit under the terms and criteria of the Council's Affordable Housing Policy.

4. POLICY IMPLICATIONS

4.1 There are no direct policy implications and the grant proposal is consistent with both the Council's Affordable Housing Policy and the recently approved Financial Strategy.

5. INTEGRATED IMPACT ASSESSMENT

The Affordable Housing Policy has been through an Integrated Impact Assessment, therefore given this paper is in line with this policy, it has not been through the assessment process.

6. RESOURCE IMPLICATIONS

6.1 Acquisition Costs

100% grant funding to acquire the property at the discounted sale price of £147,155 using East Lothian Council's Second Homes Council Tax fund within financial year 2020/21. Use of this reserve is consistent with the Financial Strategy recently approved by Council in December 2020.

6.2 All other costs associated with the mid-market rent criteria will be met by the Company i.e. cleaning, decoration, landlord compliance

6.3 Personnel

None.

6.4 Other

None

7. BACKGROUND PAPERS

7.1 13 January 2015 Cabinet Report – Interim Discounted Housing for Sale Model

AUTHOR'S NAME	Wendy McGuire
DESIGNATION	Service Manager – Strategy & Development
CONTACT INFO	Wendy McGuire ext 7695
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