

**Housing Development - Loan Applications:
Fyne Homes – Courthouse, Rothesay
WHHA- Port Ellen, Islay**

1.0 EXECUTIVE SUMMARY

- 1.1 This report deals with an application for an extension to an existing loan from Fyne Homes, subsidiary Fyne Initiatives for bridging finance for the Old Courthouse Development and, an application from West Highland Housing Association, for a 25 year loan to deliver the 18 house development at Imerval, Port Ellen, Isle of Islay.
- 1.2 The report provides background to each of the applications including the risk assessments associated with each request.
- 1.3 There are financial implications associated with these requests. In August 2012 Members agreed to support the Housing Association development programme by providing access to short and long term loan funding. These applications meet the criteria previously agreed.
- 1.4 In November 2011 the Council approved a loan of £1,900,000 to Fyne Initiatives for the period to 31 March 2015 in relation to the Old Courthouse, Rothesay. Only 8 of the properties have been sold with £754,300 of the loan being repaid.
- 1.5 In August 2012 Argyll and Bute Council agreed to earmark £5m for long term loans. Loans to the value of £3,232,733 have been agreed to date.
- 1.6 The recommendation is that Members approve:
- 1) The extension to existing loan at the reduced figure of £1,145,700 to Fyne Initiatives until 31 March 2018 on the terms set out in paragraph 4.1.
 - 2) a twenty five year loan of £955,024.54 to West Highland Housing Association to build 18 properties for affordable rent at Imerval, Port Ellen, Isle of Islay.

HOUSING DEVELOPMENT: LOAN APPLICATIONS
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2.0 INTRODUCTION

2.1 In August 2012 the Council approved a recommendation to provide a short term loan facility from the Strategic Housing Fund and a Long Term Loan facility funded from Council reserves. These decisions were taken to enable the affordable housing development programme to continue in Argyll and Bute at a time when it was particularly difficult for Housing Associations to secure private finance. The loan funding and Strategic Housing Fund grants provided to the Registered Social Landlord (RSL) Sector has contributed to the completion of 258 new affordable homes across Argyll and Bute.

2.2 The Housing Association sector is however still constrained by difficulties accessing private finance and accordingly Fyne Homes have made application to extend their existing loan facility for a further three years and West Highland Housing Association have made application for a loan facility to complete the funding package for an 18 property development in Port Ellen, Islay.

3.0 RECOMMENDATIONS

3.1 Members are asked to approve:

- the extension of the loan of £1,145,700 to Fyne Initiatives for a further three years to 31 March 2018 in respect of the development at the Old Court House, Rothesay on the terms set out in paragraph 4.1.
- a twenty five year loan of £955,024.54 to West Highland Housing Association to build 18 properties for affordable rent at Imerval, Port Ellen, Isle of Islay.

4.0 DETAIL

4.1 **Fyne Homes Application.** In November 2011 Council approved a £1.9m 3 year loan to Fyne Initiatives, a subsidiary of Fyne Homes for the redevelopment of the former Council Chambers and Courthouse in central Rothesay. This loan arrangement will cease on 31st March 2015. At the time of writing, 8 properties had been sold and two were under offer. As the properties are sold the capital loan is repaid directly to the Council and consequently the loan extension is for £754,300 less than the original loan. The revised loan amount would be

£1,145,700. The rate of interest to be charged will be based on the PWLB rate for a 3 year loan as at March 2015 adjusted for a margin of 0.25% to reflect administration costs and any further adjustments to ensure a market rate is charged to avoid any state aid issues.

- 4.2 Fyne Initiatives have shown no difficulty in making the repayments of £754,300 as and when houses are sold. The accounts and business plan of Fyne Initiatives have been reviewed and from this no significant concerns have arisen to prevent the loan being extended.
- 4.3 The New Supply Shared Equity Scheme (NSSE) was completed in March 2011 and comprises 25 x 1,2 and 3 bedroom shared equity properties. Fyne Homes have conducted extensive marketing campaigns but due to the downturn in the economic market, sales have been very slow. Since the marketing agent was changed approximately six months ago sales have picked up. Fyne Homes have developed a range of incentives- All purchasers receive £300 towards their legal fees, as it is recognised that purchasing through NSSE incurs slightly higher fees due to the nature of the transaction. Additional to this, for first time buyers only, they offer white goods up to the value of £850. This gives new home owners a brand new fridge/freezer, electric cooker and washing machine for moving in and includes the cost of installation.
- 4.4 Feedback from applicants, other interested parties and the Estate Agent is that that the Old Courthouse development itself attracts great interest and that the properties are of good quality and highly desirable. However, there are two main elements affecting overall sales, these are the current market/economic conditions and the criteria to qualify under the NSSE scheme. The housing market in general is still very slow. There is a particularly high volume of flats available to purchase on Bute and feedback from the Estate Agent is that flats are still the most difficult to sell despite the quality and location of The Old Courthouse development
- 4.5 **Current market/economic conditions** – Despite the Scottish Government's efforts to support people purchasing their own home, with schemes such as Shared Equity, the banking industry has not followed suit with similar support. Fyne Homes have examples where banks refuse to lend altogether to those wishing to buy through the Shared Equity scheme and where they do lend they will usually insist on a minimum of 5% deposit and in some cases 10%. As the scheme is predominantly for first time buyers finding 5-10% deposit for these potential purchasers can not only be a barrier but in many cases a show stopper. Add to this the rigours in place to be granted a mortgage in the first place, particularly as a first time buyer with limited credit history, and the main intended market for these properties is further limited.
- 4.6 **NSSE qualifying criteria** – As house sales have started to move more recently The Old Courthouse development does generate quite a lot of initial enquiries. The Scottish Government has a specific set of criteria which buyers have to meet in order to qualify to enter the scheme and purchase one of these properties. New Supply Shared Equity mainly aims to help first-time buyers. However, it can help others too in certain circumstances such as where there is a significant

change in a person's household circumstances or if they have a disability and own a house which doesn't suit their needs. In these cases the person has to sell their current property and also has to meet the financial criteria. If the purchaser can afford more than 80% of the property whilst retaining a maximum of £5k savings they are deemed to be outside of the financial criteria of those the scheme aims to help. An applicant may retain £5000 of any personal contributions held. Above this amount, 90 per cent of the balance will be treated as a contribution towards the purchase of a property. These criteria are applied because of state aid issues but they do limit the number of people eligible to purchase these properties.

4.7 **Long Term Loan Finance to RSL's.** In August 2012 the Council agreed to earmark £5m from Council reserves, to support RSL development, interest being charged at one quarter of one per cent over the Public Works Loan Board rate on an annuity basis with semi-annual payments. The previously approved commitments from reserves amount to £3,232,733.

4.8 In January 2014 for Members approved £540k grant funding to WHHA for the development at Imerval, Port Ellen, Isle of Islay. WHHA have now applied to the Council for a 25 year loan of £955,024 for the 18 property development, for affordable rent. The estimated site start for the development is November 2014 and estimated completion September 2015. If Members approve the application currently before them it will bring the total loan commitment from reserves up to £4,187,757.

4.9 Interest on the loan will be charged at the PWLB rate for a 25 year loan with a 0.25% uplift for administration and any further adjustments to ensure a market rate is charged to avoid any state aid issues.

4.10 A review of the financial aspects of the project (costs and funding) and also the accounts and business plan of WHHA has been undertaken. No issues have been identified during this to prevent the Council agreeing to a loan. A standard security will be taken over the properties based on the balance outstanding on the loan.

5.0 CONCLUSION

5.1 The Council has previously agreed to support the affordable housing development programme in Argyll and Bute by providing the Housing Association sector access to loan finance. There are significant challenges facing the sector due to the prevailing market conditions and the requests before Members in this report demonstrate the important contribution that this facility provides.

6.0 IMPLICATIONS

6.1 Policy: The proposals are consistent with current Council policy.

6.2 Financial: A financial appraisal and risk assessment will be completed.

- 6.3 Legal: A loan agreement will require to be signed by both parties.
- 6.4 HR: None.
- 6.5 Equalities: None
- 6.6 Risk: A financial risk assessment will be completed
- 6.7 Customer Service: None

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23rd July 2014

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