

Report of:	Director of Regeneration and Culture: Richard Horniman Director of Finance: Ian Wright Executive Member for Regeneration: Cllr Eric Polano Executive Member for Environment and Finance & Governance: Cllr Barrie Cooper
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Submitted to:	Executive - 7 September 2021
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Subject:	Middlesbrough Development Company (MDC): Empty Homes Partnership
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Summary

Proposed decision(s)
<p>That Executive approves:</p> <ul style="list-style-type: none"> a) the provision of up to £1,000,000 to MDC to establish a partnership to invest in the refurbishment of empty and poor quality properties within the key target areas of Middlesbrough. The funding will be provided in the form of a commercial loan (subject to sign off from the Council’s Section 151 Officer) and will be taken from the approved Investment Strategy allocation to MDC; and, b) delegated authority for the Director of Finance and the Director of Regeneration and Culture to agree the terms of the loan to MDC and c) MDC are given approval that where appropriate, MDC can acquire properties directly, prior to the establishment of a partnership.

Report for:	Key decision:	Confidential:	Is the report urgent? ¹
Decision	Yes	N/A	Non urgent

Contribution to delivery of the 2020-23 Strategic Plan		
People	Place	Business
The refurbishment of empty and poor quality homes will assist in the redevelopment of Middlesbrough’s disadvantaged estates.	The proposal will assist with the priority to make Middlesbrough look and feel amazing by revitalising unused buildings.	The proposal will create construction training opportunities.

¹ Remove for non-Executive reports

Ward(s) affected

The key target areas include some, or all, of the following Wards: Ayresome, Berwick Hills & Pallister, Brambles & Thorntree, Central, Linthorpe, Newport, North Ormesby, Park, Parkend & Beckfield.

What is the purpose of this report?

1. The purpose of the report is to seek Executive approval for funding to enable MDC to establish a partnership to invest in the refurbishment of empty and poor quality homes.

Why does this report require a Member decision?

2. The proposal seeks approval for an investment of up to £1,000,000, which would constitute a key decision.

Report Background

3. In December 2019 the Executive approved a report, which sought to proactively address the rising number of empty properties across Middlesbrough through a number of actions, including investing in the reduction of empty homes in Newport and North Ormesby. In late 2020, MDC were requested to explore how this could be achieved.
4. The Council asking MDC to explore the delivery of an Empty Homes Partnership is seen as an obvious approach. MDC already have delivered partnership development work with the Bright Ideas housing scheme currently on site at Middlehaven, as well as developing other schemes with Chaloner Group and exploring opportunities with Registered Providers across the Town.
5. The MDC Board has recently approved a Project Plan that recommends the establishment of a partnership to invest in the refurbishment of empty and poor quality properties within the key target areas of Middlesbrough (and take a legal stake in these properties equivalent to the value of investment made). The Project Plan is attached as Appendix 1 to this report.

Delivery Model

6. If the recommendations of this report are approved, MDC will undertake a selection process based upon potential partner's ability to demonstrate compliance with criteria stated in the attached Project Plan. In order to simplify management and governance, MDC's preference is to appoint a single partner but if this is not possible multiple partners may be considered. The proposed selection criteria are summarised below.
 - a) Socially responsible landlords, who provide low cost rental accommodation.
 - b) Robust governance and management systems.
 - c) Business Plan to acquire properties at scale.
 - d) Track record of delivery in Teesside.
 - e) Established systems to identify, acquire, refurbish and undertake property / tenant management functions.
 - f) Added value derived from the use of local labour or community/voluntary groups.

7. If approval is given to the recommendations, MDC will be entitled to acquire properties with the intention that any partner(s) can subsequently purchase and develop. In the interim MDC could choose to redevelop the acquisitions prior to a partner(s) being appointed.
8. MDC and its appointed partner(s) will identify potential residential properties in the TS1 and TS3 areas, which could be targeted for acquisition, refurbishment and re-letting.
9. The method by which properties will be identified and assessed for acquisition will be based on an agreed criteria and investment model, backed up by independent valuations. Only properties that satisfy these criteria will be considered for purchase.
10. MDC and its partner(s) will engage with property owners to establish potential for acquisition and will produce an appraisal which covers all costs of purchase, refurbishment and estimated rental income. If a property is accepted for acquisition, the partner(s) will manage the process and fund all costs associated with the purchase. MDC will provide funding via a secured loan to the partner(s) to carry out the refurbishment works.
11. Once the refurbishment works are complete, the partner(s) will let the improved properties on an affordable rent, using agreed letting criteria. The partner(s) will apply robust management systems to ensure all tenancy and property services are delivered to high standards.
12. The proposed life of the project is for 20 years.

MDC Investment

13. This report will recommend that the Executive approves the provision of up to £1m to MDC in the form of a commercial loan, (subject to sign off from the Council's Section 151 Officer), which will be taken from the approved Investment Strategy allocation to MDC.
14. MDC will then enter into a loan agreement with the partner(s) for a maximum term of 20 years. The loan will incur a cost charged by MDC, which is negotiable. The partner(s) will be required to state how this cost will be covered, such as through the payment of interest on the loan.
15. The commercial loan from the Council to MDC, will be on the same terms as the loan from MDC to the delivery partner(s).
16. The partner(s) will fund the refurbishment works in the first instance but will reclaim these costs from MDC through draw-downs from the loan. Once a property is fully refurbished and ready to be let, the partner(s) will request a payment, based on the previously agreed refurbishment costs of each property. This draw-down is anticipated to be on a monthly or quarterly basis.
17. Funds loaned to the partner(s) from MDC will be secured via a first charge on each property acquired, which will be registered by the partner(s) once the refurbishment loan costs are drawn-down. As the Council own 100% of the shares of MDC, MBC will have a secure legal interest in these properties. A company debenture may also be considered as an alternative form of security to legal charges on each property.

18. Any charges on the loan from MDC to the partner(s) will be invoiced and recovered on an annual basis. The charges will be incurred for all funds drawn down via the loan from the first letting of the property and then continuing until repayment of the proportion of the loan relating to that particular property.
19. The loan to the partner(s) for each property will be repaid in full upon disposal or no later than the projected end date of 2041.
20. Although the financial arrangements of the investment proposal would be a matter for the MDC Board rather than the Council, the Council's Section 151 officer would need to be satisfied that the funding is being used appropriately and in line with the Company's objectives, and that it represents an appropriate use of the Council's resources.

What decision(s) are being asked for?

21. That Executive approves
 - a) the provision of up to £1,000,000 to MDC to establish a partnership to invest in the refurbishment of empty and poor quality properties within the key target areas of Middlesbrough. The funding will be provided in the form of a commercial loan (subject to sign off from the Council's Section 151 Officer) and will be taken from the approved Investment Strategy allocation to MDC; and,
 - b) delegated authority for the Director of Finance and the Director of Regeneration and Culture to agree the terms of the loan to MDC and
 - c) MDC are given approval that where appropriate, MDC can acquire properties directly prior to the establishment of a partnership.

Why is this being recommended?

22. Investing in this project enables MDC, and therefore the Council, to deliver tangible Environmental, Social and Governance benefits to the targeted areas within Middlesbrough.
 - a) Environmental benefit is delivered by bringing between 100 and 125 properties up to decent homes and legally required environmental standards, based on an average expenditure of between £8k and £10k per property.
 - b) Social benefit is delivered as every property is let to a person or family in housing need, including those facing homelessness, with tenant support provided where required.
 - c) The partner organisation will be a well governed socially responsible company, which, combined with MDC's resources and expertise, will make the project sustainable and meaningful.

Other potential decisions and why these have not been recommended

23. In respect of the recommendation for the Council to invest £1m to enable MDC to enter into an Empty Homes Partnership, the other options are set out below:

Do nothing

Would not realise any of the benefits outlined above.

MBC partner with another organisation

The Council does not have the staffing capacity to deliver the scheme.

Impact(s) of recommended decision(s)

Legal

24. The Council can rely upon the general power of competence within the Localism Act 2011 for its own purpose, for a commercial purpose and/or for the benefit of others i.e. this includes the role of Middlesbrough Development Company Limited. The proposed Council led interventions involve carrying out a commercial activity and must therefore be done through a Company
25. MDC is a local authority trading company limited by shares and operates in accordance with its Memorandum and Articles of Association, Shareholder Agreement, Strategic and Project Plans, and, Loan Agreement.
26. MDC's contractual commitment to the partnership will be via the loan agreement with the delivery partner(s).
27. As the Council own 100% of the shares in MDC, it means that MBC have a secure legal interest in these properties via either an individual first charge on the properties or a company debenture.

Financial

28. On the 18th December 2018 Executive approved: the creation of a Housing Delivery Vehicle in the form of a Wholly Owned Company (by Middlesbrough Council) limited by shares; the associated business plan and a funding package of up to £10m.
29. The funding requested is already allocated within the Investment Strategy and will be deducted from the amount provided as Loan.
30. The commercial loan from the Council to MDC, will be on the same terms as the loan from MDC to the delivery partner(s).

Policy Framework

31. The decision will not amend the Council's policy framework.
32. The decision is aligned with the Strategic Plan 2020 to 2023 priorities to revitalise unused buildings and to work with local communities to redevelop Middlesbrough's disadvantaged estates, and introduce locality working with our partners, placing services at the heart of communities.

Equality and Diversity

33. The Impact Assessment, attached as Appendix 1, has concluded that the decision would not have any disproportionately negative impacts.

Risk

34. The following high level risk identified in the Strategic and Directorate Risk Registers, will be reduced as a consequence of the development of the Empty Homes Partnership enabled by the recommended decision:

O1-052 - Substantial areas of the town have high residential voids/low sales values and high population churn, effectively creating market failure resulting in significant social consequences which in turn have implications for Council resources and service delivery. Such an approach is unsustainable and will result in the need for significant market invention at great cost to the Council.

35. The main risk directly associated with the decision to allocate £1m to MDC, is the ability of MDC to repay the commercial loan. The risk has been minimised as the commercial loan from the Council to MDC will be on the same terms as the loan from MDC to the delivery partner(s).

36. The risks associated with the proposal from MDC's perspective are given in Section 9 of the Project Plan, attached as Appendix 1.

Actions to be taken to implement the decision(s)

37. The Council's Section 151 Officer will be asked to sign off whether the use of the funding required for MDC to establish the Empty Homes Partnership represents an appropriate use of the Council's resources.

38. MDC will agree Heads of Terms with the delivery partner(s) and establish the Empty Homes Partnership.

Appendices

Appendix 1: MDC Project Plan

Appendix 2: Impact Assessment.

Background papers

Body	Report title	Date
Executive	Housing Delivery Vehicle (HDV) – Preferred Delivery Model	18 December 2018

Appendix 1 - Impact Assessment Level 1: Initial screening assessment

Subject of assessment:	MDC Finance – The allocation of funding of up to £1,000,000 to MDC to establish a partnership to invest in the refurbishment of empty and poor quality properties within the key target areas of Middlesbrough.			
Coverage:	Service specific.			
This is a decision relating to:	<input type="checkbox"/> Strategy	<input type="checkbox"/> Policy	<input type="checkbox"/> Service	<input type="checkbox"/> Function
	<input type="checkbox"/> Process/procedure	<input type="checkbox"/> Programme	<input type="checkbox"/> Project	<input type="checkbox"/> Review
	<input type="checkbox"/> Organisational change	<input checked="" type="checkbox"/> Other (please state) Asset management		
It is a:	New approach:	<input type="checkbox"/>	Revision of an existing approach:	<input checked="" type="checkbox"/>
It is driven by:	Legislation:	<input type="checkbox"/>	Local or corporate requirements:	<input checked="" type="checkbox"/>
Description:	<p>Key aims, objectives and activities To assess the impact of the proposal to allocate funding for MDC to establish an empty homes partnership.</p> <p>Statutory drivers (set out exact reference) The Local Government Act 1972 Section 123, as amended by the Local Government Planning and Land Act 1980 Section 118 Schedule 23 Part V.</p> <p>Key stakeholders and intended beneficiaries (internal and external as appropriate) The Council, MDC and the local community.</p> <p>Intended outcomes The approval of the funding will enable MDC and therefore the Council to deliver tangible Environmental, Social and Governance benefits to the targeted areas within Middlesbrough.</p> <p>a) Environmental benefit is delivered by bringing between 50 and 100 properties up to decent and (at least) legally required environmental standards.</p> <p>b) Social benefit is delivered as every property is let to a person or family in housing need, including those facing homelessness, with tenant support provided where required.</p> <p>c) The partner organisation will be a well governed socially responsible company, which, combined with MDC’s resources and expertise, will make the project sustainable and meaningful.</p>			
	September 2021			
Lifespan:	20 years			
Date of next review:	Not applicable			

Screening questions	Response			Evidence
	No	Yes	Uncertain	
<p>Human Rights</p> <p>Could the decision impact negatively on individual Human Rights as enshrined in UK legislation?*</p>	☒	☐	☐	<p>It is considered that the allocation of funding establish an empty homes partnership will not impact negatively on individual human rights as the proposal represents a significant and positive enhancement for the local and wider area. This assessment has been made taking into account that the decision will:</p> <ul style="list-style-type: none"> • enable MDC to refurbish empty and poor quality properties to a high standard. • support local residents by tackling problem properties.
<p>Equality</p> <p>Could the decision result in adverse differential impacts on groups or individuals with characteristics protected in UK equality law? Could the decision impact differently on other commonly disadvantaged groups?*</p>	☒	☐	☐	<p>The Council has a duty to consider the impact of the proposed decision on relevant protected characteristics, to ensure it has due regard to the public sector equality duty. Therefore, in the process of taking decisions, the duty requires the Council to have due regard to the need to:</p> <ol style="list-style-type: none"> eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act; advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it, and foster good relations between persons who share a relevant protected characteristic and persons who do not share it. <p>It is considered that the proposal to allocate funding to establish an empty homes partnership will not have a disproportionate adverse impact on a group, or individuals, because they hold a protected characteristic.</p>
<p>Community cohesion</p> <p>Could the decision impact negatively on relationships between different groups, communities of interest or neighbourhoods within the town?*</p>	☒	☐	☐	<p>There are no concerns that the proposal could have an adverse impact on community cohesion.</p> <p>The decision to allocate funding to establish an empty homes partnership will not impact negatively on relationships between different groups. The decision would ensure a steady supply of affordable housing to meet the needs of its emerging and aspiring population.</p>

*Consult the Impact Assessment further guidance appendix for details on the issues covered by each of these broad questions prior to completion.

Screening questions	Response			Evidence
<p>The Mayor's Vision For Middlesbrough Could the decision impact negatively on the achievement of the vision for Middlesbrough?*</p>	☒	☐	☐	The allocation of funding to establish an empty homes partnership accords with the priority for Place, set out in the Strategic Plan 2020-23, to revitalise unused buildings and to work with local communities to redevelop Middlesbrough's disadvantaged estates, and introduce locality working with our partners, placing services at the heart of communities.
<p>Organisational management / Change Programme Could the decision impact negatively on organisational management or the transformation of the Council's services as set out in its Change Programme?*</p>	☒	☐	☐	The decision would not have any negative implications for the Council's transformation programme.
<p>Next steps:</p> <ul style="list-style-type: none"> ➡ If the answer to all of the above screening questions is No then the process is completed. ➡ If the answer of any of the questions is Yes or Uncertain, then a Level 2 Full Impact Assessment must be completed. 				