

## AFFORDABLE ACCOMMODATION: PROVISION

### BRIEFING PAPER (Amended)

**PROPOSAL** Obtain a loan from the Public Works Loan Board to fund the purchase of two residential properties for Rye families. Appoint a letting agent.

#### Pros/Strengths

- Property is consistently a safe investment in the long term.
- Two affordable rented dwellings available for younger Rye families – meeting a social and economic need - enabling them to remain within the Parish/area (rather than move to Hastings/St Leonards).
- RTC has complete control over the eligibility criteria.
- A proportion of the rent would be used to offset the loan repayments.
- RTC appears more 'relevant' – ie meeting a demonstrable local need.
- The cost of borrowing remains relatively low – repayments (PWLB) may be fixed and spread up to 50 years.
- Councils may borrow (without additional DCLG approval/scrutiny) up to £500,000 for a single purpose in a financial year.

#### Cons/Risks

- Impact on staff time (primarily during the set up stage – assuming a lettings agent is appointed to manage the tenancies thereafter).
- Additional maintenance responsibilities.
- Adverse impact if there is a change in Government policy – especially extending the Right to Buy to tenants with parish/town Council landlords - or subjecting parish/town councils to the Excessive Council Tax Referendum rules (currently effectively restricting Council Tax increases to 1.99%).
- Residential lets are an exempt taxable supply – the purchase and refurbishment of the two buy-to-lets could easily push RTC's total exempt VAT expenditure over the £7,500pa reclaim limit – in which case RTC would be unable to recover **any** of its total exempt VAT expenditure (*See VAT – below*)

#### CONSIDERATIONS

- 3-bed properties offer greater flexibility over 2-bed. (A bedroom not required for sleeping could be used to support home working.)
- Freehold asking prices have risen noticeably since I last reviewed them a year ago. As at 20.1.16 the following 3-bed properties could be found via Rightmove:

Pottingfield Road (semi)	£210,000
New Rd (semi)	£230,000
Winchelsea Road (terr)	£235,000
Lea Ave (semi)	£245,000
Military Road (semi)	£239,950
Military Road (terr)	£250,000
<i>Average</i>	<i>£235,000</i>

- (Generally cheaper) Properties in South Undercliffe and Ferry Road tend to be 2-bed and appear not to stay on the market long.
- Tenants are likely to have young children and so a back garden/safe outdoor space is desirable.
- Likely refurbishment costs are difficult to estimate – purchasing a (more expensive) new build would eliminate this problem (as well as control maintenance costs in the short-medium term).
- As at 20.1.16 properties to rent in Rye/Rye Harbour were:
 

3-bed	Rye Harbour (semi)	£230pw
	Harbour Road (terr)	£173pw
	Eagle Road (terr)	£237pw
	Winchelsea Rd (terr)	£254pw
	<i>Average</i>	<i>£224pw</i>
2-bed	Cyprus Place (terr)	£196pw
	Fishmarket Rd (terr)	£179pw
	Cinque Ports St (terr)	£219pw
	<i>Average</i>	<i>£198pw</i>
- The General Power of Competence allows RTC to purchase and manage residential property – and not just within the Parish. The Power could therefore be used to purchase property in adjoining parishes/wards – such as Rye Harbour or Camber.
- The properties do not have to be purchased at the same time.
- More than one loan can be obtained (£500,000 limit in each financial year).
- Rent is considered to be affordable if it is 80% (or less) than the market rent for an area.

## COSTS (est)

*For simplicity, figures incl VAT (where applicable)*

### **EXAMPLE 1 Buy-to-Let (2 x 3-bed at average asking price)**

Properties	£470,000
Stamp duty	£4,400
Full structural survey	£1,200
Legal fees	£3,500
Refurbishment	£40,000
	<b>£519,100</b>

#### *Funded by*

RTC General Reserve	£19,100
PWLB (loan)	£500,000
	<b>£517,350</b>

<i>ANNUAL EXPENDITURE (est )</i>		<b>Notes</b>
<i>For simplicity, figures incl VAT (where applicable)</i>		
Loan repayment	21,134	£500,000 @ 3.47% (fixed - annuity) for 50 years (total repayable: £1,056,696)
Buy-to let repairs	4,000	
Buy-to- let buildings insurance	500	
	<b>25,634</b>	

<i>ANNUAL REVENUE (est)</i>		<b>Notes</b>
Buy-to-let rentals	15,562	3-bed av market rental = £224pw. Assumes discounted rent for 3-bed of £175pw management fee x 95% occupancy
Precept	10,072	As at 1.4.16, this would represent £5.49pa (11p pw) for a Band D tax payer)
	<b>25,634</b>	

#### **EXAMPLE 2 Buy-to-Let (1 x 3-bed at average asking price)**

Property	£235,000
Stamp duty	£2,200
Full structural survey	£600
Legal fees	£1,750
Refurbishment	£20,000
	<b>£259,550</b>

#### *Funded by*

RTC General Reserve	£9,550
PWLB (loan)	£250,000
	<b>£259,550</b>

<i>ANNUAL EXPENDITURE (est )</i>		<b>Notes</b>
<i>For simplicity, figures incl VAT (where applicable)</i>		
Loan repayment(reducing)	13,750	£250,000 @ 3.5% (fixed - EIP) for 50 years (total repayable: £470,937)
Buy-to let repairs	2,000	

Buy-to-let buildings insurance 250

**16,000**

**ANNUAL REVENUE (est)**

**Notes**

Buy-to-let rental

7,781

3-bed av market rental = £224pw. Assumes discounted rent for 3-bed of £175pw less 10% management fee x 95% occupancy

Precept

8,219

As at 1.4.16, this would represent £4.48pa (9p pw) for a Band D tax payer)

**16,000**

**Notes (costs)**

- I awaiting advice from RDC Housing on whether a social/affordable rent of £175pw is reasonable.
- For most years the occupancy levels should be 100%.
- The budget for repairs and maintenance will need to rise in the medium term
- The financial impact is likely to be greater than set out in the costings above (*see VAT – below*).

**VAT [the note of caution]**

It is possible that having two-three Buy-to-Let properties (including the Town Hall Cottage) might mean that RTC is unable to reclaim any of the VAT it incurs on expenditure associated with it making exempt supplies.

There is an underlying concept of EU law that VAT can only be recovered on expenditure incurred in connection with the generation of VATable income. Therefore, income generated on lettings and leases is, in principle, irrecoverable.

However, the partial exemption rules state that where this VAT is 'insignificant' all exempt-attributable VAT may be recovered (along with other VAT) provided that it is **not** more than £7,500pa or 5% of all VAT incurred. If the total of all exempt-attributed VAT exceeds this limit **none** of it may be recovered.

This is important because RTC currently has the following exempt activities: weddings/lets of the TH, making space for the Old Pier Amusement machines, the sub-lease with the Rugby Club, the TH Cottage. This could mean that, in one (or most) years, the VAT expended on repairs to the TH, THC, HC (plus additional buy-to-lets) cannot be recovered.

*A more detailed analysis of the impact of the partial exemption rules will follow.*

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