

For General Release

DELEGATED DECISION REPORT TO :	Cllr Callton Young, Cabinet Member for Resources and Financial Governance
SUBJECT:	Increasing Housing Supply
LEAD OFFICER:	David Padfield Interim Corporate Director Housing Peter Mitchell Director of Commercial Investment and Capital
CABINET MEMBER:	Councillor Patricia Hay-Justice Cabinet Member for Homes Cllr Callton Young Cabinet Member for Resources and Financial Governance
WARDS:	Coulsdon East
CORPORATE PRIORITY/POLICY CONTEXT/ AMBITIOUS FOR CROYDON This report address further the commitment in the Council’s Corporate Plan (2018) for “good decent homes, affordable for all” Our Community Strategy Policy aims to ensure protection of vulnerable people and a key priority within this is to meet the housing need with good quality accommodation. Corporate Plan - the proposals presented in this report will: <ul style="list-style-type: none">• Maximise the use of the Council’s assets to deliver new homes, including affordable, private for sale and private rented stock• Bring forward the development of key sites across the borough to address key local, national and regional policies Community Strategy – Development of sites enables the Council to deliver new homes and increase the supply of affordable homes, a key aspiration of the Community Strategy This report builds on the Housing and Homelessness Strategy presented to cabinet in October 2019	

FINANCIAL IMPACT

Investment in the provision of a further 10 homes will help allow the Council to reduce the number of households in emergency accommodation by ensuring that the households can move through the system from temporary accommodation and into longer term tenancy arrangements which will help deliver annual revenue savings.

The purchase of these homes will also allow £1.48m of Right to Buy receipts to be utilised and avoid £364k of interest payments

FORWARD PLAN KEY DECISION REFERENCE NO.: 1622H

The notice of the decision will specify that the decision may not be implemented until after 13.00 hours on the 6th working day following the day on which the decision was taken unless referred to the Scrutiny and Overview Committee.

The Leader of the Council has delegated to the Cabinet Member for Resources and Financial Governance the power to make the decisions set out in the recommendations below

1. RECOMMENDATIONS

The Cabinet Member for Resources and Financial Governance in consultation with the Leader agrees the following:

- 1.1 Approve the borrowing facility of up to £5.1m (£3.6m net of Right to Buy Receipts) to enable the investment in the acquisition of 10 new 3 bed houses from Brick By Brick Croydon Ltd
- 1.2 Approve the use of up to £1.5m Right to Buy Receipts to reduce the level of borrowing required
- 1.3 Agree that the proposed rent levels for the properties to be at London Affordable Rent

2. EXECUTIVE SUMMARY

- 2.1 The Council is looking to purchase a further 10 properties for use as permanent social housing to be held within the Housing Revenue Account (HRA). As with other Council accommodation, they will be managed by the Housing team for allocations and tenancies as well as responsive repairs as necessary.
- 2.3 The Council will fund the purchases through the use Right to Buy (RTB) funds which will fund up to 30% of the purchase price with the remainder being through HRA borrowing.

2.4 All tenancies will be let on agreements based on London Affordable Rents.

2.5 The ten 3 bed houses are all located on the Tollers Estate and are brand new properties having recently been completed as part of the Brick by Brick (BBB) development. All properties procured are assessed under the Housing Health and Safety Rating System (HHSRS) prior to letting.

3. DETAIL

3.1 This report requests agreement to purchase 10 new family homes from BBB to meet one of the areas of highest need. These properties are new build and will therefore meet all current safety requirements as well as being more energy efficient. They will also be subject to a 10 year NHBC warranty and therefore repair costs should be minimal over the first 10 years.

3.2 The Council have £1.48m of RTB receipts to commit before the end of March 2022 otherwise it will be required to lose the funds and will be required to pay interest. If these funds are not committed to the purchase of new social housing and interest payment of c£364k will have to be paid

3.3 In addition to the purchase price of the homes, the following additional costs will be included within the financial model:

- Operating and managing costs – covering the costs of regular maintenance and repairs, void reinstatement, major works, insurance and scheme management.
- Debt servicing and repayment costs – covering the costs of the interest cost of borrowing from the Public Works Loan Board over 30 years
- Rental income – covering the net income resulting from charging the relevant LHA rate, less the assumed void period and a proportion for bad debt.
- Property insurance costs

3.4 The purchase of the BBB properties will allow

- Early acquisition of properties to allow savings to be captured
- New properties that would offer NHBC certificates to cover any major repairs over the first 10 years and minimising maintenance costs over the medium to long term
- All statutory certification available on completion – the Council have a detailed list of documents that are required as part of the due diligence process and need to be approved before completion of the purchases
- SDLT would not be payable saving between £30k per property
- Further cost saving on survey fees
- Retain good quality new homes for Croydon residents
- Homes will be within our existing estates thereby offering economies of scale for housing and caretaking services

- 3.5 Data from supply and demand figures and on future projections clearly indicates that the demand for additional homes still exists and in particular for larger family homes.
- 3.6 The decision to purchase further properties is likely to bring about the following benefits:
- More settled accommodation for families enabling them to plan long term lives and supporting the corporate plan objectives on affordable and increased supply
 - Revenue savings will be made as the purchase of more long term accommodation will ease the demand on emergency accommodation and an overall reduction in temporary accommodation numbers.
 - Increased housing supply at affordable levels for households
- 3.7 The purchases will all be subject to full due dilligence in respect of planning, building control, warranty and other stattory documentation and a pre-occupation inspection will be undertaken by external surveyors to ensure that any defects are identified and remedied and the properties are safe for occupation

4. CONSULTATION

- 4.1 No consultation has been undertaken

5 PRE-DECISION SCRUTINY

- 5.1 The purchase of these units has not been referred to Scrutiny although the Housing Strategy which covers the need and necessity to increase temporary accommodation has.

6 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

6.1 Use of RTB Receipts

The Council have £1.48m of RTB receipts to commit before the end of March 2022 otherwise it will be required to lose the funds and will be required to pay interest. In addition it has a further £ 3.29m that is available to use for housing purchase that can be used for permanent or affordable housing

This proposed investment would be funded through HRA borrowing (£3.6m) and RTB receipts (£1.5m)

1 Revenue and Capital consequences of report recommendations

The Financial calculations have been undertaken adopting the following

assumptions:

Number of properties	10
Net Purchase costs inclusive of fees	£3.6m
RTB Funding	£1.5m
PWLB Borrowing Rate	2.65%
Management/maintenance per unit	£3,500pa
Insurance per unit	£350pa
Void/Bad Debt Rate	2.5%

10 properties acquisition Annual revenue cost estimation	£'000
Rental income	- 95.4
Voids and bad debt	2 -
Net rent	93.4
Maintenance and Management	35
Insurance	3.5
Interest on borrowing	94.6
Net costs	-37.7
Annual unit cost	3.17
Net annual estimated savings compared to cost of third party emergency accommodation	32.3

2 The effect of the decision

Subsidising the cost of purchasing the properties using right to buy receipts reduces the borrowing costs associated with the scheme. Nevertheless the scheme will still cost the HRA an annual amount of around £37k although this is likely to be offset through the reduced demand for temporary accommodation which could potentially deliver an annual saving in the region of £32k

3 Risks

It is important to acknowledge that the Scheme is not without risk. In line with similar schemes, the properties will require careful and close management. The key risks are:

- Scheme losses (actual and perceived) - rental income alone from the tenants of the properties is insufficient to cover the debt payments and the running costs

(management costs, day-to-day repair costs, void losses, bad debt losses etc). The Scheme's impact on avoiding or reducing the use of emergency nightly charged for accommodation needs to be accounted for if it is to be seen as being self financing.

- Properties being void for periods after being available - properties that stand empty after handover to the Council will result in a loss of available income and a loss of cost avoidance. The model is therefore sensitive to an increase in void periods which will require effective processes and systems to ensure households are placed efficiently.
- The costs assume an interest only payment on the PWLB borrowing
- If the purchases are not made, then £1.48m of the RTB receipts will be retained under the RTB retained receipts pooling system and the Council will be required to pay this back along with over £360k in interest

4 Options

If the Council does not look to purchase more long term accommodation, the demands on temporary accommodation will continue to grow and cost the Council significantly more.

The Council could look to hand the RTB receipts back but there would also be the additional cost of the required interest payment that would have to be paid from the HRA. Based on the estimated interest payments, this is likely to cover in excess of 20 years of the rental shortfall

5 Future savings/efficiencies

The Council will continue to seek ways to reduce the cost of providing accommodation in order to reduce the budgetary pressures. The Council's incoming housing strategy will enable the Council to make longer term decisions linked to supply across various service needs, which should be more cost effective.

To reduce the costs of running these additional properties, they will be maintained as part of the same arrangements as the wider HRA stock.

Approved by Orlagh Guarnovi Interim Head of Finance - Housing

7. LEGAL CONSIDERATIONS

- 7.1 The recommendations set out in this report are within the powers of the Council. The Council is making these acquisitions pursuant to its powers provided by s17 Housing Act 1985. The Council may also rely on its general power of competence under s1 Localism Act 2011. Any transactions, such as land acquisitions, between the Council and Brick by Brick Croydon Limited should be at arms length and on commercial and market terms in order to comply with subsidy control rules and to ensure independent operation from the Council.

Approved by Kiri Bailey , Interim Head of Commercial and Property Law on behalf of the Interim Director of Legal Services

8. HUMAN RESOURCES IMPACT

8.1 There are no Human Resources impacts as a result of this report

8.2 Approved by: Gillian Bevan Head of HR

9. EQUALITIES IMPACT

9.1 Under the Equality Act 2010 the Council has an obligation to protect **people against discrimination, harassment or victimisation in employment**, and as users of private and public services based on nine protected characteristics:

9.2 The range of solutions being developed will impact positively upon families in reducing the amount of time spent in temporary (bed and breakfast) accommodation and move them to more suitable forms of self contained accommodation.

9.3 An Equality Analysis has been undertaken to ascertain if the proposed change will have an impact on groups that share protected characteristics. This found that the changes are more likely to have a positive impact on groups that share protected characteristics as it will provide accommodation for families and offer more secure and better quality homes. This will help the council to meet its equality objective to 'increase the support offered to people who find themselves in a position where they are accepted as homeless especially those from BME backgrounds and women'.

9.4 .
The proposal does not detrimentally affect any households from protected groups or disproportionately affect them compared to other groups. We will continue to monitor outcomes in terms of the make-up of homeless households

Approved by: Denise McCausland Equality Programme Manager

10. ENVIRONMENTAL IMPACT

10.1 No specific adverse environmental effects have been identified as part of this process and the acquisition of new homes will lead to an improvement in energy saving measures.

11. CRIME AND DISORDER REDUCTION IMPACT

11.1 No specific crime and disorder impacts have been identified as a result of this scheme.

12. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

- 12.1 The purchase of homes will help provide good quality family homes and is likely to reduce the Council's reliance on Bed and Breakfast type accommodation and thereby produce revenue savings. These homes will also help to provide housing solutions for the next step for families and a more settled home environment with the many benefits that has to offer.
- 12.2 By purchasing these 10 new homes the Council will be able to utilise the £1.48m right to buy receipts helping to ensure that the homes can be rented out on an affordable rent basis and reduce the reliance on temporary housing. It will also avoid the need for the payment of over £360k of interest to the GLA which would otherwise have to be funded out of the HRA.

13. OPTIONS CONSIDERED AND REJECTED

- 13.1 The Council has already considered and entered into a number of different housing solutions to address the need for permanent and temporary accommodation and continues to review options.
- 13.2 These have included taking leases, typically for 40-50 years with rents below Local Housing Allowance levels but subject to RPI increases. At the end of the lease the Council can acquire the properties for £1. A number of these schemes are currently being reviewed to assess their cost effectiveness against the model proposed in this report. These schemes may have a future place in proving this type of accommodation but do not offer the overall flexibility that straight purchase of homes has to offer.
- 13.3 An alternative model is to purchase "off plan" from developers but this would not deliver the properties within the timescales required in respect of the RTB funds that need to be committed
- 13.4 The purchase of existing Council owned properties or second hand street properties will also take longer to complete and may require further work to allow decent homes standards to be met and therefore, given the need to commit at an early stage to spend the existing RTB funds, this is not considered to be realistic given the additional time period it is likely to take to survey the properties and undertake the necessary negotiations, due diligence and legal documentation. The BBB option is more straightforward as the Council already have an agreed form of contract and access to the necessary documentation therefore making this the preferred option.

14. DATA PROTECTION IMPLICATIONS

14.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

No

14.2 HAS A DATA PROTECTION IMPACT ASSESSMENT (DPIA) BEEN COMPLETED?

NO

(Approved by: Steve Wingrave Interim Head of Assets, FM and Estate Management)

CONTACT OFFICER: Steve Wingrave, Interim Head of Assets FM and Estate Management ext 61512.

APPENDICES TO THIS REPORT

none

BACKGROUND PAPERS

Equalities Analysis Form