



BROMLEY CIVIC CENTRE, STOCKWELL CLOSE, BROMLEY BRI 3UH

TELEPHONE: 020 8464 3333

CONTACT: Kerry Nicholls  
*Kerry.Nicholls@bromley.gov.uk*

DIRECT LINE: 020 8461 7840

FAX: 020 8290 0608

DATE: 9 September 2022

## **RENEWAL, RECREATION AND HOUSING POLICY DEVELOPMENT AND SCRUTINY COMMITTEE**

**Monday 12 September 2022**

**S 9f MEADOWSHIP HOMES PHASE 2 - CHANGES TO FINANCING**  
(Pages 3 - 8)

The Chairman to move that the attached report be considered as a matter of urgency in order for the Committee to scrutinise the proposals in advance of the Executive taking a decision.

*Copies of the documents referred to above can be obtained from*  
<http://cde.bromley.gov.uk/>

This page is left intentionally blank

Report No.  
FSD22069

## London Borough of Bromley

### PART 1 - PUBLIC

---

**Decision Maker:** **EXECUTIVE**  
**FOR PRE-DECISION SCRUTINY AT THE RENEWAL, RECREATION AND HOUSING POLICY DEVELOPMENT AND SCRUTINY COMMITTEE ON 12<sup>TH</sup> SEPTEMBER 2022**

**Date:** **Wednesday 21<sup>st</sup> September 2022**

**Decision Type:** Urgent                      Executive                      Non-Key

**Title:** **MEADOWSHIP HOMES PHASE 2 – CHANGES TO FINANCING**

**Contact Officer:** Sara Bowrey, Director of Housing, Planning, Property and Regeneration  
Tel: 020 8313 4013    E-mail: sara.bowrey@bromley.gov.uk  
  
James Mullender, Head of Finance, Adults, Health & Housing  
Tel: 020 8313 4196    E-mail: james.mullender@bromley.gov.uk

**Chief Officer:** Director of Housing, Planning, Property and Regeneration  
  
Director of Finance

**Ward:** All Wards

---

1. Reason for report

- 1.1 This report advises on the progress setting up the Meadowship Homes 2 joint venture arrangement with Orchard and Shipman to acquire residential properties to help reduce the current pressures in relation to homelessness and temporary accommodation, and requests a change to the financing arrangements.

---

2. **RECOMMENDATION(S)**

**Executive is requested to:**

- 2.1 Note progress on the scheme to date;
- 2.2 Agree to commit to an ongoing revenue contribution of up to £250k per annum (indexed annually by CPI); and
- 2.3 Agree to extend the loan term from the Funder from 50 years to up to 55 years.

### Impact on Vulnerable Adults and Children

1. Summary of Impact: The accommodation provided ensures that the Council is able to meet its statutory responsibilities in respect of housing
- 

### Corporate Policy

1. Policy Status: Existing Policy: Homelessness Strategy 2018-2023
  2. Making Bromley Even Better: CYP to grow up and thrive, People to make their homes in Bromley, manage our resources well providing value for money and efficient and effective services for Bromley residents.
- 

### Financial

1. Cost of proposal: Estimated Cost: up to £15m loan contribution to purchase of the properties
  2. Ongoing costs: Estimated net savings of up to £1.7m per annum
  3. Budget head/performance centre: Operational Housing
  4. Total current budget for this head: £7.4m
  5. Source of funding: Housing Investment Fund, Housing Invest to Save Fund and New Homes Bonus earmarked reserves (currently £17m unallocated)
- 

### Personnel

1. Number of staff (current and additional): 1 FTE additional post
  2. If from existing staff resources, number of staff hours: N/A
- 

### Legal

1. Legal Requirement: Statutory Requirement: Further Details
  2. Call-in: Not-Applicable
- 

### Procurement

1. Summary of Procurement Implications: Not Applicable
- 

### Customer Impact

1. Estimated number of users/beneficiaries (current and projected): There are approximately 1,600 households currently placed in temporary accommodation of which almost 1,100 are in forms of insecure costly nightly paid accommodation. This scheme would provide up to around 320 good quality cost effective affordable housing units to fulfil the Council's statutory rehousing duties and reduce the current reliance on nightly paid accommodation.
- 

### Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
2. Summary of Ward Councillors comments:

### 3. COMMENTARY

- 3.1. In July 2022, Executive and subsequently Council agreed proposals to enter into a second limited liability partnership (Meadowship Homes 2 LLP) with Orchard and Shipman for the acquisition, refurbishment and management of up to 320 residential properties, with the final property numbers dependent upon final loan amounts and property purchase prices.
- 3.2. Financing for the scheme will be provided through a loan facility from the Council of up to £15m, and a facility from the Funder of up to £100m, with the Council providing a guarantee to meet the liabilities of the LLP in respect of the loan facility in the event of repayment default.
- 3.3. Since then, Officers have instructed solicitors to act on the Council's behalf in drafting the various legal agreements. Although a number of these can be replicated from the first scheme, the facility agreements in particular need significant revision, particularly around the security arrangements, as the funder will not be taking security over individual assets, but will instead have a floating charge.
- 3.4. The LLP has now been incorporated, and work is underway to appoint security trustees and agents for the lender, as well as setting up the various bank accounts required. The funders have completed their due diligence process and will be taking the proposal to their Investment Committee on the 14<sup>th</sup> September.
- 3.5. Once the scheme has been signed off by the Investment Committee and the documents are almost finalised, the Funder will hedge the funding and the rate will then be locked in.
- 3.6. As at the end of August 2022, a total of 156 acquisitions have completed in phase 1 (of which 96 have been handed over for nomination), with a further 4 exchanges. In total 247 sales have been agreed and it is estimated that the total number acquisitions will be around 255.
- 3.7. It is currently expected that the legal documents will be finalised in early October 2022, by which time the purchases for phase 1 should have been completed (barring any fall-throughs). Timing-wise this works well as it means that the second phase won't have money sitting in the bank inactive. Orchard and Shipman will continue to look for and make offers on properties in advance to further minimise any delay in acquisitions.
- 3.8. Since the Phase 2 report was agreed in July, gilt yields have generally continued to rise, and the scheme is no longer financially viable within the parameters originally set, which were as follows:
  - At the time, the gilt rates would have resulted in a yield to the Funder of 2.57%, which would have meant that an £80m loan from the Funder and an £11m loan from the Council at 1.6% would have resulted in a blended yield of 2.45%.
  - To allow for an increase in the Funder's yield to 2.67%, the parameters were to reduce the Funder's loan to £58m and increase the Council's loan to £15m in order to maintain the same blended yield.
  - Conversely, if gilt rates had reduced to give a Funder's yield of 2.54% or below, then the parameters were to increase the Funder's loan to £100m whilst keeping the Council loan at £11m.
- 3.9. As at 6<sup>th</sup> September, the gilt yields would equate to a Funder's yield of 2.99%, so the income received from Orchard and Shipman would not be sufficient to cover the loan repayments to the Funder and Council.

- 3.10. In addition to this, the blended yield of 2.45% was an estimated target at the time of the original report and will need to be reduced to 2.40%.

#### **4. OPTIONS TO CHANGE THE FINANCIAL PARAMETERS**

- 4.1 In order to mitigate this in the event that gilt yields do not decrease by the time the rate is locked in, there are 6 main options that could be taken in order to ensure the scheme is financially viable:

- 1) Increase the Council loan above £15m. The earmarked reserves that were previously set aside for housing have now all but been fully utilised, with less than £2m unallocated, so this option is not recommended.
- 2) Reduce the Funder's loan further. This is not an option as the Funder have said the minimum would be £70m.
- 3) Increase the CPI cap from 5% to say 6%. This is not recommended given the current economic climate.
- 4) Remove the 2 year initial payment 'holiday'. As the acquisitions are expected to take around 18 months to fully complete, this would mean that some of the initial loan amount would need to be used to meet loan repayments so would reduce the number of properties that could be purchased, and would not allow any surplus to be built up in that period.
- 5) Extend the Funder's loan term from 50 years to up to 55 years in order to reduce the annual loan repayment.
- 6) Commit to an ongoing revenue contribution of up to £250k per annum (indexed) to the LLP, effectively reducing the ongoing savings from the scheme.

- 4.2 It is recommended that Executive agree a combination of options 5 and 6, with the revenue contribution option being used first, and the loan term then being extended if required.

#### **5. IMPACT ON VULNERABLE ADULTS AND CHILDREN**

- 5.1 This scheme supports children and vulnerable people through the provision of good quality cost effective housing supply increasing access to local accommodation ensures that access to existing services and support networks can be maintained.

#### **6. POLICY IMPLICATIONS**

- 6.1 The Council has a published Homelessness Strategy which sets out the approved strategic policy in terms of homelessness. This includes temporary accommodation provision and reducing the reliance on nightly paid accommodation. The Council already works with a number of providers from the provision and management of temporary accommodation.
- 6.2 Officers will consider the Council's statutory obligations under the Equalities Act 2010 as the scheme progresses and take appropriate action.

#### **7. FINANCIAL IMPLICATIONS**

- 7.1. The scheme as originally proposed would produce full year savings to the Council of up to £1.9m per annum on temporary accommodation costs based on 320 properties being acquired, which assumed total funding of £111m (£100m from the Funder and £11m from the Council).

- 7.2. With the minimum Funder loan amount of £70m and maximum Council loan of £15m, the scheme would be able to acquire around 240 properties which would deliver full year savings of around £1.5m per annum.
- 7.3. These estimated savings are based on the current average cost of nightly paid accommodation of around £6,200 per household per annum. As a result of increasing demand and other cost pressures, these costs are expected to rise quite significantly. Early indications are that rates for new placements could increase by around 15% in the near future which would increase the savings to around £7,100 per annum, and therefore the scheme savings to around £1.7m per annum i.e. an increase of around £200k, and potentially could increase further as a result of reduced supply, although this has not been quantified at this time.
- 7.4. The proposal to commit to a revenue contribution of up to £250k (just over £1k per property) would therefore reduce the savings by this amount; however this could be almost fully compensated by the increased savings referred to above.
- 7.5. In addition, any surpluses that are generated within the scheme are entirely for the Council to use so would reduce the contribution required. These could arise from further properties purchased through the rental income generated in the first two years before loan repayments start, or in the event of a significant increase in LHA rates, which have been frozen since April 2020 and have diverged from the 30<sup>th</sup> percentile of market rents that they are supposed to be set at.
- 7.6. To highlight the recent volatility, the chart below shows the reference gilt prices over the past year. The yield on gilts are inversely related to the prices, so the yields are the highest they have been over this period, and in fact are at the highest since July 2014. As the current prices should reflect all information available to the market, there is no reason to assume the downward trend will continue.



- 7.7. The table below shows the impact of the proposed changes (highlighted):

	<b>Current</b>	<b>£250k revenue contribution</b>	<b>Increase term to 55 years</b>	<b>Both</b>	<b>Maximum funder yield</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<u>Loan amount</u>					
LBB	15,000	15,000	15,000	15,000	15,000
External funder	70,000	70,000	70,000	70,000	70,000
<b>Total</b>	<b>85,000</b>	<b>85,000</b>	<b>85,000</b>	<b>85,000</b>	<b>85,000</b>
<u>Initial annual payment</u>					
LBB	240	240	240	240	240
External funder	2,093	2,093	1,960	1,960	2,051
Revenue contribution		-250		-250	-250
<b>Total</b>	<b>2,333</b>	<b>2,083</b>	<b>2,200</b>	<b>1,950</b>	<b>2,041</b>
<u>Initial yield</u>					
LBB	1.60%	1.60%	1.60%	1.60%	1.60%
External funder	2.99%	2.99%	2.80%	2.80%	2.93%
<b>Blended yield</b>	<b>2.74%</b>	<b>2.45%</b>	<b>2.59%</b>	<b>2.29%</b>	<b>2.40%</b>

- 7.8. This shows that a combination of both options would provide headroom for a further 0.13% increase in the gilt yield.
- 7.9. Specialist advice will be obtained to ensure that the proposed revenue contribution doesn't have an impact on the accounting treatment of the scheme.
- 7.10. Reflecting all the arrangements shown above there remain significant potential savings to the Council of around £1.5m per annum on temporary accommodation costs.
- 7.11. There will be a further significant benefit from the broadly self-financing scheme as at the end of the term the leasehold or freehold titles will be transferred to the Council for £1 with no outstanding debt payable.

## 8. LEGAL IMPLICATIONS

- 8.1 Extensive legal comments are set out in the 15<sup>th</sup> July 22 Executive report on this scheme. The proposed changes in in this report will be incorporated within the legal documents that are in the process of being drafted.

<b>Non-Applicable Sections:</b>	Personnel; Procurement
Background Documents: (Access via Contact Officer)	Meadowship Homes Phase 2; Executive 13 <sup>th</sup> July 2022