

Decision Maker: **RENEWAL, RECREATION AND HOUSING POLICY DEVELOPMENT AND SCRUTINY COMMITTEE**

Date: **Wednesday 25 March 2020**

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

Title: **UPDATE ON MORE HOMES BROMLEY SPV PROPERTY ACQUISITION PROGRAMME**

Contact Officer: Sara Bowrey, Director of Housing, Planning, and Regeneration
Tel: 020 8313 4013 E-mail: sara.bowrey@bromley.gov.uk

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

Ward: (All Wards);

1. Reason for report

1.1 This report accompanies the presentation being provided by Mears on behalf of the More Homes Bromley SPV to update on the acquisition of 400 properties for homeless households acquired through the SPV set up between Mears Group and the Council and a review of the key performance areas in relation to the management contract provided by Plexus on behalf of the More Homes Bromley SPV.

2. **RECOMMENDATION(S)**

2.1 Members of the Renewal, Recreation & Housing PDS Committee are asked to review the report and note the acquisition and performance update.

Impact on Vulnerable Adults and Children

1. Summary of Impact: The accommodation provided through this scheme helps to ensure that the Council is able to meet its statutory responsibilities in respect of housing.
-

Corporate Policy

1. Policy Status: Not Applicable:
 2. BBB Priority: Children and Young People Excellent Council Supporting Independence:
-

Financial

1. Cost of proposal: Not Applicable
 2. Ongoing costs: Full year revenue savings of around £2.3m based on the 360 properties acquired to date
 3. Budget head/performance centre: Temporary Accommodation
 4. Total current budget for this head: £17.7m (gross), £6.5m (net)
 5. Source of funding: Existing revenue budget, including Flexible Homelessness Support Grant, Housing Benefit subsidy and Universal Credit
-

Personnel

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

Legal

1. Legal Requirement: Statutory Requirement:
 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 currently just over 1600 households in temporary accommodation. The homes provided under this scheme provide suitable affordable temporary accommodation in discharge of the Councils statutory temporary accommodation duties
-

Ward Councillor Views

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

3. COMMENTARY

- 3.1 The Executive on the 23rd March 2016 agreed to set up an SPV between the Mears Group and the Council to acquire stock to meet the Council's homeless statutory rehousing duties.
- 3.2 The More Homes Bromley SPV was therefore set up as a joint partnership between the Council and Mears Group to acquire up to 400 properties comprising of 70% 2 bedroom accommodation and 15% 1 & 3 bedroom properties both in and outside of the borough.
- 3.3 Neither party in the Joint Venture is an investor in the SPV. An investor was sought from the market to provide funding of £81m for the acquisition of the 400 properties for a 40 year period. At the end of the 40 year period when the loan from the investor has been fully repaid, the properties will be owned by the Council.
- 3.4 Plexus (a RP subsidiary of the Mears group) is contracted by the SPV to provide the property and tenancy management of the acquired units.
- 3.5 The SPV is managed by Mears and the Council jointly by means of a partnership agreement and accompanying suite of documents including the financial model and business plan, acquisitions plan, nominations and agreement and housing management services specification

SERVICE PERFORMANCE

Acquisition:

- 3.6 The SPV has an approved financial model and business plan for the acquisition of the properties, with property purchase being undertaken by Mears on behalf of the SPV.
- 3.7 The table below provides a breakdown of the number of properties purchased as at the end of February 2020, the bedroom sizes of the purchased properties and pipeline properties in the process of completion shown broken down by the size of the accommodation based on the financial model:

	1 bed	2 Bed	3 Bed	Total
Purchased	61	253	46	360
Pipeline	3	17	0	20
Total	64	270	46	380
Variance to financial model left to acquire	+4	-10	-14	-20
	0	10	10	20

- 3.8 Acquisitions have taken longer than initially predicted in the main due to the availability of properties on the housing market that meet the agreed financial envelope and business plan.
- 3.9 To achieve the current level of acquisition 549 offers have been made with 194 (35%) fall through: The main reason for fall through is as follows:
- Properties withdrawn from the market

- Legal or condition concerns arising from the searches, surveys etc
- Leaseholders not accepting the Plexus lease to allow for use under the More Homes programme
- Property does not meet financial model once due diligence has been completed for repairs, leasehold charges etc

3.10 As such, as previously reported, it has not been possible to secure all 400 properties within the two year timescale initially anticipated. Work continues to assess the housing market and actively pursue all opportunities to secure the required number of properties.

Property management and maintenance:

3.11 The management agreement between the SPV and Plexus clearly sets out the required standards for property and tenancy management by identifying a series of outputs and minimum performance standards. This approach has ensured that the properties are maintained to a suitable standard and that tenancies are effectively managed.

3.12 The performance in the specification continues to be monitored through the service levels and KPIs reported to the monthly operation meetings and formal SPV Director Management Board.

3.13 the latest KPI monitoring is set out in appendix 1 of this document which demonstrates that overall the performance is in line with the requirements of the contract between Plexus and the SPV. The accompanying Mears presentation will provide a more detailed analysis of the performance information on behalf of the More Homes Bromley SPV.

BENEFITS AND QUALITY

3.14 The homes provided through the More Homes Bromley SPV provide much needed good quality accommodation to assist the Council in discharging its statutory rehousing duties in relation to homeless households. The accommodation also assists in helping to reduce the reliance on costly forms of nightly paid accommodation as set out in section 6 of this report.

3.15 All properties acquired are assessed and approved by the Council before proceeding to purchase to ensure that they meet the required standards for suitable accommodation.

RISK

3.16 A risk log was established at the onset of this programme is reviewed through the SPV director management board. Risks fall into 2 key areas: firstly the ability to secure all 400 properties within the financial envelope available and secondly that any change in rental regimes or ability to ensure that properties are fully let.

3.17 The acquisition programme continues to be carefully monitored and any variation would be reported to members as required setting out the position and options that may be available.

3.18 The Council has entered into a nominations agreement whereby we guarantee tenants will be placed in these properties over the contract term of 40 years, so securing the rental stream that the investor requires each year to repay the debt and cover the management and maintenance costs..

3.19 Should the Council be unable to nominate tenants for all of these properties, we will be liable for voids until they are filled.

3.20 It is difficult to imagine that our homelessness numbers will ever fall below 400 at any time in the near future, however if they did, the vacant properties could be offered to other local authorities, or let to the private sector or other Housing Associations. There would also be the option to sell off any of the properties using the capital receipt to offset against the debt

outstanding or to alter the balance of the properties if there proved to be low demand for one particular size of dwelling and more for another.

- 3.21 This same level of flexibility could also be utilised to offset any changes in rental regimes in the future should they impact negatively reducing the level of income obtained.

MANAGEMENT

- 3.22 The governance structure in place to oversee the schemes comprises of an operational management and monitoring group which feeds into a monthly management group comprising of representatives from Mears and The Council (including the Portfolio Holder for Renewal, Recreation & Housing) and the overall Director's Management Board.

REVIEW OF PURPOSE

The properties provided under this scheme provide accommodation to assist the Council in meetings its statutory rehousing duties. There continues to be a high level of need for temporary and affordable accommodation which this scheme provides.

LESSONS LEARNT

- 3.23 The More Homes Bromley Scheme has now been operating for just under three and a half years. During this time there have been a number of lessons learnt in relation to the processes and challenges faced such as acquisition costs, timeline and projected costs, Whilst these assumptions were based on detailed market research, the actual reality did not entirely match, mainly due to changes in the housing market and then length of time therefore taken to complete purchases. Some of the key challenges faced are listed below:

- House prices had risen
- Service charge levels were higher than anticipated.
- Speed of purchase has been slower than anticipated. In the main this has been due to the volume of leasehold properties purchased and the time taken by the leaseholders to provide all of the information required to complete the purchase.
- Rent levels being lower than the financial model in the areas that the SPV has been purchasing in (in order to keep within the acquisition costs in the financial model)
- Lack of dedicated Council resources to oversee and manage the scheme, with this being absorbed into existing roles.

SERVICE PROFILE / DATA ANALYSIS

- 3.24 The suite of KPIs attached to the SPV arrangement includes a range of monthly, quarterly and annual indicators. These are set out in appendix 1 of this report.
- 3.25 Any failures of performance are identified and their mitigation are discussed at monthly monitoring meetings and reviewed through the SPV Director Management Board.
- 3.26 It must be noted that this is an SPV arrangement as opposed to a contracted service. In the event of sustained performance failure on the part of the housing management provider contracted through the SPV, the SPV has the right to terminate this contract and appoint an alternative housing provider. To date there have not been any such performance failures.

PLANS FOR ONGOING IMPROVEMENTS IN PERFORMANCE

3.27 The overriding focus in the early stages was the acquisition of the properties required. However as numbers have increased this has moved to an increased focus on 'business as usual' ensuring that properties and tenancies are well managed.

3.28 Work continues to monitor the lettings process closely to ensure that as properties become available they are re-let quickly. However it must be noted that the turnover of tenancies is considerably higher than anticipated in the original model. This is being reviewed through the operational and management board to gain a greater understanding of the underlying reasons to reduce the current level of turnover. A key factor in this is to review options to be able to offer a discharge of the full housing duty into these properties to offer greater stability for families to resettle.

USER / STAKEHOLDER SATISFACTION

3.29 Monthly monitoring takes place on satisfaction levels. The table below shows the feedback received on satisfaction levels. This demonstrates that satisfaction levels have remained consistently high. There have been some small variations however upon review this has been isolated and not a reflection of any sustained reduction in service levels or overall satisfaction.

Customer Sat		August	September	October	November	December	January
		2019	2019	2019	2019	2019	2020
Customers	Mears MHM						
	Overall satisfaction of mhm	77.92%	66.66%	79.69%	90.91%	84.62%	71.00%
	I am happy with repair service	69.23%	66.66%	71.07%	63.94%	76.92%	79.00%
	My call was answered quickly	76.92%	33.33%	79.49%	63.64%	92.31%	78.80%
	The person I spoke to resolved my query	61.54%	66.66%	85.96%	90.91%	84.62%	71.00%
	% of calls answered	88.60%	73.10%	85.65%	63.75%	92.01%	90.06%
	% of calls answered within 20 secs	61.90%	95.20%	57.10%	92.01%	63.75%	69.05%

4. IMPACT ON VULNERABLE ADULTS AND CHILDREN

More Homes Bromley provides cost effective suitable and safe accommodation to meet housing need enabling the Council to meet its statutory housing obligations and to safeguard and protect those who are most vulnerable.

5. POLICY IMPLICATIONS

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 properties provided through More Homes Bromley support the Council in delivery the priorities set out in the Homelessness Strategy.

6. FINANCIAL IMPLICATIONS

- 6.1 The More Homes Bromley scheme was designed to be cost neutral to the Council, so that the rental income from tenants covers the debt repayment to the lender and the tenancy and housing management fee to Plexus. This would generate savings equivalent to the net cost of nightly paid accommodation, which is currently around £6,500 per unit per annum. Based on the 360 properties that have been acquired to date, the scheme will deliver full year savings to the Council of around £2.3m, which would increase to around £2.5m including the 20 properties in the purchase pipeline.
- 6.2 The removal of the £40 per week management fee from the Housing Benefit subsidy for temporary accommodation in 2017/18 means that there is now a net cost to the Council of around £2,080 per annum per property. At present this cost is broadly covered by the Flexible Homelessness Support Grant that 'replaced' the management fee, however it is unknown at present how long this will continue, and if it does, whether it will reflect changes to the number of households in temporary accommodation. If the grant were to cease then the savings in paragraph 6.1 above will be reduced by around £790k per annum.
- 6.3 Rental income due to the SPV is inflated every year from year 5 onwards as set out in previous reports. Any shortfall between the rent due in the model and TA subsidy levels is met by the Council through the rent guarantee, so the Council will be liable to top up the rent levels in future if the subsidy levels do not increase to the same extent.
- 6.4 To mitigate this risk, as highlighted in reports to Members when the scheme was originally proposed, the scheme could be adapted to discharge the Council's homelessness duty, which would increase rents to current LHA levels (compared to 90% of 2011 LHA levels for the current temporary accommodation rents), or to charge market rents, although this would impact on the savings the scheme is delivering.
- 6.5 Another option would be to rephase the financial model, however this would increase the net debt at the end of the 40 year term, which the Council would have to pay to the SPV or cover by disposing of a number of the properties.
- 6.6 Officers are currently exploring options to address the shortfall in rent collected to date as a result of the slower than anticipated acquisitions. Any change to the scheme would require the formal agreement of the Council and Mears (and potentially the lender), so any proposal would be reported to Members in due course.

7. LEGAL IMPLICATIONS

The Council has a statutory responsibility to provide temporary accommodation for homeless households under part VII of the Housing Act 1996 (as amended). The duties have been

extended through the Homelessness Reduction Act 2017. Failure to meet these statutory duties due to lack of, or inappropriate accommodation presents significant risk in terms of legal challenges which carried significant cost risk.

Non-Applicable Sections:	Personnel Procurement
Background Documents: (Access via Contact Officer)	