

Decision Maker: LEADER

**FOR PRE-DECISION SCRUTINY BY THE RENEWAL,
RECREATION AND HOUSING POLICY DEVELOPMENT AND
SCRUTINY COMMITTEE**

Date: Wednesday 4th November 2020
Wednesday 25th November 2020

Decision Type: Non-Urgent Executive Key

Title: MORE HOMES BROMLEY - DISCHARGING DUTY

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

Ward: All Wards

1. Reason for report

- 1.1 This report provides an update on the More Homes Bromley scheme for the acquisition and management of up to 400 properties for the Council's homeless families.
- 1.2 The report also requests agreement to change the scheme from temporary accommodation to permit the Council to discharge its homelessness duties by offering tenancies on an assured shorthold basis and to change the rent levels for those properties. Rents charged on these properties will be in line with the applicable local housing allowance level.

2. **RECOMMENDATIONS**

The Renewal, Recreation and Housing Policy Development and Scrutiny Committee is requested to:

- 2.1 Note the contents of the report and provide comments on the proposals.

Leader is requested to:

- 2.2 Agree the proposal from the Board of More Homes Bromley for the Council to allow properties held under the More Homes Bromley scheme to be provided in discharge of the Council's statutory homelessness duties to provide suitable settled accommodation for these households, and to increase the rent levels.

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
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Corporate Policy

1. Policy Status: Existing Policy
 2. BBB Priority: Children and Young People Excellent Council Supporting Independence
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Financial

1. Cost of proposal: No Cost
 2. Ongoing costs: Full year revenue savings of around £2.3m based on the 360 properties acquired to date, plus further savings of £280k from reduced top-up
 3. Budget head/performance centre: Housing Needs
 4. Total current budget for this head: £8.4m
 5. Source of funding: Existing revenue budget, including Flexible Homelessness Support Grant, Housing Benefit subsidy and Universal Credit
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Personnel

1. Number of staff (current and additional): Not Applicable
 2. If from existing staff resources, number of staff hours: Not Applicable
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Legal

1. Legal Requirement: Statutory Requirement
 2. Call-in: Applicable
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Procurement

1. Summary of Procurement Implications: Not Applicable
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): There are currently around 1,730 households in temporary accommodation. The homes provided under this scheme provide suitable affordable accommodation in discharge of the Councils statutory housing duties
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Ward Councillor Views

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

3. COMMENTARY

- 3.1. More Homes Bromley (MHB) was formally set up in June 2016 as a Limited Liability Partnership (LLP) between the Council and Mears Limited. MHB is a Special Purpose Vehicle for the sole purpose of acquiring and refurbishing up to 400 properties for use as housing for tenants nominated by the Council for a period of 40 years.
- 3.2. The housing acquired by MHB was originally intended to be let as temporary accommodation, but the scheme has flexibility to let at alternative tenures including up to open market rents in order to ensure the financial model that underpins the scheme remains sustainable over the 40 years.
- 3.3. Repairs, maintenance and tenancy management services are provided to MHB by Plexus, a Registered Provider subsidiary of Mears, which is paid 24% of the gross rental income from tenants to cover the cost of this service.
- 3.4. To date, a total of 360 properties have been acquired by MHB, with cash available to purchase only a few more. There are three main reasons why the target of 400 acquisitions has not been achieved:
 - a) Delays in acquisitions. The financial model assumed that all 400 properties would be acquired within two years i.e. by July 2018. As reported to the Executive in November 2018, the acquisitions were significantly behind target with only 239 having completed at that date, mainly due to the availability of properties on the housing market that met the agreed financial model. As a result, there was a shortfall in rental income of around £2.8m by that point compared to the model, which would have been used to fund further acquisitions.
 - b) Acquisition costs. The average unit cost in the financial model was £192k, however the actual average cost is around £198k. This is partly as a result of higher refurbishment costs, one-off top-ups that were agreed, as well as higher than anticipated fall throughs where survey and legal costs had already been incurred.
 - c) Rent levels. As referred to in the scheme performance report that was considered by the Renewal, Recreation and Housing PDS Committee in March 2020, rent levels have been lower than assumed in the financial model as properties have been acquired in areas with lower Local Housing Allowance levels in order to try to keep acquisition costs within the financial model.
- 3.5. Plexus have raised with the Board of MHB that the 24% of the current gross rental income that they receive is insufficient to meet their actual costs incurred and that they are making a significant loss, and have provided their management accounts for the scheme to support this. To make this sustainable for them, they have proposed that the scheme be changed from providing temporary accommodation to one where the Council can discharge its homelessness duties.
- 3.6. This would allow rents to be increased from the temporary accommodation benefit level of 90% of 2011 Local Housing Allowance (LHA) rates, to 100% of current LHA rates for households where the benefit cap would not apply. This would also mean that the top up that the Council pays of £40 per property per week could be reduced to £25.
- 3.7. The homelessness duty requires that households are provided with temporary accommodation until such time that the Council can secure a settled offer of accommodation to discharge its rehousing duty in full. This is normally achieved through either an offer of housing association affordable rented accommodation or a private rented sector property. In discharging the duty there is a mandatory stringent suitability test to ensure that the accommodation meets households housing and support needs, is of a suitable standard and affordable for the household. Using these properties in full discharge of the homelessness duty would provide households with more settled accommodation on an assured shorthold tenancy basis. This means that households

would be better able to make long term plans to settle in their home rather than facing the uncertainty of a further move often to an alternative area due to the limited supply of accommodation becoming available.

- 3.8. Officers have worked with Plexus around how such a scheme could be implemented and have recommended that 52 of the 360 properties are kept as temporary accommodation. 18 of these 52 would exceed the benefit cap and as such not be affordable, with the remaining 34 being properties in and around Bromley which would be kept as temporary accommodation to help best manage homelessness service needs.
- 3.9. The LLP agreement does not permit the Board of MHB to agree an increase in rental levels above those previously agreed (i.e. temporary accommodation rent levels); this is reserved for the formal agreement of the Council and Mears.
- 3.10. The Board of MHB (the Director of Housing, Planning & Regeneration, the Head of Finance, Adults Health & Housing, the Finance Director of Mears Group Plc and Chief Operating Officer of Mears Housing Management Ltd), requests that the Council and Mears agree the proposed changes.
- 3.11. It should be noted that the current repairs, maintenance and management charges that Plexus receive equate to around £44 per property per week. This is considered to be lower than the fees for an equivalent management service that could be obtained elsewhere, so there is a risk that if Plexus had to be replaced then the costs could increase above the 24%, which would have to be borne by the Council.
- 3.12. To ensure that Plexus are not excessively profiting from the change in rents, they have proposed to operate on an open book basis, with the ability to reduce the top-up levels in future. A discharge of duty scheme would benefit from reduced turnover of tenancies which it is anticipated in the longer term to achieve better value in terms of management and maintenance costs.
- 3.13. In addition to the reduction in top-up, there are potential further future benefits to the Council as it seems likely that current LHA rates will increase by more than temporary accommodation rates, especially as these have remained frozen since 2011 whilst LHA rates increased from 1st April 2020 following four years of being frozen.
- 3.14. Within the financial model, there is an annual indexation of 2.93% from April 2020, with the Council guaranteeing any shortfall as a result of rents not actually increasing at the same rate. As a result of moving to LHA rates, this shortfall is likely to be reduced.

4. IMPACT ON VULNERABLE ADULTS AND CHILDREN

- 4.1 The recommendations support children and vulnerable people through the provision of affordable settled housing supply.

5. POLICY IMPLICATIONS

- 5.1 The Council has a published Homelessness Strategy which sets out the approved strategic policy in terms of homelessness. This includes the provision of a range of temporary and affordable housing provision to fulfil the Council's statutory rehousing duties and reduce the reliance on nightly paid accommodation. This accommodation provides suitable accommodation to fulfil these duties.
- 5.2 Moving a significant proportion of these homes to be offered in full discharge of the homeless duty will benefit tenants by providing a settled home.

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 £6,300 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.
- 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 £750k per annum.
- 6.3 Rental income due to MHB is inflated by 2.93% every year from year 5 onwards. Any shortfall between the rent due in the model and temporary accommodation 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, and to ensure the continued financial viability of the scheme for Plexus/Mears, it is proposed to discharge the Council's homelessness duty, which would allow rents to be increased to current LHA levels (compared to 90% of 2011 LHA levels for the current temporary accommodation rents).
- 6.5 By increasing the rents, the £40/week top up will be reduced to £25/week, which will deliver a further £280k per annum of savings, which could increase further in future as set out in paragraph 3.13 above.
- 6.6 When the scheme was originally set-up in 2016, the Pensions Investment Sub-Committee and Council agreed that the properties would be "gifted" to the Pension Fund after the 40 years to the extent that it was in deficit. This originally delivered £1.7m per annum of savings on the Council's past deficit pension contributions; however following the 2019 triennial valuation, the Fund is now in surplus so there is no longer a saving, although this may again change following future triennial valuations.
- 6.7 The Council's actuary has advised that from an actuarial perspective, there should not be any impact on the "gifting", as long as the Council can secure vacant possession, which it should be able to do as set out in paragraph 7.1 below
- 6.8 As a consequence of the reduced number of acquisitions, the total net rental income received by MHB is lower than the financial model by around £300k per annum. Under the rent guarantee, the Council is liable for this shortfall; however it is currently assumed this will continue to be rephased in the financial model which will increase the net debt that the Council will have to clear and the end of the 40 years.

7. LEGAL IMPLICATIONS

- 7.1 The Council may discharge its duty to homeless applicants under section 193 of the Housing Act 1996 by allocating suitable private sector accommodation. Any properties let by Plexus should be granted as Assured Shorthold Tenancies (AST). AST's are not the same as secure tenancies which can only be granted if the Council is the landlord. Fixed term AST's can be brought to an end by serving the requisite notice at the end of the fixed term so the Council should be able to ensure vacant possession when needed.

Non-Applicable Sections:	Personnel and Procurement Implications
Background Documents: (Access via Contact Officer)	<p>Update on More Homes Bromley SPV Property Acquisition Programme – Renewal, Recreation and Housing PDS Committee 25th March 2020</p> <p>Update on Bromley Homes SPV and Options Going Forward for Further Joint Venture Arrangements – Executive 28th November 2018</p> <p>Finalisation of Mears Proposal – Executive 23rd March 2016</p>