

Report No.

London Borough of Bromley

PART ONE - PUBLIC

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

Date: Tuesday 30th March 2021

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

Title: UPDATE ON MORE HOMES BROMLEY SPV PROPERTY ACQUISITION PROGRAMME

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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 the annual update on the More Homes Bromley SPV for the provision of affordable housing.

2. **RECOMMENDATION(S)**

- 2.1 Members of the Renewal, Recreation & Housing PDS Committee are asked to review and note the contents of this report.

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.
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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 £2.58m based on the 360 properties acquired to date
 3. Budget head/performance centre: Operational Housing
 4. Total current budget for this head: £7.7m
 5. Source of funding: Existing revenue budget, including Flexible Homeless Support Grant, housing benefit subsidy and universal credit
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Personnel

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

1. Legal Requirement: Statutory Requirement:
 2. Call-in: Not 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 just over 1800 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 Ltd. MHB is a special purpose vehicle (SPV) 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 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 agreement and housing management services specification.
- 3.3 Plexus (a Registered Provider subsidiary of the Mears group) is contracted by the SPV to provide the property and tenancy management of the acquired units.

Property Acquisition

- 3.4 To date a total of 360 properties have been acquired by MHB. As has previously been reported to Members there are three main reasons why the target of 400 acquisitions has not been achieved:
1. Delays in acquisitions, in the main due to the availability of properties on the housing market that met the agreed financial model resulting in a shortfall of around £2.8m compared to the model, which would have been used to fund further acquisitions.
 2. Acquisition costs were approximately £8k higher per property than set out in the financial model, due in the main to slightly higher refurbishment costs and a higher than anticipated fall throughs where survey and legal costs had already been incurred.
 3. Rent levels have been lower than assumed in the financial model as properties have had to be acquired in areas with lower housing allowance levels in order to try and keep acquisition costs within the financial model and funding available.
- 3.5 The 360 properties acquired reflect the bed size targets set within the original financial model and business plan. The table below sets out the breakdown of properties:

Borough	1 Bed	2 Bed	3 Bed	Total
London Borough of Bromley	8	9	6	23
London Borough of Bexley	0	10	4	14
London Borough of Croydon	0	1	2	3
Royal Borough of Greenwich	0	0	2	2
London Borough of Lewisham	0	3	6	9
London Borough of Southwark	0	1	0	1
London Borough of Wandsworth	0	1	0	1
Ashford Borough Council	0	2	0	2
Canterbury City Council	0	9	1	10
Dartford Borough Council	1	4	1	6
Gravesham Borough Council	5	4	1	10
Maidstone Borough Council	13	124	2	139
Medway Council	32	55	13	100
Swale Borough Council	2	30	5	37
Tonbridge and Malling Borough Council	0	0	3	3
Total	61	253	46	360

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 level agreement and KPIs reported to the monthly operational 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 with the exception of void and re-letting turnaround times and non-urgent repairs.
- 3.14 In common with all other social housing providers in the UK Bromley has found that the reletting process has been slowed, largely due to Covid restrictions which have meant that contractors have had to take additional precautions to ensure the safety of their staff.
- 3.15 Due to the pandemic, Mears like all social housing providers are currently only undertaking emergency repairs in line with the current safety guidance. Routine maintenance has continued where necessary. This equates to 89 jobs during 2020/21 of which 31 have been completed with 58 in progress and within target. This should ensure the overall target is achieved by year end.

Management costs

- 3.16 A report to members in November 2020 (HPR2020/038) detailed that the fee received by Plexus was not sufficient to cover the management and maintenance costs.
- 3.17 In order to address this shortfall the report requested approval to convert 308 of the current properties from use as temporary accommodation to use for the discharge of the homelessness duty. This was approved by Leader decision.
- 3.18 This has enabled rents to be increased to the current local housing allowance level, thus not only addressing the shortfall in management and maintenance costs, but also reducing the top up that the Council currently pays of £40 per property per week to £25 per property per week.
- 3.20 There is also the added benefit, that using the properties in discharge of the homelessness duty provides households with a more settled accommodation offer on an assured shorthold tenancy basis meaning that households are 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.
- 3.21 Officers are now working closely with Plexus to progress the transition from temporary accommodation to discharge of duty. This is a process which will take several months to complete as a detailed assessment has to be undertaken to ensure that all properties remain suitable for the family and that this process is managed as tenants transition from housing benefits payments (only applicable for temporary accommodation) to universal credit to ensure that rent collection is not unduly affected.

Overall benefits and quality

- 3.22 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 5 of this report.

Risks

- 3.23 A risk log was established at the onset of this programme and 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.
- 3.24 At this stage the financial position does not allow for any increase in the number of properties. However the measures taken in relation to rental levels and use for discharge of duty has addressed any financial shortfalls in the model and has secured a reduction in the level of top up required from the Council. The position will continue to be monitored closely to consider whether further acquisitions can be achieved to reach the original target of 400 properties with any variation being reported to members as required, setting out the position and options that may be available.
- 3.25 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.
- 3.26 Should the Council be unable to nominate tenants for any of these properties, we will be liable for voids until they are filled.
- 3.27 It is difficult to imagine that our homelessness pressures will ever reduce to a level where these properties would not be required to fulfil our homelessness duties, 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.
- 3.28 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.

Governance

- 3.29 The governance structure in place to oversee the schemes comprises of an operational management and monitoring group which feeds into a 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

- 3.30 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.

Service profile/data analysis

- 3.31 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.
- 3.32 Any failures of performance are identified, and their mitigation are discussed at monthly monitoring meetings and reviewed through the SPV Director Management Board.
- 3.33 It must be noted that this is a partnership 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

- 3.34 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.
- 3.35 Work continues to monitor the lettings process closely to ensure that as properties become available, they are re-let quickly. It must be noted that this has been adversely affected by the Covid-19 pandemic. However overall turnover of tenancies has been considerably higher than anticipated in the original model. A key factor in this is the move to using the properties predominantly in discharge of the homeless duty to offer greater stability for families to resettle.

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.

1. 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, the Leader agreed in November 2020 that the majority of the properties be used to discharge the Council's homelessness duty, which allows rents to be increased to current LHA levels (compared to 90% of 2011 LHA levels for temporary accommodation rents) and the £40/week top up reduced to £25/week, which will deliver a further £280k per annum of savings.

7. LEGAL IMPLICATIONS

The Council has a statutory responsibility to provide 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)	More Homes Bromley – discharging duty October 2020