

Meeting:	Cabinet
Date:	14 <sup>th</sup> February 2008
Subject:	Temporary to Permanent Housing Initiative
Key Decision: (Executive-side only)	Yes
Responsible Officer:	Gwyneth Allen, Divisional Director Adults and Housing Services
Portfolio Holder:	Cllr Camilla Bath, Portfolio Holder for Housing
Exempt:	No
Enclosures:	Appendix 1 Risk Matrix, Appendix 2 Financial Analysis, Appendix 3 Estimated Exit Costs

## Section 1 – Summary and Recommendations

This report sets out proposals for a West London temporary to permanent housing initiative. It involves the purchase of properties on the open market that will be let initially at market rents and used as temporary housing. In the long term they will be converted to permanent housing and let at affordable rents. An accompanying Part 2 report details the tender negotiations leading to the recommendation of the Lloyds Bank consortium as the preferred provider.

### Recommendations:

1. Agree in principle to the award of the contract to the Lloyds Bank consortium to procure, manage and maintain 1400 units of temporary to permanent housing across West London, of which 100 would be under a leasing arrangement with Harrow Council;
2. To note the draft Heads of terms for the contract as set out in paragraph 3.6, the legal documentation to be finalised in conjunction with other participating boroughs and reported to Cabinet for final approval.

**Reason: To increase the supply of permanent affordable housing, using the existing housing stock in accordance with national, regional and local housing strategies.**

## Section 2 – Report

### Introductory paragraph

The council has a statutory obligation to provide housing for families and vulnerable people who are homeless as well as reducing the use of. It is also required by the government to reduce the use of Bed and Breakfast accommodation and the use of temporary accommodation by 2010. The Temporary To Permanent Housing Initiative (TTP scheme) provides good quality temporary accommodation purchased in the private sector that will eventually become permanent accommodation. The proposal aims to improve housing for adults and children who most need the Council's help in line with the Council's corporate priority 5.

## 2. Background

- 2.1 Harrow currently has 1,072 households in various forms of temporary accommodation. We have a legal duty to provide them with suitable accommodation. Government targets also require that these must be settled accommodation. Although we are increasing our supply of new build affordable housing through the planning system this is not enough to meet all of the need. There will therefore be a continuing need for temporary accommodation for the foreseeable future as well as making best use of existing housing to provide permanent accommodation.
- 2.2 Most temporary accommodation is leased by housing associations from private landlords. The cost of leasing the properties and managing and maintaining them is charged as the rent to the tenant. For most tenants the rent is paid for through Housing Benefit. As a result there is little cost to the Council in providing the temporary accommodation. For tenants in receipt of maximum Housing Benefit the Council pays for costs that are more than the Housing Benefits entitlement.
- 2.3 The government has introduced targets to reduce the numbers of households in temporary accommodation. It has also encouraged local authorities to consider how they might utilise leasing schemes to provide permanent affordable housing, using Housing Benefit revenue subsidy to support the development of permanent capital assets.
- 2.4 Bids were invited under a Settled Homes Initiative (SHI) to pilot a Temporary to Permanent Housing Scheme. The West London Housing Partnership (comprising the West sub regional authorities of Brent, Ealing, Hammersmith and Fulham, Harrow, Hounslow, Hillingdon and RB Kensington and Chelsea) was successful in securing an allocation totalling £10m to deliver 286 units. These units must contribute to the temporary accommodation reduction target and must therefore be let as settled accommodation at lower rents and on longer leases than under temporary accommodation schemes.

## 2.5 The TTP scheme works as follows:

- The Lloyds Bank consortium (Lloyds bank, Genesis Housing Group, A2 Housing Group, Orchard and Shipman) will set up a Special Purpose Vehicle (SPV) to buy properties on the open market across West London using private finance.
- Properties for Harrow will be purchased in borough. There may be a small number of properties purchased in Harrow for use by our inner London partners. Agreement has been reached within the West London sub region on the circumstances in which properties can be acquired for other boroughs with the overriding principle this must accord with the creation of mixed and balanced communities. This will allow for greater control than currently exists over the use of properties in Harrow by other local authorities.
- The properties will be leased to the council for a period of 15 years as temporary accommodation. A lease payment and management fee is charged to the Council.
- The properties are let to homeless households who become Council tenants under a non secure temporary licence or tenancy.
- The tenants are charged a rent at the maximum Housing Benefit subsidy level that as a minimum covers the cost of the lease payment and management and maintenance costs.
- At the end of 15 years, the lease ends and the housing association partners buy the properties from the SPV. At this point depending on the finances at the time as many properties as possible will be converted to permanent affordable social rented housing at lower rents to which the Council will have 100% nomination rights. It would also be possible to continue letting the properties at higher rents until the point at which all convert to permanent housing. The tenants are then granted an assured tenancy direct from the housing association.

## 2.6 The West London Partnership has agreed to work jointly to procure the TTP initiative because it delivers the following economies of scale:

- Cheaper borrowing rates
- Savings in management and maintenance costs
- More efficient management of the procurement process
- Buying on a multi borough basis will allow the high cost boroughs to spread their portfolio over other areas in a controlled and agreed fashion
- Attractiveness of a sub regional scheme for further grant funding
- Comprehensive monitoring and reporting structures

## 3. Contract arrangements

- ### 3.1
- The West London TTP scheme will involve the Special Purpose Vehicle known as London Housing Partnerships buying a portfolio of 1400 properties across the 7 boroughs in the sub region. In Harrow, Pathmeads HA will manage and maintain the properties during the 15 year lease period. At the end of the lease ownership of the properties will be transferred to Pathmeads HA, part of the Genesis Housing Group.

- 3.2 There will be a joint contract between one or more of the participating West London authorities and London Housing Partnerships. This contract will be for the Authority to participate in the TTP scheme for an initial period of 15 years. After this there will be an option to extend the contract or to convert as many units as possible to affordable housing or to sell properties should that be necessary.
- 3.3 Harrow has indicated it would initially look to procure 100 units within the 1400 overall scheme of the size and type specified in the tender documentation to meet the Council's specific needs. This includes a range of housing including 3 and 4 bedroom properties. The scheme does not currently include the purchase of larger properties due to their high cost on the open market. Other initiatives such as small infill new build developments (Mephram Gardens) and conversion/extension of existing Council properties are being pursued to increase access to very large family units.
- 3.4 In addition to the joint contract each borough will enter into a separate lease arrangement with the provider for each property acquired. The borough will make a lease payment to the provider to cover the loan repayments and running costs.
- 3.5 In addition there will be a facilities management agreement. Under the facilities management agreement, the Service Provider will provide services similar to those in the lease to the Council. In the event of poor performance in relation to management and maintenance the authorities will have the option of contracting out the management and maintenance services to another provider.
- 3.6 The proposed heads of terms for the TTP scheme are:
- The participating authorities will enter into an umbrella agreement with LHP to operate the Temporary to Permanent Housing Initiative
  - LHP will acquire the agreed number of properties over a 15 month period according to the specified borough schedule
  - On the completion date for each property the Council will enter into a 15 year Lease at the agreed rent and a 15 year Facilities Management Agreement at an agreed management fee.
  - The RSL will be responsible for rent collection and arrears work to ensure that at least 98% of the chargeable rent is collected once all the properties are acquired
  - The RSL will be responsible for all repairs including day to day, routine and cyclical works.
  - The rent and management fee will increase at RPI plus 0.5% per annum
  - The agreed rent (the Minimum Contractual Rent or MinCR) will cover the cost of borrowing (interest) and the cost of managing and maintaining the properties to specified standards
  - The Council agrees to claim the maximum housing benefit allowance for each property and contribute this to the scheme, known as the Maximum Claimable Rent (MaxCR)
  - The LHP will set up a charged reserve account to hold any surpluses resulting from the difference between the MinCR and

the MaxCR. Surpluses will be used to support Council/s that find themselves in a deficit position.

- If the actual property acquisition costs are lower than the sum borrowed the LHP will hold the difference in a capital account for the benefit of the scheme
- All parties agree to work together and review the financial position regularly to ensure the scheme proceeds in accordance with the assumed position
- The Council will be responsible for any deficits that may arise and that are not covered by surpluses in the charged reserve account.
- Should a deficit arise the Council will be able to propose changes to the Lease to extend the term or vary the rent or ultimately to leave the scheme and require a sale of the properties.
- The Council can propose to exit the scheme early on 12 months notice for which there will be termination penalties for which the Council will be liable. Disposal proceeds can be offset against the termination penalties.
- Surplus disposal proceeds after repayment of early termination penalties will be held by the LHP for the benefit of the scheme
- There are agreed KPI's to measure LHP performance monthly. Poor performance by LHP will incur penalties.
- Continued poor performance by an RSL can result in removal and replacement with another LHP RSL

#### **4. Risks and Benefits**

- 4.1 The main risks and issues for Harrow are outlined here as this initiative does require a change in policy to the way that temporary accommodation is currently secured and paid for in Harrow.
- 4.2 The main risk is whether or not the lease payments that Harrow is contractually liable to make will be met through Housing Benefit subsidy at the point of letting the contract and under the new Local Housing Allowance (LHA) arrangements throughout the 15 year lease period. It is envisaged that the introduction of a charged reserve account where rent paid in excess of contractual lease payments is held, will help mitigate against any risk of shortfall in the LHA.
- 4.3 There is also a risk of property prices rising faster/slower than assumed in the planning model may result in deficit/surplus. The procurement strategy will contain any adverse risks and a charged capital account can be used to smooth out any surpluses/deficit.
- 4.4 A full Risk Matrix is attached at Appendix 1. A change management process is identified to mitigate these risks and set out in para 6.10 .
- 4.5 Most temporary accommodation in Harrow is currently provided through a Housing Association Leasing scheme (HALS). Other boroughs have used Private Sector Leasing schemes (PSL). The advantage of PSL is that the local authority can charge a much higher rent up to a maximum cap. Most authorities have therefore been able to set and collect a rent, paid for via Housing Benefit subsidy, which is

higher than the cost of providing and managing the unit. The disadvantage is that the rents are very high and therefore a disincentive to working families. Harrow will need to charge higher rents to temporary accommodation tenants under the TTP scheme compared to the existing HALS scheme.

- 4.6 However the benefit is that in the long term the majority of the TTP properties will become permanent housing at affordable rents to which the Council has 100% nomination rights. HALS properties continue to be owned privately and will only ever be available as temporary accommodation for limited periods of time.

## **5. Recommendation:**

- 5.1 The contract has been tendered in accordance with the negotiated procedure under EU procurement regulations. The tender process has been led by the Royal Borough of Kensington and Chelsea supported by external consultants and external legal advice. Harrow's procurement team has approved the procurement process. The accompanying Part 2 report provides a detailed analysis of the procurement process and the bids received.

- 5.2 Cabinet are recommended to approve Harrow participating in the West London TTP initiative on the basis that 100 units are acquired in Harrow on the contract terms outlined in this report and that the initiative must be revenue neutral. The estimated costs and risks have been analysed and an appropriate risk mitigation strategy is in place should any of the highlighted issues in relation to rents and housing benefit subsidy arise.

### **5.3 Equalities impact**

The shortage of affordable housing can adversely affect black and ethnic minority communities. Any initiative that increases the supply of affordable housing can therefore have a positive impact in terms of meeting the needs of black and minority ethnic communities. An Equality Impact Assessment on this initiative will be carried out as negotiations are finalised.

### **5.4 Legal Implications**

- 5.5 The exact contractual arrangements will be subject to final negotiations with the selected consortium of providers prior to final agreement of the contract.

- 5.6 In terms of the overall contract, the West London authorities intend to issue a single joint contract between one or more of the participating authorities and the consortium of providers.

- 5.7 The provider of the accommodation will also be responsible for the provision of the services under the terms of a facilities management agreement. The Council will be responsible for exit costs, an estimate of which is provided in paragraph 6.14 and Appendix 3, if it determines the leases before the contractual expiry date.

- 5.8 Local authorities have a duty under Part VII of the Housing Act 1996 to house homeless persons in temporary accommodation who satisfy the qualifying criteria (i.e. eligibility, homeless, priority need not intentionally homeless and have a local connection).
- 5.9 The Council has the power to enter into the proposed arrangements under Section 111 Local Government Act 1972, Section 120 Local Government Act 1972 and Section 2 Local Government Act 2000.

## **6. Financial Implications**

- 6.1 The overall contract price for the total sub regional contract is £238m with the Lloyds Bank consortium, based on the assumed property prices for the specified unit mix plus a lease rent increase of RPI plus 0.5% per annum. This represents the cost of acquiring and managing and maintaining the 1,400 properties for the lease period of 15 years. Harrow's contractual contribution towards the provision of 100 units in Harrow over 15 years is approximately £30m.
- 6.2 The contractual payment above will be financed from rents received from tenants. The majority of tenants will be in receipt of Housing Benefit and thus the rent will be recoverable through Housing Benefit subsidy. As the properties will be leased to the Council, the scheme will be eligible to receive the maximum housing benefit subsidy for self-contained leased accommodation up to the non-housing revenue account revenue account subsidy cap – a figure set each year by the Department of Work and Pensions (DWP).
- 6.3 The DWP has recently reviewed the costs of PSL to the public purse and the maximum rent caps are to be reduced between now and 2010. The cap was cut by 5% in April 2007 and is to be cut again by 10% in 2008/9. From 2010 a new subsidy system is to be introduced (the Local Housing Allowance (LHA)). The DWP has recently released the proposed rent levels for the LHA. To this has been added an assumed allowance for management and maintenance following discussions with the DWP plus an assumption that the LHA rent will increase annually by RPI. This has then been used as the basis for assessing the likely rental income stream post 2010. On the above HB subsidy assumptions the local authority would find that its contractual rent commitment will be met by HB subsidy and the Lloyds proposal is therefore a revenue cost neutral scheme.
- 6.4 Contract negotiations have taken place on the basis of no capital grant funding being required from the West London boroughs to make the scheme financially viable.
- 6.5 The boroughs have already been allocated £6m from the Governments Settled Homes Initiative with a recommendation for a further £4m from the Housing Corporation to support this TTP scheme. Discussions are ongoing with the Housing Corporation over whether this money can be carried over to 2008/9 as properties will not now be acquired in 2007/8. The presence or not of the SHI grant does not impact on the financial modelling. It merely enables some of the units to be let at lower rents before 2010.

- 6.6 The Lloyds consortium bid also includes a capital funding contribution of £5.8m from the housing associations when the properties are converted to permanent affordable housing.
- 6.7 The financial analysis attached at Appendix 2 shows the anticipated costs and income for the Lloyds proposal. Over the 15 year lease period it is estimated there will be sufficient income received from rents to cover the contractual lease payments to be made by the Council.
- 6.8 A change management strategy is in place to manage changes in Housing Benefit subsidy, both positive and negative.
- 6.9 Following negotiations, the Lloyds proposal now includes mechanisms for capturing additional rental income should the actual LHA plus figures be higher than the contractual lease rental figure and/or any underutilised loan finance should properties be acquired at a lower overall cost than that estimated
- 6.10 For example at the beginning of the contract the weighted average unit rent that can be charged in Harrow is £334 per week, but the starting lease rent will be £315 per week. The additional income collected by all boroughs will be held in an interest bearing Rent Charged Account. Any additional income accrued in this way could be used to offset reductions in HB subsidy should these arise, bring forward permanent conversion dates etc. Similarly, any savings from lower capital spend on the acquisition of properties would be held in a Property Charged Account for the benefit of the scheme, for example to bring the time forward at which properties become permanent affordable housing.
- 6.11 It is currently conservatively estimated that properties would all convert to affordable at around 29 years without additional capital or revenue subsidy. At the end of the 15 year lease period it is estimated that around 65% of the properties could be converted to permanent affordable housing using the RSL resources and sale of some units. However it is the intention of the Lloyds consortium to work towards converting all of the properties to permanent affordable housing.
- 6.12 Should there be reductions in Housing Benefit subsidy over and above the levels currently anticipated from DWP advice or other adverse changes, there are a number of options to ensure that the scheme continues to be revenue neutral to the participating West London boroughs:
- Use surpluses in the Rent Charged Account to offset lower subsidy levels;
  - Review and renegotiate the rental level, lease term, mix of properties. For example extending the lease period and therefore the time at which the property is converted to permanent affordable housing;
  - Sell some properties to enable the outstanding loan debt to be reduced;
  - Provide a capital payment to enable the outstanding loan debt to be reduced.



A combination of either of the above can be considered depending on the financial position of the local authorities at that time. Sale of properties by both Lloyds Bank and the local authorities is seen as the absolute last resort.

- 6.13 Further advice is being taken on the tax implications for the scheme. It is likely that the Council will be subject to stamp duty and land taxes (SDLT) for each 15 year lease that it grants. The estimated cost of this has been included in the financial modelling within the rent charge and will not therefore be an additional cost to the Council. SDLT may be payable on the granting of a Nomination Agreement at the end of the 15 year lease and beyond. VAT is payable on management and maintenance costs but not rent under existing temporary accommodation schemes, which the Council is able to recover. Advice is being obtained to confirm the same position applies to this scheme.
- 6.14 It would be possible to exit the scheme at any point. However there will be costs associated with this and these will be substantial in the early years of the scheme. Appendix 3 sets out estimated costs of exiting the scheme based on a number of assumptions. In all cases the costs of exiting the scheme within the first 5 years are substantial and unlikely to be covered by any increase in sale values. This would therefore result in a net cost to the Council. After 5 years the modelling indicates there would be a surplus at exit that could be used to offset the exit penalties subject to the agreement of the other participating boroughs. It is not recommended that Harrow should participate in the Temporary to Permanent Housing Initiative if it might want to withdraw from the scheme within the first 5 years. There are no reasons at this stage why Harrow might want to withdraw early – the need for temporary accommodation is projected far beyond the next 5 years and the need for additional permanent affordable housing is a long term requirement.

## **Performance Issues**

Performance in the use and management of temporary accommodation is measured within the Housing the Community CPA block. The BVPIs (BVPI 183a, b - length of stay in B&B and hostels and BVPI 203 – percentage change in the average number of families placed in temporary accommodation) reflect government requirements to limit the use of Bed and Breakfast and reduce the use of temporary accommodation by 2010. However these indicators are only being retained for 2007/8, to count towards CPA 2008; and the temporary to permanent housing initiative will only deliver properties after April 2008. Therefore this initiative will not have any impact during the life of these BVPIs.

Notwithstanding this, the Temporary to Permanent Housing Initiative forms part of a longer-term strategy to increase access to permanent affordable housing, alongside new developments negotiated through S106 planning agreements. The initiative will assist in meeting the CLG (Communities and Local Government department) target of reducing the number of people in temporary accommodation (including Bed and Breakfast and hostels) by 50% between 2004 and 2010. It will do this by providing housing to assist with moving people out of Bed and Breakfast and hostels in the short term and by

providing permanent housing in the long term. Performance against the CLG TA target is currently green, due to early successes in reducing temporary accommodation and strengthening homeless prevention, but there are concerns that a recent dwindling in supply of private sector rented property for use by homeless households will mean that the target is not met by 2010. In addition this Initiative will assist the Council in meeting the statutory requirement that no families should be in Bed and Breakfast for more than 6 weeks.

### Section 3 - Statutory Officer Clearance

Name:.....Donna Edwards.... <input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 24 January 2008..	
Name: Ade Amisu..... <input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 24 January 2008..	

### Section 4 – Performance Officer Clearance

Name:...Tom Whiting..... <input checked="" type="checkbox"/>	Divisional Director (Strategy and Improvement)
Date: 24 January 2008..	

### Section 5 - Contact Details and Background Papers

Contact: Alison Pegg, Housing Enabling Manager, Tel: 020 8424 1933

Background Papers: Attached documents

If appropriate, does the report include the following considerations?

1.	Consultation	NO
2.	Corporate Priorities	YES