

Meeting:	Cabinet
Date:	14 May 2009
Subject:	INFORMATION REPORT -Temporary to Permanent Housing Initiative
Key Decision:	No
Responsible Officer:	Paul Najsarek, Corporate Director Adults and Housing Services
Portfolio Holder:	Cllr Barry Macleod-Cullinane, Adults and Housing Portfolio Holder
Exempt:	No
Enclosures:	None

Section 1 – Summary and Recommendations

This report confirms that the proposed West London Temporary to Permanent housing initiative is no longer proceeding.

Recommendations:

1. Cabinet is requested to note the reasons the scheme is not proceeding.

Reason: The scheme is no longer proceeding.

Section 2 – Report

2.1 Introductory paragraph

2.1.1 The West London Temporary to Permanent housing scheme involved the purchase of properties on the open market that would initially be let at temporary accommodation market rents and used to house applicants who would otherwise be homeless. At the end of 16 years the intention was to convert as many as possible to permanent affordable housing at social rents. The scheme was designed to capture housing benefit subsidy for temporary

accommodation to create a long term asset to which the Council would have nomination rights.

2.1.2 Following a competitive European Union tendering exercise, Cabinet approved the agreement in principle to the award of a contract for the scheme to the Lloyds bank consortium on 14 February 2008.

2.1.3 For various reasons the London Boroughs of Ealing, Hammersmith and Fulham and Royal Borough of Kensington and Chelsea had withdrawn from the scheme some months ago. The London Borough of Hounslow and London Borough of Hillingdon withdrew from the scheme just before Easter. Their reasons for withdrawing can be broadly summarised as follows:

- They did not believe the risks being taken, particularly in respect of future Housing Benefit subsidy levels, were acceptable when considered against the benefits.
- They no longer have the same need for temporary accommodation units compared to when the scheme negotiations started and are on target to achieve their temporary accommodation reduction targets without this scheme. This also reduces the benefits when assessing the risks being taken.
- The scheme could no longer be viewed as a West London sub regional initiative, again reducing the benefits to assist in the risk assessment.

2.1.4 Lloyds Bank and the housing associations advised the scheme would be viable with only London Borough of Brent and London Borough of Harrow on the basis that 431 units would be acquired (320 for Brent and 111 for Harrow). However it would require a significant increase in Homes and Community Agency (HCA) grant levels and they wanted the two remaining boroughs to agree to underwrite all their further costs should financial close not take place.

2.1.5 Together with the London Borough of Brent we have evaluated the revised scheme to see if it is still viable and have concluded that it is not for the reasons below.

1. There are increased costs on a per unit basis because the set up and running costs of the Special Purpose Vehicle created for the project are being shared between fewer units. In addition Lloyds bank has increased their pricing on the loan adding further costs to the scheme. Additional grant would need to be sought to ensure the scheme comes in at the previously agreed costs to the local authorities. This is significantly higher than the HCA had agreed for the larger scheme.
2. An informal and general discussion about grant levels has taken place with the HCA. The HCA expressed reservations about the likelihood of increased grant per unit being agreed. There is therefore a high risk the increased grant levels will not be agreed. Without this the financial model is unlikely to deliver the risk mitigation already agreed.
3. The requirement to underwrite the Consortium's costs is unacceptable. The local authorities cannot be held to this when they have no control over the decision making process in relation to increased grant.

Furthermore this would leave us without ability to negotiate on our terms.

4. The balance of risk between the authorities has changed significantly as Brent would be holding 74% of the properties with Harrow, a minority partner, holding 26%. Whilst Harrow has always been the minority partner the balance of risk was more evenly shared across the four authorities. Brent accept that we cannot agree to increase our property portfolio as we have always been clear since scheme inception that 100 is the maximum number we need to meet our demand. We are on target to meet our Temporary Accommodation reduction target without this scheme.
5. The Housing Benefit subsidy position for temporary accommodation post April 2010 is still unknown. This risk remains as before. However there are fewer authorities contributing to the Cash Reserve Account which may be less beneficial. With only two authorities involved there is also less “lobbying power” as new subsidy regimes are introduced for consultation.
6. The consortium are proposing that the number of management providers remains the same despite the reduction in overall units in order to ensure each of the original housing associations has a minimum portfolio of 50 units. For Harrow this means there will be now be 2 providers managing properties in Harrow where there was only 1 before and in Brent they will have 3 providers where there was 2 before. This will require more resource from the boroughs in terms of making payments, managing allocations and monitoring performance.
7. The benefits of this being a sub regional scheme delivering a significant programme in West London are no longer applicable and there are less economies of scale.

Conclusion

On balance the reduced scheme is marginal in terms of the benefits it delivers compared to the increased risks. Harrow does have alternative solutions for delivering a similar level of permanent affordable housing supply that might be generated by the temporary to permanent housing scheme. The scheme is no longer a high profile innovative sub regional housing scheme and thus the Housing Benefit subsidy risk which may result in ongoing costs during the 15 year lease period is not worth taking relative to the benefits.

An alternative solution for delivering a similar amount of permanent affordable housing would be to ask a housing association to bid to purchase around 60 three bed affordable homes under a Purchase and Repair scheme at affordable rents using a similar amount of grant as that required for the Temporary to Permanent scheme. This compares favourably with the assumption that in 15 years under the temporary to permanent housing scheme the Council may have access to around 73 units of larger social rented accommodation.

There may also be an opportunity to develop a smaller temporary to permanent housing scheme without the complicated funding structure set up to deliver the large original sub regional scheme.

Brent and Harrow have therefore issued a joint statement to Lloyds Bank and the housing associations regretfully advising we cannot proceed with the scheme as it currently stands and nor are we able to underwrite their costs in proceeding with further negotiations.

Financial Implications

There will be abortive costs apportioned to all the local authorities as the scheme is no longer proceeding. To date each authority has paid £ 22,186 towards the consultancy support costs for the project. It is currently estimated that an additional £11,000 will be required from the 4 authorities most recently involved in the project. For Harrow this cost can be contained within existing Housing General Fund budgets.

Legal Implications

None

Performance Issues

NI156 – Numbers of households living in Temporary Accommodation (TA)

Numbers in TA have reduced by 62 households in quarter 3 (from 979 in Q1 to 780 in Q3) and remain ahead of target. The target is to reduce the numbers in TA by 50% which equates to a numerical target of having no more than 646 households in TA by March 2010. We continue to make good progress in meeting the 2010 government target and are still on track to meet the target early. Our ability to meet this target will not be adversely affected by this scheme not proceeding.

Environmental Impact

None

Risk Management Implications

None

Section 3 - Statutory Officer Clearance

Name: Steve Tingle	<input checked="" type="checkbox"/>	on behalf of the* Chief Financial Officer
Date: 7 May 2009		
Name: Jessica Farmer	<input checked="" type="checkbox"/>	on behalf of the* Monitoring Officer
Date: 7 May 2009		

Section 4 – Performance Officer Clearance

Name: Tom Whiting



On behalf of
Divisional Director
(Strategy and
Improvement)

Date: 7 May 2009

Section 5 – Environmental Impact Officer Clearance

Name:... Andrew Baker....



on behalf of the*
Divisional Director
(Environmental
Services)

Date: 7 May 2009..

Section 6 - Contact Details and Background Papers

Contact: Alison Pegg, Housing Enabling Manager, 020 8424 1933
Alison.pegg@harrow.gov.uk

Background Papers: Temporary to Permanent Housing Initiative report to Cabinet 14th February 2008 plus appendices, Legal documentation