

LONDON BOROUGH OF CROYDON

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| REPORT: | OFFICER DELEGATED KEY DECISION | |
| DATE OF DECISION | 23rd March 2023 | |
| REPORT TITLE: | Increasing Housing Supply - purchase of Brick by Brick Trellis Mews (Avenue Road) | |
| CORPORATE DIRECTOR / DIRECTOR: | Jane West - Corporate Director of Resources and S151 Officer Susmita Sen - Corporate Director Housing | |
| LEAD OFFICER: | Stephen Wingrave – Head of Estates, Asset Management & Facilities | |
| LEAD MEMBER: | Cllr Lynne Hale – Lead Member for Housing Cllr Jason Cummings – Lead Member for Finance | |
| DECISION TAKER: | Jane West - Corporate Director of Resources & S151 Officer | |
| AUTHORITY TO TAKE DECISION: | <p>Delegated Decision by Mayor in Cabinet on 30th November 2022 under Recommendation 10</p> <p>Delegate authority to the Corporate Director of Resources and Section 151 Officer in consultation with Cabinet Member for Finance and Corporate Director of Housing and subject to any final due diligence, whether to purchase 12 new properties at the Trellis Mews development as detailed in Section 6 of this report with a further recommendation within Part B.</p> | |
| KEY DECISION? | Yes | <p style="text-align: right;">REASON:</p> <p>Key Decision – Decision incurs expenditure, or makes savings, of more than £1,000,000 or such smaller sum which the decision-taker considers is significant having regard to the Council’s budget for the service or function to which the decision relates</p> <p style="text-align: right;">and</p> <p>Key Decision – Decision significantly impacts on communities living or working in an area comprising two or more Wards</p> |
| CONTAINS EXEMPT INFORMATION? | No | Public |
| WARDS AFFECTED: | South Norwood | |

1 SUMMARY OF REPORT

- 1.1** This report requests approval of the acquisition of further homes at Avenue Road, to meet the housing demand within the Borough. In particular, these homes, also and formally identified as Trellis Mews Development, could be used to help address the relocation requirements for some of the residents currently occupying accommodation

at Regina Road. The homes proposed to be acquired are Brick by Brick developments (BBB - the Council's wholly owned development company).

- 1.2 The development consists of 12 units all at social housing levels and this has been tested and assessed by Housing services as a strategic acquisition within Budget already provided within the HRA Capital Programme.

2 RECOMMENDATIONS

As per the Delegation by Mayor in Cabinet on 30th November 2022, the Corporate Director of Resources and Section 151 Officer, in consultation with Cabinet Member for Finance and Corporate Director of Housing, is recommended to:

- 2.1 Approve the acquisition of 12 new homes as a bulk purchase, including the freehold of the site, from Brick by Brick for £3.377m on the terms set out in this report.
- 2.2 Note and approve the acceptance of £1.2m of GLA funding on the terms set out in the Grant Agreement with the GLA, in connection with this purchase with the balance to come from Borrowing or internal HRA resources.
- 2.3 Note that the budget for this has been provided within the HRA Capital Programme and the acquisition will be funded using HRA borrowing but will be reviewed at year end should the HRA have further capacity to fund the acquisition using HRA reserves.

3 REASONS FOR RECOMMENDATIONS

- 2.4 The acquisition plays a critical role to ensure provision of homes to house Council tenants and to help the delivery of the Regina Road development. The Mayor in Cabinet on 30th November 2022 delegated authority to Corporate Director of Resources and S151 Officer to approve the acquisition subject to necessary consultation and due diligence.
- 2.5 The due diligence has now been completed and all necessary acquisition arrangements have been confirmed and approved. Appendix A provides details of the necessary documentation that has been reviewed by Head of Estates, Asset Management & Facilities. Appendix B and C provide details and confirmation that material due diligence by Property services and Housing has been concluded to ensure the properties can be operational once acquired.
- 2.6 The Housing team have advised that a number of operational tests are yet to be completed and the team are in agreement with BBB to complete these but it is unlikely that these will be completed before completion of the purchase. To overcome this issue the outstanding items will be included within the Transfer Agreements as part of the completion process and BBB will need to rectify within 28 days. In the event BBB do not rectify this the Council will be able to carry out the works and will be able to recharge to BBB full costs.
- 2.7 Trellis Mews provides for key new homes that can be used to decant tenants from Regina Road and provide them with much improved housing. Without acquiring these

homes the Council could face significant delays in developing Regina Road, which would simply result in more costs via maintenance and management of Regina Road properties. It would be better to start the Regina Road development sooner as the costs of managing and maintaining Regina Road Housing Estate would be inefficient.

- 2.8** The Council had already requested GLA Grant, under the Building Homes for Londoners programme, which is now being applied for this acquisition. GLA have confirmed that the sale must be completed by 28th March 2023 and the Council is on track to complete by that date.

3 BACKGROUND AND DETAILS

- 3.1** Trellis Mews is a new residential development comprising of 12 homes over three floors located close to South Norwood station and the existing Regina Road and Belgrave and Grosvenor housing estates.
- 3.2** The properties being considered for purchase have been built by BBB and formed part of the original tranche of developments. The scheme comprises of a single block containing 12 homes. Ten are one bed properties (one of which is wheelchair accessible) and two are two bed homes. The ground floor units all have private gardens to the rear. The properties have been constructed to meet modern energy efficient requirements with air source heat pumps and solar panels.
- 3.3** The Council have purchased a number of properties from BBB under an earlier decision, the most recent having been the purchase of 104 properties approved by Cabinet in May 2021. This development was not included within those purchases as it was not as financially beneficial compared to the other acquisitions and the mix of predominantly 1 bed properties did not compliment the overall portfolio being considered at the time.
- 3.4** The Housing team have now done more due diligence on the Regina Road development and have identified a need for more social housing to apply for decant and general housing purposes. These properties are now being considered specifically to help support the wider Regina Road estate regeneration proposals due to their geographic location and the size of the units within Regina Road blocks.
- 3.5** BBB have tested the market value of the units through a marketing exercise and received bids from registered providers and therefore the Council have had to bid in a competitive situation.
- 3.6** The Council have secured grant funding (£100k per unit) for the purchase of these units under a wider bid to the GLA following their application under the Building Council Homes for London Programme submitted on 31 August 2019. The Council entered into a Grant Agreement with the GLA in 2019 in relation to this programme and will comply with the terms of this agreement in relation to this proposed purchase.
- 3.7** This funding can only be used by registered providers for the provision of affordable social housing. The GLA have approved the inclusion of these properties as being in line with their funding requirements and were included within the Council's successful grant application. This funding has been taken into account when assessing the valuation for the units and it improved the business case for acquiring the Trellis Mews

properties. Other registered providers would have also considered such funding when submitting their bids albeit that their funding would have been at a lower level up to a maximum of £67,500 per affordable unit.

- 3.8** When bidding for any units the Council has to consider the permitted use for the properties in line with the planning permission and in this case it was for 7 shared ownership properties and 5 private units. The fact that the council will be using all 12 as affordable rented properties is reflected in the financial considerations but not within the purchase price. The valuation has been based on the planning use and not the Council's end use but does reflect the availability of the grant funding. A commercial consideration has needed to be applied considering competitive bids from other buyers which would give BBB further options to look after its own interests. This development plays a crucial role for the Council as it supports the delivery of Regina Road scheme, which has experienced significant decay and some of the homes are unfit for habitation.
- 3.9** The situation at the Regina Road estate is that there are three ageing tower blocks requiring intervention to ensure modern social housing fit for tenants. The unsatisfactory situation has developed over recent years because of the failure to resolve key maintenance issues and to respond in a timely way to the conditions highlighted at Regina Road. A formal resident consultation has been completed and a ballot will be held in early 2023.
- 3.10** Given the mixed tenure of this development it can be expected that the highest bids would be made from other Registered Providers (RP) who would have made offers on the assumption of securing grant funding from the GLA. It was therefore necessary to make an offer on the basis of the anticipated market bids from other RPs and not the end use by the Council.
- 3.11** The purchase will be for the freehold interest in the whole site with the benefit of the remaining developers 12 months defects liability (2 months left to run), the collateral warranties and a 10 year NHBC warranty to cover any major defects that may occur over this initial period. The repair and maintenance costs over this initial period are therefore expected to be low being limited to wear and tear items. Longer term costs are reflected in the annual "life cycle" cost allowance.

4 VIABILITY

- 4.1** The cost of acquiring the Trellis Mews properties is £3.377m which equates to c£281.4k per unit. This price reflects a fair value for the 12 units and is in line with the bids BBB received from other bidders. The Council will fund the purchase of the development within the Housing Revenue Account using £1.2m of GLA Grant monies and £2.177m from borrowing or surplus HRA revenue balances.
- 4.2** Acquiring any development properties needs an assessment of on-going costs and should form part of the viability assessment. The analysis assumes that £2.177m will be borrowed and the key ongoing costs that have been assessed include the following:

Costs

| | | |
|------|------------------------------------|---|
| i. | Interest costs for using borrowing | 4.77% |
| ii. | Management per unit | £1,000pa |
| iii. | Maintenance per unit | £2,000pa |
| iv. | Life cycle per unit | £500pa – this reflects the likely purchase of new properties from BBB |
| v. | Void and bad debt | 2.5% |
| vi. | Inflation | 3% |

Income

| | | |
|-----|------------------------------------|---|
| i. | Service charge income | £500pa per unit (in line with Housing Policy) |
| ii. | Income Inflation/increase in rents | 3% |

4.3 Table below provides the outcome on an average basis over a 20 year period.

Viability outcome

| | With 100% borrowing | Without borrowing |
|------------------------------------|----------------------------|---------------------------|
| | Ave. over 20 years | Ave. over 20 years |
| Operational Income | | |
| Rental Income | £86,490 | £86,490 |
| Service Charges | £8,061 | £8,061 |
| | | |
| Operational Costs | | |
| Void and Bad Debt Costs | (£2,347) | (£2,347) |
| Management | (£21,765) | (£21,765) |
| Maintenance | (£32,244) | (£32,244) |
| Interest on borrowing | (£103,843) | 0 |
| | | |
| Net Surplus/(Loss) | (£65,649) | £38,194 |
| Net Surplus/(Loss) per unit | (£5,471) | £3,183 |

4.4 The purchase of the Trellis Mews generates a net cost for the HRA if the HRA uses borrowing to fund the acquisition but generates a surplus if no borrowing is used. The costs of interest have risen considerably over the past few months due to changes in the macroeconomic position of the UK and this is impacting generally the ability to finance housing acquisitions.

4.5 It will be advisable to the HRA to utilise internal resources to purchase Trellis Mews, this could include surplus revenue funds, capital receipts and/or HRA reserves. With the support of GLA funding the Council could hold assets that are worth more than the actual outlay directly from the Council. The Council will initially fund the acquisition from existing cash and the accounting of the borrowing costs will be applied for year end (31st March 2023) when HRA can confirm best funding source.

- 4.6** Qualitatively the purchase of these units will improve the housing stock on offer to local residents and offer the opportunity for a secure permanent home. The acquisition needs to be viewed in the context of the Regina Road cabinet report, approved at Cabinet in November 2022, which recommended that 132 units must be provided by the council to replace the existing tower blocks. Estimates within the Cabinet report indicated that it would cost in the region of £400k per unit, with a combination of funding mechanisms bringing the net cost to between £220k and £314k per unit. The acquisitions at Trellis Mews are at a net cost to the council of £198k per unit, are already built and can be used for decants in the early stages of the project.

5 ALTERNATIVE OPTIONS CONSIDERED

- 5.1** The Council's alternative options are limited particularly as the Council has embarked on re-developing the Regina Road estate (subject to the outcome of the ballot). The Regina Road site has a number of tenants that will need to be re-housed and there will be a need to purchase additional homes or utilise other social housing sites. Other options would result in additional delays in developing Regina Road site as the Housing team would need time to source suitable properties and also would need the agreement of the tenants.
- 5.2** Acquiring a single block of 12 units within the vicinity of the Regina Road development would ensure that the tenants have an alternative home without much disruption to their existing way of life.
- 5.3** Furthermore, no other development was available for the Housing services to acquire properties within a close distance of Regina Road.

6 CONSULTATION

- 6.1** The approach to proceed with buying Trellis Mews has been in consultation and agreement between the Housing Directorate, Property Services, Mayor, Cabinet and Corporate Management Team.

7 CONTRIBUTION TO COUNCIL PRIORITIES

- 7.1** Regina Road development was found to have had significant mould infestation in a number of flats. The conditions under which tenants lived were totally unsatisfactory and posed significant health risks. The Mayor, since being elected, has issued a new Business Plan which focuses on Croydon being a 'cleaner, safer and healthier place, a borough we're proud to call home' and one where 'people can lead healthier and independent lives for longer'. Provision of new homes at Trellis Mews will provide much needed social and clean homes to residents of Regina Road or other Council tenants.

8 IMPLICATIONS

8.1 FINANCIAL IMPLICATIONS

- 8.1.1** The HRA Capital Programme includes a budget for acquiring the units at Trellis Mews.
- 8.1.2** Section 5 of this report provides a key analysis of the viability position for buying the Trellis Mews development. The HRA will carry out a review at year end, based on available resources, on the best way to fund the acquisition. The analysis is based on a worse case funded solution which is to borrow the balance of £2.177m to fund the acquisition. This covers all costs and risks related to financing the purchase of the development site. However, it is possible that at year end once the full HRA capital outturn has been finalised, it may become clear if the HRA has other resources, other than needing to borrow, which can be applied to financing the purchase of Trellis Mews.
- 8.1.3** The Housing team have bought BBB properties before and are equipped to take on the management and maintenance of the blocks. Not applying borrowing would ensure that the HRA generates the right surplus on this acquisition.
- 8.1.1** The 2024-25 HRA Capital Programme has assumed a requirement to borrow significantly to realise a number of projects including redevelopment work. The budget for acquiring the units at Trellis Mews is included within that provisional budget.

Comments approved by Orlagh Guarnori on behalf of the Director of Finance.

8.2 LEGAL IMPLICATIONS

- 8.2.1** There are various powers and statutory provisions relevant to the recommendations in this report, of particular relevance are the following provisions:
- Section 8 of the Housing Act 1985 and Part 7 of the Housing Act 1996 under which the Council is required to consider housing conditions and needs within the Borough including addressing homelessness. This duty can be discharged.
 - Section 17 of the Housing Act 1985, under which the Council has the power to acquire houses, or buildings which may be made suitable as houses, together with any land occupied with the houses or buildings.
 - Section 120 of the Local Government Act 1972, under which the Council has the power to acquire land to enable the fulfilment of its functions (in this case housing functions)

- Section 12 of the Local Government Act 2003 and the Council's powers to invest for any purpose relevant to its statutory functions or for the purposes of prudent management of its financial affairs.
- Section 1 and Section 3 of the Local Government Act 2003 which permit the Council to borrow for any purpose relevant to its statutory functions, subject to its own prudential borrowing limit.

7.1.1 The Council is under a general Duty of Best Value to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness (Section 3 of the Local Government Act 1999 (as amended by s137 of the Local Government & Public Involvement in Health Act 2007)).

Comments approved by the Head of Commercial & Property Law on behalf of the Director of Legal Services and Monitoring Officer. (Date 21/03/2023)

8.3 EQUALITIES IMPLICATIONS

8.3.1 The Council has a statutory duty, when exercising its functions, to comply with the provisions set out in the Sec 149 Equality Act 2010. The Council must, in the performance of its functions, therefore have due regard to:

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

9.3.2 There was limited data held by the service on the protected characteristics of the residents at the location. During summer 2022, the service undertook a small engagement survey with residents. The key findings were that many females, African/African Caribbean and Mixed heritage residents were less satisfied with the housing service provided in general. Following this a consultation took place in late 2022, these factors were taken into account and efforts were made to ensure that the consultation was accessible for residents that do not have English as a first language. Residents with mental health needs, neurodiverse conditions and those who may be less accessible due to employment were also considered.

9.3.3 Efforts made by the service to gather data on equality characteristics prior to the consultation, will ensure that the service is able to give due regard to the equality characteristics of residents in line with Equality Act 2010.

8.3.2 The above actions were part of a series of actions undertaken by the department since March 2021 to address the concerns of residents and try to start to re-build trust and relationships with residents on the estate. Details of the engagement are the Regina Road cabinet report and EQIA.

- 8.3.3** The proposal being developed will impact positively upon homeless families in reducing the amount of time spent in bed and breakfast and move them to more suitable forms of accommodation. The proposal will contribute positively to the physical and mental health of residents where this may have been affected by living in poor accommodation.
- 8.3.4** The Equality Analysis undertaken found that the change is likely to have a positive impact on groups that share protected characteristics as it will provide better and more secure accommodation for individuals and families. This will help the council to meet its equality objective to 'increase the support offered to people who find themselves in a position where they are accepted as homeless especially those from the Global Majority and women'. It is noted that one of the units is wheelchair accessible which will again have a positive impact.
- 8.3.5** The proposal does not detrimentally affect any households from protected groups or disproportionately affect them compared to other groups. We will continue to monitor outcomes in terms of the make-up of homeless households.

Comments approved by; Denise McCausland Equality Programme Manager 27 February 2023.

8.4 HR IMPLICATIONS

8.4.1 There are no HR implications arising from the recommendations of this report.

Approved by: Gillian Bevan, Head of HR Resources and Assistant Chief Executives, on behalf of the Chief People Officer. (22/02/2023)

9 APPENDICES

Appendix A - Internal Valuation

Appendix B - Acquisition Checklist confirmation

Appendix C - Housing confirmation

10 BACKGROUND DOCUMENTS

10.1 Brick by Brick Croydon Ltd Update Report – 30th November 2022

Jane West

Corporate Director of Resources and S151 Officer

24 March 2023