

For General Release

REPORT TO:	CABINET
SUBJECT:	Increasing Housing Supply
LEAD OFFICER:	Ozay Ali Interim Director for Homes and Social Investment
CABINET MEMBER:	Councillor Alison Butler, Deputy Leader and Cabinet Member for Homes and Gateway Services Councillor Simon Hall Cabinet Member for Finance and Resources
WARDS:	All

CORPORATE PRIORITY/POLICY CONTEXT/ AMBITIOUS FOR CROYDON

This report builds on earlier initiatives to demonstrate the Council's commitment in the Corporate Plan (2018) for "good decent homes , affordable for all"

This report outlines further initiatives to help address this priority and provide a better standard of homes for families and workers in need of accommodation at an affordable rent level.

Our Community Strategy Policy aims to ensure protection of vulnerable people and a key priority within this is to meet the housing need with good quality accommodation.

This report follows the Housing and Homelessness Strategy presented to cabinet in October 2019.

In addition to the temporary housing requirement it is important to increase the general housing stock to allow longer term solutions to allow people to progress from temporary to more permanent housing solutions. The purchase of more homes from Brick by Brick would help to meet part of this demand and secure quality homes including specially adapted units.

FINANCIAL IMPACT

The acquisition of homes that provide more long term solutions available at truly affordable rents will increase the stock held within the HRA, which will begin to offset the impact of losses due to Right to Buy. There is an increased demand for housing, which places pressure on HRA waiting lists and the budgets for Emergency and Temporary Accommodation. Subject to levels of demand, more HRA stock will release the temporary housing and therefore enable savings to be made through reducing the need for more expensive private emergency and temporary accommodation solutions.

The use of Right to Buy receipts and GLA funding will allow the Council to deliver new homes that can be let at council rents.

As outlined in the report also presented to Cabinet, "Responding to the Local Government Financial Challenge", Covid-19 has had a significant impact on both the Council's financial position, as well as the financial position of residents and businesses across the borough. The Council is taking immediate measures to address the significant pressure it faces on its General Fund budget, as well as longer term actions. The proposals set out in this report will enable the Council to begin to address the impact of the lack of affordable, secure housing for residents, which is particularly key during the expected period of economic uncertainty for our residents as a result of Covid-19. Impacting on the HRA, the long term financial implications of obtaining properties can be managed by minimising borrowing costs where possible, using funding from the GLA alongside RTB receipts and more favourable borrowing rates offered for housing by central government or other private sector sources. These long-term costs will be offset by the rental income on properties and, by purchasing new build properties, future maintenance costs should be more favourable. This paper outlines proposals for a programme of purchases which can be adapted and revised where necessary as the Council reacts to the changing economic landscape.

FORWARD PLAN KEY DECISION REFERENCE NO.: 1920CAB

The notice of the decision will specify that the decision may not be implemented until after 13.00 hours on the 6th working day following the day on which the decision was taken unless referred to the Scrutiny and Overview Committee.

The Leader of the Council has delegated to the Cabinet the power to make the decisions set out in the recommendations below

1. RECOMMENDATIONS

The Cabinet is recommended to

- 1.1 Approve the borrowing facility of up to £30.6m to enable the investment in the acquisition of 165 new homes from Brick by Brick Croydon (Limited) ('Brick by Brick') to be let at council rents
- 1.2 Approve the use of up to £8.04m Right to Buy Receipts to reduce the level of borrowing required
- 1.3 Agree to the propose that the rental levels for the properties- held within the HRA to be charged on a formula rent basis
- 1.4 Delegate to the Deputy Leader and Cabinet Member for Homes and Gateway Services in consultation with the Cabinet Member for Finance and Resources the authority to approve of the purchase of affordable rented units constructed by Brick by Brick as council homes
- 1.5 To note the proposed purchase of additional Brick by Brick homes for use as Emergency Temporary Accommodation in line with the Cabinet decision taken in March 2020 under the Increasing Housing Supply paper.

2. EXECUTIVE SUMMARY

- 2.1 Many local people cannot afford to buy or rent a home in Croydon with 24% of employees in Croydon being low-paid, and with average house prices over 10 times average incomes. Around 5,500 households are currently on the council's housing register.
- 2.2 This report builds on the needs identified within the Housing Strategy for Croydon that was endorsed by Cabinet in October 2019 and proposes the purchase of new build homes from Brick by Brick (BBB) to help meet at least some of the current demand for affordable homes within the Borough. It is proposed to purchase up to 165 properties to boost the supply of affordable homes in the borough.
- 2.3 The intention is to purchase the new homes from Brick by Brick to add them to the existing Council stock. The homes will be managed by the Housing team, as with the existing council homes.
- 2.4 The Council will fund part of the purchase cost through GLA funding that has already been secured which provides a grant of £100k per property or, for properties where BBB have already secured some GLA funding, it is proposed to utilise Right to Buy receipts to assist in the purchase of these homes. This will help the Council to let them at council home rents. The remainder of the cost of purchasing will be funded through HRA borrowing.
- 2.5 Rents will be charged in line with existing council rents so that they are truly affordable. The table below shows the level of rent charged to council tenants compared to a typical market rent basis

Property Size	Typical Council Rent	Average market rent	Council rent as a percentage of market rent
1 bed	£4,540pa	£11,500pa	39%
2 bed	£5,406pa	£14,500pa	37%

3. DETAIL

Social Housing Supply

- 3.1 In line with the Council's Corporate Plan to provide "good decent homes, affordable for all" a number of solutions have been developed but it is recognised that one of the key underlying demands is for good quality and affordable homes within the Borough. By increasing this supply the Council can not only offer much more suitable properties for both individual and family needs but also create the opportunity to move people out of temporary accommodation which in turn will help reduce the reliance on expensive third party emergency accommodation.

- 3.2 Temporary accommodation creates a substantial financial burden. There are an estimated 1,800 households in temporary accommodation. The acquisition of permanent homes is therefore an important step to help reduce these numbers.

Supply & Demand

- 3.3 Traditionally housing associations have contributed to the supply of affordable homes but the rate of new build within the borough has declined significantly and there are constraints in accessing suitable accommodation in the private sector. The Council have already undertaken a number of initiatives to help meet this shortfall in supply for example through entering into a number of long term leasing arrangements for modern accommodation at low rents such as at Windsor, Concord and Sycamore House, but these offer more of a short term solution. Through the developments being undertaken by BBB, a supply of good quality new housing is being provided however many of these properties will be for private purchase. By negotiating the acquisition of some of these new homes at discounted rates and also securing additional grant funding, the Council can deliver the benefits these properties have to offer at a rental level that is affordable and attainable to a wider number of Croydon residents particularly those in housing need.
- 3.4 It is recognised that there is an urgent current need for more affordable homes and one of the quickest routes to accessing suitable, good quality and affordable long term accommodation, is through the acquisition of some of the BBB properties due to be completed over the next 9 months.

Proposal

- 3.5 There are significant advantages in purchasing completed properties from BBB both from reduced acquisition costs, the assurance of a quality home with good space standards and reduced ongoing maintenance costs through standardised fixtures and fittings.
- 3.6 The Council will also be able to use either Right to Buy receipts or GLA funding to help reduce the amount of borrowing in order to acquire the properties. By using these sources of capital funding, the reduction in the borrowing cost will enable the properties to be let at social housing rents.
- 3.7 Many of the new homes are within existing estates and therefore it is hoped that some of the new units will open real opportunities to encourage people to downsize. Some existing homes within our estates are occupied by residents who no longer need larger family homes and would be better suited to modern one or two bedroom properties. As the new BBB homes are within or very close to existing estates, these individuals would be able to move to more suitable accommodation but retain their important local social network.

- 3.8 The significant number of proposed acquisitions over the next 9 months will also make a real difference in allowing people to move on from temporary accommodation into more permanent long term homes. This will help release existing temporary and emergency accommodation thereby not only offering a better quality of homes but also reducing the current overspend for emergency and temporary accommodation.
- 3.9 The proposed acquisitions will provide homes to meet the highest areas of need and offer mainly 1 and 2 bed homes including 12 that are wheelchair accessible.
- 3.10 In line with the recent Government guidance, as from the 1st April 2020, any lettings by councils for social housing have to be on a formula rent basis subject to a 5% flex allowance. The calculations for the affordability of these new homes has therefore assumed a formula rent basis.
- 3.11 In addition to the purchase price of the homes, the following additional costs have been included within the financial model:
- Operating and managing costs – these have been assumed to be lower than the levels adopted for previous street property purchases for temporary accommodation and lower than the existing HRA stock to reflect the fact that these are new build, will have residents in for a longer time frame and therefore there should be a much lower management and maintenance requirement. The lifecycle costs will also be reduced in the medium term. This assumption will need to be reviewed as part of our business planning cycle.
 - Debt servicing – Allowance has been made to cover the interest costs of any required borrowing, covering the costs of the interest on borrowing.
 - Rental income – based on a formula rent basis
 - Bad debt provision
 - Property insurance costs
- 3.12 The acquisitions from BBB will incorporate both shared ownership and, where appropriate, private housing where they offer the correct type of accommodation. Any purchases will be for whole blocks or individual houses so that the freehold can be purchased and therefore the Council will be able to control all future maintenance and management costs.:
- Early acquisition of properties to allow savings to be captured
 - New properties that would offer NHBC certificates to cover any major repairs over the first 10 years and minimising maintenance costs over the medium to long term
 - All statutory certification available on completion
 - SDLT would not be payable saving on average £15-£20k per property
 - No survey fees required

- Ensure good quality new homes are retained for Croydon residents
- 3.13 Data from supply and demand figures clearly indicates that the demand for additional units of the size being acquired still exists.
- 3.14 In summary the decision to purchase these homes will deliver the following benefits:
- Proper homes for families enabling them to plan long term lives and supporting the corporate plan objectives on affordable and increased supply
 - Revenue costs avoided through the need for less emergency accommodation and an overall reduction in temporary accommodation numbers, although this depends on future levels of demand
 - The Asset value of the stock should increase enabling the Council to consider to use equity in future years
 - Increased good quality housing supply at affordable levels for local residents
 - The possibility of encouraging downsizing to release existing larger family units

Acquisition of Temporary Housing

- 3.15 As well as the purchase of BBB homes for long term social housing, it is also proposed that a number of the 2 and 3 bed properties are acquired for temporary housing in line with the proposals set out and approved by Cabinet under the March 2020 Increasing Housing Supply paper. The financial consideration for these properties has been considered on a slightly different basis with higher management and maintenance costs included within the appraisal to reflect the different type of tenancy that is likely to lead to a much higher number of tenant change-overs and more intensive management. These new homes will help meet the immediate need for homeless individuals or provide an intermediate solution at an affordable rent

4. CONSULTATION

- 4.1 No consultation has been undertaken

5. PRE-DECISION SCRUTINY

- 5.1 The purchase of these units has not been referred to Scrutiny although the Housing Strategy which covers the need and necessity to increase temporary accommodation has been to Scrutiny and in line with Scrutiny recommendations, the acquisition of any new homes will be reported quarterly.
- 5.2 Given the significant number of Brick by Brick properties planned to be acquired by the Housing Revenue Account, the Streets Environment and Homes Sub-Committee agreed that an item would be added to its

work programme in 2020-21 to assess the effectiveness of the Housing Revenue Account's client role.

6. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

6.1 Property Values - social housing

- 6.1.1 The purchase prices have been agreed with BBB. In order to assess the reasonableness of the purchases prices, all the properties have been valued in accordance with the RICS Red Book recommendations based on market values for new build properties appropriate for the particular area and to reflect the tenure type. In addition a discount has been negotiated for all the private properties. Purchase prices have been agreed at or below market value before any discounts are applied._
- 6.1.2 The average acquisition prices for 1 and 2 bed homes are shown below together with the cost to the Council reflecting any funding that has been secured.
- 6.1.3 If the assumptions regarding management costs, voids and lifecycle costs remain unchanged, these purchases will result in a negligible cost to the Housing Revenue Account. This also assumes that the rents are charged at the current formula rent basis which is approximately 30% of a comparable market rent for the property.

Property Size	Number of Properties	Average purchase price (£)	Average cost allowing for grant /RTB funding (£)	Formula rent charge pa (£)
1 Bed	95	258,961	173,578	£4,544pa
2 Bed	70	289,050	197,100	£5,406pa
Total	165	£44.83m	£30.27m	

- 6.1.4 This investment would be funded through HRA borrowing (£30.28m), and RTB receipts (£8.05m) and GLA grant funding (£6.5m). GLA funding has been secured.

Housing Market

- 6.1.5 Due to the impact of the Covid 19 Pandemic, the housing market like many others is currently in a state of uncertainty which makes assessing values more difficult. In considering the valuations, regard has been had to the leading consultants and mortgage companies who monitor house prices.
- 6.1.6 Property transactions have generally declined by around 50% over the last 2 months and more generally there are expected to be 45% fewer transactions this year. The general consensus is that there will be a decrease in values of about 5%-10% this year with a likely recovery of between 2-5% in 2021. The

latest figures from Nationwide show that property values have declined by 0.1% over the last 12 months to June, largely due to a decrease in property values over the last two months.

Source	Value change 2020	Value change 2021
Savills	Range -5% or worst case following Covid -10%	Increase 5% (worst case 4% increase)
Knight Frank	-5%	Increase 5%
Lloyds/Halifax	-5%	Increase 2%

6.1.7 The longer term forecast is still to see property values increase of around 10-15%

6.1.8 Whilst there is some risk regarding values to purchasing new homes at the current time, the discounts negotiated allow sufficient margin to ensure that the overall values can absorb the predicted reductions and this together with the additional housing benefits the new homes will bring to Croydon residents greatly outweigh the risks

6.2 Revenue and Capital consequences of report recommendations

6.2.1 The Financial calculations have been undertaken adopting the following assumptions:

Number of properties	165
Purchase costs inclusive of fees	£44.8m
Less RTB Funding	£8.05m
GLA Grant (£100k/property)	£6.5m
PWLB average Borrowing Rate	2.0%*
Management/maintenance per unit	£500pa
Life Cycle per unit	£300
Insurance per unit	£350pa
Void Rate	2%
Bad Debt Provision	2%

6.2.2 The costs assume an interest only payment on the PWLB borrowing rate.

*The Council may take advantage of alternative forms of borrowing to underpin these purchases, only where borrowing is on more favourable terms than that provided by PWLB

Annual revenue cost estimation – 195 new social rent homes	£'000
Rental income (BASED ON Formula rents)	- 812
Voids	16
Net rent	796
Management/repairs	83
Insurance	58
Bad Debt Provision	16
Interest on borrowing	613
Life Cycle Provision	50
Net costs	-24
Overall estimated annual cost	-16.4
Annual cost per home	0.1

6.3 The effect of the decision

If rents under this programme are charged on a formula rent basis then there is an overall loss on average of £100 per property each year. The current guidance does allow for a 5% flex on the formula rents and if this were applied, even this small deficit could be removed. The properties will increase stock within the HRA and contribute towards shifting households out of temporary housing. It should be noted that the costs will largely be stable from year to year, subject to inflation, whereas the Council is able to increase rents year on year by CPI+1%.

6.4 Risks

If any of the assumptions prove inaccurate, then this will have a revenue impact within the HRA. Lower maintenance costs have been assumed to reflect the fact that these are new build properties that will house permanent rather than temporary residents. It is therefore assumed that the level of maintenance, management and general lifecycle costs will be much lower. It has also been assumed, at this stage, that the void level will be lower at 2% due to the more permanent long term nature of the tenure and the risk of bad debt due to the low rents and tenancy type has been reduced to 2%.

We do however, anticipate there to be voids over the lifetime due to tenancy changes and if higher than anticipated these will be factored to our ongoing budget setting process. If any of these are proved to be inaccurate then the cost of the scheme will lead to a larger deficit. The Housing Revenue Account includes annual provision for repairs and maintenance and it is expected that these additional properties will be absorbed and the costs covered within the existing budget provision. It should however be noted that under the new provisions an annual increase in the rent is permitted which should mitigate these risks.

As the HRA is a ring-fenced account, with day to day expenditure funded primarily by ongoing rental income, it is not affected to the same extent by the wider financial pressures faced by the Council. The lifting of the 1% rent reduction provides further security over the future income stream into the HRA. Furthermore, central government continues to offer more favourable borrowing rates for housing and the lifting of the borrowing cap enables the Council to invest in its housing stock. There is however the risk that RTB receipt levels may be reduced compared to previous years if sales are affected by the economic challenges, which could impact on any future plans to part fund purchases in this way. This will be monitored closely and the programme of purchases may need to be reviewed as a result.

6.5 Options

An alternative to purchasing the smaller scale developments from BBB is to commission building directly or to purchase “off plan” from other developers who already have a site and planning consent to construct a number of homes. Many of these schemes include a significant (100 plus) number of homes in high rise blocks. These do not always offer the most flexible accommodation for families or people wishing to downsize.

Lower density schemes offering a variety of housing types in low to medium rise developments have been considered. However no such schemes have been identified at this time that are affordable as many of the smaller developments have mainly private units or less affordable homes and therefore overall prove to be far more expensive to purchase even if discounts can be negotiated. As there are no schemes of this nature currently in the process of development, any such opportunity would not allow the immediate need to be met.

The purchase of second hand properties, including former Right to Buy homes has been considered and will be undertaken. This is likely to provide smaller numbers of units that will require more maintenance and not have standard fixtures and fittings and therefore will be more expensive to maintain longer term. The properties would also be more geographically widespread and therefore more difficult to manage.

6.6 Future savings/efficiencies

Increasing stock levels within the HRA will enable the Council to move tenants out of private landlord temporary accommodation, which is more expensive for the Council and less secure for residents.

Approved by Lisa Taylor, Director of Finance, Investment and Risk (S151 Officer).

7. LEGAL CONSIDERATIONS

- 7.1 The Director of Law and Governance comments that any transactions, such as land acquisitions, between the Council and Brick by Brick Croydon Limited are structured so as to be at arms length and on commercial and market terms. This ensures that there is no state aid to the company which is operationally independent from the Council
- 7.2 Section 120 of the Local Government Act 1972, provides the statutory power for the Council to acquire land where this is to enable the fulfilment of Council functions (in this case housing functions) and Section 12 of the Local Government Act 2003 gives the Council powers to invest for any purpose relevant to its statutory functions or for the purposes of prudent management of its financial affairs.

Approved by Sean Murphy Director of Law and Governance and Deputy Monitoring Officer

8. HUMAN RESOURCES IMPACT

- 8.1 There are no Human Resources impacts as a result of this report

Approved by: Sue Moorman Director of Human Resources

9. EQUALITIES IMPACT

- 9.1 The Equality Act 2010 introduced the Public Sector Equality Duty. This requires all public bodies, including local authorities, to have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act
 - Advance equality of opportunity between people who share a protected characteristic and those who do not
 - Foster good relations between people who share a protected characteristic and those who do not

The Council is proposing to purchase a number of new build properties from Brick by Brick to increase the supply of social housing. These will be held in the HRA and let at social housing rents that they may be available to a wider range of households and offer more secure and better quality homes than what would otherwise be available through alternative private sector accommodation.

- 9.2 What this means in practice is the creation of more opportunity for a wider range or protected groups to take advantage of the proposed schemes. It means that many families will be able for instance to spend less time in temporary accommodation before moving into suitable homes.

- 9.3 Whilst there is no statistical data upon which the Equality Analysis can reference it does show that the proposals will have an impact on a number or groups that share protected characteristics. This in turn will be beneficial to harmonious family life, in better quality and more secure homes, and supports the Council's Corporate Plan to address inequality through its objective to 'increase the support offered to people who find themselves in a position where they are accepted as homeless especially those from BME backgrounds and women'.
- 9.4 Available data has indicated that BAME, female headed and younger households are over-represented among those requiring new homes and are likely to be beneficiaries of this proposal.
The new properties will also include 12 that are wheelchair accessible which will help support the needs of families whose members include those with physical disabilities.
The proposal does not detrimentally affect any households from protected groups or disproportionately affect them compared to other groups.
We will however, continue to monitor outcomes in terms of the make-up of homeless households and make adjustments to the Equality Analysis as necessary.

Approved by: Barbara Grant on behalf of Yvonne Okiyo Equalities Manager

10. ENVIRONMENTAL IMPACT

- 10.1 No specific adverse environmental effects have been identified as part of this process. Where the Council is purchasing new build properties these will have been constructed in line with current Building Regulation requirements and are therefore more efficient than most of the existing social housing stock.

11. CRIME AND DISORDER REDUCTION IMPACT

- 11.1 No specific crime and disorder impacts have been identified as a result of this scheme. It should however be noted that many of the new properties have been constructed on former garage sites that have in some cases been locations that attracted anti-social behavior. The new developments have therefore helped to reduce some element of antisocial actions.

12. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

- 12.1 The provision of new longer term social housing homes will also help to provide housing solutions for the next step for families and a more settled home environment with the many benefits that has to offer.
- 12.2 The purchase of homes for emergency and temporary accommodation will help meet these requirements and reduce the Council's reliance on Bed and

Breakfast type accommodation and provide better quality homes for homeless families as well as revenue savings.

13. OPTIONS CONSIDERED AND REJECTED

- 13.1 The Council has already considered and entered into a number of different housing solutions to address the need for temporary and emergency accommodation and continues to review options.
- 13.2 These have included taking long leases, typically for 40 years with rents below Local Housing Allowance levels but subject to RPI increases. At the end of the 40 years the Council can acquire the properties for £1. A number of these schemes are currently being reviewed to assess their cost effectiveness against the model proposed in this report. These schemes may have a future place in proving this type of accommodation but do not offer the overall flexibility that straight purchase of homes has to offer.
- 13.3 An alternative to purchasing the smaller scale developments from BBB is to purchase “off plan” from other developers who already have a site and planning consent to construct a number of homes. Many of these schemes include a significant (100 plus) number of homes in high rise blocks. These do not always offer the most flexible accommodation for families or people wishing to downsize. The advantage of the BBB developments are that they are mainly in smaller scale housing blocks which are already imbedded within or close to existing social housing areas which help offer alternative housing solutions to local residents.. However, lower density schemes offering a variety of housing types in low to medium rise developments could provide appropriate accommodation. As there are no schemes of this nature currently in the process of development, any such opportunity would not allow the immediate need to be met.
- 13.4 The purchase of second hand properties, including former Right to Buy homes has been considered but this is likely to provide smaller numbers of units that will require more maintenance and not have standard fixtures and fittings and therefore will be more expensive to maintain longer term. The properties would also be more widespread and therefore more difficult to manage.

14. DATA PROTECTION IMPLICATIONS

14.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF ‘PERSONAL DATA’?

No

As the purchases will not involve purchasing homes from private individuals it will not involve the processing of personal data.

14.2 HAS A DATA PROTECTION IMPACT ASSESSMENT (DPIA) BEEN COMPLETED?

NO

Approved by: Steve Wingrave on behalf of the Director of Housing and Social Investment

CONTACT OFFICER: Steve Wingrave, Head of Asset Management and Estates ext 61512.

APPENDICES TO THIS REPORT: None

BACKGROUND PAPERS: Equalities Analysis Form