

REPORT TO:	Executive Mayor in Cabinet 25th January 2023
SUBJECT:	Investment in Resonance Property Fund – Real Lettings Property Fund 1
LEAD OFFICER:	Jane West – Corporate Director of Resources and Section 151 Officer Susmita Sen, Corporate Director of Housing
CABINET MEMBER:	Cllr Jason Cummings – Lead Member for Finance Cllr Lynne Hale – Lead Member for Homes
WARDS:	All

SUMMARY OF REPORT:

The Council's initial investment of £29.4m matures in February 2023 and this report considers the Council's options and recommends exiting the investment. The valuation of the investment, as at the end of September 2022, had increased to £36m, resulting in a potential capital gain of £6.6m.

In January 2013 Cabinet approved the Council's participation and investment in the Real Lettings Property Fund 1 (RLPF1) through entry into a Limited Partnership Agreement dated 21 February 2013 (LPA) with Resonance Real Lettings GP Limited (Resonance). The investment of £29.4m delivered settled accommodation for homeless families at lower than market rates, pursuant to the Council's statutory duty to prevent homelessness as the Council received nomination rights to a number of residential units which resulted in the Council placing homeless clients in those properties.

This report considers 3 key options which have been modelled with the help of Local Partnerships including re-investment into a new fund, exiting the fund and paying down the Council debt and exiting the fund and directly purchasing properties to house homeless clients. This report examines the financial and non-financial risks and benefits, with equal weight, of each option to come to a considered decision.

The recommendation is for withdrawal from the fund with an acceptance that a small rise may be seen in general fund temporary accommodation costs greatly offset by savings on debt costs.

All efforts will be made to avoid any adverse impacts on those households for whom the Council retains responsibility. Resonance will work with the Council to ensure existing tenancies remain in place and should any households be impacted Resonance will ensure that the Council is provided with sufficient notice to re-home those households.

FINANCIAL IMPACT:

The Council has received total annual dividends from its investment into Real Lettings Property Fund 1 (RPLF1) of £5.668m. The fund is due to mature in February 2023 and as at the end of December 2022 the value had increased to £36m giving the Council a capital gain of £6.6m. The Council has an interest of 51% in RPLF1 based on the value of Croydon's investment as inception.

The recommended option is to exit the investment and use the proceeds to reduce future borrowing needs as the Council seeks to reduce its debt balance. The financial outlook has significantly changed from the point of initial investment with Resonance and the cost savings realised through nomination rights (including a placement fee) with NHG are lower than the costs savings achieved from interest costs from refinancing existing treasury loans.

The Council will lose an annual investment dividend of c£0.900m but in return will not need to provide as much growth for interest costs as would have been the case if the £36m was not available. Interest cost reductions on £36m will be £1.69m at borrowing rates of 4.77%. The 2023/24 Budget provides for growth needed for the loss in dividend, but less growth is provided for the refinancing of debt than would otherwise have been the case.

The total number of clients in respect of which the Council retains a duty is c18. However, all such households impacted by exiting the fund will be provided with alternative accommodation. To mitigate the costs of Temporary Accommodation (TA) and better support these households Resonance have agreed to work with the Council to ensure an orderly exit, allowing the Council sufficient time to find cost effective and suitable accommodation. This will ensure no additional cost for the Council as the TA Housing Benefit income will be sufficient to cover rental costs.

KEY DECISION REFERENCE NO.:

RECOMMENDATIONS:

The Executive Mayor in Cabinet is recommended to:

1. Consider the options and approve proceeding with option 2: divestment and withdrawal from RLPF1, using the funds received to reduce the future debt refinancing needs, subsequently supporting lower interest costs.
2. Note that the value for money and financial case indicates that, over the 15 year period used as the basis of assessment the better return for the Council will be through re-investing (Option 1). However this does not meet the more immediate need for the Council to seek cash to avoid future borrowing costs. As detailed in paragraph 2.27 to 2.29 due to current and short-term challenging financial circumstances the Council will need to forgo the longer-term gain in return for immediate financial support and in order to deliver its core services.
3. Note that the final value of the investment returned will depend on the values achieved at the point of exit as it depends on house price achieved from the disposal of properties. The valuation as at end of September 2022 (when the last valuation was conducted by Resonance) indicated £36m return to the Council.
4. Approve that the Council agrees to a managed exit, as this will provide the Council with sufficient time to assess and identify suitable and cost-effective

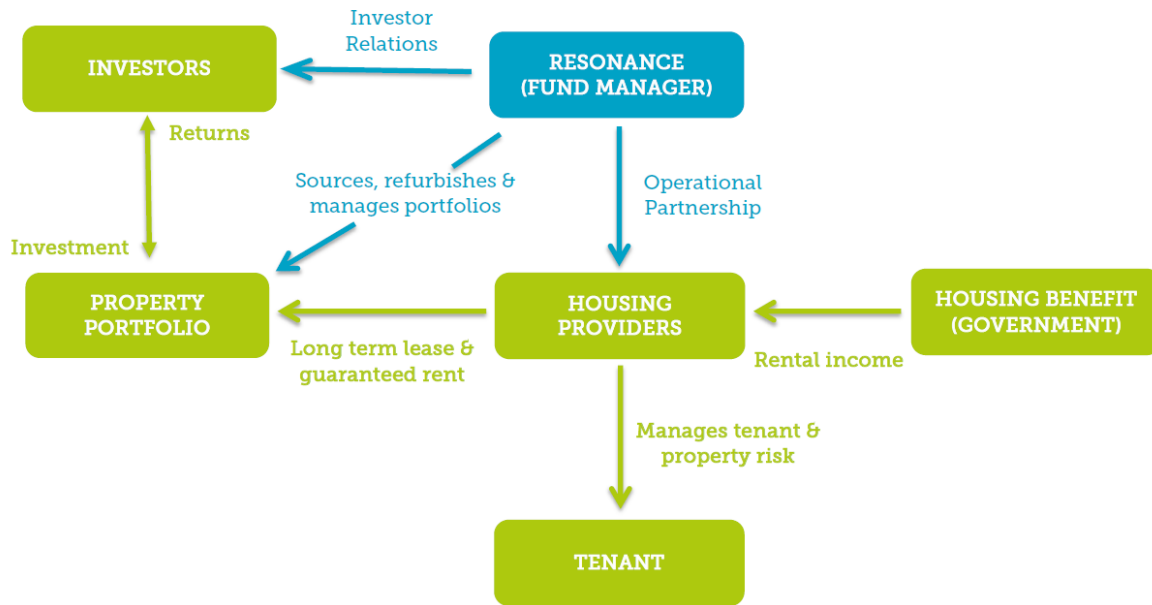
accommodation for Temporary Accommodation households who will be impacted from the exit.

5. Delegate to the Corporate Director of Resources and Section 151 Officer, in consultation with Cabinet Member of Finance and Monitoring Officer, authority to agree relevant documentation (including any special resolutions required under the LPA, and a Deed of Variation to the LPA (DoV)) required in order to effect Option2.
6. Note that exiting the investment, and agreeing such documentation, will be subject to appropriate legal and financial advice and due diligence.
7. Note that the Council will continue to be an investor in RPLF1 until all its investment balance has been paid.

1. BACKGROUND

- 1.1 Resonance has a twenty-year track record in social impact investment with a specialism in property. Resonance has a mission of connecting capital to charities and social enterprise and is also a social enterprise itself. It has a total of 7 funds across the UK, and it is a UK limited partnership. This offers investors the opportunity to invest in a diversified portfolio of residential property which with an aim of providing affordable homes.
- 1.2 The Council became an investment partner in 2014 and gained nomination rights to the properties through partnership with St Mungo's in 2021 the Resonance partnership switched from St Mungo's to Notting Hill Genesis (NHG) to provide the Housing Provider services. NHG is a housing association formed in April 2018 by the merger of Notting Hill Housing and Genesis Housing Association. NHG owns approximately 55,000 properties in London. The Council's investment accounts for 51.7% of the total fund value and the fund manages a total of 259 properties of mainly 1 and 2 bed properties.
- 1.3 The Council has a second investment in an alternative fund, RPLF2, where a total of £15m has been invested. This report focuses only on RPLF1 as RPLF2 is not due to mature for another 12 months.
- 1.4 Through the initial investment of £29,389,808 through RLPF1 acquired properties within the M25, placing homeless families through Assured Shorthold Tenancies issued by St Mungo's. This supported the Council in discharging its housing duty. The fund operated with the Housing Provider, Investors and Resonance (as the fund manager) under the structure set out in Chart 1 below.

Chart 1 – Resonance Fund Structure



- 1.5 In March 2021 the fund was extended for a period of 12 months and is now due to mature at the end of February 2023. The Council has a number of options which are explored in section 2 of this report. The total value of the fund for the Council has increased to £36m as at end of September 2022 and therefore will provide the Council with a £6.6m capital gain, a 22.4% return on the original investment.
- 1.6 The stated £36m is an indicative value as the withdrawal of funding will be dependent on the final value achieved when Resonance find an alternate investor for the fund or, alternatively sell assets with a value equal to the Council's share in the market. Property prices, since the investment was committed in 2014, have increased substantially and that is the key reason for the growth in the Council's investment value. However, the current housing market has begun to slow down due to increases in the base rate and general slowdown in the UK economy. The expectation is that property prices may fall in 2023.
- 1.7 In addition to the potential capital gain the Council has also received a total of £5.925m in dividends over the 10-year period which has contributed towards the Council's corporate investment income. As interest rates have been low across the period of investment to date this return has been sufficient to more than cover the debt costs incurred by borrowing to invest.
- 1.8 In addition to the dividend income and capital gain the Council has also had a supply of affordable housing and received nomination rights at the onset of the investment. The Council has 146 tenants within RPLF1 in respect of whom the Council has been able to discharge its duties. It has also benefited from avoiding ongoing costs for supporting rental payments for Temporary Accommodation needs. The tenants have received support from the Housing Provider and benefited from a good quality, affordable home. In return for the

services provided, the Housing Provider has charged the Council a fee of up to £4,500 per placement.

- 1.9 Once placed, tenants have remained with the Resonance properties for a period of 4-5 years. This is because Housing Provider has not been able to move tenants into a self-sustaining position and, therefore, the Council has only been able to benefit from use of the properties twice over the 10-year investment period. Nonetheless, without this provision, there would have been further pressure on the Council due to the need to address its statutory duties in relation to these tenants.
- 1.10 Overall, in assessing the original investment, the Council has made a profit on the investment and has discharged homelessness duty at a cost comparable to or lower than that of in-house, temporary accommodation schemes. The Council has also benefitted from a period of consistent house price inflation and will likely realise a gain on withdrawal from the fund accordingly.

2. FUND INVESTMENT – Options

- 2.1 As the fund matures at the end of February 2023 the Council has 2 key options to consider with regards to its monies within the fund. Resonance have indicated that the Council has the option to transfer its investment from RPLF1 into a Fund launched in December 2020 called National Homelessness Property Fund 2 (NHPF2).
- 2.2 NHPF2 is a similar fund to RPLF1 however the fund extends investment across England rather than focusing in London and the investment horizon is 15 years. As of October 2022, NHPF2 had only generated an investment interest of £65m with main investors being Local Government Pension Funds and no other Local Authority had invested in the new fund.
- 2.3 Resonance had suggested that re-investing the £36m, or part of the balance, was an option for the Council. This would mean the Council can continue to receive dividends and have nomination rights to Resonance properties.
- 2.4 An alternative option for the Council is to divest from the fund receive the funds back. This would mean the Council receives its investment plus any capital gains or losses and will be able to use the cash for alternative purposes such as paying down the existing debt.
- 2.5 The Council has analysed both options and has also considered a third option with regards to divesting from RPLF1. In order to ensure the outcome of each option is comparable, inputs into modelling the options have made using the same assumptions based on information and data available at the time. Table 1 below details the range of inputs and their values that have been used to model the options.

Table 1 – Key Inputs

Variable Description	Value	Comments
MRP period	40	Aligns to Council MRP policy
CPI for 1 st year	10%	
Inflation (CPI) Years 2-15	3%	Applied to years after 2023.24
CPI Date Base	01 Dec 2022	As published by Office National Statistics
LHA TA Growth	0% to 1%	0% for first 3 years but 1% after. In line with Autumn Statement Announcement.
Marginal cost of finance for LBC	4.77%	Based on PWLB at 28/12/2022
Real discount rate	3.50%	In line with Treasury's Green Book for Public Sector Investments
NHPF2 capital investment	£36.00m	
NHPF2 capital investment growth	0%	No growth in property value assumed as difficult to speculate future values.
Average stay in temporary accommodation	260 weeks	Based on data from St Mungo's & LBC Housing
NHPF2 LBC affordable portfolio	96	Total new properties
Net cost of council tenancies in rented stock	£7,000	Per household per year on average net of Housing Benefit

2.6 The Council carried out high level internal analysis but due to the complex nature of various inputs interacting with each other the Council then commissioned Local Partnerships to provide expert modelling services. The Council needs to make a decision by 25th January 2023 and given the reality of the time constraints that are apparent in this case, Local Partnerships proposal concentrates on the Economic and Financial Cases. Local Partnership Report and Analysis has been provided in Appendix 1 of this report.

Table 2 – Economic vs Financial Case

Case	Issues to capture and address
Economic	<ul style="list-style-type: none"> Long list of options – apply strategic and operational assessment criteria within option framework methodology
	<ul style="list-style-type: none"> Identify a short list of options and subject to cost benefit analysis
	<ul style="list-style-type: none"> Consider strategic and operational deliverability (commercial, financial and management) risks in relation to each option
	<ul style="list-style-type: none"> Identifies time value of money
Financial	<ul style="list-style-type: none"> Capital and revenue budget implications

2.7 A summary of the outcomes for each of the three Options under an Economic and Financial assessment has been provided in the table 3 below. The assessment is over a 15-year period and the outcome reflects the input assumptions identified in Table 1. Further explanation under each option is provided in sections 2.8 to 2.28.

Table 3 – Summary of Outcomes

Zero housing value growth over the 15 years Value for Money		Option			Option		
		1	2	3	1	2	3
		Total (£'000s)			NPV (£'000s)		
Benefits							
	Expected annual fund return	11,232			6,390		
	Expected capital return at fund maturity	36,000			14,714		
	Receipt on maturity of RLPF1	36,000	31,483	31,483	31,007	27,117	27,117
	Housing benefit rebate on placements	618	24,329	28,464	527	14,459	16,880
	Expected value of properties at the end of the appraisal period			31,483			12,868
	Total	83,850	55,812	91,430	52,638	41,576	56,865
Costs							
	Capital investment	36,000		31,483	29,957		25,033
	Finance cost – interest on LBC debt	24,752	78	20,271	14,905	68	11,887
	Placement/dilapidations costs	4,640	15	849	2,787	13	493
	Cost of emergency accommodation	1,504	73,020	44,636	1,282	42,216	25,992
	Rental to housing providers						
	Housing management and maintenance costs			1,668			961
	Total	66,896	73,113	98,905	48,931	42,297	64,366
	Net benefit	16,954	(17,301)	(7,475)	3,707	(720)	(7,501)
Financial							
Financial		Option			Option		
		1	2	3	1	2	3
		Total (£'000s)			NPV (£'000s)		
Revenue							
	Expected annual fund return	11,232					
	Housing benefit rebate on placements	618	24,329	28,464			
	Total	11,850	24,329	28,464			
Expenditure							
	Finance cost – MRP and interest on LBC debt	37,725	120	30,895			
	Placement/dilapidation costs	4,640	15	849			
	Cost of emergency accommodation	1,504	73,020	44,636			
	Rental to housing providers						
	Housing management and maintenance costs			1,668			
	Total	43,868	73,154	78,047			
	Net revenue impact	(32,019)	(48,825)	(49,582)			
Capital							
Capital		Option			Option		
		1	2	3	1	2	3
		Total (£'000s)			NPV (£'000s)		
	Capital receipt - RPLF1	36,000	31,483	31,483	31,007	27,117	27,117
	Capital investment - NHPF2	(36,000)			(29,957)		
	Expected capital return at fund maturity	36,000			14,714		
	Cost of acquiring the equivalent NHPF2 portfolio			(31,483)			(25,033)
	Expected value of properties at the end of the appraisal period			31,483			12,868
	Total	36,000	31,483	31,483	15,764	27,117	14,952

Option 1 – Re-invest

- 2.8 Resonance have secured an offer in principle from the fund National Homelessness Property Fund 2 (NHPF2) to acquire the RLPF1 portfolio. The proposed NHPF2 fund is seeking to secure £300m funding from existing RLPF1 investors and new institutional investors. Croydon Council is invited to use the proceeds received from the winding up of RLPF1, approx. £36m, to re-invest in this nationwide scheme.
- 2.9 In this scenario Croydon can transfer the funding from RLPF1 to NHPF2 for a period of 15 years. The Council would continue to benefit from a dividend an amount which is dependent on housing benefit remaining tied to market rents

via increases in the Local Housing Allowance (LHA). The Council would also continue to have access to residential properties to place TA clients.

- 2.10 This would be an easy transaction to carry out as Resonance would do much of the bulk work and the Council will be required to enter into a new Limited Partnership and nomination agreements.

Financial Considerations

- 2.11 Table 3 shows that from an Economic assessment the net benefit to the Council from investing is £16.95m over a 15-year period. The Net Present Value (NPV) benefit is £3.71m. The analysis takes into account the net costs and benefits that the Council would incur as a result of reinvesting £36m.
- 2.12 Key costs include not having the cash to refinance the existing debt and thus the Council incurs higher interest costs assumed at 4.77%. Reinvestment comes with a cost of paying the Housing provider placement costs which are projected at £4,500 per placement. As the Council will receive access to additional 96 properties and placing households within these will incur costs along with a time lag as Resonance buys the additional properties as per Council's requirements. Under the Economic Case the costs exclude MRP charges as the economic case considers that to be repaid from capital receipt at the end of the investment period.
- 2.13 The benefits for the Council include additional Temporary Accommodation savings from discharging duty and continued receipt of dividend income. For prudence the increase in value of properties has not been considered particularly on the back of the current macroeconomic climate which has worsened with higher interest costs and signs that the economy is entering a recession.
- 2.14 The financial case factors in annual cash flows from a revenue perspective and identifies the total cash gain or loss over the 15-year investment horizon. The financial case indicates a net £32.02m loss over the investment timeframe compared to a loss of £48.83m for Option 2. Financial case analysis factors in MRP costs which would need to be provided for the investment particularly as there are risks to future value of the investment.

Non-Financial Considerations

- 2.15 Investing in Resonance is not simply about generating a financial return, but it also plays an important role in supporting the Council's duty to provide accommodation within the TA service. It, therefore, supports the Council by having a set of affordable properties where the Council can discharge its duty. The two objectives can be at conflict with each other where the Council as an investor may prefer the largest returns but the Housing service would prefer a better and targeted service. The latter being most costly.
- 2.16 However, the national policy matters and changes to legislation with regards to funding Housing Benefit will have a direct impact on the Council as lender.

The Autumn Statement announced that the LHA will be frozen which breaks the link with market rents, threatening the amount of dividend to be paid out.

- 2.17 Furthermore, the Council's current housing needs are different to those when the Council first invested in 2013. The Council has a need for 2-bed and 3 bed properties which are currently not readily available within the new fund. This therefore needs a lead time for the fund managers and the housing providers to identify Croydon's needs which in itself may pose a timing challenge and thus erode the total gains from investing from a Housing perspective.
- 2.18 The investment timeframe is for 15 years and with the current needs for cash to reduce future borrowing risks the Council would benefit from having the cash now and support cash flow to reduce future increases in interest costs. This would allow the Council to target its cash to current priorities particularly given the Council existing S114 position. This is further explored under Option 2.

Option 2 – Divest (Recommended)

- 2.19 The alternative scenario is that Croydon withdraws investment at this point and uses the funds to reduce overall borrowing costs to the Council. This would come at the cost of losing continued nomination rights with NHG and loss of dividends to the Council. However, the cash will be used to reduce future interest costs. Due to recent rises in the Bank of England base rate, the cost of borrowing for Council has increased substantially and Croydon has a need to refinance a large proportion of its debt. The refinancing of this debt is expected to be at a higher interest rate than currently paid and therefore future interest costs will rise. Having the cash from RPLF1 will ensure the Council refinances less and thus reduces future interest costs.
- 2.20 It is important to note that the cash returned from RPLF1 will be sent to the Council over an 18-month period. This is because the Limited Partnership Agreements allows the fund manager time to liquidate the fund. Additionally, continuing with the investment will leave Croydon with the same decision to make in 15 years' time regarding divesting of the fund and forcing a sale of the properties.
- 2.21 Under this option Croydon will have to pick up the financial burden of losing the Resonance nomination rights. In the worst-case scenario where property sales are forced, a percentage of tenants may revert to Croydon initially for homelessness support. However, assessment of the tenancies within the fund indicates that the impact will be marginal and c18 households will need to be re-housed and this is manageable within the Housing team.
- 2.22 Resonance have indicated that they will work with the Council in the event the Council decides to exit and have proposed a Managed Exit option. This is detailed in Confidential appendix 2. This will ensure that existing tenants within RPLF1 are not made homeless and that their tenancies remain until the tenants can move to an independent setting. The Council will also request a notice period if tenants are at risk of being made homeless so that it provides

the Housing team with sufficient time to re-assess and find alternative accommodation.

- 2.23 The Council will seek to request an 18-month ultimatum to receive all its cash and after the first 12 months will seek a unilateral undertaking from Resonance to ensure any balance not paid by the end of the 12 month of the 18 month period is done so within the remaining months.

Financial Considerations

- 2.24 The Economic case indicates a £17.3m negative impact which equates to a £0.720m NPV loss at today's prices. Option 2 includes extra costs of providing housing for tenants that would have been housed within the Resonance properties, but this is netted off against Housing Benefit that the Council would receive. The key driver is therefore the loss of access to properties to support the Council's Housing demand.
- 2.25 The calculation takes a prudent view that new demand will be housed within Emergency Accommodation (EA) which is the costliest. Due to complexities of modelling differing scenarios a base worst case assumption for use of EA has been factored in, which provides for comparability across the options. Furthermore, the loss of access to the Resonance properties will possibly result in more pressure on EA and therefore this further justifies the modelling the costs using EA properties. However, the Council will have other more cost-effective options that it can use to house new demand and therefore may generate a higher benefit than indicated within the model.
- 2.26 The financial case indicates a net £48.8m net cost over the 15 years which is worse than investing into NHPF2. This is largely driven by loss of access to properties to support TA demand.
- 2.27 Whilst the financial analysis indicates that Option 1 provides a better financial return in 15 years than Option 2, the Council is also going through a difficult financial position and through the MTF5 has identified significant issues with legacy and future matters. The Council's large debt balance requires cash to support the refinancing need and avoid further interest costs, which takes money away from front line services.
- 2.28 A separate analysis has been done to identify the impact over a short term between Option 1 and Option 2 and table 4 below shows that over the short-term Option 1 results in a larger cost. Until March 2026 the Council would have incurred costs of £9.38m under Option 1 against £7.50m in Option 2.
- 2.29 It is important that this short term cost impact is factored into the consideration in light of the immediate financial challenges. Whilst Option 1 indicates a better outcome the Council cannot in the short term afford to lock away the £36m as there is the immediate need for cash funding. Divesting allows the Council to focus on its core service delivery and ensure resources are allocated towards that goal.

Table 4 – Short Terms Financial Impact

Option 1						
Re-invest						
		Total	01-Feb-23	01-Feb-24	01-Feb-25	01-Feb-26
		£'000s	1	2	3	4
Revenue						
	Housing benefit rebate on emergency accommodation	618	484	134	0	0
	Expected annual fund return	1,546			765	780
	Sub-total	2,163	484	134	765	780
Expenditure						
	Finance cost – prevailing cost of debt to LBC	8,936	1,256	2,445	2,617	2,617
	Placement costs	1,112	271	279	279	284
	Cost of emergency accommodation	1,504	1,167	337	0	0
	Sub-total	11,551	2,694	3,060	2,896	2,901
	Net revenue impact	(9,388)	(2,210)	(2,926)	(2,131)	(2,121)
Option 2						
Divest						
		Total	01-Feb-23	01-Feb-24	01-Feb-25	01-Feb-26
		£'000s	1	2	3	4
Revenue						
	Housing benefit rebate on placements	4,948	937	1,124	1,337	1,549
	Sub-total	4,948	937	1,124	1,337	1,549
Expenditure						
	Finance cost – prevailing cost of debt to LBC	120	120	(0)	0	0
	Placement costs	15	15	0	0	0
	Cost of emergency accommodation	12,317	2,060	2,822	3,389	4,046
	Sub-total	12,452	2,194	2,822	3,389	4,046
	Net revenue impact	(7,504)	(1,257)	(1,698)	(2,053)	(2,497)

Non-Financial Considerations

- 2.30 Paragraphs 2.16 and 2.17 have already referred to implications to tenants as the Council loses nomination rights. However, Resonance have confirmed through managed exit option that the Fund will work with the Council to ensure no impact on tenants.
- 2.31 The managed exit route also gives the Housing team sufficient time to identify suitable property should Croydon be held responsible subject to current market conditions and supply. The RPLF1 properties are allocated across London and Croydon has placed household in various homes across London and in line with the homelessness legislation. As the tenancies for the RPLF1 properties are offered to end the homelessness duty, the duty fully ends after 2 years of the tenancy commencing. In the event that the tenant is asked to vacate the property, the households placed and residing in other Local Authority areas can seek further housing assistance from the Local Authority where they are residing or move independently.
- 2.32 Therefore, the risk of tenants needing Croydon support is expected to be less and with the managed exit option the Council will have sufficient time to ensure suitable and affordable accommodation is found for those households placed within Croydon and those placed in other Local Authority areas but have been residing in the area for less than 2 years.

- 2.33 The possibility also remains of choosing to re-invest with Resonance at a later time if there is a change in the financial outlook with regards to interest rates or the expected return on investment.

Option 3 – Divest and Purchase TA properties

- 2.34 Rather than use the proceeds from divesting to refinance the debt the proceeds can be used to purchase new settled accommodation for homeless households.
- 2.35 The Financial and Economic case indicates that that this option does not provide better returns than Option 1 and 2 and, therefore, is not being considered further.
- 2.36 Furthermore, the Council has experienced significant issues within the Housing service over the past couple of years and currently does not have the capacity to take on the management of a new supply of this type of temporary accommodation directly. A number of improvement initiatives are ongoing, and the Housing Directorate needs to ensure resources are allocated as per the strategic objective and that there is the right level of support to TA tenants.
- 2.37 Without these operational arrangements there are considerable risks to achieving the financial outcomes which would also have a material impact on tenants. There is a considerable lead in time to implement the operational changes and that also would need to be resourced.
- 2.38 The Council always has the option to buy more properties as settled accommodation for homeless households at a later date once it has conducted the necessary due diligence and operational planning.

Scenarios Analysis

- 2.39 As part of the review of various scenarios the Council worked with Local Partnerships to identify 14 possible scenarios. The complexity of the modelling and various potential eventualities made projecting the best outcome difficult as there are a number of unknown factors that could impact on the final outcome. Summary below details the range of scenarios and the possible value for money outcomes (Economic Case). Table 5 below provides a summary of the outcomes and the base case for the analysis presented within this report.
- 2.40 Most scenarios indicate that Option 1 would result in a better outcome for the Council. However, as explained in paragraphs 2.27 to 2.29 the Council has an immediate short term need for cash.

Table 5 – Outcome from various Scenarios

Option RAG rating - value for money		Option		
		1	2	3
1	Property Growth assumed at 5% pa	12,563	(720)	244
2	In-house placement costs to equal NHPF2 placement fee	12,563	(720)	(237)
3	NHPF2 target cash yield is 150bp higher	16,557	(720)	244
4	Average stay in temporary accommodation to be 24 weeks	(14,844)	(3,432)	(7,192)
5	Cost of nightly accommodation to be 100% higher	11,282	(42,936)	(25,749)
6	Duration of in-house acquisition 50% longer	12,563	(720)	1,096
7	Time between RLPF1 liquidation and start of in-house acquisition 50% longer	12,563	(720)	623
8	Capped LHA rebate indexation is 100% greater	12,563	(3)	1,086
9	Net cost of council tenants in long term rent is 25% higher	12,563	(720)	244
BASE	10 Zero housing value growth over the 15 years	3,707	(720)	(7,501)
11	All of above	(20,988)	(49,258)	(49,100)
12	All of the scenarios except 5	(19,707)	(2,713)	(16,715)
13	All of the scenarios except 4 and 5	7,701	(3)	(5,821)
14	All of the scenarios except 3,4,5 and 10	12,563	(3)	1,924

3. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 3.1 The substance of this decision is whether to continue to invest in residential property for a further 15 years through the vehicle offered by Resonance. Whilst interest rates have been consistently low over the past decade this has been a low-cost gamble that has paid off as house prices have risen consistently within the same time period. The financial outlook is now drastically changed as interest rates are rising significantly, house prices are predicted to fall, and LHA rents are not keeping pace with market rents.
- 3.2 Withdrawing money from the fund would allow Croydon to reduce overall borrowing (currently at £1.3billion) by c£36m and therefore reduce the costs of borrowing. These costs should be assessed at the current or likely future PWLB rate as a range of loans within the Council portfolio are due to mature and new borrowing needs to be taken on as a replacement. The PWLB rate is currently over 4.7% for a 15 year borrowing horizon which is considerably higher than current loan rates and will have an impact on total interest costs.
- 3.3 It is deemed prudent to assume zero capital appreciation across the life of this investment, although significant changes are possible across the 15 year investment term.
- 3.4 In the expected scenario for TA it is assumed that NHG stock and Croydon's own TA stock have a similar churn / move-on rate. It is also assumed that there will be little immediate effect from withdrawing from the fund as the existing properties will remain within NHPF2 with tenants in situ. Therefore, the effect will be a reduction in nominations by the expected 20 per annum.
- 3.5 Whilst the Council will be required to provide for growth for the loss of dividend income within the Corporate Budgets it is expected that this loss of income will be offset by significantly lower costs of borrowing. The dividend budget for RPLF1 currently at c£0.900m will need to be covered from growth but it is

expected that over a £1m in interest cost reductions can be achieved from c£36m in cash.

Approved by: Sarah Attwood – Head of Finance Housing

4. LEGAL CONSIDERATIONS

- 4.1 The Executive Mayor has the power to exercise executive functions pursuant to s9E of the Local Government Act 2000 and has the power to delegate those functions. The delegations in the Council's Tenders and Contracts Regulations have been superseded by: (i) the Executive Mayor's Scheme of Delegation introduced following adoption of the Mayoral Model; and (ii) the specific delegations in the annual procurement plan approved by the Executive Mayor in Cabinet on 16th November 2022.
- 4.2 The delegation of authority, recommended in this report, to the Corporate Director of Resources and Section 151 Officer (in consultation with Cabinet Member of Finance and Monitoring Officer) is consistent with those Schemes of Delegation and the Council's constitution.
- 4.3 By virtue of S115 (6) Local Government Finance Act 1988 (Act), where a report has been made under section 114(3) of the Act, during the prohibition period the Council may not enter into any new agreement which may involve the incurring of expenditure (at any time) by the authority unless the chief finance officer of the authority authorises it to do so. The chief finance officer may only give authority for the purposes of subsection (6) above if they consider that the agreement concerned is likely to:
- (a) prevent the situation that led them to make the report from getting worse;
 - (b) improve the situation, or
 - (c) prevent the situation from recurring.
- 4.4 For the reasons noted above (in particular, the need to reduce the interest costs to the Council whilst continuing to meet the Council's statutory duties in relation to homelessness) the recommendations set out in this report will improve the Council's financial position and/or prevent it from worsening. The Section 151 Officer may therefore approve entry into the arrangements which are required to effect Option 2, notwithstanding the currency of the prohibition period.
- 4.5 The LPA is the key document which sets out the legal relationship between Resonance and the Council in relation to the RPLF1 investment and the Council's nomination rights. In order to effect Option 2, a DoV must be negotiated and entered into between Resonance and the Council which reflects the commercially agreed heads of terms (HoTs).
- 4.6 Detailed legal and financial advice must be taken in relation to the HoTs, and the terms of the DoV in order to ensure that it reflects the HoTs. The LPA must also be reviewed in order to ensure that any legal, financial or commercial

implications for the Council, arising from its terms, have been accounted for in the DoV or otherwise resolved.

- 4.7 The DoV effecting Option 2 must be supported by a Special Resolution pursuant to the LPA. Detailed legal advice will be required in relation to the terms of that resolution prior to the Council consenting to it.
- 4.8 The Council has the power to enter into the arrangements required in order to effect Option 2 by virtue of:
- 4.8.1. pursuant to section 1 of the Localism Act 2011 under which local authorities have a “general power of competence” to do anything which an individual may do, subject to the restrictions set out in section 2 of the Localism Act 2011. No such restrictions apply to the subject matter of this report; and
 - 4.8.2. various powers and duties set out in applicable housing legislation, including Part VII of the Housing Act 1996 and the Homelessness Reduction Act 2017.
- 4.9 The Council has a duty to provide accommodation to homeless households in accordance with the provisions of Part VII of the Housing Act 1996 and, in discharging this duty, the Council must comply with the requirements of the Homelessness (Suitability of Accommodation) (England) Order 2003. Option 2 is consistent with these statutory requirements, and is also aligned with the Homelessness Strategy which the Council is have in place and review pursuant to the Homelessness Act 2002

Approved by: Sonia Likhari – Solicitor

5. HUMAN RESOURCES IMPACT

- 5.1 There are no immediate human resources impacts arising directly from the recommendations in this report. However, there will be impacts associated with the development and delivery of the Housing Improvement Plan. The Housing Improvement Plan constitutes a key part of the Croydon Renewal Plan, and it is inevitable that the Plan will have an impact on the Council’s workforce. The Council’s agreed human resources policies and procedures will be followed.

Approved by: Gillian Bevan, Head of HR Resources and Assistant Chief Executives Directorates on behalf of the Chief People Officer

6. EQUALITIES IMPACT

- 6.1 As a public body, the Council is required to comply with the Public Sector Equality Duty [PSED], as set out in the Equality Act 2010. The PSED requires the Council to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between different

people when carrying out their activities. Failure to meet these requirements may result in the Council being exposed to costly, time consuming and reputation-damaging legal challenges.

- 6.2 An Equality Impact Assessment has been carried out and identified a low risk that the cohort of homeless residents comprised of approximately 18 tenants may have to move during the process. The residents are protected by the statutory duty of the local authority to rehouse them which will mitigate any issues of further homelessness. However a potential move may impact residents who are older, disabled or pregnant or on maternity leave more so. Support will be sought through voluntary agencies by the directorate should this issue arise.
- 6.3 The limitations of the Equality Analysis was that the directorate did not have equality data on the residents which inhibits the ability to properly assess the impact of the proposal on vulnerable groups. The directorate has planned to improve both the collection and use of equality data which will be supported by a new IT system.

Approved by: Denise McCausland – Equality Programme Manager

7. ENVIRONMENTAL IMPACT

- 7.1 There are no positive or impacts on the environment as a result of the recommendations in this report.

8. CRIME AND DISORDER REDUCTION IMPACT

- 8.1 There are no crime prevention and reduction implications as a result of the recommendations in this report.

9. DATA PROTECTION IMPLICATIONS

- 9.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

No, as the report contains no sensitive or personal data

CONTACT OFFICER: Nish Popat - Interim Head of Corporate Finance

APPENDICES TO THIS REPORT:

Appendix 1 – Local Partnerships Report – TBC
Confidential Appendix 2 – Resonance Staged Exit Proposal

This Appendix contains exempt information additional to Part A as it contains exempt information as defined in paragraph 3 of Schedule 12a to the Local Government Act 1972 (as amended): "Information relating to the financial or business affairs of any particular person (including the authority holding that information. In all the circumstances, the public interest in maintaining the exemptions outweigh the public interest in disclosing the information.