

**Committee: CABINET**

**Date of meeting: 5 July 2017**

<b>Subject:</b>	Affordable Housing Opportunities – Requests to draw on the Enabling Fund
<b>Lead Officers:</b>	Housing Strategy & Enabling Manager
<b>Portfolio Holder:</b>	Cllr Roy Green
<b>Link to Council Priorities:</b>	H1 & H3
<b>Exempt information:</b>	None
<b>Delegated status:</b>	For recommendation to Council on 19 July 2017
<b>Key decision:</b>	Yes

### **EXECUTIVE SUMMARY:**

This report sets out two proposals to use the Enabling Fund to support local housing associations to deliver affordable housing for rent with the Council being given the right to nominate prospective tenants to the properties. The first proposal concerns the provision of a loan investment to Crown Simmons of up to £850,000 to support Crown Simmons to acquire five dwellings within Elmbridge for use as affordable housing for an anticipated period of at least fifteen years. It is proposed that the homes would be used as temporary accommodation for homeless households for whom the Council has a duty to arrange housing. The Council's investment will be tied to a funding and nomination agreement with Crown Simmons, including provision for the Council's original investment to be repaid along with some uplift depending on the rise in the value of each property between purchase by Crown Simmons and their eventual sale. The second proposal involves the provision of a grant of up to £180,000 to Paragon Asra Housing (PA Housing) to support the delivery of all three homes within its St John's Drive shops redevelopment scheme in Walton as rented, affordable housing, given the need for additional subsidy required to deliver a 100% affordable rented scheme. This grant would be conditional on the grant of planning permission and the conclusion of a funding and nomination agreement between the Council and PA Housing.

### **RECOMMENDATION: THAT**

- (A) COUNCIL APPROVES AN ALLOCATION OF UP TO £850,000 FROM THE ENABLING FUND TO SUPPORT CROWN SIMMONS TO ACQUIRE FIVE PRIVATELY-OWNED DWELLINGS IN ELMBRIDGE FOR USE AS TEMPORARY ACCOMMODATION FOR HOMELESS HOUSEHOLDS / AFFORDABLE HOUSING FOR AT LEAST 15 YEARS, WITH THE COUNCIL'S INVESTMENT RETURNED WHEN THE PROPERTIES ARE SOLD;**
  
- (B) SUBJECT TO PLANNING PERMISSION, COUNCIL APPROVES A GRANT OF UP TO £180,000 FROM THE ENABLING FUND TO PARAGON ASRA HOUSING TO SUPPORT THE DELIVERY OF 3 RENTED, AFFORDABLE HOMES WITHIN THE PROPOSED REDEVELOPMENT AT 18,19 & 21 ST. JOHNS DRIVE, WALTON ON THAMES (PLANNING APP. 2017/0419);**

- (C) THE ALLOCTIONS BE CONDITIONAL ON FUNDING AND NOMINATION AGREEMENTS BEING REACHED BETWEEN THE COUNCIL AND THE RESPECTIVE REGISTERED PROVIDERS, SETTING OUT THE DELIVERY REQUIREMENTS, THE CONDITIONS APPLYING TO THE COUNCIL'S FUNDING AND THE NOMINATION OF PROSPECTIVE TENANTS BY THE COUNCIL TO THE RESPECTIVE PROVIDERS;**
- (D) COUNCIL DELEGATES AUTHORITY TO THE STRATEGIC DIRECTOR & DEPUTY CHIEF EXECUTIVE, IN CONSULTATION WITH THE PORTFOLIO HOLDER FOR HOUSING, TO ENTER INTO FUNDING AND NOMINATION AGREEMENTS WITH CROWN SIMMONS AND PARAGON ASRA HOUSING; AND**
- (E) COUNCIL AGREES THAT ANY FUTURE CAPITAL RECEIPTS RECEIVED BY THE COUNCIL UNDER THESE INITIATIVES WILL BE PAID BACK INTO THE ENABLING FUND TO SUPPORT THE FURTHER DELIVERY OF AFFORDABLE HOUSING.**

## **REPORT:**

### **1. The Enabling Fund**

- 1.1 The Council's Enabling Fund is a fund set aside for the purposes of delivering affordable housing to meet local need. The fund mainly comprises contributions received from private developers of housing secured through planning obligations secured through the Council's planning policies. The balance is made up by a portion of the Council's New Homes Bonus (NHB) allocation along with various capital receipts. The current uncommitted balance of the Enabling Fund stands at approximately £8.5 million.
- 1.2 Increasing the supply of affordable housing and reducing the use of bed and breakfast and other out-of-borough options for homeless households to whom we have duties to accommodate are two of the administration's top priorities. This is reflected within two of the flagships contained in the Council Plan for 2017/18, notably "to facilitate the delivery of at least 100 affordable and social rented homes" and "increase the proportion of temporary accommodation for homeless households within Elmbridge Borough".
- 1.3 Registered Providers (RPs) have been encouraged to come forward with proposals to draw on the Enabling Fund to deliver additional rented, affordable homes.
- 1.4 There is a twin-track process in place concerning the approval of payments from the Enabling Fund, depending on whether the sum sought is below £75,000 or not. For sums above £75,000 (as is the case with this proposal) it is ordinarily the practice that Cabinet determines recommendations for funding of affordable housing projects from the Affordable Housing Enabling Fund directly from the Portfolio Holder for Housing, in consultation

with the Chairman of the Overview and Scrutiny Committee and in conjunction with officers where the projects meets priorities endorsed by the Affordable & Social Housing Working Group.

## **2. Proposal 1 – “The Elmbridge Property Acquisition Scheme” (EPAS) with Crown Simmons**

- 2.1 Crown Simmons is an Esher-based housing association with approximately 200 affordable homes in management in the borough. Council officers have been in discussions with their counterparts at Crown Simmons for several months about the potential to work in partnership to help improve the supply and quality of temporary accommodation options for homeless households to whom the Council has a duty to accommodate under the homelessness legislation. These discussions have centred on adapting a model which was developed between Basingstoke & Deane Borough Council in Hampshire and Sentinel Housing Association which has been running since 2014.
- 2.2 Essentially, the proposal involves the purchase by Crown Simmons of five two-bedroom properties on the open market within Elmbridge for use as temporary accommodation for homeless households, with the Council providing a capital contribution towards the purchase, renovation and fitting out costs. Rather than a grant, the Council’s investment would take the form of a loan recoverable at the point when Crown Simmons sell the properties, which under the proposed model would ordinarily not be for at least 15 years, during which time the properties will be let as affordable housing. Crown Simmons would manage the properties and the Council would have exclusive nomination rights to the properties over the course of the project. It is envisaged that the properties would be initially used as temporary housing for homeless families to whom the Council has a duty to accommodate, with average length of stays expected to be around a year. The homes would not be used as emergency, short-stay accommodation but as longer-term temporary accommodation let on assured-shorthold tenancies pending a household moving to more settled accommodation, whether that be in the social or private-rented sector. As temporary accommodation, the homes would not be eligible to any Voluntary Right to Buy.
- 2.3 Should the need for temporary accommodation reduce significantly over the course of the project’s life, then there would be flexibility built into the model to look at changing the use to mainstream, rented, affordable housing available on fixed-term tenancies. The model underpinning the scheme has assumed that all five properties to be bought will have two-bedrooms. This is considered the “best fit” in relation to the profile of households requiring temporary accommodation, whilst also being compatible with the most pressing need in terms of those on the Housing Register, in the event of the units being switched from temporary to mainstream accommodation.
- 2.4 The proposal has been provisionally named as the “Elmbridge Property Acquisition Scheme”. It has been devised as a relatively small-scale pilot

project, with the potential, should it be successful, to be expanded, subject to both parties having the resources and capacity to do so. An outline of the scheme was shared with the Affordable and Social Housing Working Group on 20 March 2017.

### **3. The Proposed Operation of the Elmbridge Property Acquisition Scheme**

- 3.1 The proposal has been informed by a financial model which has been developed by Crown Simmons in consultation with Council officers. A key requirement for Crown Simmons is that the model for them is, at very worst, cost-neutral, over the lifetime of the project. Crown Simmons' Board has given its in-principle support to the scheme, subject to this key condition being met and formal approval would be sought in the near future, once Council support is secured.
- 3.2 The model contains a number of assumptions covering variables such as property purchase prices; rent levels; voids and bad debts; management and maintenance costs; inflation and property inflation over a fifteen-year period. In short, assuming a purchase price of £282,000, on-costs of £11,000 (including works to bring the property up to a lettable standard) and the costs of providing fixtures and fittings over the duration (the units will be semi-furnished) a Council investment of £150,000 per property would be required, which represents just about half of these costs.
- 3.3 This equates to £750,000 for five properties, but it is proposed that a buffer of £100,000 be built into the project (hence the request for £850,000) in the event of the Council investment's needing to be higher, because the price of buying properties is higher than anticipated, for example.
- 3.4 The Council's investment in each property will not take the form of an equity loan. This is because, under the proposed model, the Council's return on its investment, when the property is sold, will not be proportionate to our share in the initial purchase as such an arrangement would mean that the scheme would not be cost neutral for Crown Simmons. Instead, in broad terms, the Council's return on investment will depend on the change in the value of each property between what it is bought for and what it is sold for. Based on a purchase price of £282,000 and assuming property inflation of 2.5% per year over 15 years and subsequent disposal for c£393,000, the Council would receive its initial investment of £150,000 back, plus an extra £24,940, equivalent to a return per annum of 1.11%. Crown Simmons would secure a greater level of return, but that reflects the Council is bearing no risk in relation to acting as the landlord and property owner, in terms of voids, bad debts, management and maintenance costs etc.
- 3.5 In the event that the properties' values rise by more than the annualised equivalent of 2.5% over the term of the agreement, then provisions would be put in the funding agreement whereby the Council's return on investment would be proportionately higher, when they come to be sold. Conversely, the funding agreement would need to cover the scenario where

the values of the properties do not rise as much as anticipated or even fall. That said, in such a situation, it would not be in the interest of either party for the properties to be sold at that particular point, and in such a case, it would make sense for Crown Simmons to retain the property for longer as affordable housing before disposing when market conditions are more conducive to a higher price being achieved.

- 3.6 Crown Simmons' model assumes that gross rents will be set at £197.36 per week (assuming and including a £20 per week service charge), which is lower than the Local Housing Allowance rate of £221.72 and will be below the 80% of market rent required to meet the definition of affordable housing.

#### **4. The Business Case for the Elmbridge Property Acquisition Scheme**

- 4.1 As at 31 March 2017, there were 43 households occupying temporary accommodation arranged by the Council in pursuance of our homelessness duties. Of these, eight households were placed out-of-borough, with five in bed and breakfast accommodation, two in nightly-paid, self-contained annexes and one in a hostel. The remaining 35 households were accommodated in self-contained housing association stock owned and managed by PA Housing within Elmbridge. Under an existing agreement, PA Housing are required to provide up to 27 units of temporary accommodation for homeless households nominated by the Council, but in recent years, due to increasing demand and the availability of several properties on a short-term basis pending their longer-term redevelopment, PA Housing have provided additional properties over and above the 27 required. However, as PA Housing plan to commence redevelopment of various sites later in the year, they have indicated that they will be withdrawing 11 homes from their temporary accommodation portfolio in the next six months, taking the number overall to closer to 30. In the short-term at least, this could lead to greater reliance on other forms of temporary accommodation, including bed & breakfast, unless an alternative supply of more suitable accommodation is secured.
- 4.2 The scheme, by purchasing existing homes rather than constructing new ones, can deliver additional temporary accommodation quickly and through joint capital investment it will deliver a greater number of homes than if either party sought to deliver the project alone. The proposal offers speed of delivery, with the availability of suitable properties permitting, the possibility of all five units being in management by the end of the year. As such, the scheme would complement other schemes which will help increase the supply of temporary accommodation in the longer-term, via the refurbishment of Weybridge Hall and the redevelopment of the Radnor House / former Molesey Centre for the community site in East Molesey.
- 4.3 It is anticipated that the scheme, by increasing or helping to maintain the provision of self-contained temporary accommodation for homeless households in the borough will not only improve the experiences of families at a difficult time (in terms of reducing the number of placements made out of borough) but it will also help the Council's financial position too, by

reducing use and expenditure on bed and breakfast and other nightly paid accommodation. In 2016/17, the Council's gross expenditure on bed & nightly paid temporary accommodation was nearly £225,000 and net expenditure (once housing benefit payments had been accounted for) was closer to £143,000.

- 4.4 In addition to its potential financial benefits, the scheme should reduce the number and duration of placements of families into bed & breakfast accommodation and thereby diminish the risk of the Council being at risk of legal challenge for accommodating families in bed & breakfasts with shared facilities for more than six weeks.
- 4.5 Hence, as well as the social purpose achieved, the scheme offers a combination of potential revenue savings to the Council along with a relatively modest return on its investment.
- 4.6. The allocation of Council funding will be conditional on the conclusion of a funding and nomination agreement with Crown Simmons. This will cover matters such as the property selection and acquisition process (with Council officer approval required for each); key milestones (e.g. target dates for acquisitions and first lets) and the planned duration of the scheme; the letting and nomination arrangements; rent levels; the payment of the Council's contribution and the terms governing its repayment. It will also include safeguards to protect the Council's investment in the unlikely event that Crown Simmons' experienced financial difficulties.
- 4.7 It is proposed that rather than provide Crown Simmons with a lump sum, the agreement will include provisions for the funding to be drawn down on a property by property basis, based on actual acquisition and on-costs, with the Strategy & Enabling Manager being the lead officer at the Council during the set-up phase and the Housing Options Team taking the lead on nomination of prospective tenants.

## **5. Proposal 2 – Site of 18, 19 & 21 St John's Drive, Walton on Thames**

- 5.1 PA Housing has submitted a planning application in relation to the above site (reference 2017/049) and at the time of writing, the application has yet to be determined. The proposals comprise a combination of demolition, redevelopment and refurbishment and are intended to result in an enlarged retail unit on the ground floor and a reconfiguration / extension of the first floor to provide three self-contained flats, replacing the one existing market dwelling. The proposal also includes a number of improvements to the existing building, the car parking provision and the service area, in order to deliver a better environment for the future residents and retailers, as well as the local community, more generally.
- 5.2 Under Policy CS21: Affordable Housing within the Local Plan, a development including 3 dwellings (such as this) would ordinarily be required to provide a contribution to affordable housing in the form of a

financial payment, where viable to do so and it is estimated that in this case, this would amount to around £25,000.

- 5.3 Whilst PA Housing will generally look to deliver 100% affordable housing on many of the development sites it owns, their view is that the specifics of this site render it incapable of providing affordable housing on viability grounds. Hence, the only way of feasible way of delivering affordable housing through this scheme is through the provision of additional external subsidy, hence the request to provide grant funding from the Enabling Fund in order to deliver the three dwellings as affordable, rather than market, housing.
- 5.4 There are a number of factors which render the viability of the scheme challenging. Firstly, whilst PA Housing own the freehold of the building, they have paid reverse premiums to the most recent leaseholders in return for the surrender of their leases, to facilitate vacant possession of the site and allow for its redevelopment. Secondly, in terms of the build project, as it is part refurbishment and part commercial (as a mixed-use scheme) there is an element of irrecoverable Value Added Tax (VAT) which PA Housing will need to meet. The planned refurbishment includes some costly items, including extensive upgrading of the stair core that serves both the existing and new residential units and the removal of the canopy around the ground-floor commercial. Construction prices have risen well above inflation over the last two years in any case and taking all these factors together, along with other standard costs (professional fees and borrowing costs etc) have all led to PA Housing proposing that the units be provided as market rent in order to make the scheme viable, unless additional capital subsidy could be provided.
- 5.5 Based on the information provided by PA Housing (including a scheme appraisal), local knowledge of the site and wider experience of scheme appraisals across Elmbridge, officers in Housing Services are of the view that the scheme cannot deliver affordable housing and remain viable, without the provision of Enabling Fund investment. Further and again based on the information, officers are satisfied that the level of funding sought (£180,000) is low enough to clearly establish that it would not be supporting the commercial element of the scheme, but is required in terms of the affordable housing delivery.
- 5.6 The scheme would deliver two 2-bedroom apartments and one 1-bedroom apartment. PA Housing have indicated that subject to provision of a grant of £180,000 from the Council (i.e. £60,000 per unit) that they would be willing to deliver the three dwellings are rented, affordable housing. The properties would be let at affordable rent, at the lower of either 80% of market rent or the relevant Local Housing Allowance rate (which currently stand at £173.41 per week for one-bedroom homes and £221.72 per week for two-bedroom homes). The proposed grant per unit is similar to that which the Council has committed to on other schemes in recent years. Whilst it would be provided as a grant, not a loan, the Council would secure nomination rights in return for its investment, thereby accommodating applicants on the Council's Housing Register. In the event that any of the

dwellings were sold under any voluntary right to buy and thereby no longer met the definition of affordable housing, then PA Housing have already expressed a willingness to repay the grant to the Council. This issue, and the other terms and conditions relating to the provision of any grant would again be covered within a funding and nominations agreement, the conclusion of which would be a pre-condition to any funding being provided.

**Financial implications:**

The £1,030,000 needed to cover the allocations to Crown Simmons and PA Housing can be met from within the existing Capital Programme provision of £8,632,000 which was approved by the Council in February 2017 as only £3.7 million has been either currently spent or committed. In addition there is a further £3.6 million of receipts held in the Council's Enabling Fund that has not currently been incorporated into the approved Capital Programme.

**Environmental/Sustainability Implications:**

None for the purposes of this report.

**Legal implications:**

The proposals in the report would give effect to the Council's powers to assist in the provision of affordable housing. The Enabling Fund comprises money lawfully obtained or applied for this purpose. If the funding is agreed, then the Council's reasonable conditions will be incorporated into an appropriate funding agreement entered into between the parties.

**Equality Implications:**

Increasing the supply of affordable housing and improving the provision of temporary accommodation within Elmbridge should help the Council towards meeting its objectives around equality and diversity.

**Risk Implications:**

The funding agreements between the Council and the Registered Providers will identify risks and seek to mitigate them, for example, by limiting the amount of forward-funding provided by the Council and instead, tying payments to achievement of agreed milestones.

**Community Safety Implications:**

None for the purposes of this report.

**Principal Consultees:**

Head of Legal Services; Head of Finance; Chairman of Overview & Scrutiny Committee

**Background papers:**

None.

**Enclosures/Appendices:**

None.

**Contact details:**

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