

<b>CABINET</b>	<b>DATE</b> 21 October 2020	<b>ITEM NO</b> 7
<b>TITLE</b> Future Expenditure of Right to Buy Receipts & Out of Borough Property Acquisitions for Temporary Accommodation	<b>WARD(S)</b> All	
<b>CHIEF OFFICER</b> Director of Regeneration, Enterprise and Skills	<b>CABINET MEMBER</b> Housing	
<b>CLASSIFICATION</b> - Key - Non-exempt	<b>FINAL DECISION</b> To be made on the recommendations in this report.	

## **1.0 Decision required**

This report makes the following recommendations to the decision-maker:

- 1.1 To approve a Right to Buy (RTB) receipts investment programme, up to a gross value of £83,982,669, that will make a positive impact on the Council's homelessness pressure and minimise the risk of unspent RTB receipts being repaid to the Ministry of Housing, Communities and Local Government (MHCLG). Specifically, Cabinet is requested:
- 1.2 To agree a property acquisition programme to provide temporary accommodation, up to a maximum gross value of £83,982,669, funded from RTB receipts (£25,194,801) and General Fund borrowing (£58,787,868).
- 1.3 To agree to delegate to the Director of Regeneration, Enterprise and Skills authority to acquire properties under this programme.
- 1.4 To agree to a budget of £3,353,040 from existing resources to undertake any associated repair and renewal costs following a property acquisition to bring the property up to a lettable standard in accordance with the Scheme of Delegation and led by the Director of Housing and Safer Communities.
- 1.5 To agree to extend the programme of purchasing properties outside of the borough, for the provision of temporary accommodation, to December 2021.

## **2.0 Links to the Royal Greenwich high level objectives**

2.1 This report relates to the Council's agreed high-level objectives as follows:

- Delivering Homes Through Economic Growth
- A Strong Vibrant and Well-run Borough
- A healthier Greenwich
- A safer Greenwich
- A great place to be

2.2 Specifically, this report makes a direct contribution to the objectives above as it will help ensure that: good quality accommodation is provided to households that have been accepted as homeless: The Borough will be able to invest RTB receipts, rather than return the funds to MHCLG.

## **3.0 Purpose of Report and Executive Summary**

3.1 In July 2019 Cabinet approved a request to continue a property acquisition programme, to provide temporary accommodation for homeless household applicants.

3.2 The budget for this acquisition programme was £64.28m, which was funded from RTB receipts (£19.28m), and the General Fund (£45.5m).

3.3 The existing budget of £64.28m is projected to be fully committed during the 2020/21 financial year. Cabinet will be aware of the continuing pressure to provide additional temporary accommodation for homeless household applicants. Consequently, this report recommends the approval of the expenditure of £58.787m from General Fund borrowing, and of £25.194m of Right to Buy receipts, to acquire properties to be used as temporary accommodation.

## **4.0 Introduction and Background**

4.1 Royal Greenwich sells approximately 150 properties a year, through the RTB programme. Royal Greenwich has a retention agreement with MHCLG which allows the borough to retain RTB receipts received, to invest in the delivery of new affordable housing. However, these RTB receipts can only fund 30% of the scheme cost.

- 4.2 The retention agreement also introduced quarterly expenditure deadlines, which hold the borough to a deadline of three years from the date of the RTB sale, to expend the RTB receipt received on replacement affordable homes.
- 4.3 If a receipt is not spent within the three-year timescale under the agreement, the Council is required to return the receipt, with interest, to the MHCLG. Between July 2020 and March 2022, the borough has a gross expenditure of £83,982,669 to expend – the RTB element (30%) being £25,194,801.

### **Strategy for Expenditure of RTB Receipts**

- 4.4 Officers have developed a three-strand strategy to deliver the expenditure of RTB receipts, by the funding of:
- The construction of new council owned affordable housing, via the Greenwich Builds programme
  - The construction of new affordable housing via a range of delivery partners
  - The acquisition of existing properties from the private sale market, to be used as temporary accommodation for homeless households
- 4.5 The Greenwich Builds team have a significant development programme which is part funded with RTB receipts. Cabinet have agreed funding to develop 750 homes, with a start on site by March 2022.
- 4.6 Discussions are on-going with a number of Registered Providers and delivery partners regarding the funding of new affordable housing, to be used as permanent accommodation.
- 4.7 However, Members will be aware that the lockdown measures and social distancing requirements introduced between April to June 2020 in response to the Covid-19 pandemic, had a significant slow down on the construction industry. As a result of the lockdown, MHCLG have issued a revised retention agreement which removed the deadline requirements to expend receipts under the June and September 2020 quarters. However, these deadline amounts still need to be expended and the cumulative amount to be spent by December 2020 remained unchanged.
- 4.8 To ensure that officers have ability to spend all RTB receipts by the expenditure deadlines, officers request that the existing properties acquisition programme has the authority to spend the entire RTB receipt commitment.

This will ensure that should the other strands of the expenditure strategy be delayed due to Covid-19 or other unforeseen circumstances; the property acquisition programme has the required authority to deliver the expenditure of RTB receipts by the required deadline.

### **Existing Properties Acquisitions Programme: Progress to Date**

- 4.9 Since December 2016 the borough has acquired 375 properties under this programme. There are a number of significant benefits to the existing property acquisitions programme:
- The delivery of much needed, good quality accommodation
  - The availability of a wider range of accommodation types
  - Less dependence on the use private sector landlords and agents for the provision of temporary accommodation
  - The Council acquires an asset and may potentially benefit from any capital appreciation
- 4.10 The acquisitions programme is delivered by a surveyor in the Property Team, who works closely with a range of local estate agents to purchase properties of the type and value that this initiative requires. The repairs and investment team now have a dedicated project manager and set of contractors, to ensure all necessary repair and health and safety testing work is promptly undertaken to all of the properties that are bought under this programme.
- 4.11 In July 2019 Members approved a Cabinet Paper requesting the acquisition of properties outside of the borough boundary, for the use as temporary accommodation. The Cabinet paper requested that this initiative be limited to a one-year pilot, and that it only considered properties that were within 30 minutes estimated travel time from Woolwich, when using public transport.
- 4.12 From July 2019 to July 2020, it was not necessary to purchase any out of borough properties for homeless households. This was because officers were able to successfully spend RTB receipts on properties within the borough. However, officers request that the pilot project to acquire properties outside of borough boundary is extended until December 2021, to give officers the opportunity to purchase such stock, should the properties meet the housing needs of homeless households and the financial requirements of the borough.

- 4.13 Properties acquired under this programme are held in the General Fund, and are exempt from the RTB scheme, as residents are offered a temporary license agreement rather than a secure tenancy.

### Cost Savings to the General Fund

- 4.14 The current private sector supply of temporary accommodation costs the council on average for a 3 bed unit, £3,966 per annum. This is the average difference between the private sector rent of a 3 bed private rented temporary accommodation property, and the maximum amount the borough can charge the household that housing benefit will cover, as set by the Local Housing Allowance (Outer South East London) rate.
- 4.15 An acquisition programme of £83.982m, at an average cost of £375K per unit (purchase price, fees and any works cost), would result in a purchase programme of approximately 224 units. Using a working assumption that all General Fund expenditure is financed through prudential borrowing, the following would be the borrowing debt charge requirements on the General Fund.

Total Acquisition Cost	£83,982,669
<b>Funding</b>	
RTB Receipts (30%)	£25,194,801
Prudential Borrowing (70%)	£58,787,868
Estimated cost of borrowing PA (5.5%)	£3,233,330
Cost of borrowing per unit per annum	£14,434

- 4.16 The following table demonstrates the potential cost saving that the programme of property acquisitions for households that have been accepted as homeless, could provide to the General Fund.

<b>Current Cost: (per annum)</b>	<b>Per unit</b>	<b>x 224 units</b>
Private Sector Cost	£16,792	£3,761,410
LHA Recoverable Rate	(£12,826)	(£2,873,020)
	<b>£3,966</b>	<b>£888,390</b>

<b>Projected Cost: (per annum)</b>	<b>Per unit</b>	<b>X 224 units</b>
Borrowing Cost	£14,434	£3,233,330
Repairs & Maintenance	£1,000	£224,000
LHA Recoverable Rate	(£12,826)	(£2,873,020)
	<b>£2,608</b>	<b>£584,310</b>

4.17 The above table demonstrates that the non-recoverable cost to the Council's General Fund of 224 privately rented properties to be used as temporary accommodation, for homeless household applicants is £888,390 per annum. This cost could potentially be reduced by £304,080 per annum (£888,390 - £584,310) if the borough delivered the requested property acquisition programme.

## **5.0 Available Options**

5.1 There are three available options for Members to consider: Do nothing: Defer the decision: Approve the recommended decision.

5.2 Members could decide to do nothing about the future expenditure of RTB receipts. The disadvantage of this option is that the Borough will have to return the unspent RTB receipts to central government, will lose the opportunity to deliver cost savings and the ability to purchase good quality existing accommodation for households that have been accepted as homeless. There are no advantages for doing nothing with the RTB receipts.

5.3 Members could decide to defer the decision to expend RTB receipts, on the basis that a better investment opportunity for RTB receipts might become apparent in the future. The advantage to this option is that more cash would be available for the investment opportunity. The disadvantage to this option is that the Borough is still exposed to the risks of returning the unspent RTB receipts to central government, and will lose the opportunity to deliver cost savings and the ability to purchase good quality existing accommodation for households that have been accepted as homeless.

5.4 Finally, Members could decide to approve the recommendation contained within this report. The advantages and disadvantages of this option have already been expressed in the report.

## **6.0 Preferred Option**

6.1 The preferred option is for Members to approve the expenditure of £25,194,801 of RTB receipts, and £58,787,868 of General Fund borrowing, to be spent on the acquisition of existing properties to be used as temporary accommodation for households that have been accepted as homeless.

## **7.0 Reasons for Recommendations**

7.1 The reason for this recommendation is that this option could save the Borough £304,080 per annum: will ensure that the Borough does not have to return any unspent RTB receipts to MHCLG; provide an increase in the availability of well managed and good quality temporary accommodation for households that have been accepted as homeless. The Council will also benefit from an increase in its asset base and any potential capital appreciation.

## **8.0 Consultation Results**

8.1 Residents have not been consulted on this proposal.

## **9.0 Cross-Cutting Issues and Implications**

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Legal</b> including Human Rights Act	<p>The report sets out proposals for using Right to Buy receipts and borrowing to acquire new temporary housing accommodation.</p> <p>The Director of Regeneration, Enterprise and Skills will be authorised to make individual acquisitions as they arise.</p> <p>Under Section 120 of the Local Government Act 1972 the Council may acquire by agreement any land, whether situated inside or outside the area, for the purposes of any of its functions or for the benefit, improvement or</p>	John Scarborough, Director of Legal Services, 28 August 2020

	<p>development of the area. Further, by section 227 of the Town and Country Planning Act 1990 the Council can acquire any land by agreement, subject to matters set out in the section. The Council also has powers in section 9 of the Housing Act 1985 to acquire housing accommodation and section 17 enables any such acquisitions to be outside of the Council's area.</p> <p>Right to Buy receipts are capital receipts within the meaning of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Those regulations require local authorities to pay the amounts received to Central Government. However, under section 11(6) Local Government Act 2003, the local authority may enter into an agreement with the Secretary of State to retain all or part of its RTB receipts.</p> <p>Such an agreement was entered into by the Council in 2013 and specifies the circumstances in which it is not required to pay specific capital receipts to the Secretary of State and allows the Council to retain those receipts, provided that it ensures that sufficient resources are spent on the provision of social housing within a set period of time.</p> <p>The Council may borrow for the purposes of its functions and/or the prudent management of its financial affairs under section 1 Local Government Act 2003.</p>	
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	<p>The powers are broad however any acquisition decision, including the costs of acquisition, has to satisfy the test of reasonableness. What is reasonable depends on taking into account all relevant considerations and ignoring irrelevant considerations. This report sets out those considerations. The report identifies the benefits to the area which would flow from this acquisition.</p> <p>The acquisition of further properties is likely to improve the Human Rights of the tenants who are accommodated.</p>	
<p><b>Finance</b> and other resources including procurement implications</p>	<p>Cabinet is requested to agree to a continuation of the property acquisition programme for the provision of temporary accommodation, up to a value of £83,982,669, funded from RTB receipts (£25,194,801) and General Fund borrowing (£58,787,868).</p> <p>General Fund prudential borrowing of £58,787,868 will require the Housing General Fund to finance debt charges of £3,233,330 (at 5.5%) per annum as per paragraph 4.15. The cost of prudential borrowing will on average be lower than the costs currently experienced through ad-hoc emergency overnight arrangements and are overwhelmingly funded by the “rental” income applicable to this type of housing provision, which is already receivable.</p> <p>Paragraph 4.17 demonstrates that a potential annual saving of £304,080 against the current private sector procured costs could be achieved by</p>	<p>Jason Coniam Accountancy Business Change Manager 21/08/2020</p>

these proposals. However, this proposal will not provide a balanced budget against the homelessness pressures but will result in a reduced deficit position with a residual cost of £584,310 per annum still needing to be identified by the Housing General Fund over and above the borrowing repayment requirement.

It should be noted that the rental income (Local Housing Allowance (LHA) rate) applicable to this type of accommodation has been fixed by Central Government at 90% of the January 2011 LHA rate, therefore, significantly reducing the rental levels which could be achieved. If the rental income was based on the current LHA rates (August 2020) then the programme would essentially balance removing the £584,310 deficit identified above.

In utilising a mix of RTB receipts and borrowing, the acquisition policy delivers a number of units to be made available for temporary housing needs and has the following positive advantages:

- securing them over the long term, with guaranteed minimum levels of quality, by way of utilising and maintaining council owned stock
- without the cost premium associated with ad-hoc emergency overnight accommodation
- at a fixed cost now, thereby removing the risk of emergency overnight accommodation costs for these units increasing in the market, as a result of general economic (e.g. inflationary) and socio-demographic issues (i.e. supply and demand)
- successfully deploying RTB receipts,

	<p>thereby alleviating the requirement to return them to the government, with interest</p> <ul style="list-style-type: none"><li>• at a time when borrowing costs are at historic lows</li></ul> <p>In exercising the delegation at 1.3, the Director of Finance will need to be assured of the fair market value of each acquisition and that the case provides Value for Money within the proposed model.</p> <p>Paragraph 4.8 highlights that the budget request in this report is for the full value of <u>all</u> RTB deadline amounts up to March 2022 – this is to allow officers flexibility if there are delays or issues with the other strands of the RTB programme to flex the acquisition spend, it is not anticipated this will be the requirement but will provide a useful tool for officers in planning spend going forward.</p> <p>These proposals will meet the requirements of the RTB Retention Agreement and will potentially enable the use of retained Right-to-Buy receipts which could otherwise become repayable to the Ministry of Housing, Communities and Local Government - thereby avoiding an interest charge of 4% plus base rate being borne by the HRA.</p> <p>Overall, the report demonstrates that the proposed acquisition policy provides Value for Money for the authority, funded by a combination of Right to Buy Receipts and Prudential Borrowing, which in turn is financed by rental income (LHA) and allows for the debt to be repaid over a prudent period.</p>	
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<b>Housing and Safer Communities</b>	<p>HSC both support the continued purchase of these street properties through RTB receipts and the extension of the Out of Borough Purchasing.</p> <p>When comparing to Emergency Overnight Accommodation and the RTB properties the shortfall on the RTB properties is around 50% less than EOA. Continuing this programme will ensure that in the longer terms costs for Temporary Accommodation are managed and the current overspend reduced.</p> <p>Due to the current variable housing market and the approach of the DRES Team there has not been a requirement to purchase properties out of borough as yet. However the challenges highlighted in the report to Cabinet in July 2019 still remain and we agree that having the opportunity to complete selective out of borough purchases may prove beneficial in the future.</p>	<p>Richard Parkin Assistant Director Housing of Housing Services 4<sup>th</sup> August 2020</p>
<b>Equalities</b>	<p>The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no apparent equality impact on end users.</p>	<p>Nick Simons: Housing New Supply Manager 30<sup>th</sup> July 2020</p>

## **10.0 Report Appendices**

10.1 Appendix One: Analysis of existing approved budget and required further expenditure to meet the deadline of the return of RTB receipts to central government.

## **11.0 Background Papers**

11.1 There are no background papers included with this report.

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