City of Westminster

Cabinet Member Report

Decision Maker:	Cabinet Member for Housing and Customer Services
Date:	18th July 2018
Classification:	General Release
Title:	Continued investment into St Mungo's Real Lettings Property Investment Fund to provide a further 47 family sized units of accommodation with support across London for homeless households
Wards Affected:	All
City for All Summary:	Delivering more affordable housing
Key Decision:	No
Financial Summary:	This represents a further investment into an established social property fund led by St Mungo's which will secure an additional 47 properties for use by homeless families with support provided by St Mungo's. The Council has already invested £15m in the scheme in January 2017 and this represents a further similar investment. The return on the fund is 2% per year from year 2 plus any capital appreciation from the properties purchased over the 7 years. This represents a positive investment for the Council compared with purchasing properties and providing support itself, continuing to provide long-term Temporary Accommodation or securing alternative private sector properties.
Report of:	Director of Housing and Regeneration

1. Executive Summary

1.1 As part of the new policy approach to homeless prevention approved by Cabinet Briefing and the Executive Management Team (EMT) the Council is exploring schemes to secure affordable private sector supply to discharge its housing duty, preventing further increases in expenditure on Temporary Accommodation.

1.2 The Council's requirement for Temporary Accommodation (TA) for households, for whom it has a statutory duty to provide housing, has increased by over 700 properties since 2010 and is now c. 2500 properties. Rising homelessness, reduced income to the Council from the government set TA subsidy model and other pressures in the supply market means it is necessary to secure alternative supply of accommodation at a price which is affordable to both the Council and tenants and which are appropriate to discharge the Council's homelessness obligations.

1.3 In December 2016, the Cabinet Member approved a £15m investment in Real Lettings comprising Resonance (a Fund Management Company specialising in social impact investments) and St Mungo's (a homelessness charity and registered provider) which the council commissions to provide supported housing. This investment is producing good quality, suitable and affordable properties across London for the Council to use to discharge their housing duty. Following this St Mungo's provide post resettlement support to ensure families settle into their new homes.

1.4 St Mungo's and Resonance established the Real Lettings scheme property fund in 2013 and has over £155m invested providing over 600 properties with a 90%+ tenancy sustainment rate. Croydon and Lambeth invested at the same time as Westminster's original investment and the Greater London Authority (GLA) announced in January 2018 that it had invested £15m in the fund.

1.5 An investment of £15m would secure a further 47 X 2 bed properties within Greater London at an average of £319K per property including all refurbishment costs. Properties would then be used the Council as discharge of housing duty. A placement fee of £4K for each property would be paid by the local authority to St Mungo's and would fund the cost of supporting the household and other tenancy management costs. All properties would be let at Local Housing Allowance (LHA) rates and St Mungo's would support tenants. Assuming the investment is made in July 2018 then the first properties would likely be ready from October 2018.

1.6 The investment would be on the same basis as the original one, for a period of 7 years, the rate of return would be c. 2% based on revenue (which is secure based on current LHA rates) plus any capital appreciation realised at the end of the term. Investment is drawn down in tranches on a quarterly basis; a £15m investment would equate to £3.75 million per quarter over a 12 month deployment period.

1.7 Additionally an Interest Adjustment payment is due. This is a standard mechanism in funds of this type, to recognise the fact that new investors have tied up their capital for a shorter period than previous investors and are buying into the Fund at historic book value, but at a more advanced stage with less risk of an operational property portfolio being built. These payments are then distributed to existing investors (also sometimes referred to as an "equalisation" payment). Therefore as an initial investor Westminster City Council (WCC) will receive 1/3 of this payment. This has been factored into the financial model.

1.8 A full due diligence exercise was completed in advance of the first investment and this has been reviewed to ensure it remains current and highlights the reasonable and minimal risk to the Council

1.9 The performance of the contractor to date has been sound with to date 126 properties purchased by the fund as a whole out of a total target of 141 and specifically 38 properties for Westminster against a target of 47 both in line with projections. The average total cost of each two bedroom property being achieved is £312k, compared to original projection of £319k. This means the fund is on track to deliver 47 properties as planned.

2. Recommendations

2.1 That project approval be granted for the Real Lettings initiative as set out in this report to enable the Council to enter into agreements with Resonance and St Mungo's

2.2 That approval be given for the investment of £15m into a Property Fund to support Homelessness

2.3 That authority be delegated to the Executive Director, Growth Planning and Housing and the City Treasurer to enter into contractual agreements for this investment

3. Reasons for Decision

3.1 This initiative is required to deliver additional affordable, suitable private sector accommodation to allow the council to meet its homelessness duties at a cost it can sustain against the background of:

- An increasingly difficult market, marked by rapid increases in rent costs
- The likelihood of increased numbers of households accepted as being homelessness
- Changes to national policy and legislation likely - in the short term at least – to constrain the supply of social rented housing, and
- A shift in emphasis in homelessness policy towards use of resources to prevention.

3.2 This decision is necessary in order to fulfil the Council's statutory duties to house persons who are defined as homeless under Part VII of the Housing Act 1996 and reduce the costs of fulfilling that duty.

3.3 This investment provides a cost effective alternative to Temporary Accommodation and provides an additional source of good quality accommodation within London for families in housing need.

3.4 This represents a positive investment for the Council compared with purchasing properties and providing support itself, continuing to provide long-term Temp

4. Background, including Policy Context

4.1 The proposal has been developed in response to a number of factors:

Demand

4.2 There are currently 4,500 households which have priority for social housing in Westminster. Of these, 2,500 (55%) are homeless households living in Temporary Accommodation; and the remainder need to move for other urgent reasons.

4.3 The principal cause of homelessness continues to be the loss of private rented tenancies; currently 60% of homeless acceptances are due to this. Private rents in Westminster are amongst some of the most expensive in London (and indeed the United Kingdom as a whole) and the majority of homeless households have low incomes - currently at least 92% receive Housing Benefit.

4.4 In the medium term at least, homeless acceptances are projected to remain high, at over 400 each year, substantially due to the continuing impact of the reduced availability of housing affordable to households on low incomes.

4.5 High levels of demand for social housing and supply shortages result in more homeless households living in Temporary Accommodation. This market is becoming increasingly difficult and competitive in London and the South East as there is a shortage of properties that are affordable to homeless households within benefit levels and within the national temporary accommodation subsidy formula.

4.6 Temporary accommodation currently costs the council £4.3m each year. This is because the actual cost of providing accommodation for 2,500 homeless households is not covered by the subsidy provided through central government's subsidy formula. The London Councils' report into temporary accommodation use and costs found that the net cost of temporary accommodation to London local authorities in 2014/15 amounted to £170m

4.7 Homeless households are spending an increasingly long period of time in temporary accommodation (which is mainly private rented housing with market rents) waiting for social housing. Depending on the size of property required, some of these waits can be very lengthy – and they are likely to become longer. As the table below shows, currently a household needing a two bedroom property can wait for ten years in temporary accommodation and those needing larger homes will wait even longer, sometimes up to 25 years.

The current average waiting time for social housing				
Studio	**1 bed**	**2 bed**	**3 bed**	**4+ bed**
3 years	4 years	10 years	12.5 years	25 years

4.8 As a result of this high level of demand for affordable accommodation, the financial impact and that this is likely to continue, officers have explored additional sources of quality accommodation across London

5 Real Lettings

5.1 The Localism Act 2011, in force in England on 9 November 2012, introduced provision for the Council to discharge its housing duty to statutory homeless households by offering a tenancy in the private rented sector. Any private rented

sector offer must be suitable and must comply with the provisions of the Homelessness (Suitability of Accommodation) Order 1996.

5.2 Real Lettings comprises Resonance (a Fund Management Company specialising in social impact investments) and St Mungo's (a homelessness charity and registered provider) which the council currently commissions to provide supported and temporary housing. St Mungo's established the Real Lettings scheme property fund in February 2013 with initial investment from L&Q Foundation, Big Society Capital, Esmée Fairbairn Foundation, Lankelly Chase Foundation and the City of London (through City Bridge Trust.)

5.3 The Real Lettings scheme property fund has now over £155m invested providing over 600 properties with a 90%+ tenancy sustainment rate. Within London, Croydon and Lambeth invested at the same time as Westminster's original investment and the GLA announced in January 2018 that it had also invested £15m in the fund and 154 properties have been approved for purchase.

5.3 Under this scheme the council invests in this dedicated property fund generating a rate of return, whilst also gaining the added value that it offers in terms of increasing the supply of 'affordable' housing for homeless households and reducing the pressure on the need for temporary accommodation.

5.4 This will be under a three-way agreement between the council, the property fund manager (Resonance) and the housing management and support provider (St Mungo's). Resonance will operate a Property Fund under a Fund Management Agreement comprised of the investors including the local authorities. The investors become Limited partners of the fund.

5.5 The property fund will purchase properties of the type required by St Mungo's based on a Framework Agreement and essentially these will be family sized accommodation well located across London. St Mungo's will then operate the properties and manage the tenancies. Rental income is passed to the Property Fund by St Mungo's less a fixed percentage which is retained to cover their operating costs. The level of support provided by St Mungo's is in line with the level included in the Council's policies.

5.6 The Council will agree a Service Level Agreement (SLA) with St Mungo's. This will define the terms of their service. The SLA will specify the size of properties (i.e. two bedroom) and for the properties acquired to be within Greater London, and for the Council to have full nomination rights to them.

5.7 The council would be required to pay a placement fee to St Mungo's for the letting and support service. This is primarily for staffing costs and to cover risk elements of potential void costs and bad debt and will be a maximum payment of £4K fee for each nomination.

5.8 Agreements and SLA will be formally monitored at least quarterly, and nominations will be reviewed monthly through operational monitoring and management arrangements

5.9 The performance of the contractor to date has been sound with to date 126 properties purchased by the fund as a whole out of a total target of 141 and specifically 38 properties for Westminster against a target of 47 both in line with projections. The average total cost of each two bedroom property being achieved is £312k, compared to original projection of £319k. This means the fund is on track to deliver 47 properties as planned.

The Fund

5.10 The Council would commit a further £15M over an initial seven year term for properties to be purchased by the fund. This second investment of £15m by will be into the same investment fund (i.e. Westminster will have a £30m investment alongside Croydon £15m, Lambeth £15m and GLA £15m who have also invested with other Councils considering investment also.)

5.11 The first two years of the scheme are spent building up the property portfolio. From year three of the start of the original scheme (July 2019) investors start to receive an interest return through the rental income, targeted to be 2% p.a. This is based on the investment at that time. Any capital appreciation will likely be realised in the final two years of the Fund, given that the structure of the fund is based on 5 year rental agreement periods.

5.12 At the end of the investment the preferred exit route for the fund is the development of a further fund to take up the existing fund. At this point the Council would have an option to re-invest or divest and realise the capital appreciation. At the end of the current fund, nomination rights would be re-negotiated and it may be possible for the Council to withdraw its investment but maintain nomination rights. All households already living in properties at the end of the fund would simply retain their tenancy into a future fund if this is developed. Should a further fund not be established then the properties could be

sold to a registered provider and this would be coordinated over the last two years of the fund.

5.13 In summary an investment of £15m would secure 47 X 2 bed properties within Greater London at an average of £319K per property including all refurbishment costs. Properties would then be used by local authorities as discharge of housing duty. A placement fee of £4K for each property would be paid by the Council. All properties would be let at LHA rates and St Mungo's would support tenants (generally providing in excess of what is described in WCC new policy framework.) Viewings can take place whilst works being completed and authorities would have 10 days to let from point of handover

5.14 The investment would be for a period of 7 years with option to extend for 2 further years. As above the return on the income from the rents would commence from year 3 and be c. 2% and each property purchase is secured on this basis, LHA rates are relatively constant and there can be confidence in this return. Investment is drawn down in tranches on a quarterly basis; a £15m investment £15m would equate to £3.75 million per quarter over an 12 month deployment period

5.15 The £317K is based on an average purchase price of £285K, refurbishment of £17.5K and stamp duty and other costs of £14.5K; St Mungos' view is that this will enable a portfolio to be delivered across London rather than concentrated in narrow areas**.** Investing in this scheme effectively transfers the risk of sourcing, managing and supporting properties and households for discharge of duty to an organisation with a good reputation in this area

5.16 If approved officers would agree the following Heads of Terms with St Mungo's/ Resonance:

- 47 properties would be acquired across London
- Properties will meet or exceed the Decent Homes Standard and will be let on Assured Shorthold Tenancies
- Two bed homes will be used to prevent homelessness of households the Council is likely to otherwise have a statutory duty to (alternative to emergency provision) and/or to households that it has accepted a duty to (as Private Rented Sector Offer)
- Rental payments will be set at the Local Housing Allowance rates, with no requirement for deposits, bonds, or rent in advance payments
- Maintenance, risk of voids and provision to cover for bad debt will be the responsibility of St. Mungo's under lease terms and conditions.

- Tenancy sign-up and on-going tenancy management will be the responsibility of St. Mungo's under lease terms and conditions.
- St. Mungo's will engage with clients with a view to progressing their independence

6. Financial Implications

6.1 Increased activity and cost is currently resulting in significant pressures on the Temporary Accommodation budget. In 2016/17 an additional £2.5m (net of MTP savings targets) was added to the budget but the impact of legislative changes, high value voids and losses of regeneration units will put further significant pressure on the budget over future years.

6.2 In order to mitigate these financial risks the council has adopted a new raft of homelessness policies, designed to discharge duty by moving clients into private sector accommodation. The Council therefore needs to secure property, both in and out of borough to meet this demand and the Real Lettings proposal represents a means of securing 47 units in Greater London for a period of seven years.

6.3 The proposal would require a capital investment of £15m in Real Lettings and in order to raise these funds there would be a need to borrow. The investment would be made in quarterly instalments of £3.75m. There will be an internal capital charge to the Housing service of 5% to cover the interest charge and the minimum revenue provision (amount set aside to cover the repayment of the debt). Over the life of the scheme this will represent a charge to Housing services of £4.9m. At the end of the project the fund will be divested by rolling into another fund at which point the council will be eligible to liquidate its investment and realise its share of any capital appreciation of the properties in the fund, or maintain the increased investment in the new fund proposed up until the subsequent maturity date. The council will review all options in the lead up to the end of the investment period.

6.4 Officers have modelled the impact of this scheme on the Housing budgets and compared it with the 'do nothing' option of continuing to house clients in the private rented and bed and breakfast sectors. The 'do nothing' scenario is calculated as the cost of placing 67 homeless households (assuming churn of 20 to add to the original 47 placements) in suitable and affordable 2 bed TA for the average time spent in TA of 10 years (see 4.7 above), which is estimated to be £4.2m. This is based on the current average cost of the most likely providers to

be used under the council's policy of prioritising the use of lower cost providers. It should be noted that there are a large number of variables in this, related to demand, supply, cost of private sector housing and income from central government.

6.5 **The net saving of the proposed investment is £0.548m**. A summary of the financial modelling of the Real Lettings scheme is as follows:

	Cost for comparison	**Explanation**
REAL LETTINGS	**£m**	
Initial Investment	£15.000	Para 5.10
Revenue costs:		
Interest at 5%	£4.875	Para 6.3
Interest adjustment payment (net)	£0.240	Para 1.7
Placement fee	£0.268	Para 5.7
Income from Interest	(£1.750)	Para 5.11
Net revenue cost of Real Lettings scheme	**£3.633**	
Cost of TA for equivalent families	£4.181	Para 6.4
Estimated Savings	**(£0.548)**	

6.6 As stated in para. 1.8 above a full due diligence exercise was completed in advance of the initial investment (and included as an appendix to this report). As it is proposed to make this second investment under the same terms and conditions as the first investment this exercise has not been repeated.

6.7 The scheme will thus provide an additional, complementary and alternative source of supply of good quality, well managed properties and contributes towards delivery of the PRSO target of more than 100 private sector discharges in the year.

6.8 This expenditure is included in the approved capital budget for 2018/19

7. Legal Implications

7.1 Where the Council determines under the provisions of the Housing Act 1996 Part VII (as amended) that a person/household is eligible for assistance, homeless, in priority need and not homeless intentionally, it has a duty to secure suitable accommodation (unless it refers the applicant to another authority under the local

connection provisions): s193(2), s206(1). The suitability of accommodation is governed by s210 of the 1996 Act, the Homelessness (Suitability of Accommodation) Order 1996 (SI 1996/3204) and by the Homelessness Code of Guidance for Local Authorities.

7.2 When discharging their housing duties under Part VII, an authority must, so far as reasonably practicable, secure that accommodation is available for the applicant's occupation in their own district: s208(1) of the 1996 Act

7.3 The Localism Act 2011, in force in England on 9 November 2012, introduced provision for the Council to discharge its housing duty to statutory homeless households by offering a tenancy in the private rented sector. Any private rented sector offer must be suitable and must comply with the provisions of the Homelessness (Suitability of Accommodation) Order 1996.

7.4 The proposal creates more move on accommodation but there are no proposed changes to current processes and no change to the eligibility criteria for these households accessing accommodation through the Housing Options Service. This is defined by the Homeless Placement Policy Framework approved in January 2017 comprising The Private Rented Sector Offers Policy for Homeless Households, The Accommodation Procurement Policy for Homeless Households and The Accommodation Placement Policy for Homeless all of which were subject to a full Equalities Impact Assessment.

7.5 Ashfords provided full legal advice on the detail of the scheme as part of the original investment and confirmed during a further review of documentation as part of the February GLA investment that '*Section 12 of the Local Government Act 2003 gives local authorities the power to invest for any purpose relevant to its functions under any enactment or for the prudent management of its financial affairs … The Council's involvement is an investment and not a procurable contract under the Public Contract Regulations 2015 and therefore in our opinion the risk of any such challenge arising is low*.'

8. Staffing Implications

8.1 There are no staffing implications arising from this report.

9. Consultation

9.1 No consultation is necessary.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

Gregory Roberts Tel: 0207 641 2834. Email: grobert2@westminster.gov.uk

For completion by the **Cabinet Member for Housing and Customer Services**

Declaration of Interest

I have <no interest to declare / to declare an interest> in respect of this report

Signed: _____ Date: _____

NAME: **Councillor Andrew Smith, Cabinet Member for Housing and Customer Services**

State nature of interest if any ……..……

……..

(*N.B: If you have an interest you should seek advice as to whether it is appropriate to make a decision in relation to this matter*)

For the reasons set out above, I agree the recommendations in the report entitled **Continued investment into St Mungo's Real Lettings Property Investment Fund to provide a further 47 family sized units of accommodation with support across London for homeless households** and reject any alternative options which are referred to but not recommended.

Signed ……

Councillor Andrew Smith, Cabinet Member for Housing and Customer Services

Date ……

If you have any additional comment which you would want actioned in connection with your decision you should discuss this with the report author and then set out your comment below before the report and this pro-forma is returned to the Secretariat for processing.

Additional comment: ……

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If you do not wish to approve the recommendations, or wish to make an alternative decision, it is important that you consult the report author, the Director of Law, the City Treasurer and, if there are resources implications, the Director of People Services (or their representatives) so that (1) you can be made aware of any further relevant considerations that you should take into account before making the decision and (2) your reasons for the decision can be properly identified and recorded, as required by law.

Note to Cabinet Member: Your decision will now be published and copied to the Members of the relevant Policy & Scrutiny Committee. If the decision falls within the criteria for call-in, it will not be implemented until five working days have elapsed from publication to allow the Policy and Scrutiny Committee to decide whether it wishes to call the matter in.