

EXECUTIVE BOARD – 19 NOVEMBER 2019

Subject:	Loan to Nottingham City Homes Ltd to purchase properties for homelessness temporary use
Corporate Director(s)/Director(s):	Chris Henning, Corporate Director for Development and Growth
Portfolio Holder(s):	Councillor Linda Woodings, Portfolio Holder for Planning, Housing and Heritage
Report author and contact details:	Graham de Max, Housing Strategy and Partnerships Manager, T: 0115 8763538 E: graham.demax@nottinghamcity.gov.uk
Subject to call-in:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Key Decision:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Criteria for Key Decision:	
(a)	<input checked="" type="checkbox"/> Expenditure <input type="checkbox"/> Income <input type="checkbox"/> Savings of £1,000,000 or more taking account of the overall impact of the decision
and/or	
(b)	Significant impact on communities living or working in two or more wards in the City <input type="checkbox"/> Yes <input type="checkbox"/> No
Type of expenditure:	<input type="checkbox"/> Revenue <input checked="" type="checkbox"/> Capital
Total value of the decision:	£9,000,000
Wards affected:	All
Date of consultation with Portfolio Holder(s):	23 October 2019
Relevant Council Plan Key Theme:	
Strategic Regeneration and Development	<input type="checkbox"/>
Schools	<input type="checkbox"/>
Planning and Housing	<input checked="" type="checkbox"/>
Community Services	<input type="checkbox"/>
Energy, Sustainability and Customer	<input type="checkbox"/>
Jobs, Growth and Transport	<input type="checkbox"/>
Adults, Health and Community Sector	<input type="checkbox"/>
Children, Early Intervention and Early Years	<input type="checkbox"/>
Leisure and Culture	<input type="checkbox"/>
Resources and Neighbourhood Regeneration	<input type="checkbox"/>
Summary of issues (including benefits to citizens/service users):	
<p>The Council continues to face high levels of homelessness in the city. Many of those approaching the Council as homeless, particularly families with children, must be offered temporary accommodation whilst the Council carries out its duties under the law. In recent years, because of the dramatic increase in homelessness and a shortage of temporary accommodation, the Council has been forced to use nightly paid accommodation for this purpose. This is both undesirable for families and costly. In order to reduce its use the Council has asked Nottingham City Homes (NCH) to purchase self-contained family homes to be used as temporary accommodation. In order to finance these purchases NCH needs to borrow the capital from the Council. The purpose of this report is to seek permission to make a loan of £9m to NCH for the purchase of 70 homes. This will be the fourth tranche of properties to be purchased for this purpose, bringing the total to 220. The first and second tranches were approved via a Leader's Key Decision in March 2018, and the third via a Leader's Key Decision in March 2019.</p> <p>Providing temporary accommodation in self-contained properties is far preferable to B&B for citizens who have become homeless, particularly those with children, for whom accommodation in a single hotel room is clearly inappropriate. It is also a more cost effective way of providing temporary accommodation and represents far better value for money.</p>	

Exempt information: None
Recommendation(s):
1 To formally request that NCH purchases 70 further properties for use as temporary accommodation by homeless families whose cases are being considered by Housing Aid
2 To make a loan to NCH Ltd of £9m to fund the purchase and refurbishment of the properties on the terms set out in the financial comments below and to amend the Capital Programme accordingly.
3 That NCH leases the 70 properties to NCH Registered Provider (NCHRP) in order to attract housing benefit at the 'exempt' rate for supported housing.

1 REASONS FOR RECOMMENDATIONS

- 1.1 The number of people approaching the Council as homeless is not reducing.
- 1.2 The Council is still having to use expensive, nightly paid temporary accommodation in order to fulfil its duties.
- 1.3 Self- contained homes are a far more suitable way of delivering temporary accommodation. This has been adopted as Council policy in the emerging Council Plan, which contains the objective:

'Provide self-contained homes as emergency accommodation for homeless families instead of Bed & Breakfast'

- 1.4 The financial viability of short-term, supported temporary housing is dependent on achieving 'Exempt Accommodation' status for housing benefit. This allows additional charges to be levied for "care, support and supervision" provided to residents and for increased costs incurred through higher turnover. Only Private Registered Providers of Social Housing can obtain Exempt Accommodation status, so these homes will be leased by NCH to NCHRP.

2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)

- 2.1 Homelessness has been rising both nationally and locally in recent years. Its causes are manifold, but the rise is mainly due to a scarcity of affordable homes across all tenures (but particularly social housing), continuing austerity leading to the reduction of homelessness prevention services, and cuts to welfare benefits. Housebuilding by social landlords has been unable to keep pace with the number of homes lost via the right to buy, and tenancy turnover within social housing has dramatically reduced as alternative options such as home ownership have become unachievable for many. The reductions in benefits have led to people losing their homes because of rent arrears and have significantly reduced the number of homes accessible to households on low incomes.
- 2.2 In order to fulfil its legal obligations (which were expanded by the Homelessness Reduction Act 2017), the Council has reluctantly had to use B&B to provide temporary accommodation. The Council previously had an excellent track record in avoiding the use of B&B, but at its peak there were 140 households, the majority of whom were families, in B&B on a single night in October 2017.

- 2.3 The Council managed to ensure that there were no families in B&B at Christmas in 2018, but the number of households approaching the Council has continued unabated and move-on from other types of temporary accommodation becomes ever more challenging. This is in spite of a number of effective prevention measures put in place to avoid people becoming homeless in the first place.
- 2.4 Without the introduction from late 2018 of nightly paid accommodation in self contained private properties the number of households currently in B&B would be around 80.
- 2.5 Nottingham City Homes has now delivered 111 properties for homelessness temporary use and will soon be up to 150. The properties have been purchased using loans from the Council, on terms approved via previous executive decisions and following consideration of robust business cases.
- 2.6 All properties purchased by NCH for temporary accommodation have been leased to NCHRP, enabling access to the exempt accommodation rate of housing benefit. This enables NCHRP to deliver the necessary level of support needed for people in temporary accommodation, and helps to pay for the support which residents need to help them move on to a permanent tenancy (see below) as part of the Council's relief duties.
- 2.7 As well as the NCHRP temporary use properties, the Council continues to make maximum use of the two family hostels in the city, Highwood and Mellors Lodge. It has also set up in partnership with NCH a private sector leasing scheme through which owners offer homes for temporary use to NCH via a lease for an agreed period of time.
- 2.8 It is important to ensure that any new temporary accommodation supply, together with the existing provision sees a satisfactory level of turnover. A robust approach to achieve move-on from these properties into permanent tenancies is being implemented.
- 2.9 The purchase of these properties brings NCH and NCHRP a flexible asset which can be used for other social housing purposes when the need for temporary accommodation reduces.

3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

- 3.1 To not ask NCH to deliver 70 more homes for temporary homeless use: rejected because the alternative would be to use more B&B and other nightly-paid accommodation instead and at far greater cost to the Council.

4 FINANCE COLLEAGUE COMMENTS (INCLUDING IMPLICATIONS AND VALUE FOR MONEY/VAT)

- 4.1 NCH Ltd will require a state aid compliant loan of **£9.000m** from the Council to finance the purchase of 70 properties to be used for temporary homeless use.

This loan is the fourth tranche of homeless loan, the NCH total loans approved for the homelessness project equates to the following:

- Tranche 1, £4.745m, drawdown during 2017/18
- Tranche 2, £5.277m, drawdown during 2019/20
- Tranche 3, £6.200m, drawdown expected in 2019/20

- Tranche 4, £9.000m, this decision
- Total £25.222m

4.2 Properties in tranche 4 will be used as dispersed properties for homelessness. NCH will retain the surplus generated, distribution of any surplus in accordance with the Articles of Association of NCH, or reflected in a reduction to the management fee. Financial benefit will arise to the council through a reduction in the Homelessness B&B expenditure.

4.3 This loan will be secured against the assets being acquired by NCH. The value and phasing of the loan(s) is subject to agreement of the schedule and phasing of the acquisitions.

4.4 Prior to drawing down the loan, due diligence will need to be undertaken to ensure project viability. The following information will be required:

- Latest business case / financial model with assumptions. This will include detailed forecasts and cash flows, a risk assessment and sensitivity analysis
- Anticipated market value of properties included in this phase following reconfiguration.
- Evidence of how the financing costs and any scheme deficits are to be funded, including cumulative deficits with regards to alternative loans.

4.5 The City Council's capital programme require amending as follows:

- General Fund Capital Programme - an addition of **£9.000m** loan facility to NCH to be funded by prudential borrowing and secured against the acquired properties.

4.6 The key financial risks associated with the project are as follows:

- Negative equity – market value should be sufficient to provide security for the loan.
- NCH (group) capacity to deliver this scheme in the context of the existing and future capital projects.
- Adequacy of governance arrangements including adequate monitoring and key controls to ensure that project is delivered on time and within budget.
- Project overspends and financing of revenue deficits in the early years – adequacy of reserves and cash flow.
- NCH having insufficient reserves to absorb potential losses should they crystallise in relation to: project overspends, and revenue shortfall in the early years i.e. during construction and other unforeseen revenue pressures

Thomas Straw – Senior Accountant (Capital Programmes), 22nd October 2019

5 LEGAL AND PROCUREMENT COLLEAGUE COMMENTS (INCLUDING RISK MANAGEMENT ISSUES, AND LEGAL, CRIME AND DISORDER ACT AND PROCUREMENT IMPLICATIONS)

5.1 The City Council has power to provide loans in accordance with the Local Government Act 2003 and the Localism Act 2011. However, it must ensure any financial support it provides is not unlawful state aid. The City Council is under a statutory duty to provide accommodation for homeless families. The City Council can entrust this duty (or to provide accommodation for other social housing

purposes) to NCH and NCH(RP). On that basis a loan to its subsidiary NCH for the purposes of purchasing the properties to be used for those purposes will not be unlawful state aid as it (accommodation for the homeless or provision of other social housing) will be a service of general economic interest.

A loan agreement should be put in place that restricts the loan to the purchase of the properties and consents to the lease of them to NCH RP for the purpose only of providing accommodation for the homeless or other social housing purposes. It is advisable that security is given for the loan. The arrangements for taking security over the properties needs to be agreed with the Director of Legal and Governance.

Andrew James – Team Leader: Commercial, Employment and Education 21st October 2019.

6 STRATEGIC ASSETS & PROPERTY COLLEAGUE COMMENTS (FOR DECISIONS RELATING TO ALL PROPERTY ASSETS AND ASSOCIATED INFRASTRUCTURE)

- 6.1 If the loan is to be secured against the properties to be acquired by NCH it is important that the Council ensure that NCH have robust systems in place to ensure that the cost of acquiring the properties plus the cost of works to the properties does not exceed market value of the completed properties and place the loan in negative equity.

Rod Martin – Development Manager 29th October 2019

7 SOCIAL VALUE CONSIDERATIONS

- 7.1 None

8 REGARD TO THE NHS CONSTITUTION

- 8.1 Not applicable

9 EQUALITY IMPACT ASSESSMENT (EIA)

- 9.1 Has the equality impact of the proposals in this report been assessed?

No



An EIA is not required because the recommendations in this report do not represent any change of policy which could potentially impact citizens within the protected characteristic groups. An EIA was carried out for the Leader's Key Decision on tranches one and two in March 2018.

Yes



10 LIST OF BACKGROUND PAPERS RELIED UPON IN WRITING THIS REPORT (NOT INCLUDING PUBLISHED DOCUMENTS OR CONFIDENTIAL OR EXEMPT INFORMATION)

- 10.1 None

11 PUBLISHED DOCUMENTS REFERRED TO IN THIS REPORT

- 11.1 Leader's Key Decisions numbers 3104 (March 2018) and 3471 (March 2019)