

**Homes and Neighbourhoods Directorate
222 Upper Street, N1 1XR**

Report of: Executive Member for Homes and Communities and
Executive Member for Equalities, Culture, and Inclusion

Meeting of: Executive

Date: 20 July 2023

Ward(s): All

SUBJECT: THE GLA/DLUH&C ALLOCATION OF FUNDING PROGRAMME TO ACQUIRE 40 X 1 BEDROOM, 20 X 2 BEDROOM, 20 X 3 BEDROOM AND 20 X 4 BEDROOM FORMER EX-RIGHT TO BUY PROPERTIES FOR PEOPLE CARE EXPERIENCED YOUNG ADULTS, PEOPLE SLEEPING ROUGH, HOMELESS HOUSEHOLDS AND THE AFGHANISTAN AND UKRAINIAN HUMANITARIAN HOUSING WORK

1. Synopsis

1.1 The aim of this report is to advise the Executive of the outcome of a capital funding bid made to the GLA and DLUH&C to purchase 40 X 1 bedroom Ex Right to Buy properties for care experienced young adults and people sleeping rough in Islington or the prevention of people sleeping rough, 20 x 2 bedroom Ex Right to Buy properties 20 x 3 bedroom Ex Right to Buy properties and 20 x 4 bedroom Ex Right to Buy properties for people who are homeless from the Afghanistan and the Ukraine as part of the council's humanitarian housing work.

1.2 Islington Council is the first council in London to access this funding from the GLA.

2. Recommendations

2.1 To approve the borrowing of £26,359,000 within the Housing Revenue Account to supplement the funding provided by the GLA/DLUH&C to enable the council to purchase 40 x 1 bedroom Ex Right to Buy properties, for care experienced young adults and people sleeping rough in Islington or the prevention of people sleeping rough, 20 x 2 bedroom Ex Right to Buy properties 20 x 3 bedroom Ex Right to Buy properties and 20 x 4 bedroom Ex Right to Buy properties for people who are homeless from Afghanistan and the Ukraine as part of the council's humanitarian housing work.

2.2 To note the capital funding totalling £20,591,000 allocated to Islington Council by the DLUH&C/GLA and to commence the purchase 40 x one bedroom former ex Right to Buy properties in Islington to accommodate homeless households with a local connection to Islington. In addition to this to note the capital funding allocated to Islington Council by

the DLUHC/GLA and to commence the purchase 20 x 2 bedroom, 20 x 3 bedroom and 20 x 4 bedroom former ex Right to Buy properties in Islington to accommodate people through the homeless and Ukraine/Afghanistan humanitarian housing work.

2.3 To note the funding and to commence the purchase of these properties immediately.

2.4 To approve the budget increases as outlined in 4.1.3

3. Background

3.1 Islington Council is currently accommodating 1,058 homeless households who are living in temporary accommodation. This is the highest level of people living in temporary accommodation for a considerable period due to the cost-of-living crisis, and the financial fallout of Brexit

3.2 The number of homeless people living on the streets of Islington is at the lowest level since records commenced. However, in the last 12 months the council has accommodated 200 people who have slept on the streets of Islington and this pressure continues going forward. In addition to this Children's Services are facing unprecedented demand for accommodation provision for care experienced young adults. The latest GLA data shows a 21% increase in people sleeping rough on the streets of London. The increase from 8,329 people seen sleeping rough in London in 2021-22 to 10,053 sleeping rough in London in 2022-23, shows how the work at Islington Council is reducing rough sleeping at a time rough sleeping is increasing across London.

3.3 London has a proud history of providing sanctuary to those in need and the Mayor of London has made clear that he wants to do everything in his power to support people from Ukraine and Afghanistan to establish a long-term future in the city.

3.4 Islington Council has a long and proud history of offering sanctuary to people in need, and Islington Council stand ready to help people from Ukraine and Afghanistan in every way we can.

Islington Council pride themselves on being excellent corporate parents to our children in care and our young people who have left care. We operate on the principle "what would I do for my own child?" as laid out in legislation and guidance.

3.5 Homeless households are now spending longer periods of time living in temporary accommodation due to the reduction of available council and housing association lettings, again because of the effects of the cost-of-living crisis and Brexit with homeless presentations increasing by 20% in the last 12 months. In addition to this the number of homeless households living in temporary accommodation continues to increase. Our care experienced young people are spending longer periods in supported accommodation and temporary accommodation that they no longer need to be in because of the lack of suitable secure accommodation for them.

3.6 Islington Council accepts the provision of 100 additional properties purchased through the Ex Right to Buy property programme will not the address all urgent needs. However, these properties will ensure homeless people have safe and secure accommodation in Islington to help with health improvements, education attainment for children and reduce the time spent in expensive and inappropriate temporary accommodation.

3.7 This funding will secure 20 x 1 bedroom properties for people leaving looked after care, 20 x 1 bedroom properties for people sleeping rough in Islington or the prevention of people sleeping rough. 20 x 2 bedroom properties 20 x 3 bedroom properties and 20 x 4 bedroom properties for homeless households from Ukraine and Afghanistan as part of the council's humanitarian work, with all purchases resulting in the acquisition of Ex Islington Council Right to Buy properties.

3.8 The acquisition of these properties will ensure care experienced young adults and homeless households and people fleeing Ukraine and Afghanistan are now provided with good quality accommodation locally in Islington to enhance community well-being.

3.9 The current crisis underlines the importance of this funding. But it is not only needed for those in expensive emergency temporary accommodation as a result of homelessness and the financial effects of the cost-of-living crisis. It is also required to provide longer-term homes for **care experienced young adults as per our duties to those who have been in care**, for those who need to live in Islington for employment reasons or to provide or receive support from family and friends.

3.10 The aim of the programme is to boost delivery of affordable accommodation for **care experienced young adults and** homeless households locally in Islington. The council will also receive revenue funding to provide Housing First support for the 40 x 1-bedroom properties totaling £1.2 million over the next three financial years.

4.

4.1 Financial implications:

4.1.1 Following protracted negotiations with the GLA driven by the GLA's stringent criteria in respect of the maximum grant they are willing to fund as a percentage of the capital cost of purchase price– the following grant funding arrangements have now been indicatively agreed with the GLA.

In summary the total indicative grant agreed to facilitate the purchase of 100 Ex RTB properties is £20,591,000 and the HRA Borrowing required is £26,359,000 as set out in the table below:

TOTAL ALL Units							
	Units	Purchase Price + Works	GLA Grant	% Grant	Affordable HRA Borrowing	TOTAL Resources	NET
1 BED	40	£14,840,000	-£7,080,000	48%	-£7,760,000	-£14,840,000	£0
2 BED	20	£9,470,000	-£3,788,000	40%	-£4,491,000	-£8,279,000	£1,191,000
3 BED	20	£9,820,000	-£3,928,000	40%	-£5,800,000	-£9,728,000	£92,000
4 BED	20	£12,820,000	-£5,795,000	45%	-£8,308,000	-£14,103,000	-£1,283,000
	60	£32,110,000	-£13,511,000		-£18,599,000	-£32,110,000	£0
TOTAL	100	£46,950,000	-£20,591,000		-£26,359,000	-£46,950,000	£0

It should be noted that to comply with GLA maximum grant allowances of 40% for 2 and 3 beds there is a shortfall in available affordable HRA borrowing of £1.283m however to balance this shortfall the GLA have allowed us to increase the grant beyond the amount required for the 4 bed purchases. Importantly this does mean that we must deliver the 2/3/4 bed programme as a complete package, in other words we must purchase all the 4 beds to balance the position and not create a deficit in the HRA.

4.1.2 Financial Viability Assessments:

To determine the minimum GLA grant required and the maximum level of HRA affordable borrowing the following financial modelling has been carried out.

The **2,3&4 beds viability assessment** breaks even based on a 30-year Net Present Value (NPV) model using a discount rate of 5.0%, this is a more cautious approach to modelling as it effectively incorporates a set aside for debt repayment as well as interest on borrowing.

The discount rate used was based on the prevailing PWLB 30-year maturity rate as at the end of April was 5.05% (the start of the bidding negotiations) after deducting the 20-basis point certainty allowance and the 40-basis point HRA concession which runs from

June 23 to June 24 and adding a 50-basis point buffer this took the interest rate to around 5%.

Since the end of April rates have risen by a further 0.5% (at 20-06-23 the PWLB 30-year maturity rate was 5.52%) leading to a required adjusted rate of 5.5% after deducting the 20-basis point certainty allowance and the 40-basis point HRA concession which runs from June 23 to June 24 and adding a 50-basis point buffer.

Unfortunately using an increased NPV discount rate of 5.5% increases the GLA grant requirement to above a level acceptable to the GLA.

However, using a 30-year 5.5% interest only model, which seeks to ensure that the net rent generated can cover the interest charges excluding debt repayment, indicates that the level of GLA grant agreed i.e. £13.511 means that we could reduce the level of borrowing that the model determines is affordable i.e. £18.599m by £3.421m.

It should however be noted that if we do not set aside funds to repay the debt over the 30-year term we would need to **sell around 21 of the 60** purchases to redeem the debt £18.599m at the end of the 30-year term (assuming annual house price increases of +2%).

The **1 bed bid viability assessment** using a 5% or 5.5% NPV model results in requiring a GLA grant rate of 55% or 58% respectively, of the capital cost.

This level of grant rate was rejected by the GLA.

However, because of the strategic importance to Children's Services in relation to increasing the supply of accommodation to young adults leaving care and the Housing need to provide accommodation for rough sleepers we submitted a GLA grant bid based on a 30-year 5.5% interest only model.

This model indicates that the net rent generated over 30 years can cover interest on £7.760m of borrowing and reduces the grant requirement to 48% of capital cost a rate that is acceptable to the GLA.

Again, it should be noted that by not setting aside funds to repay the debt over the 30-year term we would need to **sell potentially alternative stock to the value of 12 of the 40 properties** to redeem the debt £7.760m at the end of the 30-year term (assuming annual house price increases of +2%).

4.1.3 Rents & Tenancy Type

The GLA have indicated that the terms of the agreement will require rents to be set at the LOWER of LHA rates or 80% of Market Rent.

Current comparisons using the ONS published market rent data in Islington to March 22 uplifted by inflation to March 23 are as follows.

	23-24 Islington LHA Rates	Per the ONS 80% of Market Rent to March 22 + Inflation 4.8% to March 23
1bed	£295.49	£287.12
2bed	£365.95	£373.99
3bed	£441.86	£474.41
4bed	£593.75	£643.70

Therefore, for the 1 beds 80% of Market Rent and for the 2,3 & 4 beds the LHA rates have been used in the viability modelling.

Furthermore, the 1 bed bid has been based on us offering “secure” tenancies to the clients offered this accommodation, which is likely to confer the “right to buy” albeit that the cost floor is likely to make purchasing prohibitive.

In addition, “secure” tenancies mean that the clients will be in receipt of universal credit (paid to the tenant in first instance) not housing benefit (paid to the authority) which may give rise to collection problems and the full range of housing management issues that arise from a tenant falling into arrears.

The level of rent charged is particularly pertinent to the young adults leaving care cohort as £287.12 per week would not be considered an affordable rent, albeit that it would be covered by universal credit.

However, consideration as to how a clients’ entitlement to universal credit is affected by earnings needs to be assessed. This is not so much an issue for Rough Sleepers but could very well be an Issue for young people leaving care.

Children’s Services and their finance support are currently assessing how this scheme can work for their service this includes assessing the impact of current accommodation costs versus the cost of subsidising their clients’ rent to a social rent level (plus SCs) which is for 1 beds around £131.71 per week (at 23-24) resulting in a required subsidy if the client’s rent was not covered by UC of £155.41 per week.

4.1.4 Budgets HRA & GF

The Director of Housing Operations is confident all 100 purchases will be completed in 2023-24 as such:

HRA

An increase in the HRA **Capital Exp. Budget** provision is required in 2023-24 totalling ££46.9550m.

In terms of the HRA **Revenue Budget**, the cashflow position breaks even over 30 years however, there is a temporary net cashflow deficit in the first 10 years totalling £1.175m over 10 years, which is fully paid back over the subsequent 5 years as such the first full year impact will lead to a net cost of £187k to the HRA, as set out below. The cashflow position can be managed within the wider HRA & Business Plan.

Furthermore, if we achieve an interest charge on borrowing of less than 5.5% (noting that the current rate is 4.92%) then the cashflow deficit will reduce, in addition the modelling assumes LHA rents will be frozen for 3 years again if these are in fact uplifted again this would reduce the impact of the cashflow deficit.

Equally if savings can be made against housing management costs which have been included in the modelling on a linear unit cost basis, then again, the cashflow deficit could be reduced.

HRA EXP. Budgets

Housing Management & Response Repairs & Major Repairs £694,000

Interest Charges at 5.5% £1,450,000

HRA INCOME Budgets

Rent £1,957,000

NET Cost in the first FULL YR1 23-24 £187,000

The above will be included in full as part of the 2024-25 budget setting cycle however depending on the timing of the purchases during 2023-24 a percentage of all the Revenue budgets maybe required.

GF

The report indicates at point 3.10 that the Council will receive GLA revenue grant funding in the sum of £1.2m to provide Housing First support to the clients of the 40 1 bed programme.

GF Savings

Furthermore, these purchases should “in theory” contribute towards the delivery of the **HGF savings** requirement in the sum of around £200k (based on a net cost of Temp. Accommodation of on average £2.5k per year per household x 80 properties). However, it is far more likely that this programme will mitigate an overspend that would otherwise have occurred, as explained below:

- The cost of the 20 Rough Sleepers that would be moved to this new accommodation are currently supported by grant.
- The 60 TA purchases that would replace the use of nightly booked can only be achieved if the through put of TA cases does not increase and if current levels of grant are maintained – the current evidence suggests numbers are increasing and that beyond 2025 Govt. grant is not guaranteed.

Once **Children’s Services** have completed their assessment as referenced at 4.1.3 these purchases should also help to contribute towards the delivery of their savings requirement.

- 4.1.5 To avoid GLA grant claw back & for the Council to retain the full £20,591,000 GLA capital grant for the purchase of the 100 properties the service needs to be provided for 30 years. At the end of the 30-year term, if the service is no longer required or we wish to redeem the outstanding debt the Council would need to sell an estimated 21 properties and a further 12 properties of equivalent value to the 1 bed debt in order to repay the debt the remaining properties could be retained for general needs purposes & let at social rent.
- 4.1.6 There remains a risk that we cannot sustain the delivery of the service for the full 30-year period, this could arise for example if the demand for temporary accommodation declines over time or there is no longer a need for these properties.

4.1.7 In this event we would potentially have the option to sell. House prices in Islington have risen by around 15% over the last 5 years (to 2022) so it is not unreasonable to assume we could sell the dwellings if necessary & both repay the proportion of the grant claw back & redeem the outstanding debt. Alternatively, there is also the potential option to convert the 3 & 4 bed dwellings into smaller sized temporary accommodation provision for which ongoing long-term demand is anticipated.

4.2 Legal Implications:

4.2.1 The Council may meet housing need by acquiring properties within Islington (section 9 of the Housing Act 1985).

The Council has legal duties under the Housing Act 1996(as amended) to help to secure/secure housing accommodation for people who are care experienced young adults, homeless or under threat of homelessness.

S208(1) of the Housing Act 1996 provides that so far as reasonably practicable the Council shall secure accommodation within Islington for people who are homeless or under threat of homelessness.

The Council has a duty under the Children Act 1989, 2004 and the Leaving Care Act 2000 to provide suitable accommodation for care experienced young adults

This property programme will increase the availability of accommodation within Islington that the Council can use to meet this statutory duty.

4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

4.3.1 Purchasing 100 existing will contribute positively to the council's environmental commitment, by purchasing existing properties and improving/reducing the carbon outputs through the capital works programme and reducing the use of natural resources.

4.4 Resident Impact Assessment:

4.4.1 The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

4.4.2 S149(3) provides that having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to (a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic; (b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it; and (c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

4.4.3 This programme will contribute positively to the council equality of opportunity principles, the Human Rights of individuals and the elimination of rough sleeping in Islington.

4.4.4 A Resident Impact Assessment was completed on the 21st May 2021, and is attached to this report as Appendix one.

4.4.5 As a public authority, the council must take account of the provisions of the Human Rights Act 1998 and not act in a way, which is incompatible with a Convention right.

Under Article 8, any interference with the right to respect for a person's private and family life and home must be proportionate and Article 14 requires that there must be no unjustified discrimination within the scope of human rights on any grounds, such as sex, race, colour, language, religion, political or other opinion, national or social origin, association with a national minority, property, birth, or other status.

5. Reason for recommendations

- 5.1 To assist the council's commitment of ending homelessness in Islington and provide adequately for care experienced young adults.

Final report clearance:

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