

Cabinet Member Report

Decision Maker:	Cabinet Member for Housing
Date:	18 December 2017
Classification:	General Release
Title:	Westminster Community Homes – Top up funding requirements to deliver additional affordable homes
Wards Affected:	All
City for All Summary:	Delivering more affordable housing
Key Decision:	No
Financial Summary:	This project requires additional funding of £2.610m to be provided by the City Council from its Affordable Housing Fund. There are sufficient available resources in the AHF to fund this project.
Report of:	Director of Housing and Regeneration

1. Executive Summary

- 1.1 Discussions are being held with Westminster Community Homes (WCH) designed to bring about an increase in their activities so that they can assist the City Council in delivering its City for All objectives. A further report will be made next year which looks at the wider WCH programme.
- 1.2 This initial report seeks Cabinet Member approval for the funding rate for future spot purchases secured by WCH which are funded from the City Council's Affordable Housing Fund (AHF) to be increased from £100,000 to £250,000.
- 1.3 The AHF funding rate provided to WCH for spot purchases is currently £100,000 per unit. This rate which has applied since 2012 was based on an anticipated total delivery cost per home of £280,000. The Land Registry data shows that in the period March 2012 to April 2017 the median increase for flats in Westminster was over 130%.
- 1.4 In view of this, a higher funding rate is required in order for WCH to continue to acquire additional affordable units.
- 1.5 The report also seeks approval for additional AHF funding of £2.610m to be provided by the City Council to WCH towards their intermediate housing scheme at Ladbroke Grove. This scheme which is currently under construction was originally intended to be provided as 22 shared ownership units that would be affordable to households on incomes up to £35,000.
- 1.6 However, due to increased property values in Westminster significantly higher incomes will be required to afford even a 25% share in these properties. Therefore, it is proposed that this scheme be converted to intermediate rented housing instead and that rents be set at lower levels so that households with incomes of between £30,000 and £40,000 can afford to rent these properties.
- 1.7 As these homes will no longer be provided on a shared ownership basis which would have generated sales income for the scheme, an additional level of subsidy will be required from the City Council to make this intermediate rented scheme viable.
- 1.8 The additional top up funding amounts requested by WCH for spot purchases and for Ladbroke Grove as set out in this report have previously been reported in a briefing on the Affordable Housing Fund provided to the Cabinet Member in September 2017 and these requirements are also accounted for as part of the global AHF investment requirements for HRA, General Fund and External

Provider schemes as recorded in the draft HRA Business Plan 2017/18 to 2022/2023.

2. Recommendations

- 2.1 That the financial appendices attached to this report be exempt from disclosure by virtue of the Local Government Act 1972, Schedule 12A, Part 1, paragraph 3, in that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
- 2.2 That the Cabinet Member for Housing approves;
 - 2.2.1 A funding rate of £250k to be provided from the City Council's Affordable Housing Fund towards future spot purchases secured by Westminster Community Homes in Westminster.
 - 2.2.2 A further funding contribution of £2.610m to be provided from the City Council's Affordable Housing Fund towards Westminster Community Homes to enable them to convert Ladbroke Grove from shared ownership to intermediate rent.

3. Reasons for Decision

- 3.1 The provision of funding by the City Council towards Westminster Community Homes is assisting with the delivery of new affordable homes in the city and will also help with land assembly in those areas of the City where regeneration is planned.
- 3.2 It is a permitted use of the Affordable Housing Fund to finance the delivery of new affordable housing in Westminster.

4. Background

- 4.1 Westminster Community Homes (WCH) was formed by the City Council in December 2008 as a Co-operative and Community Benefit Society (CCBS) with charitable objectives and is registered with the Financial Conduct Authority (FCA). In December 2009 it became a Registered Provider of affordable housing regulated by the Homes and Communities Agency.
- 4.2 WCH objectives are to carry out for the benefit of the community; - the provision of affordable housing for people who have housing need and appropriate associated facilities and amenities and any other charitable object that can be carried out from time to time by a Co-operative and Community Benefit Society.

- 4.3 WCH and the City Council have also entered into an Inter Group Agreement which sets out the decisions taken by the Parent (City Council) and those taken by the Board and underpins the control of the City Council over the activities of WCH.
- 4.4 In order to achieve its objectives WCH works with the City Council to increase the provision of affordable housing and other related activities which assist in the delivery of the City Council's strategic housing objectives. These activities have changed over the years in line with the City Council's housing policies and are currently;
- Negotiate the acquisition of lessee interests in the regeneration areas
 - Provision of additional Intermediate rented units
 - Provision of out of borough units for temporary accommodation and discharge of duty
- 4.5 WCH has also entered into a Nomination Agreement with the City Council through which the City Council has 100% nomination rights in perpetuity to WCH units. As at the end of November 2017 WCH stock stood at 410 units. Over 300 of WCH's current stock is composed of spot purchases that have been acquired on the open market, refurbished and converted to affordable housing use.
- 4.6 WCH, like all Co-operative and Community Benefit Societies, is a 'not for profit' body, where the shareholders' derive no financial benefit and their rights are significantly less than in ordinary companies. Under CCBS rules the minimum number of shareholders is three. These three shareholders include two Westminster representatives and an independent chair.
- 4.7 The key influence and future direction of WCH is provided through the Board. The full Board comprises:
- 4 Westminster City Council nominees;
 - 2 WCH Resident representatives and 1 independent Chair.
- 4.8 WCH's Board is responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. Registered Provider legislation requires the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the association and of the income and expenditure of the association for that period. WCH currently prepare the annual accounts under the Statement of Recommended Practice (SORP) for registered social housing providers.
- 4.9 The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the association and to enable the Board to ensure that the financial statements comply with the requirements of the Co-operative and Community Benefit Societies regulations,

the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2012.

- 4.10 The Board is also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities. External Auditors are appointed each year to carry out the annual audit and assist in the preparation of the annual report.

5. Spot Purchases -New Funding requirements

- 5.1 WCH has been active in purchasing leasehold properties within the City Council's estates in advance of regeneration activity there. WCH are acting as agents for the City Council in negotiations with lessees, and in some cases tenants, in order to deliver site assembly on blocks which are due to be demolished and to acquire alternative units to provide rehousing opportunities for tenants who need to be moved from demolition blocks.
- 5.2 Of the original 30 lessees in the demolition blocks at Tollgate Gardens Estate WCH directly acquired 13 units and negotiated the deals for the City Council to acquire 16 units.
- 5.3 At Ebury Bridge Estate WCH has acquired or negotiated the acquisition by the City Council of over 50 leasehold units within the blocks covered by the original regeneration scheme.
- 5.4 In June 2012 the Cabinet Member agreed an allocation of £9.44m to be made available to WCH from the City Council's Affordable Housing Fund to part fund a programme of 78 spot purchases and up to 56 units to be delivered from new build and other infill opportunities across the City.
- 5.5 At the time of the Cabinet Member decision it was reported that the average all in delivery cost of a spot purchase secured by WCH was likely to be in the region of £280,000 per unit. Since 2012 the funding rate allocated to WCH spot purchases from the City Council's AHF allocation to WCH has been £100,000 per unit.
- 5.6 However, due to increased house prices in the city over the last few years, the actual delivery costs of spot purchases in Westminster have increased significantly. Actual delivery costs for spot purchases are now over £485k in the north of the borough and in excess of £595k on the Ebury Bridge estate which is a regeneration scheme. These price rises have had a major impact on the number of units WCH can acquire within its overall resources.
- 5.7 The impact of the higher delivery costs of securing spot purchases means that WCH is required to commit more financial resources to securing these homes,

meaning that it has reduced funds to deliver its wider affordable housing programme that was set out in the June 2012 Cabinet Member report.

- 5.8 The prices paid for delivering spot purchases on the open market for use as affordable housing is at market rates and these costs compare unfavourably to the equivalent costs of delivering new build affordable housing on Council land where these costs will be in the region of £250k to £350k per unit and don't include land costs.
- 5.9 Therefore, in order to deal with the increased costs of delivering spot purchases WCH is requesting that for all future spot purchase these should be funded by the AHF at an increased level of £250,000 per unit.
- 5.10 By comparison, the AHF funding rates for Westminster's own spot purchase programmes for temporary accommodation and intermediate housing use have been at over £500k per unit.

6. Ladbroke Grove – Top up funding to convert to intermediate rented housing

- 6.1 WCH purchased the former City Council site at Ladbroke Grove together with an adjacent private site in St Johns Terrace in 2011. The City Council agreed to fund these site purchases with a contribution of £1.550m provided from the Affordable Housing Fund. The site was known to have a gas main running across this land for which agreement from National Grid Gas was required to have this removed before any meaningful development could take place. This took over three years to finally secure and have carried out.
- 6.2 In March 2015, WCH secured planning consent to redevelop the site as 22 intermediate "pocket sized" affordable homes. These comprise of 21 x 1 bed and 1 x 2 bed units. To part fund the delivery costs of the affordable homes at Ladbroke, an affordable housing planning condition secured against another development scheme in Westminster required that a s106 payment of £1.340m generated from that development scheme would be provided directly towards the delivery of affordable housing at Ladbroke Grove.
- 6.3 It was originally intended that the 22 intermediate homes at Ladbroke would be provided as shared ownership. At the time of the planning application it was reported that household incomes of £25k to £32k would be required to afford a 25% share in one of these properties.
- 6.4 However, due to increases in house prices in the City, incomes of over £50k are now likely to be required to afford these properties on a shared ownership basis. The current market valuation of the "pocket style" 1 bed units at Ladbroke are in the range of £480,000 - £570,000 with the 2 bed unit valued at £740,000. Also

some concern has been expressed that these shared ownership units might benefit eligible intermediate households just the once.

- 6.5 Therefore, WCH would like to convert this scheme from shared ownership to intermediate rent so that affordability can be better controlled through rent setting. Providing these homes on an intermediate rent rather than as shared ownership will also ensure that these homes remain in affordable housing use going forward.
- 6.6 While re-sales of shared ownership units must be made available to eligible intermediate households, under rules required by the mortgage industry a seller of a shared ownership unit must be allowed to sell their home on the open-market if a buyer eligible for intermediate housing cannot be found following a period of marketing, generally six weeks.
- 6.7 Often shared owners staircase the ownership of their homes over time meaning when they decide to sell on the property the share they then own when selling is significantly higher than when they initially purchased meaning that prospective buyers need to have higher incomes to afford the resale value and higher deposits to secure a mortgage. In other instances, some shared owners staircase up to 100% at the time of selling their lease so that they can access the wider open market. They achieve this through buying the extra shares and selling the full interest in simultaneous transactions.
- 6.8 Once a shared ownership property is sold on the open market at resale, the previous shared owner retains the market value of their equity stake while the housing association keeps the remaining value. However, thereafter the property is no longer an affordable housing unit and can be sold subsequently without restriction.
- 6.9 However, under the current intermediate rent proposals for this scheme, the units will be let on 12 month Assured Shorthold Tenancies renewed annually up to 4 times giving a maximum tenancy period of five years. Renewal will be subject to the tenant maintaining a good tenancy record with rent account up to date and no ASB or other tenancy issues.
- 6.10 The rents charged will be circa £35 per week higher than the standard WCH Intermediate Rent levels so the rents will range from £210 - £250 per week for the 1 beds and the 2 bed will be £285 per week which compares favourably with other Westminster based intermediate rent providers. Each year WCH will use this additional rental income to “save” £2k per annum for each tenant who maintains a good tenancy record. This can be drawn down at the end of their tenancy subject to this sum being put towards the purchase of a home.

- 6.11 This scheme provides an opportunity for intermediate renters on more modest salaries to be able to move into home ownership, most likely through shared ownership within Greater London. WCH will work closely with the City Council in order to promote this unique scheme and are also looking to provide this on other intermediate rented schemes.
- 6.12 In order to enable WCH to change the tenure from shared ownership to intermediate rent WCH is requesting that the anticipated loss of the initial sales income assumed at the minimum of 25% of value should be replaced by funding from the Affordable Housing Fund.
- 6.13 The total scheme costs of delivering Ladbroke Grove is currently estimated at £7.239m. The current financial model for the scheme assumes that £2.855m will be generated from sales of the 22 units, with 25% shares initially purchased in these properties. After existing AHF funding contributions of £2.890m already provided by the Council are taken into account, WCH will be providing the balance of the funding requirement of £1.494m through GLA grant (£700k) and from its own resources.
- 6.14 However, in order for these 22 units to convert from shared ownership to intermediate rent, a further AHF contribution of £2.610m will be required to partially offset the loss of initial sales receipts that would otherwise be generated from the sales of 25% shares in these properties. The current valuation suggests a total value of £11.420m which at 25% equates to £2.855m. However, WCH are able to provide part funding and can therefore deliver this scheme as intermediate rented housing with an increased AHF contribution of £2.610m.
- 6.15 Including AHF previously allocated to this scheme, Westminster's total AHF contribution would increase with this additional funding contribution to £5.500m or £250k per unit.

7. Financial Implications

- 7.1 Appendix 3 to this report sets out WCH's financial summary as at October 2017. This includes details of WCH's assets, liabilities and actual and forecasted cash flows.
- 7.2 A total contribution of £2.610m is requested by WCH to convert the scheme at Ladbroke Grove from shared ownership to intermediate rent. In addition, WCH is requesting that future spot purchases secured by them should be funded from the AHF at a funding rate £250k per unit.
- 7.3 Current balances held in the Affordable Housing Fund are £305m of which £97m is currently formally approved against existing affordable housing projects.

- 7.4 There are currently sufficient uncommitted balances held in the Affordable Housing fund to allocate £2.610m towards Westminster Community Homes affordable housing programme.
- 7.5 The higher funding rate requested by WCH for future spot purchases and additional funding for Ladbroke Grove as set out in this report has previously been reported in a briefing on the Affordable Housing Fund provided to the Cabinet Member in September 2017. These requirements are also accounted for as part of the global AHF investment requirement for HRA, General Fund and External Provider schemes as recorded in the draft HRA 5-year Business Plan 2017/18 to 2022/2023.

8. Legal Implications

- 8.1 Generally, section 106 obligations relating to commuted affordable housing payments require the Council to use those funds to provide or secure the provision of affordable housing accommodation in the City of Westminster. Therefore, a contribution of c £2.610m can be used to fund the delivery of affordable housing through Westminster Community Homes.
- 8.2 It is a legitimate use of the AHF to use monies for the provision of more affordable homes within the City of Westminster.

9. Staffing Implications

- 9.1 There are no staffing implications arising from this report.

10. Consultation

- 8.1 Ward Members have been consulted in relation to funding proposal for Ladbroke Grove . Councillor Dimoldenberg has recorded his support for proposals to convert Ladbroke Grove from shared ownership to intermediate rent.

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

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BACKGROUND PAPERS:

Cabinet Member Report June 2012 -Variation to next phase of the Community build programme to be delivered by Westminster Community Homes

Financial Report on WCH October 2017

For completion by the **Cabinet Member** for Housing

Declaration of Interest

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

Signed: _____ Date: _____

NAME: **Councillor Rachael Robathan, Cabinet Member for Housing**

State nature of interest if any

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(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 **Westminster Community Homes – Top up funding requirements to deliver additional affordable homes** and reject any alternative options which are referred to but not recommended.

Signed

Councillor Rachael Robathan, Cabinet Member for Housing

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, 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.