



## Community and Wellbeing Scrutiny Committee

### Implications for BHM and HRA of proposals for ownership and refurbishment of Granville New Homes blocks

<b>No. of Appendices:</b>	Appendix 1 – Cabinet Report
<b>Background Papers:</b>	N/A
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#### 1.0 Purpose of the Report

- 1.1 This report provides the Community and Wellbeing Scrutiny Committee with an update on the options analysis that First Wave Housing (FWH) has carried out with the Company's Guarantor, Brent Council, on finding a viable option to fund and deliver the required remediation works at Granville New Homes.
- 1.2 Audit and Standards Advisory Committee (ASAC) considered a regular update on FWH at its meeting on 22<sup>nd</sup> September 2021, and ASAC recommended that the Community and Wellbeing Scrutiny Committee consider and comment on the implications for BHM and the HRA of the recommended disposal option.
- 1.3 It is recommended that the 84 social rented units are disposed of to the Council and the 25 intermediate rented units are disposed of to i4B Holdings Ltd (i4B). While there are no cost free options available, the Council recommends this option as the one that best ensures that works are carried out as quickly as possible and is most financially beneficial to the Council group as a whole.
- 1.4 The report provides the Committee with a copy of the Cabinet report in appendix 1. The Cabinet report provides further background to the works required at Granville, the options considered and the reasons for the option above being recommended.
- 1.5 The report will be presented to Cabinet on 11 October. Any comments from the Committee will be circulated prior to the Cabinet meeting.

#### 2.0 Recommendations

- 2.1 The Committee notes the report and the Cabinet report in appendix 1.

2.2 The Committee considers the implications for BHM and the HRA of the disposal of the 84 social rented units to the HRA and the 25 intermediate rented units to i4B.

### **3.0 Background**

3.1 FWH is one of the Council's wholly owned housing companies. It is a registered provider with 326 properties. Of FWH's 326 properties, 110 are located at Granville New Homes. These 110 properties comprise of 84 social rented properties, 25 intermediate rented properties, and one leaseholder.

3.2 Granville New Homes is a residential development that completed in 2009. It was developed by the Council and Higgins. The Council's ALMO, Brent Housing Partnership (BHP), purchased the properties at a cost of £17.1m. This figure met the Council's development costs and was funded via a loan from the Council. BHP also received 45 one bedroom market rented properties in order to cross subsidise the acquisition, as on its own, the purchase of Granville New Homes would not have been viable for BHP. Since 2009, the properties have been managed as part of BHP/now FWH's portfolio.

3.3 FWH commissioned a report from Ridge Consultants to investigate water penetration, cladding, fire safety and window issues at FWH's Granville, Princess, and Canterbury blocks (otherwise known as Granville New Homes). Ridge have recommended that works be carried out at the blocks to remediate these issues. It is estimated that the cost of works will be £18.5m.

3.4 Officers have been working to review options to fund and deliver the works required at Granville New Homes. The review has determined that ultimately, there are no cost free options available to the Council. Therefore, options were reviewed against the following criteria:

- Putting the properties back into a good state of repair as quickly as possible;
- Causing the least disruption to residents;
- Allocating the risks of a major refurbishment programme to where they can best be managed; and
- Utilising the structures of the HRA, General Fund, FWH and i4B in a way that is most financially beneficial/least costly to Brent overall.

3.5 A Guarantor meeting was held with the Brent Chief Executive and Director of Finance on 23<sup>rd</sup> August 2021 to review the options. The Guarantor's preferred option was to dispose of the blocks to the HRA. This option balances the cost between FWH, i4B, the Council's General Fund, and the HRA. It also offers the minimum disruption to residents in the blocks by offering the most rapid solution to addressing the remediation works required.

3.6 The option is also less costly. This is because the FWH business plan is required to make debt principal repayments, whereas the HRA opts for interest only. In addition to this the HRA is able to reclaim VAT; therefore, cost of repair is 20% less compared to FWH.

3.7 At the meeting, the Guarantor requested that further work be carried out to investigate whether there was a mechanism for retaining the 25 intermediate

rented properties outside the HRA. Tenants of intermediate rented properties are market tenants sourced via external agents, rather than traditional social housing clients. Intermediate tenants have no specific housing need. If the properties transferred to the HRA, their rents would have to drop to 65% of market rate. It is therefore recommended that these properties are transferred to i4B, where rent levels would remain the same.

- 3.8 A FWH performance update was presented to ASAC on 22<sup>nd</sup> September 2021. At the meeting, ASAC requested that the Community and Wellbeing Scrutiny Committee review and comment on the recommended option from the perspective of BHM and the HRA.

#### **4.0 Recommended Option and Implications for the HRA**

- 4.1 The Cabinet Report in appendix 1 is the latest version of the proposal.
- 4.2 The report recommends that FWH to dispose of its 84 social housing units the HRA and to transfer the 25 intermediate units to i4B.
- 4.3 Transfer of the 84 social rent properties to the HRA would be at nil value, on the basis that the capital investment required of £11.2m (the HRA's share of remediation cost) is greater in comparison to the net book value of the properties (£12.5m).
- 4.4 The HRA share of the remediation cost can be part funded through useable capital receipts of £4m, with the remaining balance of £7.2m funded through borrowing. Annual interest cost is estimated to be £0.2m at 2.1% PWLB rates in July 2021.
- 4.5 This option is more beneficial as it improves the financial position of the HRA by reducing the capital investment requirement by £3.5m. It also allows the rents for the intermediate units to be retained at a higher rental level within i4B.
- 4.6 The 84 social rent properties are estimated to generate income of £0.5m per annum for the HRA. Based on average cost in the HRA for stock maintenance, there is a projected break-even position. However, cost projections do not allow for debt principal repayments over the next 60 years.
- 4.7 Brent Housing Management already manage the properties via the Service Level Agreement with FWH; therefore, the housing management function will be managed within existing staffing resources
- 4.8 External legal and tax advice has been obtained. This confirms that the option is technically viable.

#### **5.0 Next Steps**

- 5.1 The Cabinet report is currently going through the approval process. Comments from the Committee will be circulated prior to the Cabinet meeting. The Cabinet report requests authority to go out to consult with residents on the proposals. This follows best practice guidance from the Regulator of

Social Housing that RPs should consult with residents on any proposed change in landlord.

- 5.2 Following Cabinet approval, FWH will begin the consultation process with residents on the potential disposal of the Granville New Homes properties. This will likely last one month.
- 5.3 Subject to the outcomes of the consultation with residents, a final decision on the disposal of Granville New Homes will be agreed by the Strategic Director of Community Wellbeing in consultation with the Director of Finance and the Lead Member (the Deputy Leader).