

## MUNICIPAL YEAR 2018/2019 REPORT NO. 28

### MEETING TITLE AND DATE:

Cabinet - 25<sup>th</sup> July 2018

### REPORT OF:

Executive Director - Place  
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<b>Agenda - Part: 1</b>	<b>Item: 9</b>
<b>Subject:</b> Roof Space Conversions	
<b>Wards: All KD 4679</b>	
<b>Cabinet Members consulted:</b> Cllr Maguire (Cabinet member for Finance and Procurement) Cllr Lemonides (Cabinet member for Housing)	

### 1. EXECUTIVE SUMMARY

- There are increasing pressures on housing supply in Enfield, in particular pressure on temporary accommodation as it has increased significantly. At the end of March 2018 Enfield was ranked 2<sup>nd</sup> highest nationally for the number of families in temporary accommodation (MHCLG published data), equating to 3350, most of which are housed in private sector owned properties.
- The demand for temporary accommodation and private rented sector properties (discharge of duty) is forecast to continue to increase. This poses significant budget pressures for the Council and will increase the number of expensive emergency units required, unless action is taken to provide a more cost-effective alternative.
- This report is seeking Cabinet approval to:
  - Run a pilot project for the development of 25 to 50 roof space units funded using Right to Buy Receipts (subject to HRA match funding)
  - Should Right to Buy Receipts not be available continue the project via Housing Gateway Limited
- This project presents the opportunity to:
  - Deliver cost effective properties that sit within the councils' ownership at between 40% and 60% of the cost of buying new properties
  - Develop quality and stable accommodation located within the borough
  - Utilise Right to Buy Receipts to the greatest value
  - Use the pilot to develop the process/structure to deliver more than 200 units

## **2. RECOMMENDATIONS**

- Approval to deliver a pilot scheme of 25 to 50 additional housing units including all design and procurement decisions by converting roof space or adding floors to selected HRA low-rise blocks in the borough subject to viability and availability of HRA funding/Right to Buy Receipts.
- To authorise the council to enter into separate lease agreements for council owned vacant roof space with Housing Gateway Ltd to develop and manage the units for PRS letting (Discharge of Homeless Duty), should HRA funding/Right to Buy Receipts not be available.
- Delegate authority to the Leader of the Council in consultation with the Cabinet Member for Housing to expand the scheme to develop further new social housing units subject to success of the pilot scheme.

## **3. BACKGROUND**

- 3.1 There are increasing pressures on housing supply for residents of the borough, in particular pressure on temporary accommodation has increased significantly after a period of declining numbers and relative stability.
- 3.2 As demand is outstripping supply, temporary accommodation prices in the borough have increased, particularly for Nightly Paid Accommodation (NPA), which is being used for more than 2000 families. As a result, Enfield is facing significant budget pressures and the numbers are predicted to increase.
- 3.3 Our aim is to reduce the number of properties being used on a nightly paid basis to provide value for money, better quality, and more stable tenancies within the portfolio whether on a PRS or permanent (affordable) letting basis.
- 3.4 Over 80 roof tops have been identified that could accommodate more than 200 new units of affordable / PRS housing subject to planning.
- 3.5 The roof tops identified are to be prioritised by those requiring roof replacement, or significant roof repairs (subject to resident consultation). The leaseholders within the identified blocks will benefit from this project because the cost of the new roof will be absorbed within the development cost of the roof space i.e. no cost to the leaseholders.
- 3.6 A similar project has been undertaken as part of the Lytchet Way Estate Regeneration Works where additional floors have been added to a selection of flat roof three-storey low-rise blocks, also adding a pitched roof rather than the existing flat roof. The project produced 24 one and two bed flats at an average cost of £125k per flat. However, this report puts forward the concept of conversion of existing roof space on the top floor of low-rise blocks where there is a sufficiently high-pitched roof.

- 3.7 This project will enable the use of HRA Right to Buy (RTB) Receipts– **Delivery Option 1**. RTB receipts are generated by the selling of council homes and can be used with HRA match funding (HRA reserves). If RTB receipts are not utilised there is a risk that they are payable back to the government with a 4% compounded interest rate charged if not used within specified time limits.
- 3.8 We are in the process of carrying out surveys on the 80 blocks identified as suitable for roof space conversion. A surveyor will be sourced to carry out viability inspections and a budget of £70k has been identified to fund this research. In addition, we have identified several flat roof blocks that may be suitable for additional floors to be added subject to permission, consultation, and planning approval.
- 3.9 There are a variety of alternative delivery options such as working in partnership with Housing Gateway, Red Lion Homes (RP) and a procured private developer, as discussed in Section 4. The pilot will enable us to appraise the alternative delivery options to ensure that the Council maximise the use of the roof space and additional floor capabilities around the borough.
- 3.10 The project will financially benefit the council in several ways:
- **Asset value** - with an estimated development cost of £125k per unit (which can part funded by RTB receipts) and an expected completed asset value of £250k per unit, the council can expect to increase its assets by £125k per unit completed.
    - Cost of 25 units: £3.125m – Asset value £6.25m
    - Cost of 50 units: £6.25m – Asset Value £12.5m
  - **Income generation** – the units will be let at the HRA affordable rent levels at an average of £195.77 per week.
    - 25 units: £255k per annum
    - 50 units: £509k per annum
  - **Cost avoidance** – the units will substitute for expensive nightly paid accommodation, for which the council currently incurs an average annual net loss of approximately £3.28k per unit.
    - 25 units: £82k per annum
    - 50 units: £164k per annum

#### 4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The Council could continue to invest RTB receipts in its street property purchase strategy, however the properties being purchased represent a cost of almost double of the equivalent size of properties developed within roof space.

- 4.2 The Council could choose to invest in alternative delivery options for roof space development as follows:

### **Delivery option 2 – Housing Gateway**

Directly via its local authority trading company Housing Gateway providing affordable private rented accommodation for discharge of duty clients, therefore reducing the council's dependency on costly nightly paid accommodation.

This scheme would be 100% funded by HGL and meets their minimum financial requirements. The benefits are 100% nomination rate to the council, savings over NPA, ability to Discharge of Duty to the PRS, retain the asset as a wholly owned company, and improved gearing/portfolio profile for HGL. Overall this represents a nil cost to the council.

### **Delivery option 3 – Red Lion Homes**

The Council may pass on RTB receipts to Red Lion Homes and assist this registered provider in the achieving the target for a pipeline of 500 social housing units. This will increase the stock of social housing units available to move long term temporary accommodation clients into more stable accommodation and assist in freeing up temporary accommodation units.

The benefit of this option is the use of RTB receipts that there is a risk could be handed back to the government with a 4% compounded interest rate charged. RTB receipts provides one third of cost of the scheme with further funding required from the private sector. Overall this represents a nil cost to the council

### **Delivery option 4 – Private developer**

The Council may wish to go to the private market where a procured housing developer could finance and develop the roof space based on a 10 to 15-year lease back arrangement where the developer retains all income but gives 100% nomination rate to the council on a private rented basis (Discharge of Duty). At the end of the lease period the developer will hand over asset to Council. Overall this represents a nil cost to Council and the council gains an asset with a potential value of £250k (2 bed).

4.3 *Figure 1 & 2 demonstrate the four options of delivery and rank them in order of best value to the council.*

*Figure 1 – Cost & Benefits – 25 units*

25 units (2 bed)	HRA	Housing Gateway	Red Lion	Private developer
<b>Council development costs</b>	£3.12m	£0.00m	£0.94m	£0.00m
<b>End asset value</b>	£6.25m	£6.25m	£6.25m	£6.25m
<b>Funding source</b>	RTBr/ HRA***	Private (LBE)	RTBr/ Private	Private
<b>Saving type</b>	HRA income + GF cost avoidance	GF cost avoidance	GF cost avoidance	GF cost avoidance
<b>Cost avoidance p/a **</b>	£82k	£82k	£82k	£82k
<b>Income to HRA p/a</b>	£255k	-	-	-
<b>Annual benefit</b>	£337k	£82k	£82k	£82k
<b>Tenure type</b>	Secure tenancy	Head lease (AST)	Head lease (Assured tenancy)	Head lease (AST)
<b>Allocation type</b>	Housing register	Homeless - Discharge of Duty	Housing register	Homeless – Discharge of Duty
<b>Order of preference</b>	1	2	3	4

\*30% RTBr

\*\* Average annual net loss from TA Nightly Rates report – 27/04/2018

\*\*\* Housing Revenue Account

\*\*\*\* General Fund

*Figure 2 – Cost & Benefits – 50 units*

50 units (2 bed)	HRA	Housing Gateway	Red Lion	Private developer
<b>Council development costs</b>	£6.25m	£0.00m	£1.89m	£0.00m
<b>End asset value</b>	£12.50m	£12.50m	£12.50m	£12.50m
<b>Funding source</b>	RTBr/ HRA***	Private (LBE)	RTBr/ Private	Private
<b>Saving type</b>	HRA income + GF cost avoidance	GF cost avoidance	GF cost avoidance	GF cost avoidance
<b>Cost avoidance p/a **</b>	£164k	£164k	£164k	£164k
<b>Income to HRA p/a</b>	£510k	-	-	-
<b>Annual benefit</b>	£674k	£164k	£164k	£164k
<b>Tenure type</b>	Secure tenancy	Head lease (AST)	Head lease (Assured tenancy)	Head lease (AST)
<b>Allocation type</b>	Housing register	Homeless - Discharge of Duty	Housing register	Homeless – Discharge of Duty
<b>Order of preference</b>	1	2	3	4

\*30% RTBr

\*\* Average annual net loss from TA Nightly Rates report – 27/04/2018

\*\*\* Housing Revenue Account

\*\*\*\* General Fund

- 4.4 In relation to the three alternative delivery options detailed above there would be a need to set up a lease agreement between the council and the development partner for an agreed period.
- 4.5 The Council could decide not to run a pilot, but to proceed to delivering more than 200 additional housing units under one large scale project once viability inspections are completed and the viable low-rise blocks have been identified. Whilst this is a viable option, this would be a long-term project which is unlikely to be delivered within 12 to 18 months. Other issues relating this option are:
- The inability to test and identify the best structure(s) to develop and manage the units.
  - Lack of immediate and sufficient funds to commit since this will be a capital-intensive project. There is a risk the project could be halved if the Council's priorities change.
  - It would be difficult to envisage the potential challenges with construction and planning process for the selected blocks, and anticipate and manage residents' response particularly if negative.
- 4.6 The Council could decide not to invest in this project. However, this would not allow the Council to achieve the following benefits:
- Reduce cost pressures for the Council by providing an alternative to costly Nightly Paid Accommodation.
  - Provide a more cost-effective alternative to the development of new build units on new sites.
  - Enable the Council to ensure a higher quality of accommodation is provided
  - Enable the Council to spend RTB receipts and not repay receipts to Government with 4% compounded interest rate

## **5. REASONS FOR RECOMMENDATIONS**

- 5.1 Despite several interventions by the Council, the number of households requiring temporary accommodation or at risk of homelessness in Enfield is still of significant expense to the Council, resulting in a current net TA portfolio cost of £4.7m. There is a clear need to identify additional cost effective new housing stock to meet local needs.
- 5.2 This scheme will assist in the much-required creation of new supply of housing within the HRA portfolio with a development cost of circa 50% of the value created i.e. development cost £125k (2 bed), asset value on completion £250k
- 5.3 This project will assist in the reduction of use of costly nightly paid accommodation. The financial benefits to the council are as follows:
- Cost avoidance of approximately £3,280 per unit created over the use of costly nightly paid accommodation (this is the average annual net loss per unit across the temporary accommodation portfolio).

- £164k cost avoidance per annum – 50 flats (pilot)
- £656k cost avoidance per annum – 200 flats
- From an asset perspective the development cost for 200 flats is £25m with an expected completed asset value of £50m

5.4 In relation to all options put forward the Council would receive 100% nomination rights for occupancy of the properties developed. These could be allocated for both homeless and waiting list clients

5.5 In all cases where clients are transferred from costly nightly paid accommodation the use of these properties eliminates this cost, thereby moving closer to our aspiration of a temporary accommodation cost neutral budget

5.6 Creation of new units, rather than the continued re-use of existing private sector properties across TA and PRS portfolio's will give us more bargaining power in the private market and assist in lowering prices

5.7 This project has the potential to create 200 plus new units for letting within the Enfield borough, thereby reducing our dependency on the use of accommodation outside of the borough

5.8 Recent statistics in relation to New Homes Bonus grant for 2018/19 show Enfield as receiving the third lowest award in London. The new units will not only provide quality and stable accommodation for Enfield residents, but will also increase grant income for the authority.

## **6. COMMENTS OF THE EXECUTIVE DIRECTOR OF RESOURCES AND OTHER DEPARTMENTS**

### **6.1 Financial Implications**

The development costs are estimated to be £125k per unit, based on 25 units the cost will be £3.125m.

By creating additional units on rooftops this will enable the HRA to partly fund this development using RTB receipts (£938k) and HRA reserves (£2.1m).

It is expected that development will start in Q3 of 2018-19.

This scheme will assist in spending the RTB receipts to ensure the HRA doesn't have to repay receipts back to Government at a 4% compounded interest rate. The project will need to be monitored to ensure that the receipts are spent within the Government's specified 3 years. If there are delays to the project there could be a risk of paying back receipts to Government.

These units will be let at the HRA affordable rent levels at an average of £195.77 per week. This will generate £255k per annum in rental income.

## **6.2 Legal Implications**

- 6.2.1 The proposals are within the Council's general powers under section 111 of the Local Government Act 1972 and section 1 of the Localism Act 2011.
- 6.2.2 Any existing leases of properties on the top floors of the selected blocks which have previously been sold by the Council under the "right to buy" scheme should be checked to ensure that the roof space is not included.
- 6.2.3 Unless covered by permitted development rights the appropriate planning consents will be required before any work commences.
- 6.2.4 Appropriate legal agreements will be required between the Council and any contractors and consultant employed in connection with the project.

## **6.3 Property Implications**

Strategic Property Services supports the initiative to convert redundant/unused roof voids within existing Council owned housing stock into additional housing units. Consideration should be given to ensuring that the Council have appropriate legal arrangements in place with existing leaseholders where the Council have not reserved rights within existing leases to the roof void.

In addition, in cases where leases have specified percentage contributions to service charges, deeds of variation will need to be entered into to alter the percentage to a lower figure to take into account the increased numbers of housing units created.

The impact of the proposals on mortgage access for existing and future leaseholders in circumstances where an additional floor is created should also be taken into account where appropriate.

Appropriate and reasonable measures should also be put in place to avoid the Council falling foul of the "quiet enjoyment" clause within existing leases including but not limited to noise/dust/vibration /working hours

## **7. KEY RISKS**

The key risks associated with the creation of new rooftop units are outlined below:

- 7.1 The key risks associated with the development of Roof Space conversions are outlined below:
  - a. Planning permission might not be granted which prevents the delivery of Roof Space conversion/additional floors

- b. The viability surveys may report that many of the blocks cannot support the addition of an extra floor or conversion of the existing roof space
- c. Resident consultation. There may be an overwhelming negative response to the development of roof space
- d. Right to Buy Receipts (RTB). There is a risk that there may not be sufficient match funding available from the HRA
- e. Housing Gateway may not wish to invest in this project for further units

7.2 A comprehensive risk register will be drawn up to assess.

## **8. IMPACT ON COUNCIL PRIORITIES**

### **8.1 Fairness for All**

Roof space conversion will provide value for money accommodation on a social housing and PRS basis that is of a high quality and fully accessible to those who meet the qualifying criteria for assistance with housing.

### **8.2 Growth and Sustainability**

The quality evaluation criteria included in the framework for environmental performance of the units and the materials included in their construction, ensuring that we maintain a clean, green, sustainable environment.

### **8.3 Strong Communities**

The Council will work with all internal and external partners to ensure that all newly produced accommodation are a safe and healthy place to live.

## **9. EQUALITIES IMPACT IMPLICATIONS**

The provision of additional accommodation through roof space conversions will benefit families on the Council's waiting list, those waiting for discharge of duty and including those who are vulnerable, such as those who are pregnant, young or otherwise in priority need.

## **10. PERFORMANCE MANAGEMENT IMPLICATIONS**

The provision of new units will assist the council in meeting its housing targets (New Homes Bonus), and also will assist in decreasing budget pressures.

## **11. HEALTH AND SAFETY IMPLICATIONS**

Schemes will be subject to the Construction (Design and Management) Regulations 2015, which clearly allocate specific obligations to all parties, who must be competent to undertake their role/s.

## **12. HR IMPLICATIONS**

None

## **13. PUBLIC HEALTH IMPLICATIONS**

- 13.1 Good housing stock is crucial to the health of the population. Not only does good housing stock provide a place of safety, home and refuge but it reduces the risk of respiratory illness due to damp, mould and cold conditions as well as associated risks such as accident and falls.
- 13.2 It has been estimated that poor housing costs the NHS at least £600 million per year and there is likely to be considerable cost to local authorities arising from care costs due to worsening ill-health and accidents such as hip fracture aggravated by poor housing.
- 13.3 Poor housing can lead to poor mental health due to e.g. loneliness and stress and can affect the educational attainment of children due to difficulties accessing education, having a quiet space to work and poor health affecting attendance. This in turn can contribute to poverty upon reaching adulthood due to poor educational qualifications.
- 13.4 If the roof space conversions are close to transport links and schools, it can alleviate other problems associated with poor housing such as isolation difficulties accessing transport to work and difficulties accessing schools.
- 13.5 Roof space conversion can be a solution to address immediate rise in demand of housing. It will be a cost-effective alternative to some other types of temporary housing such as Nightly Paid Accommodation (NPA) and thus can cater for bigger demand with similar investment. The specification will also meet the Council's minimum standards for residential accommodation thus will have positive impacts on health in the short-term for those who have poor housing described above or unsafe accommodation.

## **Background Papers**

None