

	<p>Assets, Regeneration and Growth Committee</p> <p>11 July 2016</p>
<p style="text-align: right;">Title</p>	<p>Out-of-Borough Acquisitions</p>
<p style="text-align: right;">Report of</p>	<p>Commissioning Director, Growth and Development</p>
<p style="text-align: right;">Wards</p>	<p>All</p>
<p style="text-align: right;">Status</p>	<p>Public</p>
<p style="text-align: right;">Urgent</p>	<p>No</p>
<p style="text-align: right;">Key</p>	<p>Yes</p>
<p style="text-align: right;">Enclosures</p>	<p>Appendix 1– Out-Of-Borough Acquisitions Project Business Case</p>
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<p>Summary</p>
<p>Against a backdrop of increasing housing demand and rising costs associated with providing temporary accommodation, this report sets out the business case for purchasing residential properties outside of London for use as temporary accommodation, to be let and managed by Barnet Homes.</p>
<p>Due to the lack of affordable housing supply in the borough, the Council is already procuring properties for use as temporary accommodation in the Luton area, at a net cost of £1,900 per household, and purchasing properties directly would provide a cheaper alternative as well as providing a capital asset that would be expected to increase in value.</p>

<p>Recommendations</p>
<p>1. . That the Committee after having consulted with the Chairman of the Housing Committee approve the business case for the acquisition of Out-of-Borough accommodation as outlined in Appendix A, subject to approval for the required capital expenditure from the Policy and Resources Committee on 1st September 2016 and that the Committee’s decision be reported for noting at the next Housing Committee</p>

1. WHY THIS REPORT IS NEEDED

- 1.1 Due to continuing high demand for housing and rising housing costs, the number of households in temporary accommodation has continued to increase and currently stands at 2,999.
- 1.2 The cost of providing temporary accommodation for homeless applicants in London currently stands at £3,400 per annum net for each new household placed in a 2 bedroomed property.
- 1.3 Along with other London Boroughs, the Council has sought to secure a supply of more affordable accommodation outside of London, and during 2015/16 233 households were placed outside of London by Barnet Homes.
- 1.4 Temporary accommodation sourced outside of London costs Barnet £1,900 for each household net and the purchase of properties directly by the Council provides a cheaper alternative, as well as providing an asset which is likely to increase in value.
- 1.5 Barnet Homes have carried out an assessment of the viability of purchasing homes directly on the private market, to be owned by the Council and let and managed by the Arm's Length Management Organisation (ALMO), and have developed a business case for proceeding with this as set out at Appendix 1.

2. REASONS FOR RECOMMENDATIONS

- 2.1 Acquisition of additional properties outside of the borough will provide the opportunity to increase affordable housing supply relatively quickly at a lower long-term cost than other forms of temporary accommodation.
- 2.2 The on-going cost of the accommodation will be more predictable than that procured through third party providers.
- 2.3 The accommodation will be used as temporary housing, and Barnet Homes will work with households to help them secure more settled accommodation in the longer term.
- 2.4 The Council would need to provide capital investment of approximately £130,000 for each property acquired, but the business model shows that this could be recouped over a 30 year period, during which time the value of the property would be expected to increase.

- 2.5 There is greater flexibility on rents that could be charged for properties acquired using this model, with rents required to be 'reasonable' to achieve full housing benefit subsidy.
- 2.6 The initial proposal is for up to 38 properties to be acquired in the Luton area, which would require a capital investment of about £5m, and has the potential to deliver revenue savings of approximately £38,000 over the first five years, and £295,000 over ten years.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 Options to provide homes that could be let directly as private rented sector properties and affordable council homes were also considered.
- 3.2 As local authorities are not able to own and let private sector homes directly, a delivery vehicle would need to be established. A higher interest rate would apply to any borrowing and with proposed rents for these units restricted to Local Housing Allowance levels, makes this approach unviable and therefore not recommended.
- 3.3 The Council could use the Housing Revenue Account to fund the purchase of properties for use as affordable housing, which would have the advantage of being able to use right to buy receipts to fund 30% of the acquisition cost. However, uncertainty over the future financial position of the Housing Revenue Account means that this approach cannot be recommended at this stage.
- 3.4 Barnet Homes could continue to rely solely on the acquisition of properties outside London on licence from existing temporary accommodation providers. However, this would not deliver the expected benefits of reduced and stabilised costs and an asset increasing in value.

4. POST DECISION IMPLEMENTATION

- 4.1 Barnet Homes would seek to acquire up to 38 two bedroom homes in the Luton area that could be demonstrated to fit within the parameters of the business case, which would mean that they would cost less than £130,000 each. Half of these units would be expected to be acquired in 2016/17, with the remainder sourced in the first two quarters of 2017/18.
- 4.2 Barnet Homes would provide a full management service for properties purchased and units would be used to provide long-term temporary accommodation, let at Local Housing Allowance rates.
- 4.3 The Council would monitor progress and expenditure of the project through the Development Pipeline Programme Board, which is sponsored by the Commissioning Director, Growth and Development.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 By reducing the cost of temporary accommodation, the acquisition of homes outside of London aligns with the Council's Corporate Plan 2015-2020 objective:

- Where services are delivered efficiently to get value for money for the taxpayer

5.1.2 And with the London Borough of Barnet's Housing Strategy 2015-2025 that aims to:

- Increase the supply of affordable housing available to homeless households.
- Explore the possibility of purchasing homes directly in more affordable areas which could be let to households who can no longer afford to remain in the borough.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The project would be funded from the Council's General Fund. An initial capital budget of £5m would enable the programme to deliver up to 38 units in the Luton/Bedfordshire area. Approval was sought from Policy and Resources Committee on 28th June 2016 for this expenditure.

5.2.2 The table below indicates the potential overall financial position delivered by

the scheme taking into account worst and best case scenarios¹

Table 1 – revenue position vs. existing TA options

Best Case – Purchasing Option – per unit				
	5 Years	10 Years	20 Years	30 Years
Income	£36,357	£76,035	£168,210	£280,570
Expenditure	£52,647	£105,136	£210,540	£318,164
Net	£16,290	£29,101	£42,330	£37,594
Worst Case - Purchasing Option				
Income	£35,394	£72,375	£152,093	£240,151
Expenditure	£59,852	£120,326	£244,977	£378,259
Net	£24,457	£47,950	£92,884	£138,109
Existing TA Option				
Income	£35,983	£75,251	£166,476	£277,678
Expenditure	£53,270	£112,111	£248,986	£416,138
Net	£17,288	£36,860	£82,510	£138,461

Table 2 – Capital position

Capital - Per unit	Best Case	Worst Case
Average Purchase Price	£114,000	£114,000
Refurbishment Costs and Fees	£15,500	£20,500
Total Cost	£129,500	£134,500
Asset value @	6% PA	2% PA
10 Years	205,694	148,490
20 Years	368,367	181,009
30 Years	659,689	220,649
Outstanding borrowing @ Yr. 30	£51,800	£53,800
Capital Benefit @ Yr. 30	£607,889	£166,849

5.2.4 Table 1 shows that there is a wide divergence between the potential outcomes between best and worst case scenarios, with the best case scenario delivering revenue savings against the cost of existing TA options, whilst the worst case is more expensive for the first 20 years.

5.2.5 The Business Plan has been reviewed by independent financial consultants 31ten, who examined the model developed by Barnet Homes and the key assumptions that underpin it, including:

- The availability and price of properties in the Luton area
- The on-going costs associated with the acquisition of homes, including

¹ Analysis of worst case and best case scenarios were tested against the cost of existing TA options in the Luton Area, with the worst case assuming higher costs for voids, management/maintenance, inflation, refurbishment, and major works

interest, repayment of capital, management and maintenance.

- The probability of achieving a positive outcome above taking into account the best and worst case scenarios set out in table 1 above.

5.2.6 The key findings presented by 31ten suggested that:

- The average purchase price for a minimum 38 units would be £114k.
- The best case scenario would see the Council achieving average annual revenue savings of £29,500 for the first ten years (cost avoidance of £7,759 per property over the first ten years for 38 properties would amount to £294,547 and therefore an average of £29,455 per year over ten years), whilst the worst case suggests an average annual cost of £42,000 over the same period.
- Probability testing indicated that there would be a likelihood of 75% that the programme would cost a similar amount to existing temporary accommodation options over the first 12-15 years, and achieve revenue savings of 25% after 23-26 years. The Council could expect to benefit from an increase in asset values for the properties purchased of between 6-7% per year, rather than the 2% presented in the worst case scenario.

5.2.7 In effect, the conclusion on the 31ten report was that the project would most likely cost the same as existing TA options over the first 15 years, following which it would be cheaper.

5.2.8 On this basis, the key revenue benefit of purchasing properties would be to provide greater certainty over costs. However, it should also be noted that there would be an immediate capital benefit to purchasing these properties, as allowances for minimum revenue provision reduce the overall amount of borrowing outstanding from the first year.

5.2.8 To take into account future anticipated changes to temporary accommodation subsidy, both the purchasing scheme and existing temporary accommodation options have been modelled using 100% of the April 2016 Local Housing Allowance rate.

5.3 Social Value

5.3.1 Having consideration to the Public Services (Social Value) Act 2013, there are no specific social values considerations arising from these policies.

5.4 Legal and Constitutional References

5.4.1 The acquisition of properties falls within the remit of the Assets Regeneration

and Growth Committee- Council Constitution, Responsibility for Functions, Annex A – The Assets, Regeneration and Growth Committee has responsibility for “Asset Management – all matters relating to land and buildings owned, rented or proposed to be acquired or disposed of by the Council”.

5.4.2 Council, Constitution, The Management of Assets, Property and Land Rules provide the governance structure within which the Council may acquire, lease, act as landlord, licence, develop, appropriate, change use of or dispose of Assets within its Asset Portfolio. The Rules inter alia are aimed at enabling the Council’s holdings of land and property to be maintained and developed in a manner which enhances Social Value Section 2.8 states that the “Strategic Asset Management Plan will govern decisions on the future direction of the development of the Council’s Built Environment”.

5.4.3 Constitution, Part 3, Responsibility for Functions, Appendix A sets out the terms of reference of the Housing Committee. This includes Housing Strategy (Incorporating Homelessness Strategy) and working with Barnet Homes to ensure the optimum provision of housing and associated facilities for those who require social housing.

5.5 Risk Management

5.5.1 There are a number of key risks associated with the delivery of this programme:

- There is a risk that there will be an insufficient volume of units available for purchase at the projected average purchase price of £114k. Analysis provided by 31ten indicated that only 38 units are projected to transact in Luton at this average purchase price over the next 12 months. To mitigate against this risk, further modelling is being carried out to identify other potential areas for acquisitions. Where there are no properties available for purchase that meet the modelled conditions, no additional units will be acquired.
- There is a risk that the assumptions made are not realised and that the programme would fail to deliver the projected revenue savings over the life of the scheme. To mitigate against this risk there are a number of options the Council has, including stock disposal. In addition, the 31ten review suggests that there is a 75% probability that the scheme will at least break even compared to existing TA options.
- There is a risk that the programme will attract negative publicity. To help mitigate this risk, Barnet Homes will develop a communications strategy and engage with the host borough to inform them of the acquisitions programme.
- There is a risk that properties acquired through the programme will have longer void times due to customers refusing to move to these

areas. To help mitigate against this risk, households seeking to move out of area will be identified at an early stage in the acquisition process and consideration will be given to offering properties acquired to households already located in areas outside London in other forms of temporary accommodation.

5.6 Equalities and Diversity

5.6.1 The 2010 Equality Act outlines the provisions of the Public Sector Equalities Duty which requires Public Bodies **to have due regard** to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010.
- Advance equality of opportunity between people from different groups and foster good relations between people from different groups.

5.6.2 A full equalities impact assessment was completed for The Housing Strategy 2015-2025 which identified that the Strategy would have a positive impact on all sections of Barnet's Community.

5.6.3 Analysis of data has shown that women and members of Barnet's black and minority ethnic communities are over represented among those living in temporary accommodation. Over 70% of households in temporary accommodation are from non-white households, compared to around 40% of the Borough's population as a whole. Of those in temporary accommodation the main applicant is female in 65% of households.

5.6.4 It is not expected that these groups will be adversely affected by implementing the policies set out in this report. However the impact will be monitored to ensure that these groups are not adversely affected.

5.6.5 Allocation of properties acquired will be made in accordance with the Council's Temporary Accommodation Placements Policy. The Temporary Accommodation Placements Policy enables the Council to make appropriate decisions on placing households who have protected characteristics, particularly women and lone parents who are more likely to be women, fairly and in accordance with their specific requirements. It will also ensure that the Council can meet its obligations under the Children's Act 2004, for example, ensuring that children can still access their education even if they are moved outside of the borough

5.6.6 All units of accommodation that are procured will meet minimum standards and in placing households into accommodation out of the borough the Council will consider the needs of protected groups.

5.7 Consultation and Engagement

5.7.1 As part of the communications plan for the delivery of the programme, Barnet Homes will engage with Luton and Bedfordshire Council, informing them of the Councils intention to purchase properties in their districts.

5.8 Insight

5.8.1 A reduction in the supply of affordable housing, coupled with sustained levels of increased demand provide the rationale for this programme:

- There has been a 49% increase in new homelessness applications between 2011/12 and 2015/16.
- There was an overall 35% decrease in letting within Council stock from 2011/12 to 2015/16 and Barnet has below levels of social housing on average compared to other London boroughs.
- There has been a significant increase (38%) in the number of households in temporary accommodation (numbers have increased from 2,172 in April 2012 to their current level of 2,999 at the end of May 2016).
- Whilst it is positive that the regeneration schemes in Barnet are progressing in their development, this has an impact on available supply as 'non-secure' tenants placed in regeneration units as long term TA are decanted and require rehousing, either to alternative TA or social housing units. 724 households have been decanted since April 2012 and a further 316 decants are scheduled for the forthcoming two financial years.

6.0 BACKGROUND PAPERS

6.1 None

REPORT CLEARANCE CHECKLIST

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AUTHOR TO COMPLETE TABLE BELOW:

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Commissioning and Policy		
Equalities & Diversity		Lesley Holland
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