

	AGENDA ITEM 9
	<b>Assets, Regeneration and Growth Committee</b>  <b>24 April 2017</b>
<b>Title</b>	<b>Out-of-Borough Acquisitions (Phase 2)</b>
<b>Report of</b>	Commissioning Director, Growth and Development
<b>Wards</b>	All
<b>Status</b>	Public
<b>Urgent</b>	No
<b>Key</b>	Yes
<b>Enclosures</b>	Appendix 1– Out-Of-Borough Acquisitions (Phase 2)Project Business Case
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<b>Summary</b>
<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 outside London, 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>

<b>Recommendations</b>
<p><b>1. That the 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 16 May 2017 and that the Committee’s decision be reported for noting at the next Housing Committee.</b></p>

**2. That the authorisation of purchases of individual properties for the Out-of-Borough acquisitions programme within the parameters of the business case is delegated to the Commissioning Director, Growth and Development in consultation.**

## **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 2,833.
- 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 On 11<sup>th</sup> July 2016, the Asset, Regeneration and Growth Committee approved the business case for the acquisition of Out of Borough properties. On 28<sup>th</sup> June 2016 the Policy and Resources Committee approved the General Fund capital expenditure of £5 million for the acquisition of the purchase of properties in the Bedfordshire area.
- 1.6 During Q3-4 2016/17, the Council acquired approximately 48 properties from the open market, including a total of 28 properties in the Bedfordshire area.
- 1.7 Building upon the successes of the initial tranche of acquisitions, Barnet Homes have carried out an assessment of the viability of purchasing additional homes directly on the private market, to be owned by the Council and let and managed by Barnet Homes 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 and will serve to better control temporary accommodation cost inflation.
- 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 £159,000 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 The initial proposal is for approximately 50 properties to be acquired in the Bedfordshire, Buckinghamshire, Northamptonshire and Cambridgeshire areas, which would require a capital investment of about £8m, and has the potential to deliver total revenue savings of approximately £160,000 over the first five years, and £550,000 over ten years.

### **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

- 3.1 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 approximately 50 two and three bedroom homes in the Bedfordshire, Buckinghamshire, Northamptonshire and Cambridgeshire areas that could be demonstrated to fit within the parameters of the business case, which would mean that they would cost less than £160,000 each (this is made up of an expected average purchase price of £142,000 plus delivery costs). These units would be expected to be acquired from Q1 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 (currently assumed to be borrowing, 70% of cost), and supported through the use of Right to Buy receipts (30% of cost). An initial capital budget of £8m would enable the programme to deliver approximately 50 units in the Bedfordshire/Buckinghamshire/Northamptonshire/Cambridgeshire areas. Approval will be sought from Policy and Resources Committee for this expenditure, as it involved an increase in the Capital Budget.

5.2.2 The table below indicates the potential overall financial position delivered by the scheme taking into account worst and best case scenarios<sup>1</sup>

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<sup>1</sup> Analysis of likely and worst case scenarios were tested against the cost of existing Temporary Accommodation options outside London, with the worst case assuming higher costs for voids, management/maintenance, inflation, refurbishment, and major works

Table 1 – revenue position of proposal vs. existing TA options

Below is a summary of the cumulative estimated position over 5, 10, 20 and 30 years:-

Existing TA Option – per unit	5 Years	10 Years	20 Years	30 Years
<b>Income</b>	£37,821	£81,859	£196,280	£357,683
<b>Expenditure</b>	£53,797	£114,502	£264,966	£467,139
<b>Net Cost</b>	<b>£15,976</b>	<b>£32,643</b>	<b>£68,686</b>	<b>£109,456</b>
<b>Likely outcome – per unit</b>				
<b>Income</b>	£30,974	£67,039	£160,745	£292,927
<b>Expenditure</b>	£43,739	£88,635	£183,794	£289,969
<b>Net Cost</b>	£12,766	£21,597	£23,049	<b>-£2,957</b>
<b>Net benefit</b>	<b>£3,211</b>	<b>£11,047</b>	<b>£45,636</b>	<b>£112,414</b>
<b>Worst Case – per unit</b>				
<b>Income</b>	£28,947	£61,230	£139,080	£238,735
<b>Expenditure</b>	£46,626	£92,239	£187,086	£291,086
<b>Net Cost</b>	£17,679	£31,008	£48,005	£52,351
<b>Net benefit</b>	<b>-£1,702</b>	£1,635	£20,680	£57,106

Table 2 – Capital position

Capital - Per unit	Best Case	Worst Case
<b>Average Purchase Price</b>	£140,174	£154,191
<b>Refurbishment Costs and Fees</b>	£23,669	£31,890
<b>Total Cost</b>	£163,843	£186,081
<b>Asset value @</b>	3% PA	2% PA
<b>10 Years</b>	£205,181	£184,041
<b>20 Years</b>	£275,746	£247,695
<b>30 Years</b>	£370,580	£301,938
<b>Outstanding borrowing @ Yr. 30</b>	£45,876	£52,103
<b>Capital Benefit @ Yr. 30</b>	£206,737	£115,857

5.2.4 Table 1 highlights that where Right to Buy receipts are used to fund purchases, each unit will deliver revenue savings against the cost of existing TA options from year 1. It should be noted however, the modelling assumes a quantity of leasehold acquisitions being delivered over the life of the programme, some of which may be delivered at a higher net revenue cost than indicated in Table 1. However, where freehold assets are acquired, these will likely be delivered at a lower revenue cost. Therefore, in order to afford greater flexibility it is proposed that the key financial driver for units

acquired is that the average overall revenue benefit for the scheme equates to an approximate £3k per unit over 30 years (see likely benefit of £2,957 in table 1)..

- 5.2.5 To provide a consistent approach, both the purchasing scheme and existing temporary accommodation options have been modelled using rents set at 100% of the April 2017 Local Housing Allowance rate, ie the basis on which Housing Subsidy is calculated.

### **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 Section 120 of the Local Government Act 1972 provides that a principal council can acquire land (whether situated in or outside their area) by agreement for the purposes of any of their functions or the benefit, improvement or development of their area. The decision must be made taking into account all relevant considerations including the price to be paid.

- 5.4.2 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”

- 5.4.3 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”.

- 5.4.4 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 £140k (best case). To mitigate against this risk, a wide range of areas are being targeted and inflationary increases throughout the year have been factored in to the proposed average purchase price. 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 and alternative lettings route.
- There is a risk that the programme will attract negative publicity. To help mitigate this risk, Barnet Homes will expand its existing communications strategy and engage with the host borough to inform them of the acquisitions programme.
- Properties acquired out-of-borough could be in areas where existing tenants or housing applications might not wish to move to and therefore making these units harder to let. However Barnet Homes has extensive experience in letting properties out-of-borough and this is considered to be of low risk
- 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 and reported to senior council officers to ensure that these groups are not adversely affected.

5.6.5 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 Local Authorities, 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 (30%) in the number of households in temporary accommodation (numbers have increased from 2,172 in April 2012 to their current level of 2,833 at the end of January 2017).
- 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