

	<p>Assets, Regeneration and Growth Committee</p> <p>19 September 2019</p>
<p>Title</p>	<p>Housing Acquisitions Programme (Phase 4)</p>
<p>Report of</p>	<p>Councillor Richard Cornelius</p>
<p>Wards</p>	<p>All</p>
<p>Status</p>	<p>Public</p>
<p>Urgent</p>	<p>No</p>
<p>Key</p>	<p>Yes</p>
<p>Enclosures</p>	<p>Appendix A – Housing Acquisitions Programme (Phase 4) Outline Business Case</p>
<p>Officer Contact Details</p>	<p>Shahid Navapurwala, Growth & Development, Barnet Homes. shahid.navapurwala@barnethomes.org, 020 8359 2491</p>

<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 a further 500 residential properties in Greater London and other areas within a 50-mile radius for use as affordable accommodation, to be let on non-secure or assured shorthold tenancy agreements and managed by Barnet Homes.</p> <p>Due to the lack of affordable housing supply in the borough, acquiring additional properties will provide the opportunity to further increase affordable housing supply relatively quickly at a lower cost than other temporary accommodation alternatives. This proposal seeks to build upon the successes and framework established through the first three phases of the acquisitions programme to deliver a greater volume of affordable housing solutions.</p>

<p>Recommendations</p>

- 1. That the Committee approve the business case for the acquisition of up to 500 properties purchased from Q3 2019/20 onwards funded through General Fund borrowing as outlined in Appendix A.**
- 2. That the authorisation of purchases of individual properties for the Housing Acquisitions programme (Phase 4) be delegated to the Deputy Chief Executive**
- 3. Subject to receiving further tax advice, that acquisitions be carried out by the Council's subsidiary, TBG Open Door Ltd, funded by a loan agreement between the Council and TBG Open Door Ltd.**
- 4. That the final decision to proceed with acquisitions delivered through TBG Open Door Ltd is delegated to the Deputy Chief Executive, including the authority to approve a loan agreement.**

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 increased by 19% since 2012.
- 1.2 Due to the lack of affordable housing supply in the borough acquiring additional properties will provide the opportunity to further increase affordable housing supply relatively quickly at a lower cost than other temporary accommodation alternatives, as well as providing security of tenure to help satisfy Barnet's long-term housing needs.
- 1.3 Building upon the successes of the previous three phases of acquisitions, Barnet Homes have carried out an assessment of the viability of purchasing additional homes directly on the private market, to be funded by the Council and, subject to advice on tax and state aid, owned, let and managed by TBG Open Door Ltd, and have developed a business case for proceeding with this as set out at Appendix A.
- 1.4 Barnet Homes have developed a business case that shows the benefits of proceeding with the acquisitions either via TBG Open Door Ltd or directly by the Council, as set out in Appendix A.
- 1.5 The additional benefits that would result from carrying out the acquisitions via TBG Open Door Ltd would include the removal of the need to pay stamp duty on the purchases, where TBG Open Door Ltd secures charitable status and the payment of additional interest over and above the public works loan board rate that the council can borrow at. In addition, the properties would provide TBG Open Door Ltd with an asset base which could support borrowing to fund more new homes in the longer term.

- 1.6 The proposal to acquire 500 properties via TBG Open Door Ltd was identified as part of the business plan for the Housing Committee, and was expected to deliver savings totalling £3.065m by 2024. Following receipt of advice on the treatment of Minimum Revenue Provision, the level of saving achievable will be reduced. However, analysis in section 5.2 below shows that it is still financially beneficial for the programme to proceed.

2. REASONS FOR RECOMMENDATIONS

- 2.1 Acquisition of additional properties will provide the opportunity to increase affordable housing supply relatively quickly at a lower long-term cost than 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 programme will be utilised to deliver an additional supply of family homes to meet the housing needs of the borough's housing applicants.
- 2.4 The Council would need to provide capital investment of an average of £325,275, for each property acquired, but the business model shows that this could be recouped over a 50 year period, during which time the value of the property would be expected to increase.
- 2.5 Where acquisitions are carried out by TBG Open Door Ltd instead of the Council, the borough would secure additional benefits in the form of Stamp Duty Land Tax exemption where TBG Open Door Ltd secures charitable status.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

Do nothing - this would mean that the Council does not utilise the opportunity to acquire additional affordable housing and incurs the costs associated with an increase in the use of temporary accommodation procured from private owners.

4. POST-DECISION IMPLEMENTATION

- 4.1 The accommodation will be used as temporary or affordable housing, let on non-secure tenancy agreements or other tenancy types as determined.

- 4.2 The Barnet Group would seek to acquire approximately 500 one, two, three and four-bedroom homes that could be demonstrated to fit within the parameters of the business case. These units would be expected to be acquired from October 2019.
- 4.3 Barnet Homes would provide a full management service for properties purchased either on behalf of the Council or TBG Open Door Ltd and units would be used to provide affordable accommodation, let at Local Housing Allowance rents.
- 4.4 The Council would monitor progress and expenditure of the project through Contract Performance monitoring, which is sponsored by the Deputy Chief Executive.
- 4.5 If the properties are purchased by TBG Open Door Ltd, the council officer will put in place a loan agreement with TBG Open Door Ltd to fund the acquisitions.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 By reducing the cost of temporary accommodation, the acquisition of homes 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.

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

5.2.1 The proposal is for approximately 500 properties to be acquired from quarter three of 2019/20 onwards, depending on the purchasing route. This will require a capital investment of £163m, equating to approximately £326k for each property acquired. The business model shows that this could be recouped over a 50-year period, during which time the value of the property would be expected to increase.

- 5.2.2 If the properties are purchased directly by the Council, interest payments estimated at £114m will be payable over the 50 year period. The overall net revenue saving (including cost avoidance) over 50 years is estimated to be approximately £520m. It is anticipated that units will break even and start delivering revenue surpluses after 21 years.
- 5.2.3 If the properties are purchased by ODH, the Council will still be required to take out a loan and make principal and interest payments, both of which will be repaid by ODH. This proposal results in a net revenue saving to the borough estimated at £513m over 50 years and includes a benefit to the Council from on-lending of 1.24% above the Public Works Loans Board rate estimated at £57.9m over 38 years when the loan is repaid by ODH.
- 5.2.4 Both proposals include the potential to deliver Temporary Accommodation cost avoidance estimated at £210.5m over 50 years. Over the 50 year period, greater savings are delivered by the Council purchasing the properties, however the ODH model produces earlier and greater revenue savings in the short to medium term as shown in table 1 below.
- 5.2.5 The project would be funded through General Fund borrowing which was approved by Policy and Resources Committee on 23 March 2019.
- 5.2.6 The tables below summarise the potential overall financial position delivered by the scheme using average purchase prices and rents expected to be delivered through the scheme for one property in a full year.

Table 1 – Cumulative revenue costs of delivering 500 units through both options

	Year 1 £'000s	Year 10 £'000s	Year 20 £'000s	Year 30 £'000s	Year 40 £'000s	Year 50 £'000s
<i>Option 2</i>						
ODH						
ODH delivery cost	1,251	4,789	1,210	1,210	(46,194)	(244,395)
Council						
TA cost avoidance	(1,429)	(19,191)	(46,267)	(84,040)	(136,783)	(210,492)
On-lending	(1,939)	(19,386)	(38,421)	(53,387)	(57,900)	(57,900)
Minimum Revenue Provision (MRP)	3,127	31,268	62,535	93,803	125,070	156,338*
ODH debt repayment			(13,710)	(72,569)	(156,338)	(156,338)
Total	(241)	(7,309)	(35,863)	(116,193)	(225,951)	(268,393)
Total borough cost	1,010	(2,520)	(34,653)	(114,983)	(272,144)	(512,788)
<i>Option 3</i>						
Council						
Council delivery cost	2,738	15,638	1,381	(50,297)	(149,600)	(310,354)
TA cost avoidance	(1,429)	(19,191)	(46,267)	(84,040)	(136,783)	(210,492)
Total	1,309	(3,553)	(44,886)	(134,337)	(286,383)	(520,846)

*note, total debt assumes Stamp Duty Land Tax exemption, however does not include consideration of working capital requirements

5.2.7 Purchasing via ODH has a greater benefit in the early years due to it making lower debt repayments during that period. Consequently, this option has a higher net present value (NPV), shown in table 2.

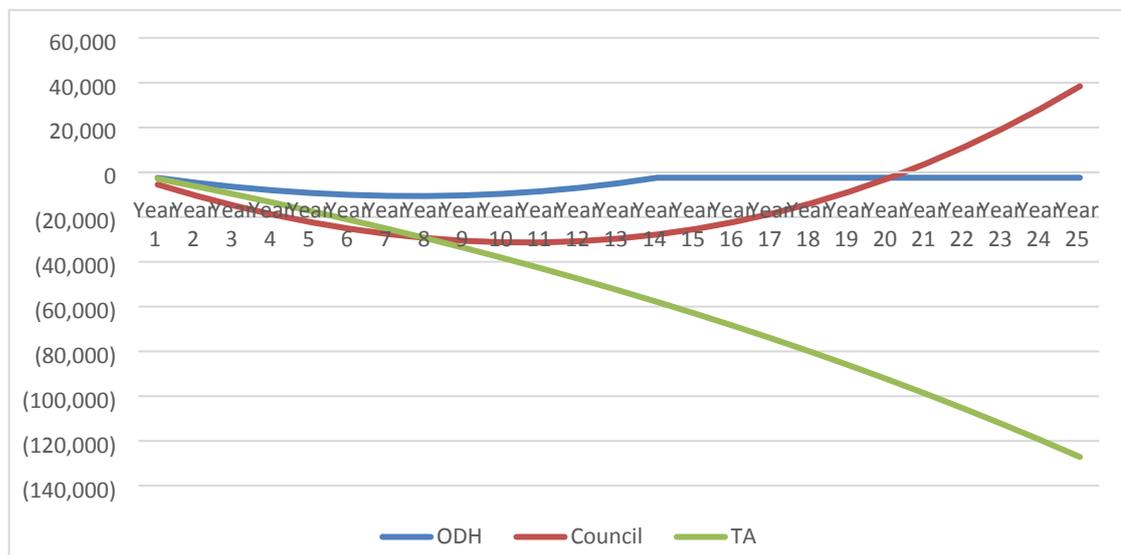
Table 2 – Average capital position (per property)

	Council purchasing	ODH purchasing
Average property price	282,500	282,500
Average delivery costs	42,775	30,175
Total borrowing per unit	325,275	312,675
Peak cash deficit	31,329 (Year 11)	10,610 (Year 8)
Debt repaid	Year 50	Year 38
NPV (debt, interest, no capital growth)	66,773	182,653

The Council will apply MRP over 50 years, resulting in a charge of 2% each year which serves to reduce the revenue benefit outlined above.

5.2.8

The various revenue costs per unit of pursuing the options proposed are highlighted in the graph below.



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 utilising private investment falls within the remit of the Assets Regeneration and Growth Committee - Council Constitution, Article 7 – Committees, Forums, Working Groups and Partnerships “Responsibility for regeneration strategy and oversee major regeneration schemes, asset management” and other matters.
- 5.4.2 If ODH acquires the properties, section 3 of the Local Authorities (Land) Act 1963 enables a local authority to advance money (up to 90% of the land value) to another party to acquire land or erect any building or carry out work on that land. Any such advance must be secured by mortgage and repayable within a 30-yr term.
- 5.4.3 If the terms of the loan are at more favourable rates than would be usual in the commercial lending market, such that the loan constitutes “financial assistance”, then the Council will need consent under Section 24 of the Local Government Act 1988 prior to making any such loan.
- 5.4.4 If the Council acquires the properties, it can rely on the power conferred by section 17 of the Housing Act 1985 (which enables local authorities to acquire land and buildings for housing purposes).

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 £283k. To mitigate against this risk, 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.
 - There is a risk that there will be an insufficient volume of units available for purchase that deliver the required revenue benefits. To mitigate against this, where there are no properties available for purchase that meet the modelled average revenue outcome across the whole scheme, no additional units will be acquired.
 - A further risk results to the Council in the event of Opendoor Homes defaulting on the loan. This could result in a reduction of the amount owed on the Council’s balance sheet.

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 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 A range of stakeholder consultation and engagement has occurred as part of the public engagement programme developed for the London Borough of Barnet's Housing Strategy.

A summary of these activities includes:

- The Housing Strategy consultation ran for three months, from 5th November 2018 to 11th February 2019, alongside the Homelessness and Rough Sleeping Strategy consultation. It primarily consisted of an online survey on Engage Barnet. Supporting documents were also available on Engage Barnet, allowing residents to view the draft strategy on there.

- In addition, presentations were made to the Barnet Homes Performance and Advisory Group, the Children's Partnership Board, the Youth Board and Health and Well Being Board.

5.7.2 A roadshow was also held in November 2018 for residents to meet the chair of the Housing Committee, and give their views on the strategy. This event had a focus around private renters, inviting attendees to share their experiences of residing in that sector.

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 39% increase in new part VII homelessness applications between 2011/12 and 2018/19.
- There was an overall 26% decrease in letting within Council stock from 2011/12 to 2017/18 and Barnet has below levels of social housing on average compared to other London boroughs.
- There has been a significant increase (19%) in the number of households in temporary accommodation (numbers have increased from 2,172 in April 2012 to their current level of 2,579 at the end of June 2019).

6.0 BACKGROUND PAPERS

6.1 Appendix A – Housing Acquisitions Programme (Phase 4) Outline Business Case

