

	<h2>Policy and Resources Committee Meeting</h2> <h3>2nd June 2015</h3>
<p style="text-align: right;">Title</p>	<p>Orbit Stock Purchase</p>
<p style="text-align: right;">Report of</p>	<p>Commissioning Director, Growth & Development</p>
<p style="text-align: right;">Wards</p>	<p>Woodhouse Ward</p>
<p style="text-align: right;">Status</p>	<p>Public with exemptions listed in a separate paper</p>
<p style="text-align: right;">Enclosures</p>	<p>Appendix A -Map Location and site plan of Properties</p>
<p style="text-align: right;">Officer Contact Details</p>	<p>Nannette Sakyi Nannette.Sakyi@barnethomes.org 0208 359 4296</p>

<h2>Summary</h2>
<p>Barnet Homes Ltd secured “preferred bidders” status in September 2014 with Orbit South Housing Association Limited (Orbit South) to acquire the property known as Douglas Bader House, Finchley N12 0EF) (the “property”). Preferred bidder status was subject to Barnet Homes becoming a Registered Provider (RP).</p> <p>The proposal that Barnet Homes, or another subsidiary of the Barnet Group, should seek to obtain RP status is being considered as part of the Review of Delivery of Housing Services, which will report to Housing Committee in June. If the Review concludes that BH should become an RP the process of registration will take some time. Therefore there is a risk the exchange with Orbit South could fall through if the contract is not signed. To avoid this risk, this paper seeks approval for London Borough of Barnet to purchase 11 units (Douglas Bader House, Finchley, N12 0EF) from Orbit South.</p> <p>Contract exchange is due in July 2015. A longstop date is scheduled for 30th September 2015 (subject to approval) .The 11 units are general needs accommodation for over 55s generating £ 73,388 of annual rental income.</p>

<h2>Recommendations</h2>

1. That the Committee approve London Borough of Barnet to purchase the freehold of the land and buildings known as Douglas Bader House subject to the conditions set out in this report and add the purchase costs as per the exempt report to the HRA capital programme.

2. That the Committee note the intention to explore the possibility of transferring the units to Barnet Homes, should it achieve Registered Provider status following completion of the Review of Delivery of Housing Services. Recommendation that the committee delegates authority for the disposal to the Chief Executive, or Commissioning Director, in consultation with the Chief Operating Officer.

1. WHY THIS REPORT IS NEEDED

1.1.1 The purchase of stock for London Borough of Barnet will increase the ownership of social housing stock within the local authority.

1.1.3 The purchase creates the possibility for the properties to be later sold to Barnet Homes, if and when Barnet Homes or another subsidiary of the Barnet Group becomes a Registered Provider.

1.2 Relevant previous decisions

1.2.1 The Barnet Group Asset Committee approved purchase of the 11 units on 17th November 2014. Subject to the due diligence being completed and Barnet Homes achieving registered provider status with the Homes and Community Agency.

1.2.2 4 March 2015 Barnet Homes Asset Committee acknowledged due diligence findings. The Barnet Homes Asset Committee agreed to continue with purchase of units from Douglas Bader and to enter into negotiations for the purchase to go ahead should negotiations fail. Negotiations were entered with Orbit South based on the due diligence findings. No reduction on purchase price agreed.

1.3 Background

Orbit South presented a disposal by sale of 130 units across Hammersmith & Fulham, Royal Borough of Kensington & Chelsea and London Borough of Barnet. Within this portfolio of properties, 11 units are located in Barnet to potential bidders. Barnet Homes placed a bid for the 11 units in Barnet. Sale of the properties would include full management from Barnet Homes.

1.4 Details of the scheme

1.4.1 The properties are situated within the London Borough of Barnet. (Map and site plan are shown in **Appendix A**).

- 1.4.2 The property address is: 1 to 11 Douglas Bader House, Montrose Crescent, Finchley London N12 0EF.
- 1.4.3 The scheme was built in 1990. Douglas Bader House consists of 11 one bedroom flats over 2 and 3 floors offering independent living for residents aged 55 and over with the reassurance of a lifeline system connected to a 24/7 monitoring service.
- 1.4.4 This is a general needs scheme. The sample searches for Douglas Bader state planning permission on the basis of 'elder person' flats and subject to 100% nominations from the Local Authority (London Borough of Barnet).
- 1.4.5 Tenure of Tenants: 11 Assured Non-short hold
Rents per annum: £ 63,950
Service Charge per annum: £ 9,438
Total income per annum: £ 73,388

1.5 Advantages of acquisition

- 1.5.1 The purchase price of each unit is £150,000 lower than the open market value of the properties. Valuation carried out by Foytons Estate Agent.
- 1.5.2 Staff TUPE does not apply as management of the properties will be absorbed in the current management function of Barnet Homes. A management fee is considered for the 11 units in the financial appraisal.
- 1.5.3 All units are social rented. This reduces the complexity of managing the properties
- 1.5.4 Properties are located in a high value location of Barnet, providing high value returns for potential future resale
- 1.5.5 Properties are fully tenanted. No current voids
- 1.5.6 Due to the scale of the scheme no additional resources envisaged as part of management of the scheme.
- 1.5.7 Acquiring tenanted stock adds increased rental income to the HRA

1.6 Disadvantages of acquisition

- 1.6.1 Due diligence demonstrated that there is some additional capital work required on the property that originally presented. However, as reflected in the due diligence paper in the exempt report, these capital works do not make a significant impact to the cash flow.
- 1.6.2 Properties can currently only be used for tenants over 55. This will not meet our general need requirements.

- 1.6.3 Rents are currently set at social housing rates as set out by DCLG under the self-financing regime. Although there is scope for it to be set higher by LBB.
- 1.6.4 100% nominating right applies to these stock, therefore does not add to the availability of affordable housing stock.

1.7 Property Valuation

- 1.7.1 As part of the initial due diligence of the properties professional opinions and valuations were conducted to ascertain the open market value of the units.
- 1.7.2 An independent valuation carried out by Foytons Estate Agent valued the properties to sell £150,000 higher per unit than the purchase price.

2 REASONS FOR RECOMMENDATIONS

- 2.1.0 There is still ongoing dialogue regarding Barnet Homes RP status. As dialogue continues there is a risk the exchange with Orbit South could fall through. To avoid this risk, this report seeks approval for London Borough of Barnet to purchase 11 units (Douglas Bader House, Finchley, N12 0EF) from Orbit South.
- 2.2.0 This proposal gives a recommendation for the properties to be later sold to Barnet Homes once Barnet Homes achieves registered provider status.

3 ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1.0 Do nothing - The option to do nothing would result in Orbit opting for their reserve bidder. This will result in a loss of opportunity to secure additional social housing stock to be owned by London Borough of Barnet, at a value which is significantly below market value. The cost to purchase the units is significantly lower than the costs of new build which could be around £200,000 for a 3 bed unit.

4 POST DECISION IMPLEMENTATION

- 4.1.0 Legal representatives to amend contracts for conditional exchange of contracts between London Borough of Barnet and Orbit South.
- 4.2.0 Work will continue for the data transfer from Orbit South. This will include tenancy details and history which can also be provided post transfer.

5 IMPLICATIONS OF DECISION

5.1.0 Corporate Priorities and Performance

- 5.1.1 The Council's Corporate Plan 2015-2010 set out its strategic objectives to ensure that Barnet is a place:

- a) of opportunity, where people can further their quality of life
- b) where people are helped to help themselves, recognising that prevention is better than cure
- c) where responsibility is shared, fairly
- d) where services are delivered efficiently to get value for money for the taxpayer.

The purchase of Douglas Bader House will particularly support objective d where service is delivered at value for money efficiently.

5.1.2 The property will be amalgamated within the wider social housing stock and be managed by Barnet Homes creating value for money by sharing resources whilst generating additional income. Benchmarking exercise carried out by Housemark in 2013/14 shows that Barnet Homes is the second lowest in respect to management cost per property when compared with 15 other housing management organisation of similar size in London. This provides value to the council by Barnet Homes managing the properties.

5.1.3 The performance of this contract will be managed as part of the wider housing management contract with Barnet Homes and will be embedded within existing KPIs. This will ensure monitoring is streamlined and consistent.

5.1.4 Douglas Bader is a residential block for residents of 55 and older. As part of the Barnet Health and Wellbeing strategy, these properties will enable people to live independently in their own home. An alarm monitoring system is installed in each unit to support independent living.

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

5.2.1 Funding of the purchase

The costs of the freehold purchase will be financed from HRA reserves.

The affordability and impacts of this purchase has not been modelled for the HRA. However Barnet Homes' modelling shows the properties to pay for themselves after 29 years.

5.2.2 Stamp Duty

Stamp Duty Land Tax can arise on the purchase or transfer of freehold land and buildings or on the grant of assignment of a lease. Advice sought from tax professionals indicates that as a registered provider, the Council will not incur a Stamp Duty Land Tax (SDLT) liability on these purchases. Exemption can be applied as the properties are being purchased from a registered social landlord to another registered provider.

5.2.3 Other costs

Other costs to be incurred in relation to purchasing the properties is £15,000, which covers legal fees and fees for a stock condition survey for a sample of properties in the block. Due diligence and Barnet Homes initial legal fees have been covered by Barnet Homes from the management fee.

Due Diligence (Property inspection)

Contractor	Description of works	Cost
Lerch Bates	Inspection of lift and key components report of findings	£1,200+VAT
Capital PCC	Building surveyor to provide a review on the building fabric and full site inspection	£2,400.00 +VAT
David Miles and Partners	Stock condition report review the M&E services	£2480+VAT
Total		£6080+VAT

The property inspections have now been completed. Costs have been administered by Barnet Homes from the management fee.

5.2.4 Outstanding rent arrears

The rent arrears as of 31st July 2014 stand at £3,577.19. Rent arrears and service charges will be assigned to Barnet Homes Ltd. Payments to be made 20 working days from completion date. Based on CIPFA formula as of 31st July 2014, payments of £2,408.94 are payable to Orbit South for rent arrears. This figure is subject to change pending completion in September 2015 but will be paid by Barnet Homes with no additional charge to the Council.

5.2.5 Right to Buy

Once acquired by the Council and held in the Housing Revenue Account the properties will be immediately subject to right to buy. This is likely to require the Council to repay the social housing grant. The Council would not receive the full value of the receipt and may not recoup the investment.

5.3.0 Legal and Constitutional References

5.3.1 London Borough of Barnet is a registered provider by default. The effect of section 33 of the Housing and Regeneration Act 2008 is that LBB will stand in place of Orbit South as respects the HCA grant (just as Barnet Homes would have done).

5.4.0 Risk Management

There are particular risks that will be incurred by the Council should it make the acquisition of the Property. These risks can be summarised as follows:

5.4.1 The tenants of the 11 flats at the Property currently hold "assured tenancies". These tenancies will convert to "secure tenancies" immediately upon the Council purchasing the Property and on which there is a limit to the rent the Council may charge.

- 5.4.2 Pursuant to the Housing Act 1985, the tenants can count the period of time that they have held the assured tenancies towards achieving the qualifying period to acquire the right to buy their flats. It is almost certain therefore, that on completion of the Council's purchase, the tenants of the flats will immediately acquire the right to buy the flats at the Property, because they will have already held the assured tenancies for longer than the qualifying period. The Committee should consider whether this is a desired outcome.
- 5.4.3 If the Council purchases the Property, any subsequent transfer of the Property to Barnet Homes will require the consent of the Secretary of State. The Secretary of State is obliged to take into account the views of the tenants, who may disagree with the transfer to Barnet Homes. The Secretary of State may refuse consent.
- 5.4.4 Because the tenancies will convert to secure tenancies on completion of the Purchase, the tenants' rent is highly likely to decrease (because Landlords of assured tenancies are able to charge higher rents than that which a Council is permitted to charge for secure tenancies). If the Property is then transferred to Barnet Homes, the secure tenancies will convert back to being assured tenancies. This is highly likely to result in a rent increase for the tenants. This may give rise to reputational issues for the Council.
- 5.4.5 Although the current market value of the properties have been outlined in this report, it is important to note that the market value can fluctuate up or down depending on the economic environment of when they are valued.
- 5.4.6 There is always the risk in the future that rent increases might be lower than inflation which would have an impact on the net cashflow forecast closing balance.
- 5.4.7 Orbit south are waiting to sign conditional contract. Delay in signing of the contract could lead to Orbit South withdrawing.
- 5.4.8 If Barnet Homes does not secure RP status. The properties remain in London Borough of Barnet's ownership. Costs related to acquisition being absorbed by LBB.

5.5.0 Equalities and Diversity

There are no equality and diversity issues identified arising from this report. 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
- foster good relations between people from different groups

The broad purpose of this duty is to integrate considerations of equality into day business and keep them under review in decision making, the design of policies and the delivery of service

5.6.0 Consultation and Engagement

5.6.1 Consultations were held with the residents of Douglas Bader House and Barnet Homes on the 28th November 2014. Consultations regarding the transfer of management from Orbit South to Barnet Homes. Residents were in full favour and welcomed a local landlord.

Appendices

Appendix A: Map location and site plan

