

	<p><b>Assets, Regeneration and Growth Committee</b></p> <p><b>12 December 2016</b></p>
<p style="text-align: right;"><b>Title</b></p>	<p><b>In-London and Out-of-London Acquisitions</b></p>
<p style="text-align: right;"><b>Report of</b></p>	<p>Commissioning Director, Growth and Development</p>
<p style="text-align: right;"><b>Wards</b></p>	<p>All</p>
<p style="text-align: right;"><b>Status</b></p>	<p>Public</p>
<p style="text-align: right;"><b>Urgent</b></p>	<p>Yes</p>
<p style="text-align: right;"><b>Key</b></p>	<p>Yes</p>
<p style="text-align: right;"><b>Enclosures</b></p>	<p>Appendix 1 - In-London Acquisitions Project Business Case Appendix 2 – Out of London Acquisitions Project Business Case</p>
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<b>Summary</b>
<p>Against a backdrop of increasing housing demand and rising housing costs, this report sets out the business case for purchasing residential properties to be let and managed by Barnet Homes as secure tenancies. With around 3,000 households in temporary accommodation and a lack of affordable housing supply in the borough, the purchasing of additional residential units would increase the HRA stock to help address the housing demand and provide a financially viable method of utilising the Council’s right-to-buy receipts.</p> <p>This report also seeks to apply revisions to the original business cases for purchasing properties both inside and outside of London, extending the parameters within which properties can be purchased, whilst continuing to deliver similar revenue benefits as outlined in previous reports.</p>

<b>Recommendations</b>
<ol style="list-style-type: none"> <li><b>1. That the Committee approve the acquisition of residential units through the Council’s Housing Revenue Account as outlined in Appendix 1 to utilise right-to-buy receipts required to be committed in future quarters where there are no other viable alternatives to do so.</b></li> <li><b>2. That the Committee agree additional acquisitions in London up to a total value of £6m, subject to the approval of additional funding which is being sought from the Policy &amp; Resources Committee on 1 December 2016.</b></li> <li><b>3. That the Committee approve the revisions to the business cases for both out-of-</b></li> </ol>

**London acquisitions (General Fund) and Housing Revenue Account Direct Acquisitions as outlined in section 5.2 in this report.**

- 4. That the authorisation of purchases of individual properties for the in London and out of London acquisitions programmes is delegated to the Commissioning Director, Growth and Development in consultation with the Chairman of Assets, Regeneration and Growth Committee.**

## **1. WHY THIS REPORT IS NEEDED**

- 1.1 Due to continuing high demand and rising costs for housing, the number of households in temporary accommodation has continued to increase and stands at 2,983 in October 2016.
- 1.2 The cost of providing temporary accommodation for homeless applicants currently stands at £3,400 per annum net for each new household placed in a 2 bedroomed property, and the cost of meeting housing demand is forecast to place significant pressure on the Council's General Fund in current and future years.

### **In London Acquisitions**

- 1.3 The Council agreed at the Urgency Committee on 17 October 2016 to proceed with a programme of acquiring properties in London utilising right-to-buy receipts required to be spent by the end of Q3 2016/17. The purchase of homes in Barnet and neighbouring boroughs will provide an option to provide affordable homes for housing applicants who need to remain in the Capital.
- 1.4 To afford the Council flexibility where right-to-buy receipts are required to be spent or be at risk of being returned to HM Treasury, this report seeks authority to extend the proposal to acquire properties, as outlined in Appendix 1.
- 1.5 The use of right-to-buy receipts to purchase properties on the open market would result in both a direct financial benefit to Barnet's Housing Revenue Account, and provide an opportunity to increase the borough's affordable housing stock, thus reducing reliance on more expensive temporary accommodation.
- 1.6 Barnet Homes have carried out an assessment of the viability of purchasing homes in London directly on the private market, to be owned by the Council and let and managed by the Arm's Length Management Organisation (ALMO), and an updated business case for proceeding with this is set out at Appendix 1.

### **Out of London Acquisitions**

- 1.7 The Council agreed at the Assets, Regeneration and Growth Committee on 11 July 2016 to proceed with a programme of acquiring properties outside of London for use as temporary accommodation. Policy & Resources Committee agreed, on 28 June 2016, a capital budget of £5m for this purpose.

- 1.8 Barnet Homes' experiences to date in the acquisition of properties outside London have highlighted a need for greater flexibility with the parameters set for achieving value for money acquisitions. This report also proposes to extend the parameters set for acquiring these properties, whilst continuing to deliver similar revenue benefits to the Council.
- 1.9 Barnet Homes have carried out an assessment of the viability of purchasing homes outside of London directly on the private market, to be owned by the Council and let and managed by the Arm's Length Management Organisation (ALMO), and an updated business case for proceeding with this is set out at Appendix 2.
- 1.10 The updated business case also takes account of recent advice received that right to buy receipts can be used to contribute towards the cost of acquiring properties for use as temporary accommodation to be let at below market rents.

## **2. REASONS FOR RECOMMENDATIONS**

### **In London Acquisitions**

- 2.1 Acquisition of additional properties in London will provide the opportunity to increase affordable housing supply relatively quickly at a lower long-term cost than temporary accommodation. The on-going cost of the accommodation will be more predictable than that procured through third party providers.
- 2.2 Barnet Homes would fully manage properties secured through this method and tenants would be secure tenants of the Council, provided with fixed term tenancies. Rent will be set at 65% of the market rent for a property of a similar size and in a similar area.
- 2.3 In order to fund the acquisition of new Housing Revenue Account (HRA) units the right-to-buy receipts are allowed to make up to 30% of the costs, and therefore the remainder (70%) will be funded by HRA reserves.
- 2.4 The Council is required to make use of right-to-buy receipts within three years of their collection, or pay the receipt in full (plus interest) to HM Treasury.
- 2.5 Properties in London (HRA) would be purchased through this scheme at a cost that would ensure the revenue benefits indicated in table 5.2.2 are deliverable. The proposed revisions to the HRA Direct Acquisitions business case would afford the Council greater flexibility in securing properties in London and reduce the risk that right to buy receipts are not committed within the required timeframe.

### **Out of London Acquisitions**

- 2.6 For properties purchased outside London for use as temporary accommodation, a revision to the purchase price of units is proposed. This is necessary to enable the Council to realise the full benefits of the scheme.

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

- 3.1 Do nothing. This option would see the Council potentially having to return unallocated right-to-buy receipts plus interest to HM Treasury and thus deny the Council of much needed additional housing stock.
- 3.2 Keep existing parameters within which purchases are delivered. This option would result in a reduced acquisitions programme and an increased risk that right-to-buy receipts are not spent within the required timeframe and other benefits of the scheme would not be fully realised

### **4. POST DECISION IMPLEMENTATION**

- 4.1 A project board with representatives from Barnet Council and Barnet Homes will continue to monitor progress and expenditure of the acquisitions programmes, which are sponsored by The Strategic Housing Lead as set out in the Business Case (Appendix 1 and Appendix 2)

## **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.
- 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)**

#### **In London Acquisitions**

- 5.2.1 Approval to spend £2.896m on acquiring properties in London was provided by the Urgency Committee on 17 October 2016, from the £4.4m Infill programme, and a further approval increase the value of the programme by £1.6m to £6m at Policy and Resources Committee on 1 December 2016.

5.2.2 The profile for the spend will be informed by the Council's forecast inflow of right-to-buy receipts.

5.2.2 The table below indicates the potential rental income set against the costs of purchasing and delivering the accommodation, taking into account worst and best case scenarios<sup>1</sup>

*Table 1 – overall financial position HRA purchasing in Barnet and neighbouring boroughs*

<b>Best Case – per unit</b>				
	<b>5 Years</b>	<b>10 Years</b>	<b>20 Years</b>	<b>30 Years</b>
<b>Income</b>	£56,450	£121,789	£291,557	£531,033
<b>Expenditure</b>	£68,951	£140,151	£293,238	£468,826
<b>Revenue benefit</b>	<b>-£12,501</b>	<b>-£18,362</b>	<b>-£1,681</b>	£62,207
<b>TA cost avoidance</b>	£17,334	£36,958	£82,729	£138,826
<b>Net benefit</b>	£4,833	£18,596	£81,048	£201,033
<b>Worst Case – per unit</b>				
<b>Income</b>	£55,535	£117,101	£265,566	£455,614
<b>Expenditure</b>	£71,840	£146,089	£305,862	£489,126
<b>Revenue benefit</b>	<b>-£16,305</b>	<b>-£28,988</b>	<b>-£40,296</b>	<b>-£33,512</b>
<b>TA cost avoidance</b>	£17,334	£36,958	£82,729	£138,826
<b>Net</b>	£1,029	£7,970	£42,433	£105,314

5.2.3 Tables 1 above shows a divergence between the potential outcomes between the best and worst case scenarios. A best case scenario would likely deliver a revenue benefit of as much as £62k per unit over a 30 year period whilst a worst case scenario would likely result in a net cost per unit of £34k over a similar period. In both scenarios it is not expected that either option will deliver a short to medium term revenue benefit.

5.2.4 An important financial benefit derived through the programme would be the utilisation of right-to-buy receipts as an alternative to returning these funds to HM Treasury.

5.2.5 A further benefit derived from the scheme is that affordable accommodation acquired will help reduce reliance on temporary accommodation. Each unit acquired through the scheme will offer cost avoidance of approximately £201,000 per unit over a 30 year period, when compared to alternative existing temporary accommodation options.

5.2.6 To help increase the potential volume of acquisitions through the HRA Direct Acquisitions programme, it is recommended to add the following revisions to the original business case and Committee report approved by Urgency Committee on 17 October 2016:

<sup>1</sup> Analysis of worst case and best case scenarios assumed varying costs for voids, management, maintenance, inflation, refurbishment and major works costs

- (2.5) That instead of an average purchase price of £240,000, that the individual purchase price of units is not restricted, providing that overall, units acquired deliver an average financial benefit similar to that outlined in 5.2.2 above.

### **Out of London Acquisitions**

5.2.7 To help increase the potential volume of acquisitions outside London (GF), it is recommended to add the following revisions to the original business case approved by this Committee on 11 July 2016:

- (Section 2.) That the individual purchase price of units is between £120,000 and £200,000 as opposed to an average purchase price of £114,000
- That the assumptions within the financial modelling for out-of-London (GF) acquisitions are mostly aligned with those made in the HRA business case (Appendix 1). A summary table of key assumptions for out-of-London acquisitions is detailed below
- That the financial modelling includes provision for payment of Stamp Duty Land Tax as applicable per unit

Assumption	Best Case	Worst Case
Annual Rent Inflation (CPI plus 1%)	3.50%	2.50%
Void Loss	3.00%	4.00%
Bad debt provision	3.00%	4.00%
Maintenance Costs	£800 pa plus inflation	£1,000 pa plus inflation
Housing Management Costs	£450 pa plus inflation	£450 pa plus inflation
Inflation (Base rate plus 1%)	3.50%	3.50%
Major Works	1.00%	1.00%
Service charge & ground rent	£1,300 pa plus inflation	£1,300 pa plus inflation
Refurbishment costs	£10,000	£15,000
Borrowing rate	2.75%	2.75%

5.2.8 Approval to increase the price range within which properties can be acquired in the Luton and Bedfordshire area will enable greater flexibility in acquiring properties and offer the potential to purchase 3 bedroomed properties whilst continuing to deliver revenue benefits as outlined in the business case.

5.2.9 The table below indicates the rental income set against the costs of purchasing and delivering the accommodation, taking into account worst and best case scenarios<sup>2</sup>

<sup>2</sup> Analysis of worst case and best case scenarios assumed varying costs for voids, management, maintenance, inflation, refurbishment and major works costs

*Table 2 – overall financial position purchasing in the Bedfordshire area*

<b>Best Case – per unit</b>				
	<b>5 Years</b>	<b>10 Years</b>	<b>20 Years</b>	<b>30 Years</b>
<b>Income</b>	£34,083	£73,767	£176,878	£322,327
<b>Expenditure</b>	£47,991	£98,288	£208,942	£339,703
<b>Revenue benefit</b>	13,908	£24,521	£32,064	£17,376
<b>TA cost avoidance</b>	£17,334	£36,958	£82,729	£138,826
<b>Net benefit</b>	£3,426	£12,437	£50,665	£121,450
<b>Worst Case – per unit</b>				
<b>Income</b>	£33,529	£70,922	£161,094	£276,522
<b>Expenditure</b>	£54,274	£110,763	£232,704	£372,252
<b>Revenue benefit</b>	£20,745	£39,841	£71,610	£95,730
<b>TA cost avoidance</b>	£17,334	£36,958	£82,729	£138,826
<b>Net benefit</b>	<b>-£3,411</b>	<b>-£2,883</b>	£11,119	£43,096

5.2.10 Whilst GF acquisitions will be delivered at a net cost of approximately £17,000 over a 30 year period, each acquisition will offer cost avoidance of approximately £121,000 over the same period when compared to existing temporary accommodation options.

## **5.2 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:

- Doing nothing risks the Council not spending money in time and having to return right-to-buy receipts plus interest to HM Treasury.
- There is a risk that the timeframes within which right-to-buy receipts are required to be spent are not met and therefore the full benefits of future scheme may not be realised.
- Properties acquired through either the GF or HRA acquisition programmes 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 without revisions being made to the parameters within which out-of-London purchases are secured that the Council will not achieve the forecasted number of acquisitions by the end of Q4 2016/17

## 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 Allocation of properties acquired will be made in accordance with the Council's Housing Allocations Policy. 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 As part of the communications plan for the delivery of the programme, Barnet Homes will engage with Councils where acquisitions are being considered, 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 (37%) in the number of households in temporary accommodation (numbers have increased from 2,172 in April 2012 to their current level of 2,923 at the end of October 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 342 decants are scheduled for the forthcoming two financial years.

## **6.0 BACKGROUND PAPERS**

6.1 None