

	Assets, Regeneration and Growth Committee 27 November 2017
Title	Open Market Purchases of Affordable Housing
Report of	Councillor Daniel Thomas
Wards	All
Status	Public
Urgent	No
Key	Yes
Enclosures	Appendix A – Outline Business Case: Acquisitions Programme (Phase 3)
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Summary

With a lack of housing supply, high private sector rent levels and the impact of welfare reforms, the last few years have been testing for all Local Authorities which have seen increased level of demand in terms of homeless applications and numbers in temporary accommodation are high which has placed pressure on already limited housing supply.

To help provide affordable housing solutions, Barnet Homes has developed and delivered a raft of solutions, including developing successful cost effective long-term temporary accommodation solutions. This proposal seeks to build upon the successes and framework established through the first two phases of the acquisitions programme to deliver a greater volume of affordable housing solutions utilising private investment.

Recommendations

1. That the Committee approve the outline business case for the Acquisitions Programme (Phase 3) in Appendix A
2. That the authorisation of leases of individual properties under the parameters set out in Appendix A be delegated to the Deputy Chief Executive Officer

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 remain high and currently stands at 2,675.
- 1.2 The cost of providing temporary accommodation for homeless applicants in London currently stands at approximately £3,400 per annum net for each new household placed in a 2 bedroomed property.
- 1.3 To help provide affordable housing solutions, Barnet Homes has developed and delivered a range of solutions, including developing successful cost effective long-term temporary accommodation solutions. The proposed scheme is part of a comprehensive set of mitigations designed to help address long-term General Fund budget pressures.

2. REASONS FOR RECOMMENDATIONS

- 2.1 The utilisation of investment to acquire additional affordable accommodation will provide the opportunity to increase affordable housing supply relatively quickly at a lower long-term cost than other temporary accommodation alternatives.
- 2.2 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.
- 2.3 Existing temporary accommodation rates mean that for each new household placed in 2-bed emergency temporary accommodation costs the Council approximately £2,400 net per annum. With bad debt provision and management costs factored in, this figure increases to approximately £3,400 net per annum, per household.
- 2.4 Whilst the market in London continues to be buoyant our experience to date has evidenced that there is a supply of units available on the open market that can be delivered at more affordable levels than temporary accommodation.
- 2.5 Delivery of the Open Market Purchases of Affordable Housing has a number of benefits, not least the ability to deliver revenue benefits against alternative temporary accommodation options, eradicate exposure to inflationary increases in the cost of providing accommodation, afford similar financial benefits to alternative General Fund borrowing options, and provide greater opportunity to reduce long-term General Fund costs.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 In developing the business case, other options were considered. These included utilising private investment to deliver affordable housing outside London. However, feedback and our analysis of options (see Appendix A) indicated that the option highlighted below (4.1) was preferable.

4. POST DECISION IMPLEMENTATION

- 4.1 The programme focuses on the acquisition of approximately 300 properties purchased from Q4 2017/18 onwards funded by private investment funds and leased to the London Borough of Barnet on a lease of 40 years, with assets reverting to the Council for £1 upon expiry of the lease term.
- 4.2 Units will be procured on the open market and purchases would be funded by a socially responsible investment fund, Cheyne Capital Management UK LLP
- 4.3 Barnet Homes will provide a full management service for properties purchased and units would be used to provide long-term temporary accommodation, let at 100% of the relevant Local Housing Allowance rate.
- 4.4 The rent payable to the fund would be set at 3.4% of the total capital outlay for the property per year. These figures would be CPI index linked.
- 4.5 The properties let through this model could also be let at open market rents and provide the Council the opportunity for a profit sharing arrangement by letting a proportion of the properties through the Barnet Group's subsidiary company, Bumblebee Lettings Ltd with the Council receiving 50% of the increased net revenue over and above the Local Housing Allowance rate.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 This approach aligns with the London Borough of Barnet's Housing Strategy 2015-2025 that aims to increase the supply of affordable housing available to homeless households and encourage institutional investment in the private rented sector.
- 5.1.2 Properties acquired would be delivered at a lower cost over a 40 year period than existing methods of providing temporary accommodation, thus reducing pressure on the Council's General Fund.
- 5.1.3 Properties let through this method could be used for temporary accommodation for homeless household or have the potential to be used for

the provision of residential accommodation for key-workers at sub-market rents.

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

5.2.1 The project would be funded by private investment delivered by a socially responsible investment fund. The programme will deliver up to 300 units, all of which will be sourced in Greater London.

5.2.2 The table below summarises the overall position of the models proposed using average property purchase prices and rents expected to be delivered through the scheme.

Table 1 - Summary of cash flow impacts per unit

Activity / cumulative impact	Year 1 Revenue Cost	Year 10 Revenue Cost	Year 20 Revenue Cost	Year 30 Revenue Cost	Year 40 Revenue Cost
Existing TA	2,857	38,413	93,136	170,329	279,216
40 Year Lease (affordable)	1,054	9,727	5,946	(21,392)	(88,124)
40 Year Lease (market rent)	(351)	(11,850)	(46,737)	(117,955)	(246,583)

Should the Council acquire 300 units through the 40 year leasing model, the overall financial impact would likely deliver significant benefits. This strategy would also serve to balance risk with a mixture of long-term leases supplementing existing council acquired assets allowing the council greater flexibility, diversification of funding and increasing revenue potential.

Table 2 – Overall scheme summary

	40 year leasing model
Volume of units	300
Total Revenue surplus	26.4m
TA Cost Avoidance	83.8m
Financial Benefit Year 40	110.2m

Given the length of term of the arrangements that the Council would be required to commit to, stress testing the assumptions is important to gauge the financial impact where some of the assumptions are not realised. The table below indicates the potential impact per unit where some of the key assumptions vary.

Table 3 – Stress testing financial models

	40 Year Lease (Net Present Value)
Base Case	605,000
10% increase in average purchase price	615,000
10% reduction in average rent	546,000
5% CPI throughout lease term	(32,000)

5.3 Social Value

5.3.1 Having consideration to the Public Services (Social Value) Act 2012, there are no specific social values considerations arising from these policies. The 2012 Act does not apply to the proposed arrangements.

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. Section 120 of the Local Government Act 1972 gives the Council the power to acquire property whether situated inside or outside their area for the purposes of—

- (a) any of their functions under the 1972 or any other enactment, or
- (b) the benefit, improvement or development of their area.

5.4.2 This includes taking a lease of property. Acquiring the lease in order to provide temporary accommodation as envisaged here is authorised by this section. If the Council grants a sub tenancy which is a secure tenancy, the right to buy can potentially arise which would entitle the subtenant to buy the remainder of the 40 year lease. The scheme is designed to avoid the grant of secure tenancies.

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 the assumptions made in modelling are not accurate and that the financial benefits are not realised. Activity will be closely monitored to track financial benefits and early identification of risks. Where necessary, Barnet Homes will consider other lettings routes for properties acquired.
- There is a risk that there will be an insufficient volume of units available for purchase that deliver the required revenue benefits. The proposed target areas are sufficiently broad enough to help minimise any potential impact the programme will have on local market inflation. 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.
- There is a risk that customers will refuse to accept properties in out-of-borough locations. However market research and analysis will be undertaken before selecting locations and purchasing properties to ensure that customers are likely to accept properties in these areas.
- There is a risk that legislation, and housing duties will change significantly over the term of the lease and Barnet Homes will have insufficient

numbers of suitable applicants to let properties to, increasing void times and impacting on affordability. Lettings capacity will be closely monitored and where necessary, Barnet Homes will consider other lettings routes for properties acquired.

- There is a risk that CPI indexed rents will not remain affordable for the duration of the lease term. Affordability of rents will be closely monitored over the duration of the lease term, and alternative lettings routes considered where individual properties become unaffordable.

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 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 provides the rationale for this programme:

- There has been a 42% increase in new homelessness applications between 2011/12 and 2016/17.
- There was an overall 26% decrease in letting within Council stock from 2011/12 to 2016/17 and Barnet has below levels of social housing on average compared to other London boroughs.
- There has been a significant increase (23%) in the number of households in temporary accommodation (numbers have increased from 2,172 in April 2012 to their current level of 2,675 at the end of September 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 temporary accommodation (TA) are decanted and require rehousing, either to alternative TA or social housing units. Over 800 households have been decanted since April 2012 and a further 371 decants are scheduled for the forthcoming two financial years.

6. BACKGROUND PAPERS

6.1 The Housing Strategy 2015-2025