Acquisitions Programme (Phase 3)

Business Case

Outline Business Case (OBC):
Acquisitions Programme (Phase 3)

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1. Executive Summary

This paper outlines a proposed third phase of the Acquisitions Programme, to build upon the successes of the first two phases.

In 2013, Barnet Homes' Housing Options service developed a menu of options to tackle the problem of the increasing cost of temporary accommodation, and this was presented to the Council's Delivery Unit Board (DUB). One of the options proposed was the acquisition of out-of-borough properties – but the Delivery Unit Board decided to explore alternate options at the time, the majority of which have subsequently been implemented.

In July 2016 the Council approved an outline business case for the delivery of new affordable homes outside of the borough (Phase 1), and this was extended to include properties within London in November 2016. This programme has seen the delivery of almost 50 new affordable homes for housing applicants. Building upon this success, the Council approved an additional phase of purchases (Phase 2) which saw the deployment of an additional 8m budget and plans to acquire an additional 50 affordable homes outside London. By the end of Q3 2017-18, The Barnet Group will have delivered almost 100 new affordable homes for Barnet's housing applicants in a little over a year.

	Locations	Budget	No of Units
General Fund (Phase 1)	Bedfordshire	5m	28
HRA (Phase 1)	Greater London	6.4m	21
General Fund (Phase 2)	Bedfordshire & Cambridgeshire	8m	45
Total		**19.4m**	**94**

The third phase will reflect learning and insights gained through the successful delivery of Phases 1 and 2, and deliver:

- A robust procurement process that has been developed and refined over time
- Expertise and organisational knowledge that has been acquired through the delivery of successful programmes to date
- Scalability that affords the capacity to deliver new affordable homes in volume

The proposed Phase 3 is part of a raft of actions and mitigations introduced by The Barnet Group, in partnership with the Council to help address homelessness and General Fund temporary accommodation budget pressures. Initiatives such as the development of new affordable homes, investing in homelessness prevention activities and additional private rented sector supply through the successful let2barnet brand are key elements to the Council's approach to managing homelessness demand. The delivery of a third phase of acquisitions is another key mitigation measure that complements the range of actions undertaken and plays an important role in helping manage General Fund homelessness budget pressure.

2. Introduction and Strategic Context

With a lack of affordable housing supply, high private sector rents and the impact of welfare reforms, the last few years have been a challenge for all Local Authorities with increasing homelessness demand and growing numbers in temporary accommodation which has placed pressure on already limited housing supply.

This picture has been replicated at a local level, with Barnet experiencing increased high levels of demand for affordable housing, with limited sources of affordable supply. Demand has been exacerbated by the buoyant private rental market in the borough which is increasingly unaffordable for those on lower incomes. Loss of private rental accommodation is one of the most common reasons for a homelessness application, with residents who might previously have made their own arrangements in the private rental sector approaching the local authority.

Supply & Demand in Barnet: A Snapshot

- 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)
- Barnet has the 6th highest number of households in temporary accommodation in the country
- Almost 75% of all the households in temporary accommodation in England are placed by North, East and West London Authorities. This has led to increased pressure in competition for affordable supply.
- 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. Over 800 households have been decanted since April 2012 and a further 371 decants are scheduled for the forthcoming two financial years.

This has posed a major challenge to Barnet Homes' Housing Options Service – for example, trying to ensure that the limited supply of housing is provided to those with the greatest need, and that emergency and temporary accommodation is used effectively, whilst also attempting to identify new sources of housing supply. In addition, the cost of providing temporary accommodation has increased significantly. A key priority for Barnet Homes since 2013 has to been to strive to reduce the impact that the high cost of temporary accommodation has on the Council's General Fund (GF).

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. This proposal seeks to build upon the successes and framework established in the first two phases of our successful acquisition programmes to deliver a greater volume of affordable housing solutions.

3. Rationale

The opportunity to acquire additional affordable housing has been revisited in line with the London Borough of Barnet's Housing Strategy.

Utilisation of investment to acquire additional properties within London will provide the opportunity to further increase affordable housing supply relatively quickly at a lower cost than other temporary accommodation alternatives, as well as introducing a wider variety of financing options as an alternative to borrowing from the Public Works Loan Board (PWLB).

This program focuses on the acquisition of approximately 300 properties purchased from Q4 2017/18 onwards supported by private investment funds and leased to the London Borough of Barnet on a lease of 40 years, at the end of which assets will revert to the Council for £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 (page 27)
- Encourage institutional investment in the private rented sector (page 20)

And with the Council's Corporate Plan:

- Where services are delivered efficiently to get value for money for the taxpayer

4. Project Definition

Project Objectives

The key objectives of this project are to:

- Increase Barnet Homes' housing supply, by procuring additional affordable housing
- Reduce the cost of temporary accommodation and subsequent pressure on the Council's General Fund

Project Deliverables & Outcomes

The key project deliverables are listed in the table below:

Deliverable	Details	Timeframe
Business Case (incorporating options analysis	Undertake research analysis and identify options for acquisition of properties. Development of a business case that includes options analysis, preferred option, financial modelling, risk management etc.	September 2017
Presentation of recommendations	Presentation of options, and preferred approach to the London Borough of Barnet	October 2017
Approval	Approval (budget and approach)	November 2017
Implementation	Procurement of properties in accordance to the preferred approach	Q4 2017/18
Review	Review & benefits realisation	On-going

5. Options

Our learning and insight gained through the delivery of a successful acquisitions programme since Q3 2016/17 has proven invaluable and has helped formulate future scheme planning. Whilst the market in London continues to be buoyant our experience to date has evidenced that there is a supply of units to be acquired that can be delivered at more affordable levels than temporary accommodation alternatives.

In developing the business case, other options were considered. These included utilising private investment to deliver affordable housing outside of London. However, feedback from funding partners indicated that the options below were more favourable, with funding partners citing a preference to acquire assets in the capital. In response to the analysis and feedback received, the following approaches have been explored in more detail.

1. Continue to acquire properties outside London on licence from existing temporary accommodation providers

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. Where properties are sourced outside London, these costs reduce significantly, however it still represents a net cost per unit of almost £1,900 per annum at current prices.

This 'do nothing' position represents a potential net present value of cash flow of -£162k per unit over the next 40 years and would mean there is no positive financial impact to forecasted future General Fund budget pressures. Should inflationary increases in the cost of delivering alternative temporary accommodation options worsen, then this will further increase the pressure on the Council's General Fund. It is therefore not recommended.

2. Acquiring private sector properties from the open market in Greater London and leasing from investors for a minimum term of 40 years

The Barnet Group would source and deliver properties secured from the open market and purchases would be funded by a socially responsible investment fund. The Council would lease units from the fund with full repairing and insurance obligations for a period of 40 years.

Following extensive soft market testing and analysis of potential schemes with over 15 private funds has led to the selection of a preferred provider that offers both a competitive rate, and importantly, a significant level of flexibility in respect of commitment, deployment of capital and leasing terms.

The model developed with the identified provider involves rents payable to the fund set at 3.4% of the total outlay for the property per year and this figure would be CPI index linked. At the end of the 40 year lease term, the property would revert to the Council for £1.

Barnet Homes would provide a full management service for properties acquired and units would be used to provide long-term affordable accommodation, either at 100% of the relevant Local Housing Allowance rate, or let at open market rents where let through The Barnet Group's Private Lettings Agency.

The units would be let on assured shorthold tenancy agreements and there would be no tenure restrictions under the terms of the lease.

This model also offers the Council the opportunity for a profit sharing arrangement by letting a proportion of units through The Barnet Group's private lettings agency, Bumblebee Lettings Ltd. Properties let through this method would be let at sub-market rents, potentially used for keyworker housing, with the Council receiving 50% of the increased net revenue over and above the Local Housing Allowance rate.

Key benefits

There are several key benefits realised through this model:

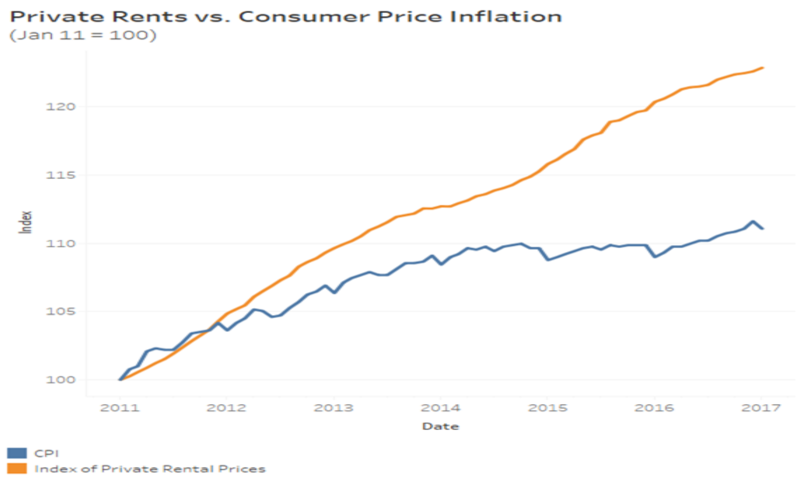
- Delivers at a net surplus of £88k per property over a 40 year period which is more favourable than existing methods of providing temporary accommodation which could potentially cost £279k per unit over a similar period.
- Delivers at the best operating cash flow cost of all options for the first 15 years.
- Deliverable at a better net present value of cash flow of £605k compared to existing methods of providing temporary accommodation where the comparable NPV is -£162k.
- Delivers a comparable NPV to a GF borrowing alternative over a 40 year period (£605k vs £600k through GF borrowing).
- Offers the Council the opportunity to achieve a net surplus of up to £247k per property over a 40 year period where properties are let through The Barnet Group's private lettings agency.
- No capital required to purchase the asset at the end of the lease term.
- Properties let through this method could be used for temporary accommodation for homeless households and then used as a stepping stone into the private rented sector, or used as the household's private sector offer from the outset.
- The model will help improve standards in the private sector, with the Barnet Group responsible for fully maintaining and repairing properties acquired.
- The model provides certainty of long-term temporary accommodation costs with future costs not subject to as yet unknown inflationary pressures.
- The model provides security of tenure to satisfy the boroughs long-term housing needs
- The Council has the flexibility to cease acquiring new properties at any time and explore alternative funding methods should they choose to.
- The model enables the Council to diversify funding sources and utilise alternative funding sources to traditional GF borrowing through the Public Works Loans Board (PWLB).

Disadvantages

There are however some disadvantages of delivery through this method:

- The Council will be required to enter into non-assignable FRI leases for a minimum 40 year period. Should affordable housing demand decline over this period then the Council will be required to find alternative lettings models for these units.
- The lease term is significantly longer than alternative options and there is a greater risk that assumptions will not be accurate throughout the duration of the agreement.
- Leases acquired will be on-balance sheet and may impact on future borrowing capacity.
- There is a long-term risk that rents do not remain affordable for both the Council and for tenants, with rents being CPI indexed throughout the life of the lease. To mitigate

against the risk of Local Housing Allowance rates not rising in line with inflation in the long-term, the Council can explore alternative lettings routes. As outlined in the graph below, private rental inflation in London has exceeded CPI for the past 5 years and letting units on the open market would likely ensure that units remain affordable.



3. The Council acquires private sector properties from the open market in Greater London, Bedfordshire or Cambridgeshire, funded through General Fund borrowing

The Barnet Group would source and deliver properties secured from the open market and purchases would be funded by the Council via General Fund PWLB borrowing at a rate of approximately 3%.

Barnet Homes would provide a full management service for properties acquired and units would be used to provide long-term affordable accommodation, at 100% of the relevant Local Housing Allowance rate. The units would be let on assured shorthold tenancy agreements.

Key benefits

There are several key benefits realised through this model:

- Delivers at a net surplus of £180k per property over a 40 year period that is more favourable than existing methods of providing temporary accommodation which could potentially cost £279k per unit over a similar period.
- Delivers a comparable NPV to the 40 leasing option over a 40 year period (600k vs 605k through 40 year lease model).
- Properties let through this method could be used for temporary accommodation for homeless households and then as a stepping stone into the private rented sector, or used as the household's private sector offer from the outset.
- The model affords the Council the opportunity to benefit from long-term house price inflation, acquiring assets that will appreciate over time.
- The model will help improve standards in the private sector, with the Barnet Group responsible for fully maintaining and repairing properties acquired.
- The model provides certainty of long-term temporary accommodation costs with future costs not subject to as yet unknown inflationary pressures.
- The model provides security of tenure to satisfy the Borough's long-term housing needs.

Disadvantages

There are however some disadvantages of delivery through this method:

- The operating cash flow is worse than private finance alternatives for the first 15 years due to the requirement to set aside monies for minimum revenue provision (MRP). This requirement can be managed through the use of annuities, however it cannot be delivered at a lower operating cost than option 2 for the first 15 years.
- The initial loan would not be fully repaid at the end of a 40 year term and the Council would have to refinance the loan (however this is offset against an asset that would be expected to appreciate by a greater amount over the term).
- The Council would be required to raise a significant amount of capital through GF borrowing via the Public Works Loans Board to finance the scheme, as opposed to alternative models where there is no immediate capital requirement.

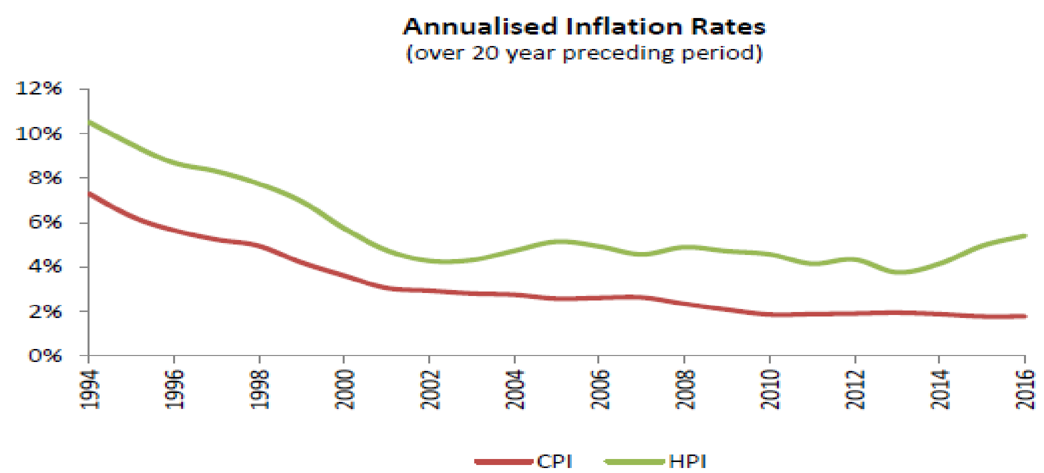
4. Acquiring private sector properties from the open market in Greater London and leasing from investors for a minimum term of 15 years

The Barnet Group would source and deliver properties secured from the open market and purchases would be funded by a socially responsible investment fund. The Council would lease units from the fund with full repairing and insurance obligations for a minimum period of 15 years.

The model developed with the identified provider involves rents payable to the fund set at 3.4% of the total outlay for the property per year and this figure would be CPI index linked.

At the end of the 15 year lease term, the Council would be obliged to purchase the property from the fund at the original market value of the property, index linked to CPI. If the Council chooses not to purchase the property from the fund at the end of the 15 year term, the Council would be required to extend the lease term for a further 5 years. The lease cannot be further extended beyond this point.

An illustration of HPI growth in versus CPI inflation over the past 22 years is provided below, showing an average annual HPI inflation rate of 8.95% versus CPI of 1.97% over the same period. In essence, the model allows the Council to benefit from anticipated continued growth in house values and reduced temporary accommodation costs.



Barnet Homes would provide a full management service for properties acquired and units would be used to provide long-term affordable accommodation, either at 100% of the relevant Local Housing Allowance rate, or let at open market rents where let through The Barnet Group's Private Lettings Agency.

The units would be let on assured shorthold tenancy agreements and there would be no tenure restrictions [1]under the terms of the lease.

This model also offers the Council the opportunity for a profit sharing arrangement by letting a proportion of units through The Barnet Group's private lettings agency, Bumblebee Lettings Ltd. Properties let through this method would be let at sub-market rents, potentially used for keyworker housing, with the Council receiving 50% of the increased net revenue over and above the Local Housing Allowance rate.

Key benefits

There are several key benefits realised through this model:

- Delivers at a net revenue cost of £18k per property over a 15 year period that is more favourable than existing methods of providing temporary accommodation which could potentially cost £63k per unit over a similar period.
- Delivers at the best operating cash flow cost of all options over the life of the lease.
- Deliverable at a better net present value of cash flow of £59k compared to existing methods of providing temporary accommodation where the comparable NPV is -£56k
- Offers the Council the opportunity to achieve a net surplus of £26k per property over a 15 year period where properties are let through The Barnet Group's private lettings agency.
- Properties let through this method could be used for temporary accommodation for homeless households and then used as a stepping stone into the private rented sector, or used as the household's private sector offer from the outset.
- The model will help improve standards in the private sector, with the Barnet Group responsible for fully maintaining and repairing properties acquired.
- The model provides certainty of long-term temporary accommodation costs with future costs not subject to as yet unknown inflationary pressures.
- The model provides security of tenure to satisfy the Borough's long-term housing needs
- The Council has the flexibility to cease acquiring new properties at any time and explore alternative funding methods should they choose to

Disadvantages

There are however some disadvantages of delivery through this method:

- The NPV of cash flow is lower than the GF borrowing alternative
- The Council would be obliged to raise capital upon expiry of the lease term to fund the acquisition of properties procured through this model.
- The Council will be required to enter into non-assignable FRI leases for a minimum 15 year period. Should affordable housing demand decline over this period then the Council will be required to find alternative lettings models for these units.
- Leases acquired will be on-balance sheet and may impact on future borrowing capacity.

[1] Subject to social covenants

- There is a long-term risk that rents do not remain affordable for both the Council and for tenants, with rents being CPI indexed throughout the life of the lease. To mitigate against the risk of Local Housing Allowance rates not rising in line with inflation in the long-term, the Council can explore alternative lettings routes.

A summary of the four options is provided below.

Activity	Current TA	Leasing (40 years)	GF borrowing	Leasing (15 years)
Potential future capital benefit?	None	Yes	Yes	Yes
Manages inflation in TA costs?	No	Yes	Yes	Yes
Asset owning?	No	Yes	Yes	Yes
Future borrowing implications?	No	Yes	Yes	Yes

Suggested approach

It is recommended that the option to acquire units on 40 year lease terms (2) is approved. This option 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
- Provide similar financial benefits to alternative General Fund borrowing options
- Provide greater opportunity to stabilise or reduce long-term General Fund costs
- Diversify funding sources and reduce reliance on the Public Works Loans Board.

A further benefit derived through the delivery of option 2 is the potential for provision of residential accommodation for key-workers or open market rent. The higher revenue potential offered through letting to these customer groups would provide other key benefits such as providing an alternative lettings route should properties acquired through the scheme become unaffordable for housing applicants and less financially viable.

6. Expected Benefits

Please refer to **Appendix A** for a summary of expected benefits for this project.

7. Risks

Please refer to **Appendix B** for a summary of key risks and mitigating actions.

8. Financial Appraisal

The project would be funded by private investors. The programme would deliver approximately 300 units in Greater London.

The tables below summarise the overall position of the models proposed, using average property purchase prices and rents expected to be delivered through the scheme[2].

[2] Modelling was carried out on in-London purchases only, primarily for comparison purposes and to reflect the fact that fund preference for longer-term leasing models is predominantly for in-London acquisitions.

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)
Council purchasing (affordable)	(6,116)	(47,402)	(47,543)	19,080	180,405
40 Year Model (affordable)	(1,054)	(9,727)	(5,946)	21,392	88,124
40 Year Model (market rent)	351	11,850	46,737	117,955	246,583

Where the Council were to acquire 300 units on 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 council acquired assets already purchased, 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 cost	(26.4m)
TA cost avoidance	83.8m
Total financial benefit Year 40	**110.2m**

An illustration of the potential gross cost to the Council incurred per unit through the GF borrowing and 40 year leasing model is given below.

Table 3 – GF borrowing cost vs. 40 year leasing model cost per unit

	Gross rent/finance cost	Final Purchase Price	Total
GF borrowing	380,000	316,000	**696,000**
40 year lease term	725,000	1	**725,000**

Table 4 – Net Present Value of cash flow over 40 year period

	NPV
Existing TA	(162,000)
Council purchasing (affordable)	600,000
40 Year Model (affordable)	605,000

Stress-testing of the financial model

Given the length of term of the programme and 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 5 – Stress testing financial models

	40 Year Model 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)

In summary, where there are variances in the assumptions, the model continues to realise benefits in comparison to alternative temporary accommodation options.

9. Project Approach

Please refer to **Appendix A** for the proposed project plan that includes key dates and milestones.

10. Project Assurance

The project structure is shown below:

Role	Name & Position	Comments
Project Sponsor	Paul Shipway (Strategic Housing Lead)	Representing Council interests
Project Manager	Nick Lowther (Head of Growth & New Initiatives)	Representing Barnet Homes interests
Project Board	Paul Shipway (Strategic Housing Lead)	Representing Council interests
	Derek Rust (Deputy Chief Executive Officer)	Representing Barnet Homes interests
	Kate Laffan (Assistant Director, Operations)	Representing Housing Options (housing supply)
	Russell Buchanan (Acquisitions Programme Manager)	Representing Acquisitions services
	Thomas Carroll (Major Works Project Manager)	Representing Property Services
Project Team	Nick Lowther (Head of Growth & New Initiatives)	Lead on the acquisition and delivery of properties
	Thomas Carroll (Major Works Project Manager)	Inform on investment levels needed to bring the homes acquired up to an agreed standard and maintained
	Russell Buchanan (Acquisitions Programme Manager)	Acquisition and the delivery of properties

The project board will meet monthly as required with the following responsibilities:

- Provision of overall guidance and direction ensuring project remains on track against time, cost and quality requirements
- Review and approval of project plan and any exception plans
- Support and oversight of risk management processes
- Approval of changes

- Resolving strategic and directional issues
- Liaison with and seeking of direction and decisions from politicians

Project Controls

The Project Manager will be expected to manage and re-profile timescales where key milestones are not impacted. Where key milestones will be impacted these instances will be reported to the Project Sponsor to agree next steps and the mitigating action to be taken.

- The Project Board will be responsible for sign-off of the business case (incorporating the options appraisal), before it is presented to the Council.
- The London Borough of Barnet (Council) will be responsible for approving the business case, proposed budget and approach for delivery.
- The project team will be responsible for engaging with Barnet Homes' managers and staff, and key stakeholders to ensure that all deliverables are developed in line with service requirements and that the required quality standards are met.

Quality Criteria & Approval Process

Deliverable / Product	Quality Criteria	Author	Reviewers	Acceptor
Business Case (incorporating options analysis	Options appraisal and financial appraisal , procurement strategy with recommendation	Project Manager	TBG Exec Team	Project Board
Presentation of recommendations	Report and presentation in accordance with LBB requirements	Project Manager	Project Board	Project Board
Approval	Minuted approval to proceed	London Borough of Barnet	N/A	London Borough of Barnet
Implementation	Procurement of out-of-borough properties and implementation of associated processes	Project Team	Project Manager	Project Board
Review	Assessment against benefits realisation criteria Lessons learned report	Project Manager	Project Team	Project Board

11. Dependencies

Assumptions

- Timely provision of any requested information and input from senior stakeholders.
- On-going political support for Barnet Homes to undertake acquisitions and for the on-going management of these properties.

- Ability to implement cost effective, quality management and maintenance arrangements for the acquired properties.

Constraints

- There is a lack of affordable housing supply in the areas that Barnet Homes is confident that customers will agree to move to.
- That there may be some resourcing implications for management of stock further outside of the borough.

Interfaces / Dependencies

- The London Borough of Barnet will need to approve the proposed approach, for the project objectives to be achieved
- There are other initiatives and projects underway that are also aimed at increasing affordable housing supply.

12. Approach to Consultation

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 Council conducted a borough wide programme of resident engagement and consultation from 17 December 2014 to 11 February 2015. This was part of the Housing Committee Commissioning Plan. The programme included a series of themed workshops examining the competing pressures facing each committee and an online survey.

- A 12 week public consultation was undertaken between 6 January 2015 and 31 March 2015 on the Housing Strategy. The consultation included an online survey as well as presentations to the Housing Forum, Barnet Homes Performance and Advisory Group, and Barnet Landlords Forum.

- The Council also facilitated a focus group of eight Citizens Panel members from the owner-occupation, social and private rented sectors.

Appendix A: Benefits Realisation

Benefit Type	Description of the benefit	Who will benefit	Expected benefit value	Financial year that the benefit will be realised	Benefit Owner	How will the benefit be measured	Baseline value (£, % etc) and date
Financial	Temporary accommodation cost avoidance/revenue benefit	The Council	Up to £83.8m over 40 years	From Q4 2017/18	Paul Shipway, Strategic Housing Lead	Financial monitoring	
Financial	Increase of affordable housing stock and revenue from this stock	Barnet Council Tenants or Housing Applicants	Up to 300 units	from 18/19	Paul Shipway, Strategic Housing Lead	Performance monitoring	

Appendix B – Financial Model

1. Individual unit Income and Expenditure sheet (40 Year Leasing Model)

		Year 1	Year 5	Year 10	Year 15	Year 20	Year 25	Year 30	Year 35	Year 40
	Income									
1	Rent	14,482	16,056	19,070	22,649	26,899	31,948	37,944	45,066	53,524
	Total Income	**14,482**	**16,056**	**19,070**	**22,649**	**26,899**	**31,948**	**37,944**	**45,066**	**53,524**
	Expenditure									
2	Management Cost	450	497	579	687	816	969	1,151	1,367	1,624
3	Routine Maintenance	800	883	1,029	1,222	1,451	1,723	2,047	2,431	2,887
4	Voids & Bad Debt Provision	434	482	572	679	807	958	1,138	1,352	1,606
5	Major Repairs	2,094	2,312	2,693	3,198	3,799	4,512	5,358	6,364	7,558
6	Service Charge & Ground Rent	1,000	1,104	1,249	1,413	1,599	1,809	2,046	2,315	2,620
7	Lease Rent	10,756	11,873	13,433	15,199	17,196	19,456	22,012	24,905	28,177
	Total Expenditure	**15,535**	**17,150**	**19,554**	**22,398**	**25,667**	**29,427**	**33,753**	**38,734**	**44,472**
	Charge/Credit to General Fund	**(1,054)**	**(1,094)**	**(485)**	**250**	**1,232**	**2,521**	**4,191**	**6,332**	**9,052**
	Closing Balance	**(1,054)**	**(6,120)**	**(9,727)**	**(10,034)**	**(5,946)**	**3,945**	**21,392**	**48,562**	**88,125**

2. Financial modelling assumptions

	Council Purchasing	Long-term lease
Annual Rent Inflation (CPI plus 1%)	3.50%	3.50%
Void Loss and bad debt provision	3.00%	3.00%
Maintenance Costs	£800 per annum plus inflation	£800 per annum plus inflation
Housing Management Costs	£450 per annum	£450 per annum
Inflation (Base rate plus 1%)	2.50%	2.50%
Major Works	0.75% of purchase price	0.75% of purchase price
Service charge and ground rent	£1,000 per annum	£1,000 per annum
Refurbishment costs	£15,000	£15,000
Rental payment	3.00% loan interest rate	3.40% of total purchase cost
Acquisition fee	3.00% of purchase price	3.00% of purchase price
Net Present Value Discount Rate	3.00%	3.00%
House Price Inflation	5.00%	5.00%

Some of the above assumptions have been adjusted from Open Door modelling assumptions to reflect scheme conditions and market requirements:

- Major works allowances have been reduced to reflect the cost deliverable through insurance products available to the Council
- Soft market testing of yield requirements has indicated that a figure of 3.40% is required for the longer term arrangement
- An acquisition fee of 3% has been assumed within the capital cost to cover the cost of delivery
- Management costs, void loss and bad debt provision assumptions reflect the location and use of the units as temporary accommodation

Appendix C: Initial Risk Register

Ref	Risk type	Risk description	Risk Owner	Date raised	Initial assessment			Control actions	Consequences/ potential impact
					Probability	Impact	RAG		
001	Project management	There is a risk that there is insufficient resource to deliver the project within planned timescales and to meet the scale requirements for the fund	NL	Sep 17	Low	Medium		Project plans and resource planning to be developed to identify key milestones and capacity required to deliver.	Expected savings and investor expectations will not be achieved, and/or project activity will fall behind schedule.
003	Financial	There is a risk that the assumptions made in modelling are not accurate and that the financial benefits are not realised	NL	Sep 17	Medium	High		Closely monitor activity to track financial benefits and early identification of risks. There are a number of options the Council has, including alternative lettings routes	Rents charged will not be affordable and will impact on the financial viability of the scheme
004	Financial	There is a risk that there will be an insufficient volume of units available for purchase that deliver the required revenue benefits	NL	Sep 17	Low	High		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.	Delivery of new acquisitions may not be met, if unable to purchase properties at the right price.
005	Reputation	There is a risk that customers will refuse to accept properties in out-of-borough locations	NL	Sep 17	Low	Medium		Undertake market research and analysis before selecting locations and purchasing properties to ensure that customers are likely to accept properties in these areas.	Political and media fall out from spending public money on properties that are sitting vacant.

Ref	Risk type	Risk description	Risk Owner	Date raised	Initial assessment			Control actions	Consequences/ potential impact
006	Financial	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		Sep 17	Medium	Low		Lettings capacity will be closely monitored and where necessary, Barnet Homes will consider other lettings routes for properties acquired	The cost of delivering the scheme will increase
007	Financial	There is a risk that CPI indexed rents will not remain affordable for the duration of the lease term		Sep 17	Medium	Medium		Affordability of rents will be closely monitored over the duration of the lease term, and alternative lettings routes considered where individual properties become unaffordable	The cost of delivering the scheme will increase and the full benefits of the scheme may not be achieved

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Distribution List:

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Mike Gerrard	Finance Director, The Barnet Group	17/10/17

Approvals:

By signing this document, the signatories below are confirming that they have fully reviewed the Business Case for the out-of-borough acquisitions project and confirm their acceptance of the completed document.

Name	Role	Signature	Date	Version