**Housing Acquisitions Programme (Phase 4)**

**Business Case**

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## Contents

## 1. Executive Summary

This paper outlines a proposed fourth phase of the Acquisitions Programme, to build upon the successes of the first three phases, and to provide the Council with an opportunity for growth that delivers wider financial benefits for the borough.

In 2013, Barnet Homes' 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. The programme saw 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 tranche of affordable homes outside London. By the end of Q1 2019-20, The Barnet Group had delivered 235 new affordable homes for Barnet's housing applicants in a little under 3 years.

| | Locations | Acquisition 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 | 41 |
| General Fund (Phase 3) | Greater London | 40m | 104 |
| Cheyne leases | Greater London | 50m | 27* |
| HRA Phase 2 | Barnet | 31m | 3* |
| **Total** | | **109.4m** | **235** |

**programme part completed and numbers correct at the time of writing*

The fourth phase will reflect learning and insights gained through the successful delivery of Phases 1, 2, and 3 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 4 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 fourth 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. To further compound matters, the Homelessness Reduction Act has generated additional demand for the borough since April 2018.

**Supply & Demand in Barnet: A Snapshot**

- There has been a 39% increase in new Part VII homelessness applications between 2011/12 and 2018/19.
- 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).
- 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.

This has posed a major challenge in 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 three completed phases of our successful acquisition programmes to deliver a greater volume of affordable housing solutions.

Another key driver is the objective to deliver increased revenue and enhance the capacity to deliver more affordable homes. This proposal contributes towards that objective through the delivery of affordable housing stock and an asset base that will appreciate over time.

## 3. Rationale

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

The project will involve the use of borrowing to acquire additional properties and 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 and an opportunity to support the future growth of Open Door Homes.

This proposal supplements the previously approved Phase 3 programme and focuses on the acquisition of a further 500 properties purchased from Q3 2019/20 onwards funded through General Fund borrowing.

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 affordable housing supply by procuring affordable homes from the open market
- Reduce the cost of temporary accommodation and subsequent pressure on the Council's General Fund
- Increase the asset base and affordable housing portfolio of Opendoor Homes, a subsidiary of The Barnet Group which is wholly owned by the Council

### 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. | August to September 2018 |
| Presentation of recommendations | Presentation of options, and preferred finalised approach to the London Borough of Barnet | August 2019 |
| Approval | Approval (approach) | September 2019 |
| Approval | Approval (budget) | March 2019 |
| Approval | Approval (loan agreement) | Q3 2019/20 |

| Deliverable | Details | Timeframe |
|---|---|---|
| Implementation | Procurement of properties in accordance to the preferred approach | Q4 2019/20 |
| Review | Review & benefits realisation | On-going |

## 5. Options

Our learning and insight gained through the delivery of successful acquisitions programmes since Q3 2016/17 has proven invaluable and has helped formulate future scheme planning. The market in London has recently stabilised and 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 response to the analysis and feedback received on our existing schemes, the following approaches have been explored in more detail.

**1. Do Nothing - 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 negative net present value of cash flow of (£188k) per unit over the next 50 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. Opendoor Homes acquires assets from the open market in Greater London, and other areas within a 50-mile radius, funded through General Fund borrowing**

The Barnet Group would source and deliver assets secured from the open market and purchases would be funded by the Council via General Fund PWLB borrowing at a rate of approximately 2.75% plus an on-lending fee.

Opendoor 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. The table below outlines the key components of the proposed model and provides a comparison with previous phases.

| | Phase 4 | Phases 1-3 |
|---|---|---|
| **Stamp Duty Land Tax** | Exempt where acquired by ODH by way of charitable status | SDLT paid at investment property rates |
| **Major works provision** | £750 per unit per annum (inflated) set aside as a sinking fund | 1% of the property purchase price set aside as a sinking fund |
| **Capital repayment** | Repayment factored from Year 15 | 2% MRP accounted for from Year 1 |

| | | |
|---|---|---|
| **On-lending** | 1.24% up-lift on borrowing rate paid to the Council | None |
| **Sourcing areas** | Greater London and locations within a 50-mile radius | Greater London, Bedfordshire and Cambridgeshire |
| **Properties sourced** | Greater flexibility to acquire assets that deliver a positive NPV, and scope to utilise funding for bulk purchases | Properties acquired from the open market on a unit by unit basis at a pre-agreed hurdle rate |

**Proposed hurdle rate**

To provide flexibility with which secures assets are secured for the programme, it is proposed that the following conditions be set as minimum requirements for acquisitions:

1. Assets acquired must deliver a **positive NPV of cash over a 50-year period**
2. Assets acquired must be either within Greater London, or within a 50 mile radius of Greater London

Learning from previous phases has demonstrated that the success of programmes is contingent on the level of flexibility afforded through governance. The proposed minimum requirements will enable the borough to consider a wider range of opportunities based upon their outputs and provide the ability to act swiftly to secure assets.

**Key benefits**

There are several key benefits realised through this model:

- Delivers at a net **revenue surplus of £489k per property over a 50-year** period that is more favourable than existing methods of providing **temporary accommodation which could potentially cost £420k per unit** over a similar period.
- Delivers a significantly **better NPV** to alternative temporary accommodation options over a 50-year period (+183k vs -188k) for alternative temporary accommodation).
- Would provide an almost immediate, positive impact to the Council's General Fund, through the delivery of additional affordable homes as an alternative to existing temporary accommodation.
- The model affords Opendoor Homes the opportunity to benefit from long-term house price inflation, acquiring assets that will appreciate over time and support further development of new homes for rent in the future
- The model will help improve standards in the private sector, with Opendoor Homes responsible for fully maintaining and repairing properties acquired.
- The model helps reduce the number of households in temporary accommodation with properties potentially let as private sector placements.
- The model provides security of tenure to satisfy the Borough's long-term housing needs.
- Opendoor Homes, as a Registered Provider with charitable status, would be **exempt from paying Stamp Duty Land Tax** for purchases. This makes it a more cost-effective vehicle for the borough to acquire affordable homes from the open market.

**Disadvantages**

There is however one main disadvantage of delivery through this method:

- 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, increasing its General Fund borrowing (as with option 3).

**3. The Council acquires assets from the open market in Greater London, and other areas within a 50-mile radius, funded through General Fund borrowing**

The Barnet Group would source and deliver assets secured from the open market and purchases would be funded by the Council via General Fund PWLB borrowing at a rate of approximately 2.75%.

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 non-secure tenancy agreements. The table below outlines the key components of the proposed model and provides a comparison with previous phases.

| | Phase 4 | Phases 1-3 |
|---|---|---|
| **Stamp Duty Land Tax** | SDLT paid at investment property rates | SDLT paid at investment property rates |
| **Major works provision** | £750 per unit per annum (inflated) set aside as a sinking fund | 1% of the property purchase price set aside as a sinking fund |
| **Capital repayment** | 2% MRP accounted for from Year 1 | 2% MRP accounted for from Year 1 |
| **On-lending** | None | None |
| **Sourcing areas** | Greater London and locations within a 50-mile radius | Greater London, Bedfordshire and Cambridgeshire |
| **Properties sourced** | Greater flexibility to acquire assets that deliver a positive NPV, and scope to utilise funding for bulk purchases | Properties acquired from the open market on a unit by unit basis at a pre-agreed hurdle rate |

**Proposed hurdle rate**

To provide flexibility with which secures assets are secured for the programme, it is proposed that the following conditions be set as minimum requirements for acquisitions:

3. Assets acquired must deliver a **positive NPV of cash over a 50-year period**
4. Assets acquired must be either within Greater London, or within a 50 mile radius of Greater London

**Key benefits**

There are several key benefits realised through this model:

- Delivers at a net **revenue surplus of £621k per property over a 50-year** period that is more favourable than existing methods of providing **temporary accommodation which could potentially cost £420k per unit** over a similar period.
- Delivers a significantly **better NPV** to alternative temporary accommodation options over a 50-year period (+67k vs -188k) for alternative temporary accommodation).

- Would provide an almost immediate, positive impact to the Council's General Fund, through the delivery of additional affordable homes as an alternative to existing temporary accommodation.
- 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 Barnet Homes 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 is however one main disadvantage of delivery through this method:

- 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, increasing its General Fund borrowing (as with option 2).

**Suggested approach**

It is recommended that the option to purchase units from the open market (option 2) is approved, through The Barnet Group's subsidiary, Opendoor Homes Ltd. The Barnet Group is wholly owned by the Council.

## 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 through General Fund borrowing. The programme would deliver up to 500 units of affordable homes in Greater London and other areas previously agreed by the Council.

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[1].

[1] Figures quoted relate to prospective purchases in Greater London only.

*Table 1 - Summary of cash flow impacts per unit*

| Cost / cumulative impact | Year 1 | Year 10 | Year 20 | Year 30 | Year 40 | Year 50 |
|---|---|---|---|---|---|---|
| **Net cost of existing TA** | 2,857 | 38,381 | 92,534 | 168,080 | 273,566 | 420,985 |
| **ODH purchasing (option 2)** | 2,501 | 9,578 | 2,419 | 2,419 | (92,387) | (488,790) |
| **Saving vs TA** | 356 | 28,803 | 90,115 | 165,661 | 365,953 | 909,775 |
| | | | | | | |
| **Council purchasing (option 3)** | 5,476 | 31,276 | 2,762 | (100,594) | (299,199) | (620,708) |
| **Saving vs TA** | (2,619) | 7,105 | 89,772 | 268,674 | 572,765 | 1,041,693 |

The various revenue impacts of pursuing the options proposed are highlighted in the graph below.

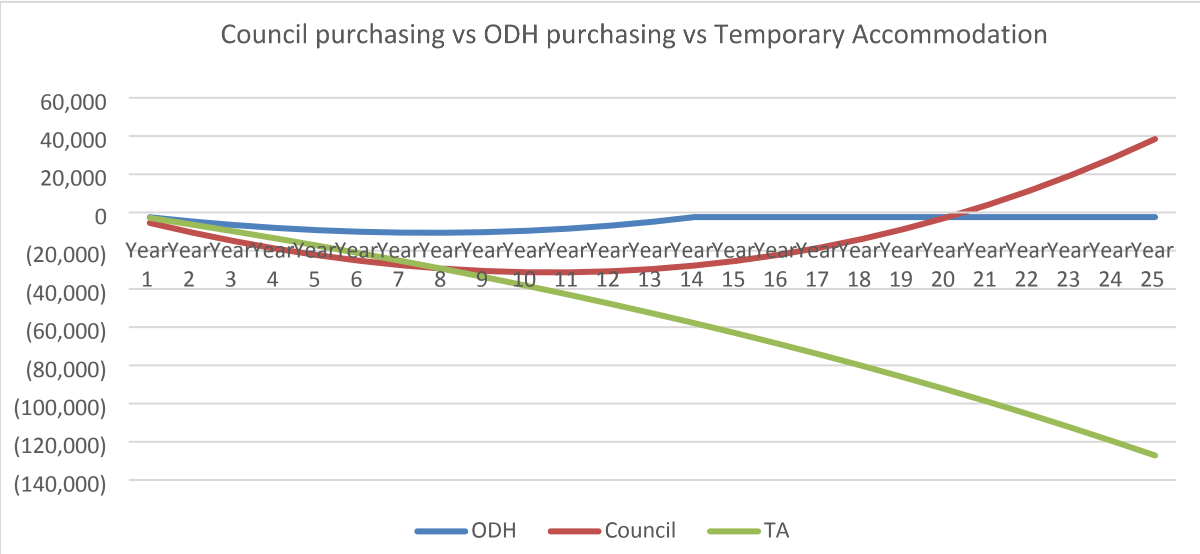


*Table 2 – Summary of impacts per unit*

| | 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)** | 66,773 | 182,653 |

Where Opendoor Homes were to acquire 500 units additional financial efficiency will be achieved via exemption from Stamp Duty Land Tax.

*Table 3 – Overall scheme summary*

| | Year 1 £'000s | Year 10 £'000s | Year 20 £'000s | Year 30 £'000s | Year 40 £'000s | Year 50 £'000s |
|---|---|---|---|---|---|---|
| *Option 2* | | | | | | |
| **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) |
| 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)** | **(54,155)** |
| **Total borough cost** | **1,010** | **(2,520)** | **(34,653)** | **(114,983)** | **(272,144)** | **(512,788)** |
| *Option 3* | | | | | | |
| **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)** |

Acquiring affordable homes through General Fund borrowing delivers a significantly better net present value of cash flow than existing temporary accommodation options.

*Table 4 – Net Present Value of cash flow over 50-year period*

| | NPV |
|---|---|
| **Existing TA** | (188,726) |
| **Council purchasing** | 66,773 |
| **ODH purchasing** | 182,653 |

**Capital spend profile**

Where approval is granted to proceed with the programme, it is expected that capital will first be deployed in the final quarter of 2019/20. A full profile of spend is outlined in table 5 below.

*Table 5 – Capital spend profile*

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|---|---|
| **No. of properties to be purchased** | **25** | **125** | **125** | **125** | **100** |
| Total capital expenditure (£) Council purchasing | 8.3m | 40.7m | 40.7m | 40.7m | 32.6m |
| Total capital expenditure (£) ODH purchasing | - | 40.7m | 40.7m | 40.7m | 40.7m |

To offset the slower deployment of capital through option 2 (ODH purchasing), the existing Housing Revenue Account acquisitions phase 2 programme will be accelerated.

**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 8 – Stress testing financial models*

| | Council Purchasing Net Present Value | Council Purchasing Revenue Surplus @50 years | ODH Purchasing Net Present Value | ODH Purchasing Revenue Surplus @50 years |
|---|---|---|---|---|
| Base Case | 66,773 | 620,708 | 182,653 | 488,790 |
| 10% increase in average purchase price | 45,985 | 567,361 | 146,519 | 369,792 |
| 10% reduction in average rent | 30,500 | 472,105 | 110,061 | 262,516 |

In summary, where there are variances in the assumptions, the model continues to realise significant 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. Dependencies

### Assumptions

- Timely provision of any requested information and input from senior stakeholders.
- On-going political support for the Council to fund acquisitions and for the on-going management of these properties.
- Ability to implement cost effective, quality management and maintenance arrangements for the acquired properties.
- Supply of stock suitable for purchase remains available and market conditions remain favourable.

### Constraints

- There is a lack of affordable housing supply in the areas that the Council or Opendoor 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 Council 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.

## 11. 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 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.

## 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 |
|---|---|---|---|---|---|---|
| Financial | Temporary accommodation cost avoidance | LBB | Up to £210.5m over 50 years | From Q3 2019/20 | LBB | Financial monitoring |
| Strategic | Increase of affordable housing stock | LBB Housing Applicants | Up to 500 units | From Q3 2019/20 | LBB | Performance monitoring |
| Financial | On-lending revenue to the Council | LBB | Up to £53.4m over 38 years | From Q3 2019/20 | LBB | Financial monitoring |
| Financial | Capital growth | ODH | Up to £382.7m over 50 years to support further acquisitions / new build development | From Q3 2019/20 | LBB | Financial monitoring |

## Appendix B – Financial Model

### 1. Individual unit Income and Expenditure sheet (Council Purchasing Model)

| | Year 1 | Year 5 | Year 10 | Year 15 | Year 20 | Year 25 | Year 30 | Year 35 | Year 40 | Year 45 | Year 50 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Income** | | | | | | | | | | | |
| Rent | 13,723 | 15,446 | 17,906 | 20,758 | 24,064 | 27,897 | 32,340 | 37,491 | 43,462 | 50,385 | 58,410 |
| **Gross income** | **13,723** | **15,446** | **17,906** | **20,758** | **24,064** | **27,897** | **32,340** | **37,491** | **43,462** | **50,385** | **58,410** |
| **Expenditure** | | | | | | | | | | | |
| Routine Maintenance | 750 | 828 | 937 | 1,060 | 1,199 | 1,357 | 1,535 | 1,736 | 1,965 | 2,223 | 2,515 |
| Management Cost | 500 | 552 | 624 | 706 | 799 | 904 | 1,023 | 1,158 | 1,310 | 1,482 | 1,677 |
| Service Charge & Ground Rent | 1,200 | 1,325 | 1,499 | 1,696 | 1,918 | 2,170 | 2,456 | 2,778 | 3,143 | 3,557 | 4,024 |
| Void Loss & Bad Debt | 549 | 618 | 716 | 830 | 963 | 1,116 | 1,294 | 1,500 | 1,738 | 2,015 | 2,336 |
| Major Works Provision | 750 | 828 | 937 | 1,060 | 1,199 | 1,357 | 1,535 | 1,736 | 1,965 | 2,223 | 2,515 |
| Interest | 8,945 | 8,229 | 7,335 | 6,440 | 5,546 | 4,651 | 3,757 | 2,862 | 1,968 | 1,073 | 179 |
| Capital repayment (MRP) | 6,506 | 6,506 | 6,506 | 6,506 | 6,506 | 6,506 | 6,506 | 6,506 | 6,506 | 6,506 | 6,506 |
| **Total Expenditure** | **19,199** | **18,885** | **18,553** | **18,298** | **18,130** | **18,061** | **18,105** | **18,277** | **18,595** | **19,078** | **19,751** |
| **Net** | **(5,476)** | **(3,439)** | **(647)** | **2,460** | **5,934** | **9,836** | **14,235** | **19,214** | **24,868** | **31,306** | **38,658** |
| **Cumulative net** | **(5,476)** | **(22,339)** | **(31,276)** | **(25,326)** | **(2,762)** | **38,431** | **100,594** | **186,458** | **299,199** | **442,514** | **620,708** |

## 1. Individual unit income and expenditure (ODH Purchasing Model)

| | Year 1 | Year 5 | Year 10 | Year 15 | Year 20 | Year 25 | Year 30 | Year 35 | Year 40 | Year 45 | Year 50 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Income** | | | | | | | | | | | |
| Rent | 13,723 | 15,446 | 17,906 | 20,758 | 24,064 | 27,897 | 32,340 | 37,491 | 43,462 | 50,385 | 58,410 |
| **Gross income** | **13,723** | **15,446** | **17,906** | **20,758** | **24,064** | **27,897** | **32,340** | **37,491** | **43,462** | **50,385** | **58,410** |
| | | | | | | | | | | | |
| **Expenditure** | | | | | | | | | | | |
| Routine Maintenance | 750 | 828 | 937 | 1,060 | 1,199 | 1,357 | 1,535 | 1,736 | 1,965 | 2,223 | 2,515 |
| Management Cost | 500 | 552 | 624 | 706 | 799 | 904 | 1,023 | 1,158 | 1,310 | 1,482 | 1,677 |
| Service Charge & Ground Rent | 1,200 | 1,325 | 1,499 | 1,696 | 1,918 | 2,170 | 2,456 | 2,778 | 3,143 | 3,557 | 4,024 |
| Major works | 750 | 828 | 937 | 1,060 | 1,199 | 1,357 | 1,535 | 1,736 | 1,965 | 2,223 | 2,515 |
| Void Loss & Bad Debt | 549 | 618 | 716 | 830 | 963 | 1,116 | 1,294 | 1,500 | 1,738 | 2,015 | 2,336 |
| Interest | 8,599 | 8,599 | 8,599 | 8,599 | 8,019 | 6,907 | 5,078 | 2,301 | | | |
| On-lending | 3,877 | 3,877 | 3,877 | 3,877 | 3,616 | 3,114 | 2,290 | 1,038 | | | |
| **Total Expenditure** | **16,225** | **16,626** | **17,188** | **17,828** | **17,713** | **16,925** | **15,210** | **12,247** | **10,121** | **11,500** | **13,067** |
| | | | | | | | | | | | |
| **Net** | **(2,501)** | **(1,180)** | **718** | **2,930** | **6,351** | **10,972** | **17,130** | **25,244** | **33,341** | **38,885** | **45,343** |
| **Cumulative net** | **(2,501)** | **(9,254)** | **(9,578)** | **511** | **25,001** | **70,077** | **142,718** | **251,829** | **405,062** | **588,061** | **801,465** |
| | | | | | | | | | | | |
| **Debt repayment** | | | | 2,930 | 6,351 | 10,972 | 17,130 | 25,244 | | | |
| **Debt repayment cumulative** | | | | 2,930 | 27,420 | 72,496 | 145,137 | 254,248 | 312,675 | 312,675 | 312,675 |
| **Adjusted cash surplus** | **(2,501)** | **(9,254)** | **(9,578)** | **(2,419)** | **(2,419)** | **(2,419)** | **(2,419)** | **(2,419)** | **92,387** | **275,386** | **488,790** |

## 3. Financial modelling assumptions

| | Council Purchasing | ODH Purchasing |
|---|---|---|
| Annual Rent Inflation (CPI plus 1%) | 3.00% | 3.00% |
| Void Loss and bad debt provision | 4.00% | 4.00% |
| Maintenance Costs | £750 per annum | £750 per annum |
| Housing Management Costs | £500 per annum | £500 per annum |
| Inflation | 2.50% | 2.50% |
| Major Works | £750 per annum | £750 per annum |
| Service charge and ground rent | £1,200 per annum | £1,200 per annum |
| Net Present Value Discount Rate | 2.75% | 3.99% |
| House Price Inflation | 2.5% | 2.5% |

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

- 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 | Acquisitions Programme Manager | Sep 18 | Low | Medium | | Project plans and resource planning to be developed to identify key milestones and capacity required to deliver. | Expected savings 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 | Acquisitions Programme Manager | Sep 18 | 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 | Acquisitions Programme Manager | Sep 18 | 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 | Acquisitions Programme Manager | Sep 18 | 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 | Acquisitions Programme Manager | Sep 18 | Medium | Low | | Lettings capacity will be closely monitored and where necessary, TBG will consider other lettings routes for properties acquired | The cost of delivering the scheme will increase |
| 007 | Financial & Reputational | There is a risk that there will be conflicting demands on TBG's acquisition services which in turn impact on the properties sourced for the programme | Acquisitions Programme Manager | Sep 18 | Medium | Low | | To minimise potential conflict, the procurement areas are broadened and particular types of units are prioritised for their respective programmes. | Delivery of new acquisitions may not be met, if unable to purchase properties at the right price. |
| 008 | Financial | There is a risk that supply of new stock on the open market will not be sufficient to meet demand | Acquisitions Programme Manager | Sep 18 | Medium | Low | | Supply of new stock on the market will be closely monitored and geographical region within which stock is acquired maximised, in line with previous procurement activity | Delivery of new acquisitions may not be met, if unable to purchase properties at the right price. |
| 009 | Financial | There is a risk that house price inflation will exceed levels anticipated in modelling and impact on the viability of units | Acquisitions Programme Manager | Sep 18 | Medium | Low | | To minimise potential inflation, no individual areas will be targeted for procurement on an intensified basis. Where HPI exceeds expectations, further review of the business model will be carried out. | Delivery of new acquisitions may not be met, if unable to purchase properties at the right price. |

***Document Control***

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***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 |
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