



HRA Acquisitions Programme

Phase 3

Business Case

Outline Business Case (OBC):

HRA Acquisitions Programme (Phase 3)

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1. Executive Summary

This paper outlines a proposed third phase of the Housing Revenue Account (HRA) Acquisitions Programme, to build upon the successes of earlier phases, and to provide the Council with an opportunity to both capitalise on available grant funding and help meet housing demand for larger homes.

In November 2016 the Council approved an outline business case for the delivery of new affordable homes acquired with HRA borrowing (Phase 1). This programme saw the delivery of 21 new affordable homes for housing applicants.

Building upon this success, the Council approved various phases of purchases utilising General Fund borrowing which saw the deployment of an additional £53m budget (Phases 1,2 and 3) and a second HRA acquisitions programme delivering over 80 units of affordable accommodation in borough. By early October 2021, The Barnet Group had delivered 450 new affordable homes for Barnet's housing applicants in less than 5 years.

	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	41
General Fund (Phase 3)	Greater London	40m	106
Touchpoint	Greater London	25m	75
HRA (Phase 2)	Barnet	31m	79*
Opendoor Homes	Greater London	170m	100*
Total		285.4m	450

*programme not yet complete

The proposed programme will reflect learning and insights gained through the successful delivery of multiple acquisition programmes 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 programme will help address homelessness and General Fund temporary accommodation budget pressures through the provision of affordable homes as an alternative to more expensive temporary accommodation. 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 further 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.

The proposed financial model for the new programme will also generate wider benefits for both the Council and housing applicants, with funding used to acquire larger family homes within the borough, the buy-back of properties acquired under the right-to-buy programme and section 106 affordable homes in the borough.

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.

Barnet's Strategic Housing Market Assessment (SHMA) provides an objective assessment of housing need in Barnet and shows that 17,600 affordable homes are needed by 2041. This equated to 704 affordable homes a year.

Supply & Demand in Barnet: A Snapshot

- There has been a 12% increase in new Part VII homelessness applications between 2015/16 and 2020/21.
- There has been an increase (10.5%) in the number of households in temporary accommodation (numbers have increased from 2,172 in April 2012 to their current level of 2,399 at the end of March 2021). Barnet remains one of the highest users of temporary accommodation in the UK.
- At the end of July 2021 there were 131 households in 4-bedroomed temporary accommodation that cost the council approximately £433,000 per annum over and above rents collected

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 initiatives, including developing successful cost effective long-term temporary accommodation solutions and various development and acquisition programmes. This proposal seeks to build upon the successes and framework established in previous phases of our successful acquisition programmes to deliver a greater volume of affordable homes.

3. Rationale

The opportunity to acquire additional affordable housing has been revisited following an announcement by the Mayor of London of available grant funding for boroughs to 'buy back' former council homes. The grant funding is available until the end of March 2023 and offers grant of £65k per unit where properties are then let at affordable rents to homeless households or £100k where properties are let at social rents.

This also affords the council an opportunity to address growing demand for larger homes. A shortage of supply of larger family homes has meant that the number of families requiring larger properties in temporary accommodation continues to grow. A programme to acquire affordable homes in borough will help address some of this demand.

This proposal supplements the previously approved HRA programmes and focuses on the acquisition of a further 120 properties purchased from Q3 2021/22 onwards, targeting different homes than those currently pursued in the Opendoor Homes 500 programme.

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 in the borough
- Increase the supply of larger family homes for households in temporary accommodation
- Reduce the cost of temporary accommodation and subsequent pressure on the Council's General Fund
- Increase the asset base of the borough's Housing Revenue Account
- Capitalise on available grant funding to help meet housing demand for affordable homes

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. 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 – do not apply for grant funding and continue to acquire properties 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 £2,940 net per annum. For larger households, this cost increases to an average of over £3,300 net per annum.

This 'do nothing' position would mean there is no positive financial impact to forecasted future General Fund budget pressures, and the council would not capitalise on the opportunity to deploy grant funding to supply additional affordable homes. Should inflation in the cost of delivering alternative temporary accommodation options increase, then this will further increase the pressure on the Council's General Fund. It is therefore not recommended.

2. The Council acquires properties formerly sold under the right to buy and properties on the open market, funded through Housing Revenue Account borrowing

The Barnet Group would source and deliver assets secured from Barnet leaseholders and on the open market and purchases would be funded by the Council via PWLB borrowing. Whilst PWLB borrowing rates remain relatively low, modelling has factored in a rate of 2.5% to consider any potential increases over the term of the programme.

Barnet Homes would provide a full management service for properties acquired and units would be used to provide secure accommodation, at 65% of the market rent. The units would be let on flexible tenancies.

The programme will be part subsidised with £3.9m GLA grant-funding.

There will be two elements to the programme:

- **60 purchases of former council homes delivered by the end of March 2023. These properties will attract a grant of £65k per unit from the GLA**
- **60 purchases of properties on the open market, to include larger homes and a continuation of buy backs of former council homes where leaseholders approach directly seeking a sale after March 2023. These purchases will be funded with Right to Buy receipts and will complete by the end of March 2024**

Proposed hurdle rate

To provide the council with flexibility with which it secures assets 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. The programme will focus on acquiring properties within Barnet, with at least 60 former council homes acquired

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 council to consider a wider range of opportunities (including s106 acquisitions and larger homes) based upon their outputs and provide the ability to act swiftly to secure assets for the council.

Available grant funding

The Mayor of London announced on 13th July 2021 that subsidy would be made available for London Local Authorities to acquire former council homes. A sum of £100k per unit is available where properties are let at social rents, and £65k where instead let at affordable rents. Initial modelling indicated that the larger grant funding per unit was not sufficient to offset the reduced rent levels when compared to the affordable rent offer. It was therefore decided to pursue grant funding on the basis of £65k subsidy per acquisition, with properties being let at affordable (65% of market) rents.

Barnet will be required to submit a bid for this funding to the GLA from August 2021 and indicate a target number of units expected to be purchased by the deadline for deployment of funds of March 2023.

For those units that do not meet the GLAs grant funding requirements, unspent Right to Buy (RTB) receipts will be used to part subsidise purchases.

Proposed schedule of properties targeted

Given the timeframe within which purchases must complete, a bid for £3.9m will be submitted, equating to a total of 60 purchases by the end of March 2023. A further 60 properties are expected to complete in 2023/24 that won't attract GLA grant funding, however RTB receipts will be used to subsidise these purchases. This will provide a vehicle through which the council can continue to re-acquire former council homes and also source larger homes to meet housing demand from larger families. A breakdown of expected acquisitions is provided below.

Table 1 – Projected supply of units

	2021/22	2022/23	2023/24	Total
Grant funded	7	53	-	60
RTB funded	3	26	31	60
Total purchases	10	79	31	120

Focus on larger units

With a growing number of larger households in temporary accommodation and fewer initiatives able to meet this demand whilst delivering within their business plan, it is proposed that a proportion of funds are made available to help increase the supply of larger homes.

A breakdown of supply to be targeted through the programme is provided below.

Table 2 – Supply of units to be targeted

	Grant funded		RTB funded	
	#	%	#	%
1-bed	14	23%		
2-bed	27	46%	15	25%
3-bed	19	32%	30	50%
4-bed			15	25%

Whilst the purchase of former council homes is largely determined by available supply and properties offered to the council for purchase, broadening the scope to include all properties on the open market in Barnet will enable a more targeted approach for larger units.

Key benefits

There are several key benefits realised through this model:

- Delivers at an average surplus of between £65k (GLA grant funded) and £381k (RTB funded) per property over a 50-year period that is more favourable than existing methods of providing temporary accommodation which could potentially cost between £245k and £262k per unit over a similar period.
- Delivers 120 additional affordable homes for the Council's HRA
- Provides additional larger homes to meet the boroughs housing demand
- Supports Barnet's strategy to increase the supply of affordable homes in a much shorter time frame compared to the development of new homes
- Provides 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.
- Provides certainty of long-term temporary accommodation costs with future costs not subject to as yet unknown inflationary pressures.
- Provides security of tenure to satisfy the Borough's long-term housing needs.
- The Council will be able to acquire a mixture of s106 units, ex-Council stock and a series of larger units from the open market to help meet demand for larger households.
- Enables the council to capitalise on the availability of grant funding to subsidise the delivery of affordable homes
- Offers the council a means through which unspent RTB receipts can be committed as an alternative to returning them to the Treasury

Treasury strategy

The proposed approach will involve additional borrowing within the HRA. The risk of increased borrowing is minimal as this is borrowing to fund affordable housing, recognised as a low-risk investment. The risk of rising interest rates in the period before drawdown will be mitigated by a gateway review of each borrowing commitment, confirming the capacity of the model to repay the loan within 50 years.

Suggested approach

It is recommended that the option to purchase former council homes and units from the open market utilising available grant funding (option 2) is approved.

6. Expected Benefits

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

7. Risks

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

8. Financial Appraisal

The project would be funded through HRA borrowing. The programme would deliver approximately 120 units of affordable homes, with a focus on acquiring properties in borough.

A capital budget of £49.8m is required to deliver the programme, of which £3.9m will be grant funding.

A breakdown of the anticipated capital spend is provided in the table below.

Table 3 – Expected unit breakdown

Property Size	# acquisitions	Capital spend (£)	Grant (£)	RTB (£)	Net capital spend (£)
One Bedrooms	14	4.5m	0.9m	-	3.6m
Two Bedrooms	42	15.8m	1.8m	2.3m	11.7m
Three Bedrooms	49	21.8m	1.2m	5.3m	15.3m
Four Bedrooms	15	7.7m	-	3.1m	4.6m
Total	82	49.8m	3.9m	10.7m	35.2m

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.

Table 4 - 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	Year 50 Revenue Cost
Average TA	2,897	31,720	70,387	117,522	174,979	245,018
HRA purchasing (grant)	3,025	29,510	43,403	35,674	1,587	(64,630)
Saving	(128)	2,210	26,984	81,848	173,392	309,648
HRA purchasing (RTB)	(1,675)	(18,367)	(58,127)	(127,220)	(232,071)	(380,510)
Saving	4,572	50,087	128,514	244,742	407,050	625,518

Table 5 – Summary of impacts per unit

	HRA purchasing (grant)	HRA purchasing (no grant)
Average property price	338,165	390,000
Average delivery costs	46,280	55,225
Subsidy	65,000	178,090
Average borrowing per unit	319,444	267,135
Peak cash deficit	43,725 (Year 22)	N/A
NPV ¹(50 years)	125,670	304,994
Gross yield	3.6%	5.42%
Total surplus per unit	64,630	380,510

Where the Council were to acquire 120 units through Housing Revenue Account borrowing, the overall financial impact would likely deliver significant financial benefits.

¹ Net Present Value calculated to include both benefits to the HRA and the General Fund (through temporary accommodation cost avoidance)

Table 6 – Overall scheme summary

	HRA purchasing (grant)	HRA purchasing (RTB)	Total
Volume of units	60	60	120
Total revenue cost after 50 years	3.9m	22.8m	26.7m
TA cost avoidance over 50 years	14.7m	15.7m	30.4m
Total benefit	18.6m	38.5m	57.1m

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 7 – Stress testing financial models

	Grant funded NPV	Grant funded Revenue Surplus @50 years	RTB funded NPV	RTB funded Revenue Surplus @50 years
Base Case	129,144	64,630	304,994	380,510
10% increase in average purchase price	91,439	(1,841)	278,903	334,514
10% reduction in average rent	84,706	(21,830)	249,060	271,683
1% Increase in borrowing rate	38,072	(53,176)	188,835	281,995

In summary, where there are variances in the assumptions, the model continues to realise benefits in comparison to alternative temporary accommodation options which will be delivered at a net cost of between £245-262k per unit over the same period.

9. Dependencies

Assumptions

- Timely provision of any requested information and input from senior stakeholders.
- On-going political support for The Barnet Group 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.
- Supply of stock suitable for purchase remains available and market conditions remain favourable.

Constraints

- There may be a lack of available supply in borough, that satisfies the requirements of the programme
- Grant funded units are required to complete before April 2023

Interfaces / Dependencies

- The Council and 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.

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	LBB	Up to £30.4m over 50 years	From Q4 2021/22	LBB	Financial monitoring	
Strategic	Increase of affordable housing stock	LBB Housing Applicants	120 units	From Q4 2021/22	LBB	Performance monitoring	
Financial	HRA surplus	LBB	£26.7m over 50 years	From Q4 2021/22	LBB	Financial monitoring	

Appendix B – Financial Model

1. Average individual unit Income and Expenditure sheet (Grant funded unit)

	Year 1	Year 5	Year 10	Year 15	Year 20	Year 25	Year 30	Year 35	Year 40	Year 45	Year 50
Income											
Rent	11,498	11,498	12,694	14,016	15,474	17,085	18,863	20,827	22,994	25,388	28,030
Gross income	11,498	11,498	12,694	14,016	15,474	17,085	18,863	20,827	22,994	25,388	28,030
Expenditure											
Routine Maintenance	750	812	896	990	1,093	1,206	1,332	1,471	1,624	1,793	1,979
Management Cost	500	541	598	660	728	804	888	980	1,082	1,195	1,319
Service Charge & Ground Rent	800	866	956	1,056	1,165	1,287	1,421	1,569	1,732	1,912	2,111
Void Loss & Bad Debt	460	460	508	561	619	683	755	833	920	1,016	1,121
Interest	7,986	7,646	7,171	6,633	6,024	5,336	4,557	3,676	2,679	1,551	275
Major Works	750	812	896	990	1,093	1,206	1,332	1,471	1,624	1,793	1,979
MRP	3,277	3,617	4,092	4,630	5,239	5,927	6,706	7,587	8,584	9,712	10,988
Net Expenditure	14,523	14,754	15,117	15,518	15,961	16,450	16,990	17,586	18,244	18,971	19,773
Net Revenue	(3,025)	(3,256)	(2,423)	(1,502)	(487)	635	1,873	3,241	4,750	6,417	8,257
Cumulative Net	(3,025)	(15,697)	(29,510)	(38,898)	(43,403)	(42,516)	(35,674)	(22,260)	(1,587)	27,098	64,630

2. Average individual unit Income and Expenditure sheet (RTB funded unit)

	Year 1	Year 5	Year 10	Year 15	Year 20	Year 25	Year 30	Year 35	Year 40	Year 45	Year 50
Income											
Rent	14,472	14,472	15,978	17,641	19,478	21,505	23,743	26,214	28,943	31,955	35,281
Gross income	14,472	14,472	15,978	17,641	19,478	21,505	23,743	26,214	28,943	31,955	35,281
Expenditure											
Routine Maintenance	750	812	896	990	1,093	1,206	1,332	1,471	1,624	1,793	1,979
Management Cost	500	541	598	660	728	804	888	980	1,082	1,195	1,319
Service Charge & Ground Rent	800	866	956	1,056	1,165	1,287	1,421	1,569	1,732	1,912	2,111
Void Loss & Bad Debt	579	579	639	706	779	860	950	1,049	1,158	1,278	1,411
Interest	6,678	6,394	5,996	5,547	5,038	4,462	3,811	3,074	2,240	1,297	230
Major Works	750	812	896	990	1,093	1,206	1,332	1,471	1,624	1,793	1,979
MRP	2,740	3,025	3,422	3,872	4,381	4,956	5,608	6,345	7,178	8,122	9,189
Net Expenditure	12,798	13,028	13,404	13,819	14,277	14,782	15,341	15,957	16,638	17,389	18,219
Net Revenue	1,675	1,444	2,574	3,823	5,201	6,722	8,402	10,257	12,305	14,566	17,062
Cumulative Net	1,675	7,802	18,367	34,934	58,127	88,635	127,220	174,723	232,071	300,290	380,510

2. Financial modelling assumptions

HRA Purchasing	
Annual Rent Inflation	2% (0% for first 5 years)
Void Loss and bad debt provision	4%
Subsidy	£65k (GLA) or 40% (RTB) of total expenditure where applicable
Maintenance Costs	£750 per annum
Housing Management Costs	£500 per annum
Inflation	2%
Major Works	£750 per annum
Service charge and ground rent	£800 per annum
Net Present Value Discount Rate	2.5%
Borrowing costs	2.5%

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

- An acquisition fee of 3.5% has been assumed within the capital cost to cover the cost of delivery

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 grant and scale requirements	Acquisitions Service Manager	August 21	Medium	Low	Green	Project plans and resource planning to be developed to identify key milestones and capacity required to deliver. Purchases are dependent on the supply of former council homes for purchase – marketing to be carried out to inform Barnet leaseholders of the programme	Expected savings will not be achieved, and/or project activity will fall behind schedule with a potential loss of subsidy.
002	Financial	There is a risk that the assumptions made in modelling are not accurate and that the financial benefits are not realised	Acquisitions Service Manager	August 21	Medium	Medium	Yellow	Closely monitor activity to track financial benefits and early identification of risks.	Rents charged will not be affordable and will impact on the financial viability of the scheme
003	Financial	There is a risk that there will be an insufficient volume of units available for purchase that deliver the required programme benefits	Acquisitions Service Manager	August 21	Low	High	Red	Where there are no properties available for purchase that meet the hurdle rates 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. Full subsidy allocation may not be realised
004	Financial	There is a risk that legislation, and housing duties will change significantly over the term of	Acquisitions Service Manager	August 21	Medium	Low	Green	Lettings capacity will be closely monitored and where necessary,	The cost of delivering the scheme will increase

Ref	Risk type	Risk description	Risk Owner	Date raised	Initial assessment			Control actions	Consequences/ potential impact
					Probability	Impact	RAG		
		the lease and Barnet Homes will have insufficient numbers of suitable applicants to let properties to, increasing void times and impacting on affordability						TBG will consider other lettings routes for properties acquired	
005	Financial	There is a risk that house price inflation will exceed levels anticipated in modelling and impact on the viability of units	Acquisitions Service Manager	August 21	Medium	Low		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.
006	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 Service Manager	August 21	Medium	Low		Hurdle rates for other programmes impact on the ability to acquire in-borough properties, resulting in Barnet properties being prioritised for this programme.	Delivery of new acquisitions may not be met, if unable to purchase properties at the right price.

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Document History

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06/08/21	1.0	Document creation	Shahid Navapurwala
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19/10/21	1.2	Updated to incorporate RTB funding	Shahid Navapurwala

Distribution List:

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