
REPORT FOR: CABINET

Date of Meeting:	21 February 2019
Subject:	Extension to the Property Purchase Initiative to increase the supply of good quality Temporary Accommodation
Key Decision:	Yes - it will incur capital expenditure significantly over £1m
Responsible Officer:	Nick Powell, Divisional Director of Housing Services
Portfolio Holder:	Councillor Phillip O'Dell Portfolio Holder for Housing
Exempt:	No
Decision subject to Call-in:	Yes
Wards affected:	All
Enclosures:	None

Section 1 – Summary and Recommendations

This report sets out a proposal to extend the 100 Homes Property Purchase Initiative to purchase additional properties to be used as temporary accommodation (TA) as an alternative to expensive Bed & Breakfast (B & B) accommodation.

Recommendations:

Cabinet is requested to:

1. Delegate authority to the Director of Housing Services, following consultation with the Portfolio Holder for Housing and the Portfolio Holder for Finance and Resources, to acquire up to 32 additional properties on the open market for the purpose of providing temporary accommodation, at a maximum cost of £10.8m in 2019-20 to include the purchase price, all costs associated with the acquisition and initial repairs and refurbishment. The timing of acquisitions may vary depending on how quickly appropriate properties can be sourced. The properties will be held in the General Fund and managed by the council.
2. Authorise the Director of Housing Services, following consultation with the Portfolio Holder for Housing and the Portfolio Holder for Finance and Resources, to negotiate the purchase of properties at a reasonable price given the prevailing market conditions at the time of purchase, supported by a valuation report and provided the overall costs of acquiring the additional properties are contained within the maximum authorised cost of £15m.
3. Note the financial benefits of properties acquired under this programme and used for TA against more expensive B & B accommodation and the contribution towards the £378k MTFs saving target included within 2019-20 approved budget.
4. Delegate authority to the Director of Housing Services, following consultation with the Portfolio Holder for Housing, to determine the most efficient way to manage the property acquisition programme and invite and evaluate quotes and tenders and award contracts for any services, including repairs and maintenance contracts, necessary for the programme within the agreed budget.

Reason: To extend the original 100 Homes Property Acquisition Initiative to provide additional good quality TA and deliver additional B & B cost avoidance in line with the approved budget and MTFs.

Section 2 – Report

1. Introductory paragraph

It is a key council priority to make a difference to vulnerable households and families in Harrow by increasing the supply of affordable housing to meet the needs of those who cannot afford market housing. The decision being sought, to extend the original 100 Homes Property Acquisition Initiative, will deliver additional good quality TA to homeless households, including families, as an alternative to expensive and unsuitable B & B accommodation.

2. Options

A number of options to increase the supply of TA as an alternative to expensive B & B accommodation have been considered. These include:

- Through the Council's Help2Let scheme we work with landlords to increase the number of privately rented properties available to households in housing need. This includes offering incentives and payments to privately lease properties, as well as grants to enable landlords of empty properties to bring properties up to a lettable condition in return for nomination rights. However, due to the overall shortage of supply it is becoming increasingly difficult to source private rented properties locally and on current projections we do not consider these options alone will be sufficient to meet demand and reduce reliance on expensive B & B accommodation;
- Using council properties that become empty, particularly on estates identified for regeneration, for short-term temporary use. However this option is time-limited and does not tackle the overall shortage of supply. For example, for the Grange Farm Regeneration scheme Phase 1, decanting is estimated to begin in early 2019, resulting in a loss of council stock available for use as TA which will impact negatively on B & B numbers.
- Purchase and letting of additional properties. This option has the advantage of providing a new and secure supply source of TA and can be relatively quick to implement;
- Building temporary recyclable homes on vacant council land. This option relies on finding suitable land which would need to be provided at no cost. It will take time to implement as planning permission etc would be required in a similar way to building permanent housing.

This report presents the business case to proceed with the option to purchase additional properties for letting as TA.

3. Background

The 100 Homes Property Purchase Initiative is now complete. The Council has used General Fund borrowing supplemented by Right to Buy (RTB) receipts to fund the purchase and repair of these properties which are then let as TA at Local Housing Allowance (LHA) rents to homeless families. This has avoided the use of expensive B & B emergency accommodation for these 100

families. In making the financial business case for the original 100 Homes programme, assumptions were made about the level of B & B savings to be generated which would effectively ensure the scheme was cost neutral to the Council.

4. Current situation

4.1 A review of the 100 homes programme to date has identified that whilst there have been B & B savings generated, this has not been at the level assumed in the business model. Officers have therefore reviewed the business model to enable any additional purchases over and above the first 100 Homes to be made cost neutral. The proposal is to extend this programme and an additional capital budget of £15m is identified to purchase additional properties closer to Harrow than some of the first 100 purchases, in Harrow and the surrounding areas, for use as TA. As well as purchasing existing street properties we will also consider new build purchases, providing they are of an acceptable standard and provide value for money.

4.2 At the time of the original 100 Homes Cabinet report in July 2015 the Council had 176 families in B & B accommodation. By the time the first properties were purchased in April 2016 this had risen to 291. With the purchase of the 100th property in March 2018, and following other initiatives to reduce B & B occupation, the figure had fallen to 112. However, this figure reached 200 at the end of December 2018 due to continuing homelessness pressures which include:

- A raft of changes to the welfare provision which has reduced the degree of support available to households reliant on Housing Benefit to pay for all or some of their rent;
- The benefit cap which restricts the overall rent support a household can receive;
- The cut in LHA rate from the 50th percentile of local rent values to the 30th affected the value of the LHA compared with local market rents and it continues to be based on the 2011 LHA levels;
- Landlords ending LHA rent tenancies in order to re-let at higher market rents;
- The Localism Act introduced option for local authorities to discharge their duty to homeless households through the offer of a 12 month tenancy in the Private Rented Sector (PRS) - thus increasing demand for PRS in the borough and giving Private Sector landlords power to demand higher rents/incentives for tenants to remain;
- The Homelessness Reduction Act 2017, which came into effect from 3rd April 2018, imposes responsibilities on local authorities to take more preventative actions when dealing with those at risk of becoming homeless.

Increased financial pressures are already emerging on the Homelessness function as a result of the new Act. Whilst many of the existing statutory duties to assist priority need households remain unchanged, the new Act places more emphasis on early intervention to prevent homelessness and on what the local authority, along with partner agencies, can do to support a person(s) in helping achieve

this. One of the major differences is that the new Act ensures that anyone who is at risk of homelessness can approach the local authority for advice and assistance, irrespective of priority need.

New demand for housing exceeds supply and the additional duties brought about by the Act do not create any extra housing or introduce any new housing solutions. It is too early to tell the long term impact of the new Act but it is anticipated that there will be an increased financial burden as new reporting requirements to Government and individual prevention plans are put into place. Early indications are that B & B numbers are increasing.

4.3 This report presents the business case to proceed with the option to purchase additional properties for letting as TA with a budget of up to £10.8m initially, with the balance of the budget released once performance has been satisfactorily reviewed. It offers many benefits as follows:

- It increases the supply of TA stock within or near to the borough and reduces uncertainty of availability. We will be less reliant on the vagaries of supply in the private rented market;
- It is a far superior housing solution to B & B for families in housing need, providing good quality housing in or near to Harrow;
- It delivers a substantial saving on projected B & B costs;
- It is a relatively quick option to deliver. We estimate that up to 32 additional homes can be purchased in 2019-20, subject to market conditions, and that the first properties could be acquired within 3 months, with a target 12 week refurbishment period which means B & B savings could be realised as early as Q2/Q3 of 2019-20;
- There will be long-term capital asset value which can be realised in future years for the ultimate benefit of the council;
- It assists with mitigating the risk of legal challenge from families remaining in B & B for more than 6 weeks and from placing families far away from what is considered to be a reasonable distance from Harrow, both of which could lead to reputational damage and the need to compensate individuals;
- If the business case is no longer viable, properties could be flipped to private rental or sold. The impact on the HRA Business Plan would have to be quantified owing to the likely repayment of RTB 'one-for-one' receipts used to part finance the original acquisition. This would become possible if properties are switched from TA to private rental or disposal without adequate time elapsing to be of benefit to the Authority, which is a key condition of the Retention Agreement with MHCLG.

5. Why a change is needed

5.1 Analysis shows that the most expensive form of TA to the Council is B & B accommodation, with an average cost per annum of £7k in 2017/18. This equates to approx. 25% of the total cost of TA in 2017/18. This is because the Housing Benefit subsidy system discourages the use of B & B emergency accommodation by limiting the recoverable subsidy payments. Less Housing Benefit subsidy is receivable for larger families.

5.2 Based on the pressures detailed in 4.2 above, it is clear that demand will continue to outstrip supply and the council needs to find alternative TA supply in order to mitigate the cost of expensive B&B accommodation whilst having a neutral impact on the General Fund. Having control of TA through ownership of the 100 homes has improved our position alongside use of Council stock, hostels and Housing Association Leasing Schemes.

5.3 A budget of £15m for the acquisition of additional properties formed part of the approved 2018-19 capital programme and the full amount has been reported as slippage as part of the Quarter 3 budget monitoring report, elsewhere on this agenda.

It is proposed that £10.8m of this £15m is allocated to the acquisition of up to 32 properties on the open market with the remainder being held until such time as a further review on the performance of acquired properties can be satisfactorily completed.

5.4 The additional properties will be purchased locally in Harrow and close surrounding areas such as Watford. Whilst properties in areas such as Aylesbury are cheaper than Harrow properties to purchase, recent case law relating to out of borough placements has made it more difficult to place families at a distance outside the borough if a family member is in a key stage of education, is in need of care or has caring responsibilities or has employment in borough. This will result in future difficulties in matching additional properties in areas such as Aylesbury to households, will restrict the pool of potential Aylesbury placement nominees and may put the council at risk of legal challenge from future Aylesbury referrals. We will therefore not be purchasing any additional properties in Aylesbury or similar areas. The properties will be managed in house as TA within the Housing Needs team.

6. Implications of the Recommendation

6.1 Costs and financial modelling

6.1.1 Based on 2017-18 figures, the difference in revenue cost between one unit of B & B and a property acquired under the acquisition programme is £14,000, made up £7,140 cost of B & B (net of Housing Benefit) compared to a £6,730 surplus generated by an acquired property before interest cost. These figures will be monitored and updated as necessary.

6.1.2 On this basis, interest must therefore be limited to £14,000 per property p.a. to make extension of the programme viable, meaning new properties are limited to a total acquisition and refurbishment cost of £340,000, on the assumption that 30% of total costs can be financed from retained RTB receipts and interest costs are funded, at least in part, by Flexible Homelessness Support Grant (FHSG) until properties begin to generate rentals.

6.1.3 The current financial modelling, detailed below, assumes the following:

- a) The properties are held in the Council's General Fund, not transferred to an LLP, so all income accrues to the Council and contributes

towards the £378k MTFs savings target included in the 2019-20 savings target;

- b) A contribution to 30% of cost from retained RTB receipts, leaving only 70% to be financed from borrowing, consistent with the HRA Budget 2019-20 and MTFs report elsewhere on the Cabinet agenda;
- c) RTB receipts used to part finance an acquisition do not subsequently become repayable if properties are flipped to private rent or sold without there having been sufficient time to be of benefit to Council, which is a key requirement of part financing 30% of costs and reducing the requirement to borrow;
- d) A contribution of £225k from revenue resources to fund year interest costs until the properties start to generate rentals – this would primarily be FHSG supplemented by other homelessness budgets as required;
- e) A borrowing cost of 6%, made up of 4% interest on borrowing + 2% MRP repayment of loan principal over a term of fifty years;
- f) An average individual property repair cost of £266, based on Smart Lettings' average repair cost to date for properties in Harrow and Watford. A void cost of £412 is derived from uplifted Council void costs;
- g) 3 repairs per property per annum, based on numbers of actual repairs to date, equating to an annual repair cost per property of £798. Comparable actual repair costs from Ealing and Brent are not available but they have assumed £1,200 and £500 per property per annum respectively;
- h) Management costs of £1,527 per property per annum, based on a £1,000 management cost per property per annum. This is comparable with Brent's received tender price of £920 for housing management, day to day repairs and annual gas service. Housemark benchmarking gives a figure of £730 pa for management by Harrow Housing. Ealing assume £400 for internal management.

The management figure also has an allowance of £527 for service charges and ground rent for leasehold properties, based on averages of costs incurred in the 100 Homes project to date;

- i) Rent levels have recently increased and these have been increased for the current 100 homes post 1 April 2018. Rents are assumed to increase by 2% per annum. The assumed voids and bad debts allowances are considered realistic.

Current Financial Modelling

Interest which can be afforded 2019-20,
funded mainly by FHSG

£225,000

Ave borrowing this buys [£225k / 6%]

~£3,750,000

Opening position		£0
Additional borrowing		£7,500,000
Therefore average borrowing		£3,750,000
Ave purchase incl overheads & repairs, staffing, stamp duty		£340,000
Less RTB financing	30%	-£102,000
Ave purchase price		£238,000
Max no. acquisitions [£7,500k / £238k]		~ 32 p.a.
Interest		4.000%
MRP		2.000%
Total financing cost		<u>6.000%</u>

Estimated full year interest cost [6%x £238,000]	£14,280
Ave B & B (overspend) cost avoided	-£7,000
Ave LHA rent	-£7,280
Net revenue impact per property p.a.	£0

6.2 Staffing/workforce

There are no staffing/workforce implications. The costs of using an existing officer to acquire the properties, together with administration support and management costs are factored into the business plan assumptions.

6.3 Performance Issues

6.3.1 Homelessness numbers remain high due to the crisis in housing availability in Harrow and the wider region; although the council is still performing well in terms of prevention, the unprecedented demand and supply situation meant there were still 200 families in B & B at the end of December 2018 compared with 104 at the end of March 2018, presenting significant challenges to the council in meeting our statutory duty and in meeting the council's objective of protecting the vulnerable and families.

6.3.2 The key performance indicator is set out below:

Performance Indicator	Target for 2018/19	Q3 Performance	Comments
Total no of households to whom we have accepted a full homeless housing duty (eligible and priority need) over the previous 12 months	320	167 to December 2018	Note - due to the Homelessness Reduction Act introduced from April 2018, there is now a legal requirement of up to 56 days of prevention duty followed by up to 56 days of relief duty before

			acceptance of full housing duty. This has created a 'time lag' in acceptances
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6.3.3 If the proposal to purchase properties does not go ahead, the council will have little option but to use expensive B & B accommodation as TA for increasing numbers of families. This B & B accommodation will be of lower quality to a self-contained flat or house, and some will be outside Harrow, which will also increase the risk of legal challenge to the Council.

6.4 Environmental Implications

Improvements will be made to the properties acquired under this programme to bring them up to the lettable standards for TA. Works may include, for example, replacement of boilers with energy efficient models where necessary to meet current regulations. Additionally it may be possible to include these properties within any council-led schemes to install Photovoltaic systems. This may therefore have the impact of improving properties and contributing to climate change objectives, benefits which would otherwise not be realised within the same timescales.

6.5 Data Protection Implications

There are no GDPR implications associated with this proposal

6.6 Risk Management Implications

Risk included on Directorate risk register? No
 Separate risk register in place? Yes

The business plan makes cautious assumptions to demonstrate the benefits of the proposed acquisition of additional properties for use as TA. Doing nothing has far riskier outcomes with regard to legal challenge as more people are placed in B & B for long periods of time and substantial increasing costs to the council's General Fund.

The key risks identified and the approach to mitigation are as follows:

Risk	Mitigation
Unable to source a suitable supply of properties at the target prices to purchase in Harrow	Areas close to, but outside, Harrow to be considered such as Watford
Property Acquisition scheme revenue costs prove to be more expensive than B & B, including as a result of changes in the Housing Benefit subsidy which reduces the amount of subsidy payable on the assumed rental income.	Dispose of properties and offset with capital growth or flip to market private rent

Proposed legislative changes to be introduced by the Government	Lobbying with other local authorities (e.g. London Councils), ultimately properties can be sold or turned to market private rent if absolutely necessary
Reputational risk and resistance from home owners	Target purchase of ex LA properties, avoid over concentration in particular streets/areas and procure over a 1 year period.
House Price inflation lower than modelled	This will not affect the projected revenue savings but would reduce the projected capital growth. It is unlikely there will be zero house price inflation over the life of the business plan.
Interest Rate increases	The programme can be scaled back to ensure it can cover its costs. Interest rate is expected to reduce from 4.1% to 4.05% from 2019-20 following a debt restructuring ensuring no significant fluctuations in cost of borrowing in financial year 2019-20; it is expected this rate will continue into 2020-21.
Entering into the market will disrupt an already unpredictable market post Brexit	The relative size of the proposed portfolio is low when compared to current annual property turnover on the market. The properties will be acquired over a 1 year period and the impact will therefore be of limited significance. Purchases may stimulate a stalled post Brexit market and the purchases offer some guaranteed accommodation should the Private Rented Sector shrink locally.
Surpluses generated and/or B & B costs avoided eroded	<p>Properties can be converted from use as TA to an alternative product such as private rent; consideration will have to be given to whether these properties will be held in Council's General Fund or HRA or transferred into a Local Housing Company</p> <p>Properties can be disposed of to release capital receipt which can be used for reinvestment or clearing associated debt.</p>

<p>Repayment of RTB receipts used to part finance (up to 30%) with interest in event properties are flipped from TA to private rented or sold</p>	<p>Repayment can be avoided if Council can argue properties have been held sufficient time for them to be of benefit to the Authority i.e. generated enough revenue cost savings by avoiding use of B & B. This would demonstrate compliance with key terms of Retention Agreement with MHCLG to avoid repayment.</p>
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Officers are also looking at some alternatives should the council direct delivery model become unviable. These include REIT investment vehicles and Pension Fund investment using leasing arrangements. A report will be brought to Cabinet if any of these are worth considering

6.7 Procurement Implications

<p>There will only be a small amount of procurement for this proposal which will follow the council procurement procedures</p>
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6.8 Legal Implications

6.8.1 Part 7 of the Housing Act 1996 imposes statutory duties on the Council to provide temporary accommodation to homeless applicants in a number of situations. These include when it is assessing a homeless application of a person who it has reason to believe may be eligible for assistance, may be homeless and may be in priority need and when it has completed an assessment and concluded that an applicant is owed the full housing duty.

6.8.2 Section 206 Housing Act 1996 states that a local housing authority may discharge their housing functions under Part 7 of the Act only in the following ways—

- (a) by securing that suitable accommodation provided by them is available,
- (b) by securing that he obtains suitable accommodation from some other person, or
- (c) by giving him such advice and assistance as will secure that suitable accommodation is available from some other person.

6.8.3 Section 208(1) Housing Act 1996 provides that so far as reasonably practicable a local housing authority shall in discharging their housing functions under Part 7 of the Act secure that accommodation is available for the occupation of the applicant in their district.

6.8.4 Section 210(1) states that in determining whether accommodation is suitable for a person, the local housing authority shall have regard to Parts 9 and 10 of the Housing Act 1985 (slum clearance and overcrowding) and Parts 1 to 4 of the Housing Act 2004 (houses in multiple occupation). The Secretary of State may, by order, specify circumstances in which accommodation is or is not to be regarded as suitable for a person, and matters to be taken into

account or disregarded in determining whether accommodation is suitable for a person.

The Secretary of State has done so by the following Orders:

- Article 2 of Homelessness (Suitability of Accommodation) Order 1996 provides that in determining whether accommodation is suitable for a person there shall be taken into account whether or not the accommodation is affordable for that person. Articles 3 & 4 of the Homelessness (Suitability of Accommodation) (England) Order 2003 provide that B & B accommodation is not to be regarded as suitable for an applicant with a family except where no accommodation other than B & B accommodation is available for occupation and the applicant occupies B & B accommodation for a period, or a total of periods, which does not exceed 6 weeks.
- The Homelessness (Suitability of Accommodation) (England) Order 2012 states that in determining whether accommodation is suitable for a person, the local housing authority must take into account the location of the accommodation, including—
 - (a) where the accommodation is situated outside the district of the local housing authority, the distance of the accommodation from the district of the authority;
 - (b) the significance of any disruption which would be caused by the location of the accommodation to the employment, caring responsibilities or education of the person or members of the person's household;
 - (c) the proximity and accessibility of the accommodation to medical facilities and other support which—
 - (i) are currently used by or provided to the person or members of the person's household; and
 - (ii) are essential to the well-being of the person or members of the person's household; and
 - (d) the proximity and accessibility of the accommodation to local services, amenities and transport.

6.8.5 The Department of Communities and Local Government has also published Supplementary Guidance on the homelessness changes in the Localism Act 2011 and on the Homelessness (Suitability of Accommodation) (England) Order 2012. The combined effect of the above homelessness legislation is that accommodation provided or arranged to meet a homeless duty must be affordable for the homeless applicant. Accommodation is not affordable if the applicant would require the local authority to contribute towards the cost of the accommodation. Where affordable accommodation is not available in the borough the local authority must provide affordable accommodation out of borough.

6.8.6 The Council can rely upon its investment powers in section 12, Local Government Act 2003 and upon section 120, Local Government Act 1972 to acquire these properties. It can rely upon those sections of the Housing Act 1996 referred to above to provide temporary accommodation.

6.8.7 S.149 Equality Act provides that the Council must, in the exercise of its functions, have due regard to the need to—

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

6.9 Financial Implications

- A review of 2017-18 shows that properties acquired under the Property Acquisition Programme have generated average annual revenue surpluses of £6,730 (before interest) compared to deficits of £7,140;
- Providing interest costs can be contained at around £14,000 per property per annum, the decision to purchase properties shows no adverse financial impact for Council;
- Risks of interest and rent fluctuations are adequately mitigated by the accumulation of a capital asset which can be disposed of to repay debt and /or diverted to alternative purposes more advantageous to the Council;
- Continuing reforms in the Housing Sector, demands for homelessness accommodation and the requirement to build more Council housing supported by changes in the way RTB receipts can be used to support these initiatives suggest a re-appraisal of the financial modelling will be required;
- Announcements around the future levels of FHSG (or equivalent) will also have an impact on the viability of the programme and will have to be considered in the re-evaluation;
- Financial monitoring of additional properties including net rentals and costs avoided from B & B is required to ensure value for money and compliance with terms of MHCLG Retention Agreement; satisfactory performance will support release of remaining budget of £4.2m (£15m in total), in particular in contributing towards £378k MTFs savings target included in 2019-20 approved budget.

Equalities implications / Public Sector Equality Duty

A full Equalities Impact assessment was submitted for the original 100 Homes Property Purchase Initiative. This has been reviewed and remains unchanged. The proposed extension to the Purchase Initiative will have no negative impacts on any protected characteristics and a positive impact on families, including lone parent families and those from an ethnic minority community who are over-represented amongst homeless families and therefore more likely to be housed in less suitable B & B accommodation if this proposal is not taken forward.

Council Priorities

The Council's strategy to deliver its vision is set out in the Harrow Ambition Plan 2020 under three themes. Under the theme Protect the Most Vulnerable and Support Families, the extension to the 100 Homes Property Acquisition Initiative will contribute positively to the Council's vision, Ambition Plan and priorities in the following ways:

- Making a difference for the vulnerable – Delivering additional good quality TA for those who are most in need.
- Making a difference for communities – Purchase and refurbishment of street properties at the lower end of the housing market will improve the housing stock in the borough and contribute to sustainable communities.
- Making a difference for families – Delivering 2 and 3 bed family homes to meet the temporary accommodation needs of high priority homeless families.

Section 3 - Statutory Officer Clearance

Name: Tasleem Kazmi	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 08/02/19		
Name: Matthew Dineen	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 21/1/19		

Section 3 - Procurement Officer Clearance

Name: Jessica Covey	<input checked="" type="checkbox"/>	on behalf of the Head of Procurement
Date: 21/1/19		

Ward Councillors notified:	NO, as it impacts on all Wards
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EqIA carried out:

YES

EqIA cleared by:

Carol Yarde

Section 4 - Contact Details and Background Papers

Contact: Elaine Slowe, Enabling Manager
020 8420 9229 elaine.slowe@harrow.gov.

Background Papers: None

**Call-In Waived by the
Chair of Overview and
Scrutiny Committee**

NO – CALL IN APPLIES