

**STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016**

**RESIDENTIAL PROPERTY ACQUISITION FUND TO PROVIDE TEMPORARY
ACCOMMODATION**

Report of the: Residential Property Acquisition Fund
Contact: Rod Brown
Urgent Decision?(yes/no) No
If yes, reason urgent decision required: N/A
Annexes/Appendices (attached): None
Other available papers (not attached): Savills Residential Property Focus 2015

REPORT SUMMARY

A Residential Property Acquisition Fund of £3 million should be created for the purchase of suitable properties for use as temporary accommodation, to generate an income stream, reduce emergency temporary accommodation costs incurred and provide a long term asset value growth.

RECOMMENDATION (S)

- (1) That Committee recommends to Council the creation of a residential property acquisition fund of £3 million for the purchase of properties to use as temporary accommodation.**
- (2) That Committee approve the use of New Homes Bonus up to a maximum of £2 million, £275,000 capital reserves and the remainder to be funded from available s106 funds.**
- (3) That Committee approve the decision making process for this fund as set out in section 8 of this report.**

Notes

1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

- 1.1 Managing Resources – Utilise the Council's limited resources in the most efficient and effective way.

STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016

- 1.2 Quality of life – Improve the quality of life for all residents, but particularly the more vulnerable within our society.
- 1.3 Health, Housing and wellbeing is a priority theme of the Sustainable Community Strategy and the proposal would be a significant contribution towards these objectives, particularly for the most vulnerable.

2 Homelessness duty

- 2.1 Under the homeless legislation, the council is required to provide applicants with emergency accommodation whilst their application is being investigated and, if their application is accepted, until they are housed in settled accommodation.
- 2.2 The Council fulfils this duty through:
- The use of property owned by the council but leased to and managed by housing associations for use as temporary accommodation
 - Agreements with housing associations to use specific properties that they own as temporary accommodation
 - Where there is no alternative, through the use of nightly paid emergency accommodation.

3 Supply of temporary accommodation

- 3.1 Any accommodation offered must be suitable to the needs of the applicant and all members of their family. It is usually preferable to house an applicant in temporary accommodation within the borough; however, the extent of temporary accommodation within the borough is limited and only 98 such properties exist.
- 3.2 The Council has access to a stock of managed units, which are summarised below:

Table showing existing temporary accommodation with Epsom and Ewell Borough Council including details of ownership and management

Property	Description	Numbers	Owned By	Managed By
West Hill Court Epsom	27 x Studio flats 5 x1 bed flat 1 x 3 bed house	33	Rosebery Housing Association	Rosebery Housing Association
58 Upper High Street Epsom	9 x studios	9	Rosebery Housing Association	Rosebery Housing Association

STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016

Property	Description	Numbers	Owned By	Managed By
Phoenix Court Epsom	7 x studios 3 x 1 bed flat 4 x 3 bed flat	14	Rosebery Housing Association	Rosebery Housing Association
Celia Court West Ewell	4 x 2 bed flat 2 x 1 bed flat	6	Rosebery Housing Association	Rosebery Housing Association
High Street "The Cottages" Epsom	4 x 2 bed houses	4	Epsom and Ewell Borough Council	Rosebery Housing Association
Other 2 bedroom properties	Various 2 bedroom street properties	4	Rosebery Housing Association or Rosebery private sector leased	Rosebery Housing Association
Other 3 bedroom properties	Various 3 bedroom street properties	7	Rosebery Housing Association or Rosebery private sector leased	Rosebery Housing Association
Eaton House Epsom	9 x 2 bed flat	9	Mount Green Housing Association	Mount Green Housing Association
Dalmeny Way Epsom	4 x 3 bed houses	4	Mount Green Housing Association	Mount Green Housing Association
102 Upper High St Epsom	1 x Studio flats 2 x 1 bed flat 4 x 2 bed flat 1 x 3 bed flat	8	Epsom and Ewell Borough Council	Transform Housing & Support
Total		98		

3.3 As demand exceeds this supply, it is often necessary to place applicants in out of borough emergency temporary accommodation. This differs from temporary accommodation as it is all privately owned property, often some distance from the borough and paid for on a nightly basis. In this report this type of accommodation is referred to as nightly paid emergency accommodation but is commonly known as Homeless Bed and Breakfast accommodation.

STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016

- 3.4 The length of residency in temporary accommodation varies with the size of the occupying household. Single people and larger families in need of 4 bedroom properties usually occupy these properties longer than other household sizes, for periods in excess of 2 years. The majority of families currently in temporary accommodation are in need of 2 or 3 bedroom properties and on average spend 24 - 36 months in temporary accommodation.

4 Current & future demand for Temporary Accommodation

- 4.1 The 98 properties identified in the above table are insufficient to meet the current requirements for the Council to fulfil its statutory duties and, as a result use is made of nightly paid emergency accommodation (commonly referred to as Bed and Breakfast accommodation).
- 4.2 There is no suitable nightly paid emergency accommodation available within the borough and these households, including families, are placed outside of the Borough in areas such as Wandsworth, Crawley and Croydon.
- 4.3 In addition to the statutory requirements and possible financial benefits, it is worth also considering the wider social benefits of increasing the amount of temporary accommodation close to or within the borough. It is usually preferable that applicants be accommodated close to the borough, rather than nightly paid emergency accommodation outside the borough.
- 4.4 It also helps, particularly in the case of families with children or applicants with specific health needs, to preserve links with schools, doctors and other services and support networks. In the case of working-age applicants, it can also better help them get or keep a job.
- 4.5 Over the last two years the number of families in nightly paid emergency accommodation varied. At the end of each month the numbers ranged from 52 to 88. The movement of families in and out of nightly paid emergency accommodation is illustrated below for the two financial years 2014/5 and 2015/16.

STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016

Table showing the number of families at the end of each month living in nightly paid emergency accommodation

Month	Number Of Households Placed in Nightly Paid Emergency Accommodation During Month	Number Of Households Moved Out Of Nightly Paid Emergency Accommodation During Month	Net Number Of Households in Nightly Paid Emergency Accommodation At End Of Month
2014/15	Net Carried Forward Figure		54
April	9	15	48
May	13	9	52
June	7	7	52
July	9	8	53
August	13	6	60
September	12	5	67
October	15	1	81
November	5	7	79
December	13	22	70
January	12	13	69
February	16	3	82
March	12	9	85

Month	Number Of Households Placed Into B&B During Month	Number Of Households Moved Out Of B&B During Month	Net Number Of Households in B&B At End Of Month
2015/16	Net Carried Forward Figure		85
April	10	7	88
May	11	29	70
June	7	9	68
July	9	12	65
August	2	7	60
September	6	7	59
October	6	6	59
November	10	4	65
December			62
January			
February			
March			

5 Cost of Nightly Paid Emergency Accommodation

5.1 The supply of nightly paid emergency accommodation is limited and reliant on spot purchasing in response to the presentation of applicants meeting the statutory requirements for emergency accommodation.

STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016

- 5.2 The cost of this type of accommodation is considerably higher than settled social housing and is supplied by a range of specialised housing suppliers. Competition for this accommodation is marked and we compete with several other councils in securing accommodation.
- 5.3 Unlike the cost of all temporary accommodation operated by housing associations within the borough, the cost of out of the borough nightly paid emergency accommodation is also significantly in excess of the housing benefit payments received and is consequently subsidised by the council.
- 5.4 Last year many suppliers of nightly paid emergency accommodation were required to improve their accommodation in order to meet statutory suitability criteria relating to self-contained units for families in residence more than 6 weeks. As a result the cost of this type of accommodation increased further.
- 5.5 The costs illustrated in the table below reflect the average actual net cost to the council for purchasing this accommodation over recent months.
Average net (after housing benefits) annual cost of Nightly Paid Emergency Accommodation by household size (as of Sept 2015)

Table showing average net cost of nightly paid emergency accommodation

Household Type	Average net cost of nightly paid accommodation per year (£)
Small Family - 2 adults & 1 child or 1 adult & 2 children	17,988
Medium Family – 2 adults & 2 children	17,988
Larger Family - 3 or more children	24,743

6 Movement out of Temporary Accommodation into Settled Accommodation

- 6.1 Settled accommodation provides long term housing for individuals or families and is the intended next move after living in temporary accommodation. This settled accommodation is mainly supplied as social rented housing by housing associations but also as rented properties by private sector landlords.
- 6.2 There is a shortage of settled accommodation within the borough and this slows down the speed of movement through temporary accommodation and nightly paid emergency accommodation, resulting in large numbers of applicants living in this temporary accommodation with nowhere to move to.

STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016

6.3 The supply of social rented accommodation in the borough has fallen significantly in recent years. From April to October 2015 we have only had 27 social rented properties become available whereas last year we had 92 and significantly more the year before that.

Table showing availability of social rented properties in EEBC area over last 4 years

Year	1 bed	2 bed	3 & 4 bed	Sheltered	ALL types
2015/16 *	5	9	5	8	27
2014/15	35	23	9	25	92
2013/4	29	51	20	13	113
2012/3	68	59	24	23	174

* April 2015 – October 2015

6.4 This lack of social rented property is particularly evident in EEBC, where our previous healthy supply of properties was associated with new developments.

6.5 The usual supply of new affordable housing has been adversely affected by a number of factors, including:

6.5.1 Low turnover of existing social housing in EEBC - 4% turnover in EEBC versus 8% nationally.

6.5.2 Low existing supply of social housing in EEBC (one of the lowest supplies of social housing in the UK)

6.5.3 Impact of rent reductions. The government introduced reduction in Housing Association rental incomes of 1% per year for the next 4 years. This reduces the ability of Housing Associations to borrow or take on new developments

6.5.4 The government new emphasis on starter homes over social rents, including a requirement to consider shared ownership in place of other types of tenure in affordable housing schemes attached to in existing legal agreements.

7 Review of purchase of 102 Upper High Street Epsom for use as temporary accommodation

7.1 In response to the lack of supply of temporary accommodation the Council purchased a substantial property in Upper High Street Epsom for temporary accommodation. This now operates successfully and is managed by Transform Housing and Support, providing accommodation for 8 local families.

STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016

- 7.2 In 2014, Members approved the purchase of the property. A review of the process from acquisition to the building's eventual use has highlighted a number of areas where lessons could be learnt.
- 7.3 The time taken to complete the process from Member decision to first nominated occupant took 15 months. The process from offer to completion took 7 months, being hindered by completion being dependant on vacant possession. It took a further 7 months from completion to signing the lease. It took 4 months from completion to finding a Housing Association to manage the property on behalf of the Council.
- 7.4 In addition to the protracted nature of the process, there were other key lessons identified. Many of these delays were due to a lack of project management and lack of clarity as to where the corporate priorities were with various projects being developed at that time.
- 7.5 The review identified that there was a lack of clarity about responsibilities and expectations of the project. There was also a lack of engagement with any potential housing associations prior to the purchase which resulted in more complex negotiations than anticipated being required once the property had been acquired.
- 7.6 The experience has however been valuable in identifying how future projects should be managed. Below are the main lessons learnt which will be applied to future property projects.

Table showing lessons learnt and future approaches based on purchase of 102 Upper High Street

Issue from lessons learnt	Outcomes for future projects
Purchase process needs to be significantly quicker	Proposal for Property Acquisition Fund enabling quicker purchasing
Early engagement and up front discussion with organisations expected to manage the property as Temporary Accommodation	Regular discussions at Head of Service level with Rosebery and other Housing Associations active within EEBC
Clearer prioritisation for Corporate Projects	Corporate Project Plan will be developed with clear governance arrangements
Robustness of Business Case	Pro forma business case should be developed at the outset to ensure that financial targets are clearly defined and can be monitored.

STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016

Issue from lessons learnt	Outcomes for future projects
Adoption of clear Project Management principles at start of project	Project Management guidelines and documentation will be in place and agreed
Clear accountability for project delivery	Corporate Project Plans clearly identify accountability for all corporate projects
Monitoring of key milestones towards delivery	Project management documentation and governance arrangements will be in place
Identifying and using key skills within project team	Project Management principles and documentation will be in place

8 Proposal for Residential Property Acquisition Fund

- 8.1 The proposal is that a Residential Property Acquisition Fund is established by the Council to enable suitable properties to be purchased to serve as temporary accommodation. This will reduce the demand for use of out of borough nightly paid emergency accommodation, reduce the cost of homelessness and maintain a capital asset which is likely to increase in value.
- 8.2 The speed with which targeted properties sell requires the Council to respond quicker than occurred with the purchase of 102 Upper High Street. The redeeming feature of that purchase was that the property had limited appeal due to the internal arrangement as 8 separate private rented flats. As a result the property remained on the market for a substantial period allowing the Council's time consuming decision making process to conclude.
- 8.3 The creation of the purchase fund together with a streamlined decision making process will enable the Council to compete with other purchasers in this competitive market.
- 8.4 The target market will be residential property typically in the lower quartile of borough property values. These are likely to be ex-local authority properties, for which there is likely to be substantial interest.
- 8.5 The greatest demand for housing comes from those with a need for a 2 or 3 bedroom property. The council would use any properties purchased to meet the housing needs of those who might otherwise present as homeless and have to be accommodated at the Council's cost in expensive emergency accommodation.

STRATEGY AND RESOURCES COMMITTEE

27 JANUARY 2016

- 8.6 Households placed in properties that the Council has purchased and leased to a Housing Association will be liable for the full cost of the rent themselves which they will meet either from their own earned income or with their entitlement to housing benefit. This differs from the Council placing households directly into emergency accommodation, where around 60% of the full weekly cost of that accommodation then falls to the Council to pay.
- 8.7 Due to the temporary nature of this use, there is more flexibility in the size of family the properties can accommodate. It is envisaged that the properties will accommodate larger families than would be permitted had the properties been used for settled accommodation. In temporary accommodation it is usual that the lounge is utilised for sleeping, in addition to the bedrooms.
- 8.8 Initial discussions have been had with Rosebery Housing Association (RHA) about managing these properties as temporary accommodation. RHA have indicated that as many of these properties would be adjacent to housing stock already managed by them, that "in principle" they would be willing to manage them.

9 Decision making arrangements for purchasing properties

- 9.1 The purpose of the proposal is to enable the Council to purchase properties for use as temporary accommodation and to be able to achieve this, the decision making procedure needs to be able to react to the tight timescales involved.
- 9.2 It is proposed that following initial offer and any subsequent negotiations will be undertaken by the Head of Housing and Environment, in consultation with the Head of Legal and Director of Resources.
- 9.3 Following professional valuation and appropriate survey, the decision to purchase the property will be made by the Head of Housing and Environment in consultation with the Chair of Strategy and Resources, the Chief Executive, Director of Resources and Head of Legal Services.

10 Programme of purchases

- 10.1 The objective of this proposal is to put the Council in an improved position to be able to react quickly to opportunities to purchase suitable properties when they arise. The extent of property purchasing will be linked to the ability of the remaining fund to cover the cost of purchase and associated costs.
- 10.2 Although the purchase fund would be an opportunistic initiative, enabling the Council to take advantage of suitable properties becoming available, it is proposed that the Council will aim to purchase an average of 2 properties each year over a period of 4 years.

STRATEGY AND RESOURCES COMMITTEE

27 JANUARY 2016

- 10.3 The property type being sought would depend on current housing need, but it is envisaged that this will continue to be 2 and 3 bedroom properties into which medium and larger families currently in nightly paid emergency accommodation would be put.
- 10.4 On the associated cost of purchasing outlined below, a fund of £3 million could typically enable the purchase of 3 x 3 bed properties and 5 x 2 bed properties over the course of 4 years.
- 10.5 The risk of these properties no longer being required for temporary accommodation can be mitigated. If in the future the level of demand for temporary accommodation reduces within the borough, the Council can:
- 10.5.1 Cease the use of out of borough nightly paid accommodation, moving households into borough accommodation.
 - 10.5.2 Convert existing temporary accommodation into settled accommodation
 - 10.5.3 Lease property to other boroughs and districts for use as emergency accommodation
 - 10.5.4 Lease or sell to a local housing association or charity
 - 10.5.5 Sell on the open market

11 Decision making arrangements for disposal of properties acquired

- 11.1 Prior to acquiring any property, officers will seek to have agreed in principle with a registered social housing provider terms on which the housing provider will take a lease of the property, and will manage it day to day. This is likely to be by way of a lease with the Council having the right to nominate occupants to the housing provider for the term of the lease. Any such lease is likely to be for a period of 7- 10 years with the opportunity for early termination. The terms will be agreed by the Head of Housing & Environmental Services, following consultation with the Director of Finance & Resources and Head of Legal & Democratic Services.

12 Asset Management Plan

- 12.1 The Council has agreed an Asset Management Plan which, amongst other things sets out the criteria to be applied when properties are to be acquired or disposed of. The plan also includes specific division of authority for approval of property matters, including the level of delegation to officers. This report seeks to depart from the Plan, in terms of criteria, process and delegation. This is considered necessary in order to enable the Council to act efficiently and effectively to meet the objectives of the proposed fund – to acquire and bring into use additional temporary accommodation within the borough.

STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016

13 Acquisition criteria

13.1 Acquisition criteria are set out below:

13.1.1 *Property requirements are identified by the Capital Management Group in compliance with the Capital Strategy:* This report departs from this process because the requirement for temporary accommodation has been identified.

13.1.2 *A business case is prepared, including a whole life costing exercise and a review of existing holdings to determine whether the need can be met from the current portfolio:* A business case will be prepared in respect of each acquisition (broadly as set out in this report). It is clear that the Council's existing portfolio cannot meet the identified need for temporary accommodation.

13.1.3 *A briefing note including location, size, specification and other relevant requirements is produced and agreed. At this stage, based on funding and other constraints a decision is made on the appropriate interest to be acquired (freehold, long lease etc.):* These matters have been identified in broad terms. The scheme will operate on an opportunistic basis as suitable properties come up for sale in the borough. It is intended that freehold properties will be acquired, but this will be considered on a property by property basis.

13.1.4 *The Corporate Property Officer, in liaison with the service head or other appropriate nominee, leads in the search and acquisition process, instructing external agents where necessary, through the negotiation of terms, reporting and final approval by Strategy and Resources Committee:* The lead for this project will be the Head of Housing & Environmental Services, with suitable advice from the Corporate Property Officer and others. In a departure from the plan, officers will agree terms of acquisition, which, if the recommendations in this report are agreed will not require the approval of Strategy and Resources Committee.

13.1.5 *Strategy and Resources Committee must approve the terms of all acquisitions:* As stated above, in a departure from the plan, officers will agree terms of acquisition, which will not require the approval of Strategy and Resources Committee.

14 Disposal Criteria

14.1 All disposals are governed by the obligation to secure the best consideration which can reasonably be obtained pursuant to Section 123 of the Local Government Act 1972, although non-financial benefits may form part of the consideration. Officers will ensure compliance with the best consideration obligation.

STRATEGY AND RESOURCES COMMITTEE

27 JANUARY 2016

- 14.1.1 *The property is declared surplus to requirements by the relevant service department, after concluding that operational life cannot be extended by repair, adaptation or other measures. The decision to be confirmed by Corporate Management Board:* This is not applicable. The properties are being acquired to be immediately disposed of by way of a lease. This is specifically aimed at helping to meet the Council's identified need for temporary accommodation.
- 14.1.2 *An option appraisal is carried out to determine alternative operational use or other reason to retain the property. This exercise would encompass potential for income generation with or without further investment and whether it is possible to improve efficiency by a part or split disposal:* Not applicable in this case because of the specific aims of the scheme.
- 14.1.3 *Is there scope for a Community Asset Transfer or sharing option?* Not applicable.
- 14.1.4 *If there is no potential for alternative use or Community Asset Transfer the preferred option should be a sale but this should be governed by an assessment of current market conditions and a review of longer term operational requirements:* Not applicable – the most effective means of meeting the need for temporary accommodation is for the properties to be leased to and managed by a social housing provider on the Council's behalf. If at some point a property is no longer needed for that purpose, then the provisions of the Asset Management Plan, in respect of disposal of surplus property, will be applied.
- 14.1.5 *The Strategy and Resources Committee determines the best means of disposal - sale, long lease or short term lease/licence based on advice from the Corporate Property Officer or external agent:* Not applicable. Properties will be leased to a social housing provider on terms approved by officers.
- 14.1.6 *In the case of development land or property for refurbishment the requirement for an overage provision ('claw back') should be considered:* Not applicable.
- 14.1.7 *The Strategy and Resources Committee must approve the method and terms of all sales and of other disposals where a decision has not been delegated to Officers.*

15 Best Consideration

- 15.1 Under section 123 of the Local Government Act 1972, the Council can dispose of land in any manner it wishes, subject to certain constraints. A Council shall not, without the consent of the Secretary of State, dispose of land for a consideration less than the best which can reasonably be obtained. In this context, a disposal excludes granting a lease of less than seven years.

STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016

- 15.2 The Secretary of State has issued the General Disposal Consent (England) 2003. This is appended to Circular 06/03, which contains further relevant guidance.
- 15.3 The General Disposal Consent permits the Council to dispose of land for less than best consideration, provided that the Council considers that the purpose for which the land is to be disposed is likely to contribute to the achievement of one or more of the following objects in respect of the whole or any part of the Borough, or of all or any persons resident or present in the Borough:
- 15.3.1 The promotion or improvement of economic well-being;
- 15.3.2 The promotion or improvement of social well-being; and
- 15.3.3 The promotion or improvement of environmental well-being; and
- 15.3.4 The undervalue (the difference between the unrestricted value – the market value - and the terms for the disposal), does not exceed £2million.
- 15.4 Under the terms of the General Consent, the unrestricted value is to be assessed in accordance with a Technical Appendix. This in turn effectively requires that a report be obtained from a qualified valuer (a member of the Royal Institution of Chartered Surveyors).
- 15.5 This is also emphasised in the Circular, which strongly advises authorities to obtain a valuation, and states that an authority *“should ensure that it complies with normal and prudent commercial practices, including obtaining the view of a professionally qualified valuer as to the likely amount of the undervalue.”*
- 15.6 In this case, the duty would be engaged if a lease of seven years or longer is contemplated. It is arguable that disposal to RHA or other Social Housing Provider on the sort of terms outlined in the report could constitute a disposal at an undervalue. However, seeking best consideration would wholly frustrate the purpose of the report – to provide more temporary accommodation in the Borough.
- 15.7 Officers will seek to ensure that any undervalue would be less than the limit permitted under the general consent referred to above. It is clear from the body of the report that the purpose of the disposal will contribute to the achievement of the social well-being of those who will be accommodated in the refurbished premises. It is therefore considered that the arrangements proposed can be entered into without breaching the terms of the General Disposal Consent, even if a formal valuation is not obtained in order to seek to confirm that. There is limited risk of challenge to that decision.

STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016

16 Financial Implications

16.1 This proposal will lead to significant revenue savings which will generate additional rental income for the Council and savings through avoided nightly paid emergency accommodation and the associated storage costs. In addition, the purchase of property will provide a long term asset growth.

Funding Sources

16.2 The proposal to develop a £3 million residential property fund would be principally reliant on New Homes Bonus (NHB) up to a limit of £2 million, with additional funding from capital reserves £275,000 and affordable housing s106 contributions. If this programme was agreed there would be a loss of interest on balances of £20,250 per annum (based on an historic average 3% annual investment return).

16.3 The NHB currently available is £1,580,000 with a confirmed £1,527,000 available for 2016/17. NHB funding is currently under review by central government and there is an expectation that future funding levels will be significantly reduced. The use of £2m for this project would leave a balance in excess £1m for 2016/17 onwards.

16.4 Earlier this year the council negotiated a capital receipt of £275,000 following RHA's sale of Bankside and Berridale, which was in addition to having that accommodation re-provided using West Hill Court development earlier this year.

16.1 The Council currently holds £469,500 in uncommitted affordable housing S106 developer contributions. The application of these contributions to this project is consistent with the legal agreements from which they arise.

16.2 Use of S106 for the project on 1-3 Blenheim Road, would lower the balance held for affordable housing S106 funds to £296,000. This leaves a funding shortfall of £429,000 for this project. However the Council are reasonably assured of a S106 contribution of £180,000 before the end of the financial year.

16.3 The Council continues to receive a steady stream of affordable housing S106 contributions. It would be reasonable to assume that contribution levels will remain constant in the short term.

Table showing the s106 contributions received annually since 2011/12

Actual 2011/12	Actual 2012/13	Actual 2013/14	Actual 2014/15	Received to 31/12/2015
£	£	£	£	£
197,040	111,470	419,720	230,870	165,000

STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016

- 16.4 Although none of the S106 contributions held are time restricted it is important to continue to apply these funds to appropriate schemes to avoid challenge from developers in the future with regards to repayment of unspent contributions.
- 16.5 The use of NHB, capital reserves and S106 would lead to a loss of interest on balances of £8,865 per annum per two bed property and £12,651 per annum per three bed property (based on an average 3% annual investment return).
- 16.6 The alternative funding route of borrowing to purchase both 2 bedroom and 3 bedroom properties has been explored, however at this time Officers believe the use of existing reserves is a more viable option.
- 16.7 This proposal will not however meet the Councils spend to save criteria of a 5 year payback period. The use of the purchased property for temporary accommodation will make significant revenue savings from avoided expenditure for nightly paid emergency accommodation and generate an additional income.

Income and savings

- 16.8 In November 2015 Savills Research published their 5 year forecasts for residential property values across the UK between 2016-2020. This report predicts over the next five years a 24.0% increase in market value for “inner commute” areas around London, which are considered to be those areas within a 30 minute commute of the capital. The similar prediction for the “outer commute” area, within a 30 – 60 minute commute, was 23.4%
- 16.9 Based on current market values for properties in the lower quartile for purchase cost, the illustrative cost of purchasing typical target properties is set out below:

Table showing typical cost to purchase 2 and 3 bedroom property around Epsom and Ewell Borough

	2 bedroom property (£)	3 bedroom property (£)
Purchase Price	280,000	400,000
Stamp Duty	4,000	10,000
Legal and search fees	1,500	1,700
Refurbishment	15,000	15,000
TOTAL	300,500	426,700

- 16.10 The 2 bed properties could accommodate medium sized families, either 3 or more younger children plus two adults or couples with older children. The 3 bedroom properties could accommodate larger families.

STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016

- 16.11 It is anticipated that the Council would let the property on a new 10 year full repairing and insuring lease. The length of any lease would be subject to the outcome of negotiations with RHA or another Social Housing Provider.
- 16.12 Purchasing suitable property would avoid costs associated with nightly paid emergency accommodation for medium (2 bed) and larger (3 bed). Based on 2015/16 actual payments, these avoided costs have been estimated to be £17,988 and £24,743 respectively.
- 16.13 In addition to this avoided expenditure, there would be an annual income from leasing the properties to Social Housing Provider. The maximum temporary accommodation rents that can be charged for these properties is prescribed and based on 90% of the Local Housing Allowance (2011) plus £60 per week. For a 2 bedroom property this is equivalent to £1,024.99 pcm and for a 3 bedroom property £1,205.01 pcm.
- 16.14 The management of these properties by RHA or another Social Housing Provider on behalf of the Council will be subject to negotiation but inevitably will reduce the rental income received by the Council.
- 16.15 Typically the management costs associated with temporary accommodation would be 52% – 67% of the maximum rental income. Assuming the Council retains only 52% of the potential rental income, this would suggest net annual rental income to the Council of £6,396 for a 2 bed property and £7,524 for a 3 bed property.
- 16.16 Based on the assumptions above, the expenditure and income, including avoided costs, for 2 bed and 3 bed properties is outlined below with the estimated percentage return on investment.

Table showing estimated annual return on purchasing property for temporary accommodation

	2 Bed Property (£)	3 Bed Property (£)
Cost of purchase	300,500	426,700
Loss of interest from using existing funds	8,865	12,651
Annual avoided cost of nightly paid emergency accommodation	17,988	24,743
Estimated Annual rental Income based on 52% temporary accommodation rent	6,396	7,524
Estimated annual return on investment	8.0%	7.4%

STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016

16.17 The estimated return on investment set out in this proposal of between 7% and 8% is significantly more than the 3% average achievable through investment return. In addition it is anticipated that there would be an increase in asset value.

16.1 **Chief Finance Officer's comments:** *As income from residential property is exempt from VAT there is a potential VAT liability arising from this proposal. For local authorities the amount of VAT recoverable on expenditure related to exempt income is limited to 5% of total VAT recovered. If this is exceeded then the liability to HMRC is the whole amount of VAT recovered on expenditure relating to exempt income.*

Officers will investigate options to reduce liability on other properties to mitigate the risk of having to pay over circa £120,000 to HMRC and may need to seek professional advice on this issue.

There is an expectation that only a full repairing lease agreement will be acceptable at these properties. If for any reason this is not possible, the Director of Finance and Resources should be consulted before any arrangements are entered into.

Care should be taken when setting up the terms of the full repairing lease to protect the Councils interests with regards to dilapidations. A regular schedule of inspection should be agreed at the outset to ensure that the property is being kept at the agreed standard through the life of the lease.

17 Legal Implications (including implications for matters relating to equality)

17.1 The Right to Buy (RTB) does not apply to families being accommodated in these properties. The RTB attaches to Secure Tenancies and the tenancies being offered in these circumstances are granted in pursuance of our functions under Part VII of the Housing Act 1996, and such tenancies are specifically not "Secure Tenancies" in accordance with section 79(2) of, and para 4 of Schedule 1 to, the Housing Act 1985.

17.2 Under section 74 of the Local Government & Housing Act 1989, a local housing authority has a duty to keep a housing revenue account in respect of houses provided under Part II of the Housing Act 1985 (and certain other properties).

17.3 If any of the dwellings are regarded as being held for the purposes of Part II, then the duty to have a HRA applies. The Secretary of State can, however, direct that the duty shall not apply to such land as they specify. The HRA manual indicates that such a direction will normally be given where fewer than 50 dwellings are held by an authority.

STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016

- 17.4 Considering the properties already owned by the Council, plus those envisaged under the proposed Private Sector Leasing scheme and refurbishment of 1 – Blenheim Road and the possible 8 additional properties purchased through this proposal, it is not considered the Council will exceed this limit of 50 dwellings.

Table showing current residential properties in Council ownership

	Council owned residential properties
Proposed refurbishment of 1 – 3 Blenheim Road	9
102 Upper High Street	8
The Cottages High Street Epsom	4
Proposed Private Sector Leasing	15
Keepers Cottage Horton Country Park	1
Bourne Hall Lodge	1
Rosebery Park Lodge	1
Total	39

- 17.5 It is therefore recommended that, when implementing the above schemes, the Council firstly assert to DCLG that the duty does not apply and, in the alternative, seeking in-principle support for a direction (or even an actual direction for the dwellings we own already). Secondly, to seek a direction in respect of each unit when acquired.

- 17.6 **Monitoring Officer's comments:** Section 120(1) of the Local Government Act 1972 provides that:

“For the purposes of—

(a) any of their functions under this or any other enactment, or

(b) the benefit, improvement or development of their area,

a principal council may acquire by agreement any land, whether situated inside or outside their area.”

In this case, the accommodation will be acquired for onward disposal by way of lease to a registered social housing provider, for the purpose of providing temporary accommodation for homeless persons where the Council has a duty to provide them with accommodation. This is clearly within the Council's powers.

Section 18 of the Housing Act 1985 provides that:

STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016

- “(1) Where a local housing authority acquire a building which may be made suitable as a house, they shall forthwith proceed to secure that the building is so made suitable either by themselves executing any necessary works or by leasing it or selling it to some person subject to conditions for securing that he will so make it suitable.*
- (2) Where a local housing authority—*
- (a) acquire a house, or*
 - (b) acquire a building which may be made suitable as a house and themselves carry out any necessary work as mentioned in subsection (1),*

they shall, as soon as practicable after the acquisition or, as the case may be, after the completion of the necessary works, secure that the house or building is used as housing accommodation.”

In this case it is intended that any properties acquired for this purpose are brought into use as housing accommodation at the earliest opportunity, and this is in accordance with the Council’s obligations.

The Council has approved an Asset Management Plan, which sets out criteria for acquisition and disposal of property. This report proposes a departure from the provisions of that plan and the delegations which members have previously agreed. If this report is agreed, it is essential that the Asset Management Plan (which is shortly to be reviewed) is amended to take into account the proposed approach.

It is essential, when we come to the disposal of the acquired properties on a lease to a registered social housing provider that the “best consideration” duty is met (if relevant). The proposed arrangements for dealing with properties will ensure that the duty is met.

18 Sustainability Policy and Community Safety Implications

18.1 None for the purposes of this report.

19 Partnerships

19.1 Historically the Council has worked in partnership with housing associations to provide suitable temporary accommodation. There has been agreement in principle with Rosebery Housing Association through informal discussions that they would be willing to manage properties purchased. There is a possibility that in some future time, Housing Associations may themselves seek to purchase similar properties. In such circumstances offers would work closely with them to avoid competition.

STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016

20 Risk Assessment

20.1 The proposal to purchase property for use as temporary accommodation seeks to increase the supply of such property as an alternative to using nightly paid emergency accommodation out of the borough. As part of the development of the scheme a risk assessment has been produced and is outlined below.

Risk	Level	Mitigation
The cost of acquiring and maintaining property is in excess of the income received, including avoided nightly paid emergency accommodation.	L	The proposal is aimed at properties in the lower price quartile and will be subject to survey and agreement in accordance with governance arrangements, as set out in the report. The expected continued rise in property prices will result in an asset of increasing value. Selling the property would enable the Council to recover some or all of the investment.
Lack of suitable properties	L	The proposal is intended to be opportunistic, enabling the Council to respond to suitable properties becoming available.
Adverse impact on Council's VAT position	L	Failure to negotiate Full Repairing Lease may adversely affect the Council's VAT liability. Purchasing properties in state of reasonable repair will help mitigate this.
Legal Challenge	L	Diminishing reliance on suitable emergency nightly paid accommodation will reduce the risk of legal challenge.
Dilapidations	M	Due to the longer term nature of temporary accommodation, it is not expected that properties will be vacated within 24 months. To mitigate risk that a property will be in poor condition on being vacated, an agreed schedule of the condition of each of the properties at initial handover will be attached to the lease. This will include a photographic record of all aspects of the property and a register of all fixtures and fittings and their condition. As part of the management agreement, regular inspections will note any deterioration to the property not resulting from fair, wear and tear. If all of this is done then the costs of reinstatement will be kept to a minimum.

STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016

Risk	Level	Mitigation
		Tenants will be recharge for damaged they cause to the property.
Bad Debt	L	As part of the management agreement early arrears monitoring and careful rent arrears management, including liaison with Housing Benefit should help mitigate bad debt. It should be noted the Council is exposed to this risk when using emergency nightly paid accommodation but at a much higher financial level, therefore this proposal reduces the risk.
Voids Loss/Void Repairs/Minor Repairs	L	The average length of stay in one of these properties is likely to be around three to four years and voids do not occur regularly. This will reduce the risk of void loss and void repairs. Regular property inspections and careful property/tenancy management should reduce the risk of damages and repairs.
Changes to the Housing Benefit temporary accommodation subsidy formula	L	<p>In the autumn statement the Chancellor announced the governments intentions to devolve and reform funding for managing temporary accommodation from 2017-18. The temporary accommodation management fee will no longer be paid through the benefits system and instead Councils will receive this money upfront. The government has said they will maintain current levels and will be providing an additional £10 million a year, so that they can give more freedom and flexibilities to local authorities.</p> <p>There are no clear details yet however if there were to be a negative risk then the Council would be exposed to this risk when using emergency nightly paid accommodation but at a much higher financial level, therefore the proposal reduces the risk.</p>
Universal Credit	L	If the tenant is more than one month in arrears the Council can notify the DWP. At this point DWP will review the claimant's situation and can offer the tenant budgeting support and may decide to pay the rent directly to the Council. When arrears reach the equivalent of two month's rent (the 'trigger point'), an Alternative Payment Arrangement will be put in place by the DWP to allow a managed payment to the Council. In addition rent arrears can be recovered from the tenant through a deduction to their Universal Credit. The tenant can also be evicted for rent arrears. The Council will be exposed to this risk when using emergency nightly-paid accommodation but at a much higher

**STRATEGY AND RESOURCES COMMITTEE
27 JANUARY 2016**

Risk	Level	Mitigation
		financial level.

L – Low M – Medium H - High

21 Conclusion and Recommendations

- 21.1 This proposal is a spend to save project, using New Homes Bonus, capital receipts and s106 funds to fund the purchase of properties to use as temporary accommodation, with the potential to make significant revenue savings and to provide a new rental income stream producing a higher return on investment than is possible through the average annual investment return.
- 21.2 Increasing the supply of temporary accommodation within or close to the borough boundary has both financial and social advantages, enabling tenants to be supported within the borough by friend and family as well to be in a better position to seek employment.
- 21.3 With the high cost of homelessness, this proposal seeks to make significant revenue savings from avoidable costs associated with nightly paid accommodation and to generate an additional income from renting the properties and having them managed by a Social Housing Provider.
- 21.4 The purchase of property is likely to generate an asset of increasing capital value with local property prices anticipated to increase by 24% over the next 5 years..
- 21.5 Previous experiences of the Council purchasing property for use as temporary accommodation has been used to develop this proposal. The Council needs to be able to respond quickly to opportunities to purchase suitable accommodation.
- 21.6 The recommendation of this report that the Council has a purchase fund of £3 million established, together with an agreed procedure for purchasing suitable properties, will enable the Council to compete for suitable properties in a competitive market.
- 21.7 The report's recommendation is that the Committee recommends to Council that New Homes Bonus, capital receipts and s106 funding is used to create a £3 million fund to purchase property and that a streamlined decision making process to purchase property is adopted to ensure the Council can compete in the current housing market.

WARD(S) AFFECTED: All