

**Report to:** Cabinet

**Date of Meeting:** 3<sup>rd</sup> January 2023

**Report Title:** Housing Acquisition Proposal

**Report By:** Andrew Palmer, Assistant Director Housing & Built Environment

**Key Decision:** Yes

**Classification:** Open

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### **Purpose of Report**

To outline proposals to acquire a portfolio of up to 50 additional homes as a means of providing more suitable and cost-effective temporary accommodation solutions for homeless households, many of whom would otherwise be accommodated in high cost, nightly paid accommodation.

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### **Recommendation(s)**

**That Cabinet recommends that Full Council approves:**

1. an acquisition programme to acquire up to 50 homes for temporary accommodation use;
2. that a capital budget for £11,865,400 is established to meet the cost of the acquisitions with revenue costs met by the Temporary Accommodation budget; and
3. that delegated authority be given to the Assistant Director, Housing & Built Environment, and the Chief Finance Officer, to complete the acquisitions, including any associated procurement.

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### **Reasons for Recommendations**

1. The Council urgently needs to find more suitable placements for many of the homeless households who the council are required to accommodate whilst arranging access to longer term and more settled accommodation.
2. A programme of acquiring up to 50 homes will provide a better solution for those owed such a duty by the council and will also have a significant positive impact upon the council's temporary accommodation costs.

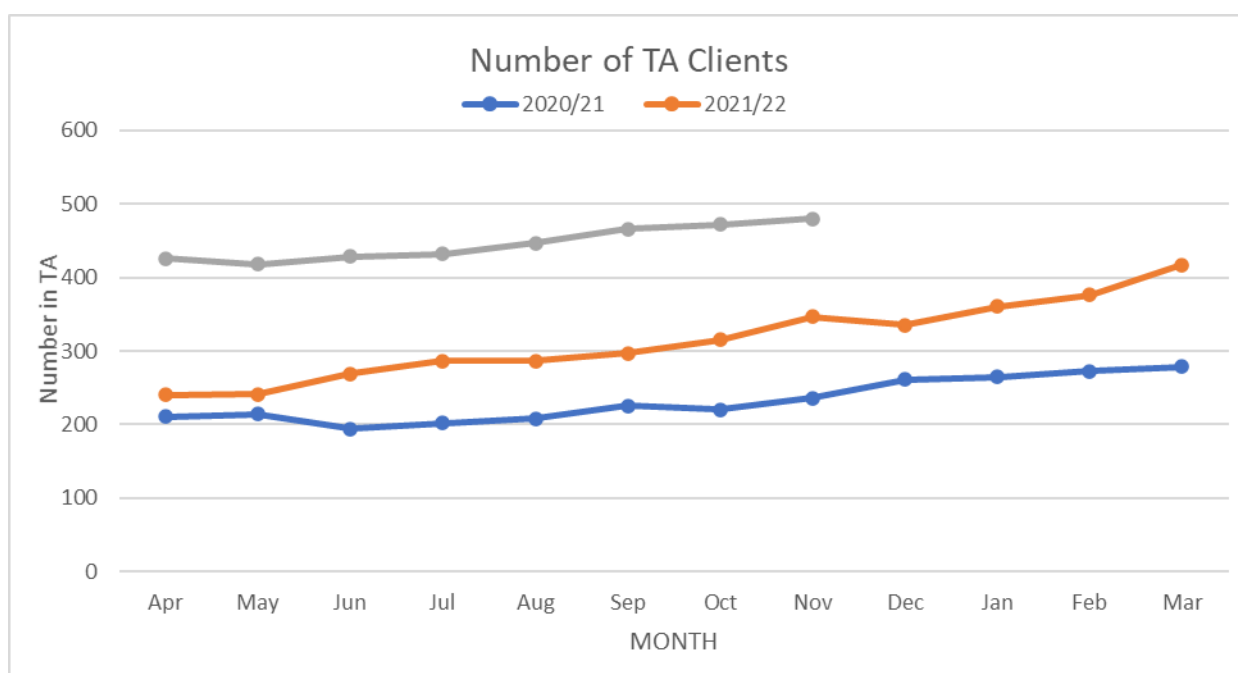
- In addition to the revenue cost savings to be achieved, the Council will be obtaining capital housing assets with no outstanding debt on the properties at the end of a 40-year loan period.

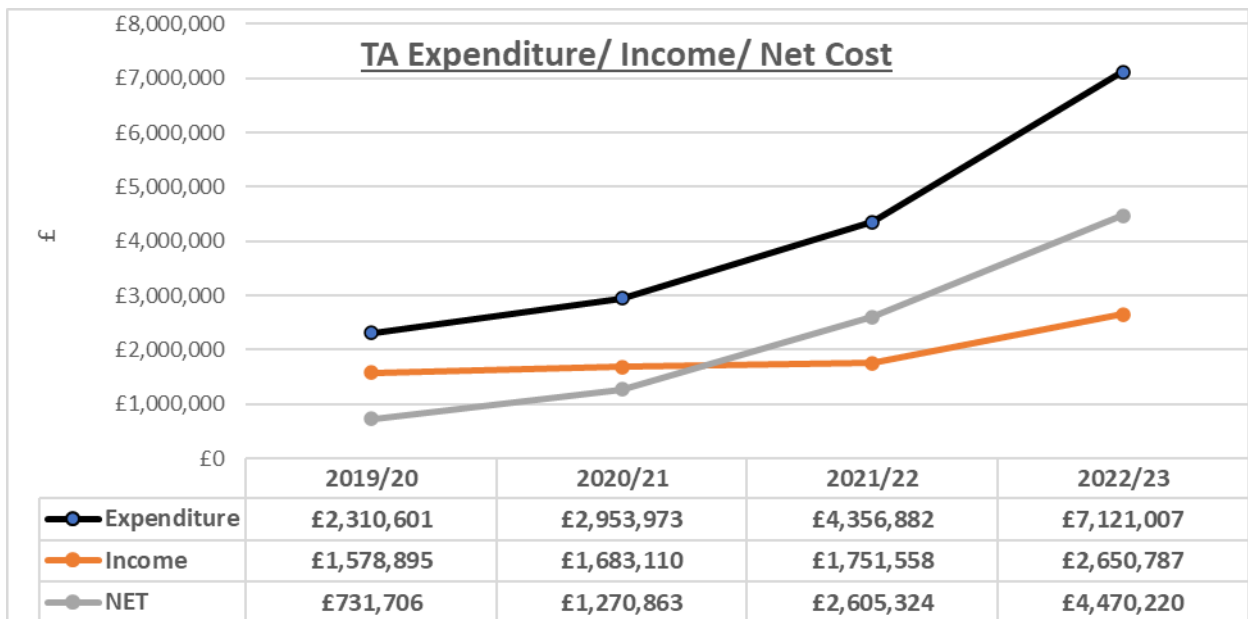
## Background

- The number of homeless households in temporary accommodation and the associated costs to the Council are growing year on year.
- This is both a significant and unsustainable cost to the Council and a far from satisfactory temporary housing solution for the many households accommodated who are awaiting access to more settled housing.
- As at the start of December 2022, there were nearly 500 households in temporary accommodation as below:

Bed Size	1 bed Single	1 bed Couple	2 bed	3 bed	4 bed	5 bed	7 bed	9 bed
No. of households	265	24	127	52	20	2	6	1

- The net cost of statutory temporary accommodation in 2019/20 was £731,706. In 2021/22 it had reached £2,605,324 which is a rise of 256% in two years. The forecast cost for 2022/23 is £3,892,758 which marks a projected annual rise of 49% and a 432% rise since 2019/20. These costs are undermining the Council's effort to reduce expenditure and are threatening the financial stability of the Council.





5. To address the crisis of high numbers in temporary housing and the growing and unaffordable cost of such provision, the Council has set up a Housing and Homelessness Taskforce to identify the key drivers of the costs and find solutions to reduce them. This is starting to produce results, but further measures will be required to bring the cost under control.
6. The Council has been working hard to tackle temporary accommodation costs and reduce demand through homelessness prevention interventions and by supporting people to move on from temporary accommodation.
7. The primary blockage is the lack of affordable accommodation in both the private and social housing sectors. Whilst homelessness presentations have increased over the Covid pandemic, the rate has not been dramatic. The main problem has been the lack of move on options. This is the key factor driving increasing temporary accommodation levels.
8. The cost of renting in the private rented sector has become increasingly unaffordable and the supply of social housing in the town lags far behind demand. The Council is also accommodating many more former rough sleepers as a legacy and consequence of the government's 'everyone in' commitment, using its discretionary powers rather than statutory powers. The cost of this is not being fully met from the Government's Rough Sleeping Initiative (RSI) funding.
9. The three largest development sites in our Local Plan are beginning to be developed out. This will go some way towards tackling pent-up housing demand and will provide a sizeable pipeline of new Affordable Homes. Collectively the schemes will provide in the region of 200 Affordable Rent homes which will be made available to people on the Council's Housing Register, including households in temporary accommodation.
10. If these new homes supported a reduction of even 100 households in temporary accommodation, this would equate to a net saving of around £1.4m for the

Council. The homes are forecast to complete over a three-year period commencing in the latter half of 2023.

11. These developments will provide much needed new homes and reduce the Council's temporary accommodation costs over time. However, they cannot be delivered at the pace needed to resolve the Council's immediate financial strain.
12. Unfortunately, there is also little indication that access to the private rented sector will improve in the foreseeable future given current rental value trends. Anecdotally, we have reports of landlords converting properties from residential tenancies to Airbnb further exacerbating issues. The 'cost of living' crisis is also having an impact on housing affordability which is likely to increase the number of households approaching the Council for housing support.
13. It is imperative therefore that the Council considers what other measures it might implement to reduce its temporary accommodation costs in the short and medium term.

### Temporary Accommodation Costs

14. The Council currently owns approximately 30 units of temporary accommodation. However, the majority of temporary accommodation is sourced from private providers. The Council is able to claim Housing Benefit to offset these costs but in most instances this is capped at 90% of the Local Housing Allowance that was payable in 2011. This amount is insufficient to cover even standard rents in 2022 and temporary accommodation costs are considerably higher.
15. The critical issue to the Council is the net cost of temporary accommodation; this is the gap between what the Council must pay for temporary accommodation and what it can claim back.
16. The table below sets out the average net cost to the Council of accommodating individual households in temporary accommodation **provided by private providers** by bedroom need:

Bedroom Need	One bed	Two bed	Three bed	Four bed
Weekly Net Cost	£239.41	£257.16	£288.34	£289.62
Annual Net Cost	£12,449.46	£13,372.21	£14,993.75	£15,059.99

17. Officers have been exploring options for the Council to expand its portfolio of temporary accommodation with the aim of reducing the net cost of temporary accommodation.

### Acquisition Models

18. There are a number of challenges associated with the Council purchasing new properties to use as temporary accommodation. A key issue is that there is a limited stock of property on the market and often renovation works that would be required to get a property to an agreed letting standard. The Council does not

have the staffing capacity to manage this process which would impact a range of services including housing, estates, procurement, legal and finance.

19. To address some of the capacity issues, the Council can procure an end-to-end property service which provides support to source properties, progress their purchases and manage and carry out agreed refurbishment works as required. The Council has procured this type of service to support the direct purchase of 10 one-bedroom units which the Council is being part-funded to deliver through the Rough Sleeping Accommodation Programme (RSAP).
20. Officers have had discussions with the provider of the RSAP property service regarding how a similar model could be used to support a wider acquisition programme for temporary accommodation through either a Direct Acquisition or Long Lease model.
21. Based on the current economic climate and taking into account the costs associated with requirements linked to the Minimum Revenue Provision (MRP), investor yield return levels and interest rates, the Council is currently only considering a Direct Acquisition model.

### **Direct Acquisitions**

22. The Direct Acquisition model would involve the Council directly purchasing properties from the market with support from a property service. The Council would take ownership on completion of the sale and then the property service would carry out agreed works to get the property ready to let.
23. Properties will be required to meet the Council's Fit to Let standard, which will ensure homes meet appropriate health and safety standards and are in good decorative order, alongside reaching a minimum EPC rating of C. This will improve the quality of housing and the energy efficiency performance of properties across the town and also reduce fuel poverty for our tenants.
24. Where viable, the Council will explore options to further increase the sustainability of homes by installing insulation and renewable energy solutions.
25. In addition to reducing costs, increasing the supply of temporary accommodation in the town will also reduce the need for out of borough temporary accommodation placements. This will enable households to stay connected with important support networks and minimise the impact that moving can have on people's wellbeing and access to education and employment.
26. The Council would be required to borrow in order to finance the purchases. The borrowing would be from the Public Works Loan Board (PWLB) in the form of a 40 year annuity loan. This means the Council would make interest and principal repayments and would have fully paid off the debt after 40 years. The Council would also need to make Minimum Revenue Provision (MRP) payments; a statutory requirement to put money aside for the repayment of the debt to reduce the Council's Capital Financing Requirement. The ongoing maintenance and repair of the properties would be the Council's responsibility.
27. It would be necessary to undertake a procurement exercise to appoint an end-to-end property service to support the acquisition and refurbishment process.

## Financing

28. The Council has carried out modelling on an initial portfolio of 50 homes valued at circa £11.9m over a two-year acquisition period; this quantum takes into account the potential stock available, and the resourcing needed to progress an acquisition programme.
29. Homes England has confirmed that a direct acquisition model for temporary accommodation would be supported with Affordable Homes grant, but the actual level of grant funding cannot be obtained in advance of acquisitions. At this point, the modelling is based on an estimate of 20% of the All in Costs<sup>1</sup> which is considered achievable following discussions with Homes England.
30. The finance costs are therefore based on borrowing circa £9.5m with £2.4m funded through grant from Homes England.
31. The modelling, which is based on acquiring a range of one, two, three and four bedroom homes, shows that the benefits of these acquisitions increase over time. The savings in the first few years are minimal as the portfolio is purchased and extra project management costs reduce the savings. However, over time the savings become substantial, with the added benefit that after 40 years the portfolio debt will have been fully paid off.
32. The forecast annual running costs and borrowing costs for the portfolio are summarised below:

Item	Costs	Comment
Voids & Bad Debts	£13,858	Based on 2.5% of income
Maintenance & Management	£127,900	£2,558 x 50 properties based on: Maintenance costs of £1,200 per property + Staff costs of £1,152 per property (1.6 FTE @ £36k including oncosts) + Gas safety cert (£75 per property) + Insurance (£131 per property)
<b>Running costs</b>	<b>£141,758</b>	

Loan Payment	£570,839	Based on a 40 year annuity loan at a rate of 5.26%
MRP	£237,308	Based on borrowing £9,492,320 and assets having a useful economic life of 40 years.
Running costs	£141,758	See breakdown above
<b>Total Cost</b>	<b>£949,905</b>	

33. The income is based on charging Affordable Rent in line with Homes England grant conditions; this will be set at 80% of market rent. We will request that Housing Benefit is paid directly to the Council for tenants in this accommodation.

<sup>1</sup> All in Costs incorporate the purchase value of the property, stamp duty, property surveys, legal conveyancing and estimated refurbishment costs

34. The indicative costs and savings, based on the full portfolio acquisition at today's prices, are summarised below:

#### Portfolio Annual Delivery Cost – based on 20% grant

	Loan Payment, MRP & running costs	Income (Affordable Rent - 80% of Market Rent)	Annual net cost
<b>Direct Acquisition</b>	£949,905	-£554,300	£395,605

#### Portfolio Annual Savings – based on 20% grant

	Cost of current temporary accommodation	Net Cost of Delivering Scheme	Savings*
<b>Direct Acquisition</b>	£692,145	£395,605	£296,540

\* Savings will grow each year

35. There is an annual cost of delivering the scheme of circa £396,000. However, the Council could return a growing annual saving in excess of £296,000, when compared to the cost of temporary accommodation from private providers once the portfolio was fully acquired.
36. The Council will have the benefit of owning the homes and therefore won't be subject to arbitrary market rental increases and will be less reliant on the market for the supply of temporary accommodation which is in ever increasing demand.
37. The scheme financing is based on the Council borrowing via an annuity loan which means that the Council will own the properties outright after 40 years and benefit from forecast associated property increases.
38. The model factors in inflationary increases to all expenditure and income over the years. The savings are forecast to grow year on year as the fixed costs of interest, loan repayments and MRP become a small proportion of the overall costs and growth in Affordable Rent income reduces the overall cost to the Council.
39. The forecast savings are based on comparing the cost of the model to the average cost of temporary accommodation provided by private providers using the figures above. The savings achieved may actually be greater as the Council will look to move tenants from higher cost providers first.

#### Implementation Costs

40. To enable the acquisition proposal to be progressed there will need to be internal resources allocated from housing, estates, legal and finance.
41. Legal costs for the conveyancing have been factored into the modelling and would support the legal team buying in additional capacity or backfilling posts as required.



42. The Council will need to assign an officer to oversee the project management over the two-year acquisition programme. We have allowed costs of £50,000 (£25,000 per year), which would be limited to the implementation period.
43. An additional budget of £50,000 (£1,000 per property) would be required to procure surveyor services needed to agree and sign off refurbishment works which cannot be met within existing resources. Again, this would be limited to the two-year implementation period (£25,000 per year).
44. From year 3 onwards significant savings start to accrue once the portfolio has been acquired and these additional costs are removed for subsequent years.

### **Ongoing Management Costs**

45. As the scheme will utilise Homes England grant, the homes will need to meet standards set by the Regulator of Social Housing, which include the Rent Standard which controls rent setting. These standards already apply to properties the council has acquired through the Next Steps Accommodation Programme and will also apply to properties currently being acquired for the Rough Sleeping Accommodation Programme.
46. The level of growth proposed will have a significant impact on the Council's housing management team. This team's remit has grown in recent years and a review of the service will be needed to ensure appropriate resourcing is in place.
47. The modelling allows for additional staffing costs of £57,600 (£1,152 per property) once all properties have been acquired. This has been calculated as 1.6 FTE posts on a salary of £28,000 plus on costs.

### **Risks**

48. There are a number of risks involved in this project, some of which can be mitigated to some extent. These are discussed below.
49. The level of grant funding from Homes England is not guaranteed in advance of purchasing properties. The modelling assumes grant funding which is based on 20% of the All in Costs which is considered a realistic level of grant. If grant funding was reduced, the scheme would still be deliverable and produce savings, but we would be required to increase our borrowing which would increase the financing costs.
50. Borrowing costs are based on the current PWLB interest rates (1<sup>st</sup> November 2022) with a margin of 0.75% added to allow for potential rate increases. There is a risk that interest rates will increase at a higher proportion than allowed. Roughly speaking, every 1% rise in interest rates will result in an additional £75,000 in interest payments in year one.
51. House prices could rise resulting in the portfolio costing more to acquire than forecast. Given recent sharp rises in interest rates, house prices are now forecast to fall 7%-10% nationally (Halifax House Price index 7<sup>th</sup> October 2022) and therefore this risk should be minimal. It is possible that prices in Hastings may fall, therefore increasing the savings that will be achieved. Each acquisition will be reviewed individually and as part of the wider programme to ensure feasibility.



52. There may not be sufficient properties available to purchase within the timeframe. This has been mitigated to some extent as the modelling is based on market statistics which suggest this is achievable.
53. The acquisition programme could take more than two years to complete and therefore the savings forecast would take longer to achieve. Equally, the acquisition programme could be completed in less than 2 years therefore bringing forward the achievement of savings.
54. Higher inflation could impact the programme. The cost of refurbishments could increase however it's likely that temporary accommodation costs would also increase therefore increasing the savings that would be achieved, offsetting this risk to some extent.
55. If acquisitions are no longer deemed to be viable, the programme will be paused/ceased.
56. If there is a marked reduction in the need for temporary accommodation the Council could look to repurpose some of the properties or sell them on the open market; considered in accordance with grant funding stipulations. Due to the improvement works being made to the properties it is likely that some capital growth would be achieved.

## Summary

57. The Council has an opportunity to reduce its temporary accommodation costs by increasing the number of homes it owns for temporary accommodation.
58. Implementing such a proposal will not only save money, but provide those households accommodated with housing more suitable for their needs, whilst their longer term housing needs are addressed.
59. Acquiring a portfolio of up to 50 homes valued at £11,865,400 would save the Council money as it would be cheaper than the alternative of using private sector temporary accommodation. The savings achieved have been conservatively estimated and would grow year on year.
60. The delivery of an acquisition programme on this scale will have an impact on service areas across the Council. This has been mitigated as far as feasible through additional resourcing to support project management and quality assurance.
61. This programme will significantly increase the number of homes managed by the Council's housing management team. Whilst running costs have factored in the estimated staff management cost, further support will need to be given to the team to support sustainable growth.
62. Whilst this acquisition proposal represents a saving to the temporary accommodation budget, it is recognised that more still needs to be done to reduce the Council's deficit. A follow up report will set out a proposal for utilising capital investment to maximise market opportunities linked to repurposing sites, such as offices and hotels, for temporary accommodation.

## Environmental issues

63. Environmental issues will be considered as part of the Council's Fit to Let standards.

## Organisational consequences

64. The Council is under threat of a Section 114 notice being issued in the next two years. The single biggest cause of the deficit is the rising costs of temporary accommodation. This is a critical intervention that can contribute to our deficit reduction.

## Equalities and Community Cohesiveness

65. The Council has adopted the East Sussex Temporary Accommodation Policy which sets out the Council's approach to placing homeless households in emergency and temporary accommodation. The policy requires temporary accommodation offers to take account of the Public Sector Equality Duty and describes how we will meet our obligations under the Equalities Act 2010.

## Anti-Poverty

66. This proposal supports objectives set out in the Council's Corporate Plan including recognising and meeting people's needs and tackling homelessness, poverty and ensuring quality housing.

### Timetable of Next Steps

Action	Key milestone	Due date (provisional)	Responsible
Proposal to Full Council	Full Council Approval	15/02/2023	Assistant Director, Housing & Built Environment
Update Council Budget & Medium Term Financial Strategy (MTFS)	Budget Council	15/02/2023	Deputy Chief Finance Officer
Tender exercise for end-to-end property service	Procurement of property service	30/04/2023	Housing Development Manager
Commence acquisition programme	Tender awarded	01/05/2023	Housing Development Manager

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**Wards Affected**

Insert the list of wards affected: All

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**Implications**

Relevant project tools applied? Yes

Have you checked this report for plain English and readability? Yes

Climate change implications considered. Yes

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness Y

Crime and Fear of Crime (Section 17) N

Risk Management Y

Environmental Issues Y

Economic/Financial Implications Y

Human Rights Act N

Organisational Consequences Y

Local People's Views N

Anti-Poverty Y

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**Additional Information**

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**Officer to Contact**

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