

COUNCIL

19 JANUARY 2023

TEMPORARY ACCOMMODATION PURCHASING

Portfolio Holder: Councillor Howard Doe, Deputy Leader and Portfolio Holder
Housing and Community Services

Report from: Richard Hicks, Director of Place and Deputy Chief Executive

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Summary

The report sets out the Council's position and legal duties in respect of providing temporary accommodation and the strategic need for change in the current profile of provision.

The report presents the business case for commencing a pilot to purchase accommodation that will be used as temporary accommodation. The Council is recommended to agree to additional borrowing of funds to support the pilot.

The report was considered by the Cabinet on 13 December 2022, the decisions of which are set out at section 5 to the report.

1. Budget and policy framework
 - 1.1. The provision of temporary accommodation for certain groups is a statutory obligation that arises from the Housing Act 1996, as amended.
 - 1.2. The decision to utilise prudential borrowing to purchase properties is a matter for full Council.
 - 1.3. Under the Growth Priority in the Council Plan, the outcome preventing homelessness references the number of households living in temporary accommodation. The recommendations contained in this report and its desired outcome contribute to this priority by providing alternative, decent quality housing for people that need temporary accommodation.

2. Background

- 2.1. Establishing the need – The need for temporary accommodation (TA) arises from statutory duties within the Housing Act 1996. The demand for temporary accommodation has increased consistently since 2012 and this is replicated on a national level. For the foreseeable future, even with a strong focus on preventative activity, the Council will have a statutory obligation to provide between 280 and 320 units of accommodation that are currently secured on a nightly basis from the private sector.
- 2.2. Costs and volatility of the market – The Council secures accommodation from the private sector comparatively cheaply to other Councils. These prices have been held for approximately 7 years, and they are now comparable with the average private rent for similar properties. This will not be able to be sustained in the long term, and to continue meeting statutory obligations, the Council will eventually need to pay more to secure units.
- 2.3. Prices may need to rise by as much as 20%, to be competitive. Whilst a percentage of TA costs can be reclaimed, the Council already recovers the most subsidy that it possibly can, meaning that any increases will be one hundred percent additional pressure to the general fund.
- 2.4. In addition to the above, the market in Medway is incredibly competitive with a range of other authorities securing accommodation in the area from Kent, London but also agencies such as The National Probation Service, and the Home Office.
- 2.5. Paramount Property Services are providing a range of TA to Kent Housing Authorities. Basic rates are £38p/n for a one bed, £47p/n for a two bed, £55p/n for a three bed and £64p/n for a four bed. Historically, the Council has paid £31, £35, £37, £50, respectively however, prices are now starting to increase.

3. Options

The potential options available to Cabinet were:

3.1. **Option 1 – Continue existing use nightly paid accommodation**

- 3.1.1. Nightly paid accommodation utilises external providers and landlords to provide accommodation and some management services on an agreed nightly rate.
- 3.1.2. There are no additional costs paid such as repairs as these are considered the responsibility of the landlord. There are no costs associated with void periods as providers are only paid if the property is occupied.
- 3.1.3. Currently the majority of TA is provided through this arrangement.

3.2. **Option 2 – The Council purchases properties for TA from the open market**

- 3.2.1. Purchasing properties on the open market through borrowing is a long-term option to house TA households.
- 3.2.2. These loans would have to be paid regardless of if the property is being occupied. If the property is empty, there will be no income received.
- 3.2.3. There will be additional costs such as void works, responsive repairs, capital replacement and gas servicing and the furnishing of the property.
- 3.2.4. The Council will own a portfolio of assets that will reduce in cost over time and generate income in the long term. Also, the Council may benefit from capital growth in the value of properties, but this is not always guaranteed, and property values can go up and down.

4. Advice and analysis

- 4.1. The purchasing of properties is currently, the most preferable option to diversify the Council's temporary accommodation portfolio. Reliance on the private sector cannot be removed entirely and should still be utilised to provide surge capacity. This method would provide greater cost and supply certainty with the benefit of accruing equity in purchases that can be sold later or generate income.
- 4.2. There are differences in the management of owned properties compared to the current model of procuring properties from the private sector. For example, the cost of repair, asset replacement, servicing and cleaning would need to be considered. This means that the purchase of properties is likely to be more expensive than the current model from a revenue perspective, in the short term. There will also be purchase costs to consider such as: Stamp Duty (at a penalty rate), legal and surveyor's fees and works.
- 4.3. The following table sets out the estimated net cost of purchasing one property at each bedroom size in the first year against the current nightly model.

Type	Year 1	Notes
1 Bedroom	Cost	
Purchased - TA Rates	£9,350.34	Properties are rented at the existing charging policy rate for temporary accommodation units.
Purchased - LHA Rates	£10,440.76	Assumes properties are rented at a cap of the Local Housing Allowance
<i>Equity Owned in Asset</i>	<i>-£10,370.64</i>	Equity is negative in year one due to purchase and refurbishment costs.
Nightly	£9,299.07	The cost of nightly paid accommodation
2 Bedroom		
Purchased - TA Rates	£11,678.09	As above
Purchased - LHA Rates	£12,229.06	
<i>Equity Owned in Asset</i>	<i>-£12,971.40</i>	
Nightly	£9,457.49	
3 Bedroom		
Purchased - TA Rates	£14,471.27	As above
Purchased - LHA Rates	£14,700.60	
<i>Equity Owned in Asset</i>	<i>-£15,572.17</i>	
Nightly	£8,463.17	
4 Bedroom		
Purchased - TA Rates	£21,669.46	As above
Purchased - LHA Rates	£20,984.00	
<i>Equity Owned in Asset</i>	<i>-£23,406.86</i>	
Nightly	£16,498.05	

- 4.4. Each of the lines (set out in the table above) include all known costs such as staffing, repairs, borrowing costs, asset management and cleaning. Compared to current rates paid by the Council to secure accommodation, the year one position of purchasing does not appear favourable, however this only continues to be the case if rates for the current TA provision remain the same.
- 4.5. The following table sets out how the model changes should the price of procuring accommodation change. The table above is re-provided as the baseline with notional 10%, 15% and 20% uplifts to temporary accommodation nightly rates. Assumptions are listed in appendix one.

Type	Year 1	Year 1 with TA at 10% increase	Year 1 with TA at 15% increase	Year 1 with TA at a 20% increase
1 Bedroom				
Purchased - TA Rates	£9,350.34	£9,350.34	£9,350.34	£9,350.34
Purchased - LHA Rates	£10,440.76	£10,440.76	£10,440.76	£10,440.76
Equity Owned in Asset	- £10,370.64	- £10,370.64	- £10,370.64	- £10,370.64
Nightly	£9,299.07	£10,637.53	£11,306.75	£11,975.98
2 Bedroom				
Purchased - TA Rates	£11,678.09	£11,678.09	£11,678.09	£11,678.09
Purchased - LHA Rates	£12,229.06	£12,229.06	£12,229.06	£12,229.06
Equity Owned in Asset	- £12,971.40	- £12,971.40	- £12,971.40	- £12,971.40
Nightly	£9,457.49	£10,936.83	£11,676.50	£12,416.18
3 Bedroom				
Purchased - TA Rates	£14,471.27	£14,471.27	£14,471.27	£14,471.27
Purchased - LHA Rates	£14,700.60	£14,700.60	£14,700.60	£14,700.60
Equity Owned in Asset	- £15,572.17	- £15,572.17	- £15,572.17	- £15,572.17
Nightly	£8,463.17	£10,012.96	£10,787.85	£11,562.75
4 Bedroom				
Purchased - TA Rates	£21,669.46	£21,669.46	£21,669.46	£21,669.46
Purchased - LHA Rates	£20,984.00	£20,984.00	£20,984.00	£20,984.00
Equity Owned in Asset	- £23,406.86	- £23,406.86	- £23,406.86	- £23,406.86
Nightly	£16,498.05	£18,611.40	£19,668.07	£20,724.75

4.6. Year one - summary;

- Compared to current rates paid to secure temporary accommodation the purchase of accommodation does not appear viable.
- One-bedroom properties are close to breakeven but become more viable to purchase if TA rates increase by 10%.
- Two-bedroom properties become viable to purchase if TA rates rise by 15% and 20%
- Three-bedroom properties are less viable to purchase even if rents increase by 20%.
- Four-bedroom properties are less viable to purchase even if rents increase by 20%.

4.7. There is, however, a strategic rationale behind the purchase of properties rather than the short-term cost. Taking a longer-term view on the purchase of properties increases the viability, even taking the current rates and applying a modest annual uplift at 3% per annum.

4.8. The table below sets out the net cost of providing each form of accommodation over a 30 year period.

Type	Year 1	Year 5	Year 10	Year 15	Year 20	Year 25	Year 30	Total Spent Over 30 Years
1 Bedroom								
Purchased - TA Rates	£9,350	£9,135	£8,867	£8,607	£8,359	£8,133	£7,937	£258,090
Purchased - LHA Rates	£10,441	£10,315	£10,170	£10,046	£9,948	£9,887	£9,874	£302,326
Equity Owned in Asset	- £10,371	£32,262	£94,861	£169,787	£259,600	£367,419	£497,052	Equity based on historic house price increases
Nightly	£9,299	£10,679	£12,676	£15,022	£17,775	£21,004	£24,789	£477,099
2 Bedroom								
Purchased - TA Rates	£11,678	£11,379	£11,000	£10,617	£10,236	£9,864	£9,510	£317,501
Purchased - LHA Rates	£12,229	£11,976	£11,658	£11,344	£11,038	£10,750	£10,489	£339,853
Equity Owned in Asset	- £12,971	£40,220	£118,324	£211,808	£323,865	£458,390	£620,132	Equity based on historic house price increases
Nightly	£9,457	£10,912	£13,020	£15,503	£18,424	£21,857	£25,888	£493,398
3 Bedroom								
Purchased - TA Rates	£14,471	£14,130	£13,693	£13,250	£12,804	£12,364	£11,938	£396,134
Purchased - LHA Rates	£14,701	£14,378	£13,967	£13,552	£13,139	£12,733	£12,345	£405,437
Equity Owned in Asset	- £15,572	£48,178	£141,787	£253,828	£388,131	£549,361	£743,212	Equity based on historic house price increases
Nightly	£8,463	£9,828	£11,814	£14,160	£16,927	£20,189	£24,029	£451,933
4 Bedroom								
Purchased - TA Rates	£21,669	£21,094	£20,340	£19,547	£18,718	£17,857	£16,969	£582,381

Purchased - LHA Rates	£20,984	£20,352	£19,520	£18,642	£17,719	£16,754	£15,752	£554,573
Equity Owned in Asset	- £23,407	£71,624	£211,166	£378,185	£578,391	£818,740	£1.1m	Equity based on historic house price increases
Nightly	£16,498	£17,048	£17,616	£18,201	£18,806	£19,429	£20,073	£823,447

4.9. Year 1 to 31 - summary;

- By the end of a 30 year period – each property type is viable to purchase and incurs less spend than nightly provision over the same timescale.
- One and two-bedroom properties reach a positive tipping point significantly earlier than three or four bedroom properties.
- Debt is fully repaid at year 31 at which point the properties generate an income.
- Reasonable equity is built up for each property by year five allowing for an effective backstop position (disposal of the properties) should demand reduce.

4.10. As set out above, each option has its strengths and weakness.

4.11. Option one (continue to use nightly provision from the private sector)

- Strengths
 - Limited overheads
 - No responsibility for repairs, voids, cleaning
 - Short term costs compare well with other councils but also against other models.
- Weaknesses
 - No guarantee of supply to meet statutory responsibilities
 - No control over pricing
 - No long-term asset or “payback” on budget spent

4.12. Option two (purchase properties from the open market to use as temporary accommodation)

- Strengths
 - Controlled cost and supply
 - Likely to be greater quality control
 - Investment leading to an asset after 30 years.
- Weaknesses
 - Requires capital investment
 - Greater risk in relation to repairs, management, voids
 - Short term might be susceptible to market downturn
 - Need to be managed so that occupiers don’t gain security of tenure.
 - Only flats in Council owned blocks should be acquired, so that the Council does not end up in between a freeholder and a TA occupier.

- Set up costs and fees.

4.13. A significant capital investment would be required to purchase the level of accommodation needed to reduce the Council's reliance on the private sector. It is, however, important to note, taking property costs alone and if there is no change to the existing operating model, rates or demand, the Council will spend more than £45m over a 30-year period with zero return on this investment.

4.14. If agreed, properties should be purchased in tranches to avoid overheating the local market. Opportunities would need to be properly appraised to avoid an overly burdensome refurbishment and maintenance regime. The Council should also look to avoid purchasing properties where it does not own the freehold.

4.15. The Council needs to be mindful that properties are not lost to the Right to Buy. Therefore, properties need to be managed with tenancies that can not be considered secure tenancies.

5. Cabinet

5.1. The Cabinet considered this report on 13 December 2022 and agreed the following:

5.2. The Cabinet agreed that a pilot be established to purchase approximately 20 two-bedroom properties. This project is estimated to cost £5,590,000. (Average cost £279,500 each property, allowing for purchase cost at £250,000 plus stamp duty, refurbishment and other fees).

5.3. The Cabinet agreed to recommend Full Council to add £5,590,000 to the Capital Programme (funded by prudential borrowing) to facilitate the pilot as set out above, in decision no. 143/2022 [above].

5.4. The Cabinet agreed to delegate authority to the Director of Place and Deputy Chief Executive, in consultation with the Deputy Leader and Portfolio Holder for Housing and Community Services, to authorise the purchase of properties as part of the pilot set out in decision no. 143/2022 above.

6. Risk management

6.1. Risks associated with the recommendations are included in the table below.

Risk	Description	Action to avoid or mitigate risk	Risk rating
Financial viability	Borrowing cost, materials, repairs etc make the initiative unviable	Cash flow models to be agreed on a property by property basis before purchase. Modelling to factor in inflation and other costs. It should be noted that any increases will be passed	C3

Risk	Description	Action to avoid or mitigate risk	Risk rating
		on to the Council by the private sector as things currently stand	
Property condition	Properties become more expensive to remain or have large components that will fail and need replacement (roof etc)	Properties to be surveyed and appropriate maintenance budget assigned. Property to be considered for sale if not viable in the future.	D3
Change in demand	Homelessness reduces along with TA need	Properties to be considered for sale or general private rent if no statutory demand	F4

<i>Likelihood</i>	<i>Impact:</i>
A Very high	1 Catastrophic (Showstopper)
B High	2 Critical
C Significant	3 Marginal
D Low	4 Negligible
E Very low	
F Almost impossible	

7. Consultation

7.1. No formal consultation will be required, however soundings have been sought in development of the model from internal partners and external best practice. Soundings and initial support of the proposal has also been sought from the Council's Corporate Property Group.

8. Climate change implications

8.1. Properties procured from the private sector need to meet minimum energy efficiency standards. However, there is no ability for the Council to drive up the energy efficiency.

8.2. Properties within the Council's portfolio can be improved with planned works and targeted initiatives to improve their energy efficiency. Provision for refurbishment and ongoing maintenance for properties has been factored in to purchase costs.

9. Financial implications

9.1. A pilot to purchase approximately 20 two-bedroom properties is estimated to cost £5,590,000. (Average cost £279,500 each property, allowing for purchase cost at £250,000 plus stamp duty, refurbishment and other fees)

9.2. The scheme would be added to the Capital Programme (funded by prudential borrowing). Based on current rates the estimated cost of the borrowing would

be around £330,000 per annum over a period of 30 years or around £250,000 over a period of 50 years.

- 9.3. If interest rates were to increase by 1% then the estimated cost of the borrowing would be around £375,000 per annum over a period of 30 years or around £300,000 over a period of 50 years
- 9.4. The costs of borrowing are included in the calculations that make up the figures presented in the table at 4.8 of this report.
- 9.5. Financial appraisals would be undertaken on a property by property basis prior to the purchase of individual properties to take account of market conditions at the time of purchase to provide assurance around financial viability of proposed purchases.

10. Legal implications

- 10.1. The Council has a duty to provide temporary accommodation to homeless applicants under S188 of the Housing Act 1996. That accommodation must be suitable for the applicants and there are a number of criteria that the accommodation must meet in order to be suitable for example if that accommodation is provided in a B & B or HMO property it can only be occupied for a maximum of 6 weeks if the applicant household includes children.
- 10.2. There is no requirement for this accommodation to be provided within properties owned by the Council and the use of privately owned accommodation has been the model which has traditionally been used.
- 10.3. Most tenancies granted under the Homelessness provisions are non-secure tenancies and therefore do not attract the Right to Buy but the Council will need to ensure that this is kept under review as the applicants move through the various duties to avoid the risk of losing any properties bought to the Right to Buy. The time an applicant is accommodated in temporary accommodation may count towards the qualifying period for the Right to Buy.
- 10.4. Any additions to the Council's budget are a matter for Full Council but the decision whether to continue to provide accommodation through the use of the private sector or to purchase accommodation to satisfy this duty is one for Cabinet subject to the budget amendments being agreed.

11. Recommendation

- 11.1. The Council is asked to agree to add £5,590,000 to the Capital Programme (funded by prudential borrowing) to facilitate the pilot to purchase approximately 20 two bedroom properties.

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Appendices

None

Background papers

None