

To: City Executive Board
Date: 15 December 2016
Report of: Head of Housing and Property Services and Head of Financial Services
Title of Report: Homeless Accommodation Property Investment and Retained Right to Buy Capital Receipts Qualifying Expenditure

Summary and Recommendations	
Purpose of report:	To seek project approval for the purchase of temporary homeless accommodation in order to utilise retained capital receipts and deliver General Fund savings.
Key decision:	Yes
Executive Board Member:	Cllr Mike Rowley, Housing Cllr Ed Turner, Finance, Asset Management and Public Health
Corporate Priority:	Meeting Housing Needs An Efficient and Effective Council
Policy Framework:	Homelessness Strategy 2013-18
Recommendations: That the City Executive Board resolves to:	
<ol style="list-style-type: none"> 1. Note that the proposal set out in this report has informed the budget setting process and that the implications are contained within the Consultation Budget which appears elsewhere on the agenda; 2. Give project approval to the proposals, to purchase accommodation, as set out in this report, and within the allocated capital budget. 	

Appendices	
Appendix 1	Risk Register
Appendix 2	Equality Impact Assessment

Introduction

1. To manage pressures on the homelessness budget the Council seeks to have no more than 120 households in Temporary Accommodation (TA) at any one time. This objective has been met for the past three financial years. At the end of October 2016, 121 households were in TA.
2. For the past 10 years or more, much of this TA provision comprised of Private Sector Lease (PSL) units. In recent years, many of these properties have been lost to the Council, with landlords choosing to let to other client groups, and additional units from the Housing Revenue Account (HRA) have been used to supplement the shortfall. Currently about 51 units of TA are PSLs; 5 are properties purchased in the last 2 years from the General Fund (GF) Capital Programme and approximately 78 are HRA units. The lease payments to landlords for the PSL units are approximately £525,000 per annum. Rental income, after accounting for void periods and some repairs and maintenance expenditure, broadly matches this figure, but when the related costs of using this accommodation type are included (e.g. staff time, utility costs, damage, bad debts, etc.) then this creates a net deficit position. All temporary accommodation rents are currently aligned to the maximum Housing Benefit subsidy rate to minimise any loss, whilst still being affordable for occupants.

Direct Purchase of Property

3. A Fundamental Service Review of Housing Needs has shown that there is a viable business case for the Council to directly purchase dwellings for our temporary accommodation caseload to replace some of the remaining PSL units. Such an investment will yield revenue savings through reductions in external temporary accommodation costs, plus a rental stream. In addition to this, the properties will increase in value over time and if the demand on temporary accommodation reduces, the Council could decide to dispose of these properties to get a capital receipt.
4. Any capital expenditure to procure dwellings for temporary accommodation use would be accounted for within the General Fund. There is no obvious advantage of using the Housing Company vehicle for this investment. The HRA could invest in this initiative if the eventual intention was to convert these units into permanent social housing, but this is not currently the proposal.
5. Financial modelling, summarised in Table 1 below, demonstrates that the procurement of TA dwellings 30% funded by Retained Right to Buy Receipts and the balance by fixed rate maturity loans, together with all associated running costs and costs of borrowing, is viable and financially beneficial for the GF over the long term. In reality it is probable that the Council will make use of its existing cash resources as opposed to external borrowing; the actual financing used for this scheme will be considered as part of the overall financing of the capital programme. The model also allows for a Minimum Revenue Provision (MRP) (a charge for repayment of debt) in accordance with public sector accounting rules.
6. A number of assumptions and criteria are used in the modelling, but many of these could be flexed. For example, the percentage split of units by bedroom size could impact on these numbers. In the modelling however, £10m investment is shown as sufficient to be used to acquire about 39 units in, or within close proximity to, Oxford.

7. The GF revenue impact once all the properties are acquired is an initial full year saving of £193k a year and rising each year thereafter. The savings include reduced TA expenditure on PSLs. This saving is based on the assumption that around 30 PSL units are replaced by this new provision (representing a drop of about 60% of current PSL use). It is proposed that the remaining 9 units are used to replace HRA properties, which has the potential to make existing sites available for development (accelerating these sites in the current development programme), or be brought back into HRA permanent social use again.
8. A summary of the potential annual revenue benefits are detailed below:

TABLE 1: Estimated General Fund Revenue Savings

	2017/18	2018/19	2019/20	2020/21
	£	£	£	£
Income	(120,007)	(262,216)	(400,490)	(404,494)
Expenditure	24,515	60,274	92,459	93,875
Savings in TA PSL Costs	(61,135)	(132,257)	(206,428)	(209,937)
Service Saving	(156,627)	(334,199)	(514,459)	(520,557)
MRP	0	59,673	111,753	111,753
Interest	89,477	168,316	209,872	209,872
Proposed Savings to the General Fund	(67,150)	(106,210)	(192,834)	(198,933)

9. Procurement of properties could take place over a 1 – 2 year timeframe so as to manage the project and not inflate and distort the local market. Timeframes could be accelerated by purchasing in volume off plan from developers – probably in Didcot and Bicester. Properties may be pepper-potted in some way, but 10-20 units per development could be acquired. These areas are considered to be within reasonable commuting distance for low-waged households. Two years of additional resource has been included within the model for the acquisition process. It is assumed that conveyancing activity would be in-house, using current resource capacity.

Funding and Retained Right to Buy Receipts

10. In 2012, the Government re-invigorated and enhanced the then Right to Buy scheme, raising discounts for tenants and for additional disposals experienced by local authority landlords allowing them to retain a greater portion of the capital receipt generated that otherwise would have been subject to pooling i.e. returned to the Government. The circumstances, process and use of retaining RTB capital receipts was detailed in individual authority Secretary of State Agreements and Oxford City Council's was signed in June 2012.
11. The Secretary of State Agreements stipulate the qualifying expenditure for which RRTB capital receipts can be applied, the timing of when they must be spent and the financial penalties for any that end up having to be returned back to Government. Effectively, the RRTB receipts must be used to finance qualifying expenditure within 3 years of each quarter day from April 2012. The receipts can

only be used to finance a maximum of 30% of the total cost. The following table indicates the spend profile that must take place for the use of RRTB receipts the Council has kept since March 2012.

12. There are a number of criteria that must be complied with in order to be able to use the RRTB receipts to finance expenditure which can be summarised as follows:

- They must be used ultimately for the provision of new social housing
- The Council must not have a controlling interest in the body provided with finance
- The social housing must be for the direct benefit of the authority and its area or the authority must have nomination rights
- The receipt used must only form 30% of the overall expenditure

13. For the purpose of the agreement, new social housing includes the following costs:

- Acquisition of dwellings to be used as social housing
- Stamp Duty Land Tax (SDLT)
- Acquisition of land to be used for construction of social housing
- Construction of social housing

14. The table below indicates that the Council must complete £5.115m of gross qualifying expenditure during 2017/18 and £8.099m in 2018/19, that could be part funded from RRTB capital receipts of £1.524m and £2.430m respectively.

TABLE 2: Retained Right to Buy Receipts

Retained RTB Capital Receipts Analysis				
Required Amount of Qualifying Expenditure per Quarter		Gross Quarterly Actual and Planned Qualifying Use of RRTB Receipts (30%)	Quarterly Actual and Planned Gross Capital Qualifying Spend (100%)	Quarterly Profile of RRTB Receipts Use Against Required Activity
Year	Quarter	£	£	£
2016/17	30/06/2016	-	-	-
	30/09/2016	1,200,000.00	4,000,000.00	1,153,598.98
	31/12/2016	1,800,000.00	6,000,000.00	2,157,852.85
	31/03/2017	-	-	1,103,065.61
	Sub- Total	3,000,000.00	10,000,000.00	
2017/18	30/06/2017	-	-	547,356.10
	30/09/2017	721,941.10	2,406,470.33	0.00
	31/12/2017	535,262.57	1,784,208.57	0.00
	31/03/2018	277,248.60	924,162.00	0.00
	Sub- Total	1,534,452.27	5,114,840.90	
2018/19	30/06/2018	402,385.21	1,341,284.03	0.00
	30/09/2018	997,998.26	3,326,660.87	0.00
	31/12/2018	379,690.95	1,265,636.50	0.00
	31/03/2019	649,523.46	2,165,078.20	0.00
	Sub- Total	2,429,597.88	8,098,659.60	
2019/20	30/06/2019	-	-	(443,223.25)
	30/09/2019	-	-	(444,317.58)
	Sub- Total	-	-	
TOTAL		6,964,050.15	23,213,500.50	

15. The activity in 2016/17 relates to the Real Lettings scheme. The Council is in the process of spending £5 million of its own resources on the National Homelessness Property Fund (NHPF), known as Real Lettings, which takes advantage of 50% match funding by Big Society to purchase homes for homeless households. This scheme is active and is on track to procure 50 properties by October 2017. Spending £10 million in this way will enable the Council to use £3 million of RRTB receipts (30% of £10 million), sufficient to satisfy the use of receipts up to 30 September 2017.
16. The scale of expenditure required to use the entirety of the RRTB receipts is such that the Real Lettings Property Fund will not be able to meet the full expenditure requirement. Hence if the RRTB receipts are not to be given back to DCLG it is necessary to manage this risk by having additional qualifying schemes in the Council's capital programme.
17. Purchasing £10m of properties for homeless families as described in paragraphs 3-9 above can be funded by utilising £3 million of RRTB receipts with the balance from prudential borrowing. Providing the houses are purchased in accordance with the RRTB receipts spend profile shown in table 2 then the Council will avoid having to give the receipts back to the Government and the Council will fulfil its obligation up to December 2018.
18. It should be noted that since the obligation to spend RRTB receipts is measured on a quarterly basis any slippage on the programme of spend on the purchase of homeless properties could put the Council at risk of handing back the receipts with a resultant interest financial penalty. If the procurement of dwellings for temporary accommodation is not on track in order to meet the targets, then another CEB report will be brought forward to recommend other approaches to purchase property (which complies with the criteria within the RRTB agreement), and these approaches will be used, in line with the total budget allocation, to ensure that the Council does not need to repay any of the receipts.

Financial implications

19. The financial implications are summarised in the main body of the report.

Legal issues

20. It is proposed that the conveyancing for these new property acquisitions is undertaken using existing resource provision within the Council

Level of risk

21. A Risk Register is provided at Appendix 1.

Equalities impact

22. An Equalities Impact Assessment is provided at Appendix 2. There are no adverse impacts in undertaking this activity, with the potential to improve provision for vulnerable and marginalised households

Conclusion

23. That a capital scheme of initially £10m is considered as part of the 2017/18 budget proposals.

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Background Papers:	None
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