

## **Policy Group – 18 July 2018**

### **Creation of capital property purchase fund**

#### **1. Purpose of report**

To consider setting up a capital property purchase fund for the purchase of houses to help meet the housing needs of the community.

#### **2. Key issues**

- 2.1 The number of households the Council is placing into temporary accommodation including bed and breakfast (B&B) is increasing. Most households the Council accepts as homeless require general needs accommodation. In the last financial year just 46 general needs properties were advertised for rent on Dorset Homechoice. As a result, time spent in temporary accommodation is increasing while people wait for a suitable property to become available.
- 2.2 As of May 2018, the Council currently has 46 households in temporary accommodation; of which 12 are in B&B. While the use of B&B is a last resort, a lack of general needs housing becoming available and longer stays in temporary accommodation have resulted in an increased use of B&B accommodation over the past few months. It is therefore a priority to secure additional temporary accommodation.
- 2.3 The Council has undertaken a number of initiatives to work with the private rented sector to increase the amount of general needs and temporary accommodation available, but with a competitive private rented sector most landlords are not interested in offering their property to the Council.
- 2.4 Following a successful bid to the Local Government Association, the Council secured a grant to work with a housing advisor to identify ways to increase the amount of temporary accommodation. One of the recommendations made by the advisor was to increase the amount of accommodation owned by the Council. This has already begun with the recent approval to purchase a property in Upton. However, approval for funding the purchase was required before an offer could be made and the sale agreed.
- 2.5 The housing market in Purbeck is buoyant and properties that come up for sale which would be deemed suitable for use as temporary accommodation sell quickly. To enable the Council to secure suitable properties it needs to act quickly and be able to make offers, without the delay that would be incurred in seeking individual approvals for the funding. It is therefore proposed that to enable the Council to respond swiftly to suitable opportunities a capital housing purchase fund be set up, with delegated authority to spend the fund being given to the General Manager Public Health and Housing in consultation with the Section 151 Officer and the Housing Portfolio Holder.
- 2.6 The financing for the fund can come from monies held in respect of Section 106 agreements and the uncommitted preserved Right to Buy receipts received in respect of 2017/18. Using these funding sources will not impact on the Council's Capital Programme, or its affordability.

### 3. **Recommendation**

A report be submitted to Council recommending that:

- 1) A capital property purchase fund be created of £620,000 to enable the Council to purchase property for use as temporary accommodation to be funded from Section 106 agreements and uncommitted right to buy receipts received in 2017/18;
- 2) authority be given to the General Manager Public Health and Housing, in consultation with the Section 151 Officer, and the Housing Portfolio Holder, to purchase suitable property for temporary accommodation;
- 3) details of any properties purchased will be reported to the next Audit and Governance Committee; and
- 4) a supplementary estimate is approved of £5,000 for 2017/18 for revenue costs associated with bringing the initial properties to a letting standard and to meet initial routine landlord health and safety responsibilities.

### 4. **Policy issues**

#### 4.1 **How will this affect the environment, social issues and the local economy?**

Providing an alternative to bed and breakfast accommodation for vulnerable households threatened with homelessness will help them feel supported, safe and able to live more independently while they are helped into long term accommodation. This will help to build strong, inclusive and sustainable communities.

#### 4.2 **Implications**

##### 4.2.1 **Resources**

###### **Capital**

It is proposed to create a fund of £620,000. This figure would enable the purchase of two family properties in Purbeck.

The Council has already earmarked capital receipts for housing purposes but the money in this fund has recently been committed for other housing projects, hence the need to create a new capital purchase property fund for housing purchases.

The capital property purchase fund would be made up from Section 106 money and Right to Buy sales receipts. The Council has recently received £699,171 Right to Buy receipts from Aster Homes for properties that have been bought under the Right to Buy scheme during 2017/18. From this sum £75,000 has been earmarked to fund the Council's capital programme but the majority of the remaining balance of £620,000 is uncommitted and could be used for the property purchase fund. The Council also holds £135,625 from Section 106 agreements. There are some restrictions regarding the area that some of this money can be spent, however, if a property was found in one of the areas specified in the Section 106 agreement, in the first instance this would be used to contribute towards the purchase, as these funds

also have time limits attached to them and if not spent have to be returned to the developer, with the balance coming from the Right to Buy receipts received in respect of 2017/18.

There will be legal costs associated with the purchase of any property including stamp duty levy and the need to get a valuation prior to purchase. Capital financing rules allow these costs to be charged to capital and would be charged to the capital property purchase fund.

Once a property sale is complete it would be reported to Audit and Governance Committee.

## Revenue

While every effort will be made to secure properties that require minimal works to meet the lettable standards it is inevitable that some essential repairs will be required. In addition, electrical and gas safety checks and certification will be required. All of these items represent revenue expenditure for which there is currently no budget. Consequently, a supplementary estimate of £5,000 will be required in the current year.

Once the purchase of a property is complete it is proposed that the management will be undertaken by Homes4let who charge a management fee of 8% of the gross rental income. It would be proposed to base the rental value on the local housing allowance which varies depending on the area. However assuming a weekly rental of £153 the annual management fee would be around £636. After allowing for two void periods each year of two weeks each, the annual rental income is estimated to be £7,344. There would also be some additional routine maintenance costs estimated at £3,000 pa that need to be covered as well as building insurance which on average is £100 per year. The estimated net income associated with a two bed property is £3,608, as shown below:

|                         |               |
|-------------------------|---------------|
| Estimated rental income | £7,344        |
| Less:                   |               |
| Management fees         | £636          |
| Maintenance             | £3,000        |
| Buildings insurance     | £100          |
|                         |               |
| <b>Net Income</b>       | <b>£3,608</b> |

As a responsible landlord there will, at some point, be the need to undertake refurbishment works such as replacement bathrooms, kitchens, doors and windows, boilers etc. that would not be covered by routine maintenance. These items will be included in a long term programme of Council property maintenance and a report requesting additional funding for any such works would be made to the Council.

## **Potential Savings**

Households placed into non-self-contained accommodation (B&B) are entitled to full housing benefit for the rental element of the cost. The average B&B rent for a couple with 1 child is about £500 per week. The maximum amount of housing benefit that can be claimed back by the Council from the government for households placed in B&B accommodation is capped at £126.92 per week. The Council has to fund the gap of £373.08 per week, which totalled £16,277 for 2017/2018. For this period there were 28 claimants averaging about £600 per household. This is a real cost to the Council which cannot be passed on the benefit claimants.

The lack of temporary accommodation and general needs housing is leading to longer stays in B&B accommodation. It is therefore expected the amount of housing benefit subsidised by the Council will be significantly higher for 2018/19.

There are additional costs incurred by a household during their stay at a B&B such as breakfast, heating and lighting. These costs can be recovered and households are invoiced by the Council. However, the financial circumstances of many homeless people means the reality is very few can afford to pay back the difference and ultimately the Council bears the cost of the debt. Approximately 50% of this type of housing debts remain unpaid after a year.

The addition of 2 properties for temporary accommodation will result in a saving to the Council of £38,800 per annum ( $£373.08 \times 52 = £19,400 \times 2$ )

The annual revenue financial benefit to the Council of acquiring one property is therefore the net rental of £3,608 plus the benefit subsidy saving of £19,400. Assuming 2 properties are purchased this would total £46,016. Off-set against this is the lost investment income (assuming the fund is fully spent) from the £620,000. Assuming a return of 0.8%, this would be £5,580 per annum, giving a net revenue financial benefit of £40,436 per annum.

### **4.2.2 Equalities**

None directly from this report.

### **4.2.3 Shaping Dorset Council implications**

At the meeting of the Shadow Executive Committee on 18 June 2018 a recommendation from the Interim Section 151 Officer regarding the Protocol on Spending and Commitments was agreed. The report noted that "At present the existing councils are free to continue to run their affairs and make financial decisions without taking into account the impact upon the new unitary. The protocol requires any items that could have a financial impact upon the new unitary to be initially assessed by the interim Section 151 Officer and, if it has a significant financial impact, seek approval by the Shadow Executive. De minimis levels of £100,000 for each District and Borough and £500,000 for Dorset County Council are proposed in order to avoid the process becoming unmanageable."

Although it is planned to purchase the properties before 31 March 2019, the creation of a new capital fund would reduce the reserves available to the new Dorset Council. On the other hand Dorset Council will also benefit from the social and economic

benefits of avoiding the expensive use of temporary accommodation and its detrimental impact on local families and in particular children. If Policy Group agree to the recommendations, approval will be required by the Shadow Dorset Executive before the matter can proceed to Council.

If approved Officers will endeavour to complete the property purchases before 31 March 2019. Any property purchased before that date will be registered to Purbeck District Council and will ownership will transfer to the Dorset Council on 1 April 2019. Any property purchase not completed by this date will be completed by Dorset Council.

## 5. Further information

- 5.1 Local authorities are empowered to build or acquire homes under section 9 of the Housing Act 1985.
- 5.2 Research on rightmove.co.uk reveals that 2 bedroom properties vary in price across Purbeck but average around £270,000. A fund of up to £620,000 would enable the purchase of up to 2 houses on the open market to meet local housing need and undertake necessary works to bring the property up to lettable standard. It is expected that these properties would enable up to 2 adults and 2 children to be housed in each property instead of being placed in B&B accommodation. This would allow significant year-on-year savings to accrue for the Council on homelessness costs, as outlined in section 4 above.
- 5.3 It is intended to purchase freehold properties rather than leasehold so there would be no ground rent or additional management costs. Once the purchase is complete it is proposed to use Homes4let, a social letting agent, to manage the property on the Council's behalf.
- 5.4 In accordance with the Homelessness Code of Guidance for local authorities 2018, living in B&B accommodation can be particularly detrimental to the health and development of children. The Homeless (Suitability of Accommodation) (England) Order 2003, SI no 3326 prohibits local authorities from using B&B accommodation for any period (or periods) exceeding 6 weeks for households with children or households containing a pregnant woman. For 2017/18 the Council failed to achieve this target with 7 households spending longer than 6 weeks in B&B accommodation due to the lack of suitable temporary accommodation.
- 5.5 As of May 2018 there were 12 households in B&B compared to 4 households in June 2017. The development at Policeman's Lane in Upton provided much needed general needs accommodation with people moving from temporary accommodation to a permanent home. There are no larger developments coming forward for the foreseeable future which has led to households spending an increased amount of time in B&B or temporary accommodation.
- 5.5 All households moving into temporary accommodation are made aware in writing that the move is not permanent. Refusing to move when other accommodation becomes available places the household at risk of the Council discharging its duty and the household being evicted.

Background papers:

There are none.

For further information contact:-

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