

## Rother District Council

**Report to:** Cabinet

**Date:** 29 March 2021

**Title:** The purchase of accommodation for temporary use by homeless households

**Report of:** Joe Powell, Head of Housing and Community

**Cabinet Member:** Councillor Byrne

**Ward(s):** All

**Purpose of Report:** To request funds for the purchase of property for use as temporary accommodation for homeless households.

**Decision Type:** Key

### Officer

**Recommendation(s):** **Recommendation to COUNCIL:** That:

- 1) the amended Temporary Accommodation Purchase Strategy be approved;
- 2) the Head of Housing and Community be given authority to purchase property for the use as temporary accommodation for homeless households up to a total value of up to £6million to be funded from borrowing, in consultation with the portfolio holders for Housing and Finance and Performance Management and;
- 3) the Capital Programme be amended accordingly.

### Reasons for

**Recommendations:** To improve the quality of accommodation and reduce costs to the Council while ensuring homeless households are well supported in the local area and are enabled to access longer-term housing effectively.

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### Introduction

1. A key objective within the Council's Housing, Homelessness and Rough Sleeping Strategy 2019-24 (Minute C18/65 refers) is to acquire in partnership, or develop where appropriate, council owned temporary accommodation provision to meet the varied needs of homeless households in Rother. In September 2019 Cabinet approved the allocation of £3million to purchase of accommodation for temporary use by homeless households (Minute CB 19/09 refers).
2. As of February 2021, the Council had eighty-one households in temporary accommodation funded from its own revenue budgets as well as an extra nine households placed and funded by the Rough Sleeping Initiative (RSI). Note, twenty-two of the eighty-one households accommodated from Council

budgets have been placed due to the Governments' 'Everyone in' instruction, due to COVID-19.

3. Grant funding has been provided by Government to contribute to these additional costs; however, the amount provided is not forecast to meet the costs to the Council. As a result, a financial deficit to the Council of £25,500 is forecast by yearend 2020/21 and there is presently no indication of whether further funds will be made available or when the 'Everyone in' instruction might end. The budget for 2020/21 is £1.1million offset by £508,000 of income largely recovered through housing benefit. The net cost therefore is budgeted to be £592,000.
4. The proposed investment will save the Council £160,000 annually compared to present costs and should be viewed as an invest to save proposal. If levels of homelessness were to fall over time, the exit strategy from the investment will be to first review whether any property owned by the Council can be put to a different use; then, as with any property investment, assets under Council ownership can be sold and the capital receipt reinvested into future Council budgets.
5. At the time of writing the Council has successfully purchased 5 x 3-bedroom properties in Bexhill that are accommodating homeless families with children. In addition, the Council has offers accepted on a block of accommodation comprised of a 1 x 3-bedroom house and 6 x 1-bedroom flats as well as another 2-bedroom flat in Rye. Based on the 3-bed houses the Council owns at present, there is a net cost per unit to the Council of £25.00 per night on average (£9,000 per year) as opposed to an average of £36.00 per night (£13,000 per year) for accommodating the same size household through private providers.
6. The proposals within this report are designed to work as part of a package of temporary accommodation solutions. The Council will also continue to use a number of privately owned and well-managed temporary accommodation establishments. The present number of such properties in Rother is approximately 30, secured by a combination of Council-owned and privately provided temporary accommodation.
7. Through the purchase of property for use as temporary accommodation the Council will be able to continue to improve the model of service it provides from one of high cost, single room accommodation – which is sometimes remotely located – to a model which:
  - Provides self-contained accommodation for households with children;
  - Increases the amount of temporary accommodation available locally;
  - Ensures a minimum quality standard of accommodation;
  - Ensures a minimum standard of property management and support for residents and
  - Reduces costs.

### **Level and type of demand**

8. The table at Appendix A illustrates the number and type of households the Council has placed in temporary accommodation between April 2020 and

February 2021. The number and types of accommodation that it is proposed the Council purchase has been based on this demand data.

9. Note, that the present restrictions on evictions due to COVID-19 means that there is uncertainty as to the scale of future homelessness and the number of households requiring temporary accommodation. Officers do not think that it is likely that the number of households presenting as homeless to the Council will fall in the short to medium term and, therefore, the number of accommodation units proposed are thought modest against likely future demand; although it remains possible that levels of homelessness will reduce in the short to medium term.
10. It is also important to highlight that for single people there is no duty for the Council to provide self-contained accommodation, with single room and shared facility accommodation being considered reasonable in legislation. The management of single homeless people in a shared facility living environment is a specialist area of provision and the Council will commission proper management and support services for this cohort.

### **Cost of Temporary Accommodation**

11. The table at Appendix B illustrates the average net cost to the Council of temporary accommodation through private providers, per size of household.
12. The average length of stay in temporary accommodation is fifty-one days for single people and childless couples and sixty-six days for families with children. The average net cost to the Council of placing single households or childless couples in temporary accommodation is £1,700 for the entire length of their placement. The average net cost of a placement is significantly more for households with children, with each placement costing the Council £2,500 on average.
13. As the average length of a placement is fifty-one days for single people and childless couples, each unit of accommodation the Council purchases will accommodate approximately seven separate households over a twelve-month period – assuming full occupancy. Therefore, over the course of twelve months a unit of accommodation which the Council owns would enable an average cost avoidance of approximately £12,000 for single households. As the average length of stay is sixty-six days for families with children, the average annual cost avoidance would be approximately £14,000.

### **Financial Assessment**

14. A financial assessment of the income and costs associated with the Council purchasing temporary accommodation has been completed. The assessment undertaken includes an illustration of the costs which can be avoided by being able to accommodate households in Council owned temporary accommodation rather than in private provision. These projections have been verified in consultation with neighbouring local authorities delivering similar temporary accommodation schemes.
15. The table below illustrates the level of investment required to purchase a range of properties. The table also outlines the revenue income and costs the Council can expect from the investment, as well as the level of costs the

Council will avoid by not having to place the households in privately provided temporary accommodation.

Property	Target Price inc. costs of purchase	Annual Operating and financing Costs	Annual Income (based on LHA rates)	Annual Cost Avoidance	Net Annual saving
Room in HMO (based on 7 units in a property)	-£541,434	-£82,457	£20,570	£86,630	£25,288
1 bed flat	-£160,000	-£12,837	£4,616	£12,376	£4,154
2 bed flat	-£190,000	-£14,352	£6,256	£14,232	£6,136
3 bed house	-£277,750	-£17,195	£8,200	£13,318	£4,323

16. For the purposes of the report an assessment of the overall saving for purchasing up to 35 units of accommodation was undertaken. The assessment is based on the purchase of 2 seven-bedroom HMO; 5 one bed flats; 11 two bed flats and 5 three bed houses with an overall total cost in the order of £5.7million. This showed an overall net saving to the Council of just under £160,000 per annum. The following table shows a breakdown of this:

	Target Price	Total cost of purchase	No	Total Investment	Annual Saving	Avg. Annual Yield
<b>2 HMO</b>	-£500,000	-£541,434	2 (14 units)	-£1,082,869	£50,576	4.67%
<b>1 Bed Flat</b>	-£160,000	-£171,669	5	-£858,347	£20,772	2.42%
<b>2 Bed Flat</b>	-£190,000	-£202,956	11	-£2,232,512	£67,492	3.02%
<b>3 Bed House</b>	-£277,750	-£294,468	5	-£1,472,340	£21,613	1.47%
<b>Total</b>	<b>-£1,127,750</b>	<b>-£1,210,527</b>	<b>35</b>	<b>-£5,646,067</b>	<b>£160,454</b>	<b>3.30%</b>

### Temporary Accommodation Investment Strategy

17. The financial assessment should be read in parallel with the Temporary Accommodation Investment Strategy at Appendix C which outlines the type of properties the Council intends to acquire for use as temporary accommodation, alongside how these properties will be purchased, managed, maintained and repaired.
18. The Strategy has been developed following a review of the level and type of demand for temporary accommodation alongside a review of local property prices, ancillary purchase costs, investment risks and property management risks. The risks and mitigations associated with the property investment are also described in the risk statement as well as Appendix C. The property management risks and how these will be mitigated are included separately at Appendix D.
19. We have undertaken an audit of the skills and expertise within the Council that might be applicable to property management, repair and refurbishment

functions. We have considered which functions might be delivered in-house and which may need to be contracted to third party specialists or partner agencies. A proportion of the capital funds will be used to employ the services of an external consultant to source and purchase the properties in line with the Temporary Accommodation Investment Strategy. It is proposed that the cost of the consultant is monitored in consultation with the portfolio holders for Housing and Finance and Performance Management.

20. The Council does not presently have the resources, expertise or tools needed to manage all aspects of the properties directly, particularly outside of normal office hours. In addition, the Council is interested in commissioning services that support applicants to move onto more permanent accommodation and avoid eviction from temporary accommodation, utilising its Homelessness Prevention Grant. We are building a service specification to commission a property management service to manage existing Council-owned temporary accommodation and that purchased in the future. The Council will need to keep under review developing these management functions in-house as its portfolio of properties grows.
21. The Government is continuing to increase the level of funding targeted at homelessness prevention services and it is possible that we will experience a reduction in the level of homelessness over time. Therefore, if levels of homelessness reduce the exit strategy from property investments will be to first review whether any property owned by the Council can be put to a different use; for example, in future the Council might consider accommodating households permanently. Any asset under Council ownership can be sold and the capital receipt reinvested into Council budgets.

## **Conclusion**

22. The purchase of property for use as temporary accommodation will provide the Council with more control over the quality of temporary accommodation available locally as well as being able to achieve greater control of revenue costs. It is estimated that the level of investment recommended of up to £6million will enable the Council to save approximately £160,000 annually. This cost reduction excludes the impact of any appreciation or depreciation in the value of the purchased properties.
23. The benefits of any investment need to be offset against both the costs as well as the staffing and resource constraints which exist. The Council has had no direct experience of purchasing or managing temporary accommodation in recent years; therefore, it is desirable to continue to build a portfolio of properties for use as temporary accommodation in a measured way. The approach will allow the Council to develop the skills and expertise required to grow a larger portfolio of properties in the future.

## **Financial Implications**

24. The financial costs and benefits of the proposal are detailed in the report.

## **Legal Implications**

25. The legal implications of the proposed recommendation are detailed within the report and its appendices.

## Environmental

26. The accommodation purchased will be offered to tenants with the following standard: EPC C or above (mirroring Optivo policy). The housing will comply with Health and safety standards for rented homes (HHSRS) and Decent Homes Standard.
27. In line with the Council's strategic documents:
  - Rother District Council Corporate Plan 2014-2021 – Quality Physical Environment/ Reducing carbon emissions - support low carbon initiatives, reduce fuel poverty  
<https://www.rother.gov.uk/strategies-policies-and-plans/corporate-plan-2014-2021/>
  - Rother Environment Strategy – priority area Sustainable energy  
<https://www.rother.gov.uk/strategies-policies-and-plans/environment-strategy/>

## Risk Assessment Statement

28. The Temporary Accommodation Investment Strategy at Appendix C has been amended and describes how the Council will conduct due diligence in order to complete the purchase of residential properties to minimise investment risks.
29. The risks associated with managing temporary accommodation are detailed at Appendix D. The risks are mitigated by using internal Council resources where these have been assessed as sufficient and recommends the use of specialist contractors or partner agencies where required.
30. It is possible that there may be a reduction in the level of homelessness we experience over time. The exit strategy from the investment will be to first review whether any property owned by the Council can be put to a different use; ultimately any asset under Council ownership can be sold and the capital receipt reinvested into Council budgets.
31. There are also risks associated with choosing not to invest in property for use as temporary accommodation. The Council has had some success in reducing the rate at which the number of households in temporary accommodation rose prior to the pandemic; however, in addition to minimising demand the Council needs to reduce the amount it spends on providing temporary accommodation.
32. There is a risk to Council reputation of continuing to use single room accommodation to house families with children which may be seen as compromising the Council's values and ethics.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	Yes	Access to Information	No
Sustainability	No	Exempt from publication	No
Risk Management	Yes		

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Chief Executive: Malcolm Johnston

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Appendices:	Appendix A – Level and Type of Demand Appendix B - Average Net Cost of Temporary Accommodation Per Household Appendix C – Temporary Accommodation Strategy 2021 Appendix D – Risk Register
Relevant Previous Minutes:	C18/65 CB19/09
Background Papers:	Housing, Homelessness and Rough Sleeper Strategy 2019-24 <a href="#">Health and safety standards for rented homes (HHSRS)</a> <a href="#">A decent home: Definition and guidance for implementation (June 2006 update)</a>
Reference Documents:	List any published documents you want to reference.

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## LEVEL AND TYPE OF DEMAND

April 2020 – February 2021			
Household size	Bedroom Need (TA)	Number	%
Single / childless couple	1 bed HMO / flat	119	51%
Family 2-bedroom need	1 or 2 bed flat	80	34%
Family 3-bedroom need	2 bed flat / 3 bed house	22	10%
Family 4-bedroom need	3 or 4 bed house	11	5%
<b>Total</b>		<b>232</b>	

## Appendix B

## AVERAGE NET COST OF TEMPORARY ACCOMMODATION PER HOUSEHOLD

Average TA Costs							
	Cost Per Night	Days In	Gross	Weekly LHA	Daily LHA	Total LHA	Average Net Cost to Rother
HMO/ 1 Bed Need	46.11	50.5	2,328.56	-83.08	-11.87	-599.36	1,729.20
2 Bed Need	55.31	80.38	4,445.82	-114.23	-16.32	1,311.66	3,134.15
3 Bed Need	58.41	80.59	4,707.26	-155.77	-22.25	1,793.38	2,913.88
4 Bed Need	66.72	37	2,468.64	-206.66	-29.52	1,092.34	1,376.30

**TEMPORARY ACCOMMODATION INVESTMENT STRATEGY 2021**

The Temporary Accommodation Investment Strategy will outline the approximate number and types of property the Council will target for use as temporary accommodation alongside how these properties will be purchased, managed, repaired and maintained.

**1. Property Purchases**

The risks of each potential investment will be considered by carrying out due diligence to include the following:

- Valuation.
- Market Conditions.
- Building surveys.
- Funding options.
- External red book valuations.
- Future costs: e.g. ground rent, service charges, major works, and maintenance throughout the lifecycle of the property.

The Council will employ the services of an external consultant to source and oversee each property transaction in-house in partnership with internal colleagues. It is proposed that other external specialist property investment advisors be retained on each transaction as required, advising on suitability having undertaken detailed pre-purchase due diligence, including valuation and risk analysis.

The Council will also consider options for the development of property where this is assessed as cost effective, relative to purchases; development options may including modular construction.

**2. Property Standards and Management**

All property purchased will adhere to decent homes standards or be refurbished to meet these standards. Properties will be inspected by the Council Environmental Health team to ensure compliance with the Housing Health and Safety Rating Systems (HHSRS) standards.

The Council will ensure each property has a minimum EPC standard of C or above prior to it being used as accommodation to accommodate homeless households temporarily.

The cost of repairs, maintenance and refurbishment are highlighted within the within the main report. It is proposed that the repairs, maintenance and refurbishment elements of the portfolio be delivered from existing resources within the Council's Housing Needs team with support from the Estates Maintenance and Private Sector Housing teams. We will contract additional specialist services as required.

We will also commission a specialist property management service either from market providers or in partnership with neighbouring local authorities - already managing similar accommodation – to manage the tenant liaison and move-on responsibilities.

Households placed in temporary accommodation owned by the Council will not be required to pay utility bills or Council Tax directly as the accommodation is temporary. The Council will meet these costs and recharge the tenant an affordable personal contribution towards the cost; these personal contributions are standardised across all types of temporary accommodation provision, including private sector provision.

All white goods supplied by the temporary accommodation residents will be PAT tested by the Council and replaced as necessary where existing white goods are faulty.

### 3. Property Type, Tenure & Location

Freehold tenure is preferred to leasehold. Freehold provides greater levels of security than a leasehold asset that would effectively decrease in value over time. However, the Council will consider leasehold properties where leases are in excess of 99 years and where former local-authority flats – managed by Registered Provider partners – are available for purchase, following a due diligence process.

In addition, opportunities to acquire either very long leases of 900 years plus or a share of a freehold with flat purchases will be considered. There is the potential risk of purchasing leaseholds with poor quality freeholders or their agents; it is felt prudent to consider such purchases only following proper due diligence of the Freehold and management arrangements; should there be any significant changes to the either the freehold owner or management company that affect the quality of freehold management then a sale of the relevant asset can be considered.

The Council will consider property purchases comprised of mixed commercial and residential use in consultation with the Property Investment Panel. The Council will look for opportunities to align purchases with wider strategic regeneration objectives.

The Council will consider property purchases where the present planning use is not residential – such as former residential care homes or guest houses, subject to close consultation with planning colleagues.

Homeless applicants will be accommodated temporarily under the Council's Housing Act powers, which it is able to do when a household is homeless. This is the practice presently in self-contained temporary accommodation operated by private providers and by neighbouring local authorities already managing their own temporary accommodation.

The Council will consider opportunities to purchase property for use as temporary accommodation across the whole of the Rother district with a focus on urban areas which are close to amenities, schools and transport links. The Council will focus on purchasing former local authority housing as these tend to be in urban areas as well as having been built to minimum space and decent homes standards.

#### 4. Property Price

Taking all of the above considerations into account, the following specific criteria are proposed:

- Up to £6million is set aside to purchase HMO, 1, 2, 3 and 4 bedroom flats and houses.
- Freehold preferred and leasehold considered where Registered Provider is the Freeholder or the lease is over 900 years; share of freehold is also considered.
- Geographically located within the Rother District.
- Meets decent homes standards or can be affordably refurbished to meet these standards.

Funding for the acquisition of assets should be reviewed on a case-by-case basis.

A budget of £6million will be set aside to invest, with further tranches subject to approval in due course.

The Council will review this strategy as the portfolio develops and as the Council's business needs evolve.

It is possible that we will experience a reduction in the level of homelessness we experience over time. The exit strategy from the investment will be to first review whether any property owned by the Council can be put to a different use, for example accommodating households permanently as part of potential future strategic aims; ultimately any asset under Council ownership can be sold and the capital receipt reinvested into Council budgets.

## RISK REGISTER

Risk	Likelihood	Impact	Mitigation
1. Tenants experience poor property conditions and a risk to their health and safety.	Low	High	<ul style="list-style-type: none"> <li>All properties will be inspected by the Council to an HSSRS standard before being managed and will receive a minimum 12 monthly HHSRS audit inspection thereafter.</li> <li>All properties will be inspected weekly by the property management contractor, monitored by the TA team.</li> <li>All properties will be installed with smoke alarms and carbon monoxide detectors (where required) and will be tested every month by the property management contractor, monitored by the TA team.</li> <li>Gas safety certificates.</li> <li>Electrical safety certificates.</li> <li>Fire risk assessments.</li> <li>Complete new gas and electrical certification when properties turnover.</li> </ul>
2. Lower than anticipated level of rental income.	Low	High	<ul style="list-style-type: none"> <li>The temporary accommodation team to support applicants to complete housing benefit forms and monitor income</li> <li>Utilise eviction procedures as required</li> </ul>
3. Income reduces as a result of the implementation of benefit reforms or changes in statutory guidance.	Med	High	<ul style="list-style-type: none"> <li>Regularly review the viability of scheme.</li> <li>Property can be sold or repurposed if approach becomes unviable.</li> <li>Tenants can be rehoused by the Housing Needs team where needed.</li> </ul>
4. Reputational risk to the Council.	Low	Med	<ul style="list-style-type: none"> <li>Develop a communication and project plan.</li> <li>Regular project performance monitoring.</li> <li>Council corporate scrutiny procedures.</li> </ul>
5. Higher than anticipated level of voids.	Low	High	<p>Ensure re-let times are kept to a minimum by:</p> <ul style="list-style-type: none"> <li>timely repairs and void turnaround.</li> <li>close housing management to ensure timely rent payments, minimal evictions and minimal absconding.</li> </ul>
6. Higher than anticipated levels of eviction and associated legal costs.	Low	Med	<ul style="list-style-type: none"> <li>Ensure all households are assessed to establish support needs and ensure these are met.</li> <li>Ensure residents are supported to secure alternative accommodation</li> </ul>

			<p>which is permanent.</p> <ul style="list-style-type: none"> <li>• Move households to alternative private sector temporary accommodation provision as required.</li> <li>• Offer households affordable permanent accommodation in the private and social housing sectors.</li> </ul>
7. The Council is unable to acquire properties.	Low	High	<ul style="list-style-type: none"> <li>• We have researched property prices and have developed an investment appraisal based on present market prices.</li> </ul>
8. Homelessness increases and more accommodation is required to reduce costs.	Med	Low	<ul style="list-style-type: none"> <li>• We will continue to monitor the supply of temporary accommodation relative to demand and present to Cabinet new opportunities for further investment as required.</li> </ul>
9. Demand for temporary accommodation reduces and we have an over-supply of TA	Low	Med	<ul style="list-style-type: none"> <li>• Consideration can be given to re-purposing accommodation to other uses – such as private rented sector tenancies.</li> <li>• Property can be sold and the capital receipt retained by the Council</li> </ul>