



REPORT TO:	Matthew Hogan, Assistant Director of Strategic Growth & Development
DATE:	January 2024
SUBJECT:	Purchase of five houses utilising Government grant funding provided as part of the Local Authority Housing Fund programme Round 2.
PURPOSE:	To present a business case relating to the purchase of five houses, from Gleeson Homes.
REPORT AUTHOR:	Caroline Hannon, Head of Delivery

SUMMARY

In August 2023, Cabinet approved a business case and agreed to take part in the Local Authority Housing Fund Round 2 programme, with a view to bringing five properties into the council's ownership. In September 2023, Council amended the 2023/24 capital programme to include the Local Authority Housing Fund project. Accordingly, a budget of £1,143,000 was made available for this project, comprising £471,950 of grant funding and £671,050 of direct investment by Boston Borough Council.

A Memorandum of Understanding between BBC and DLUCHC has been entered into and BBC has committed to make best endeavours to deliver the homes by 29th March 2024.

The Assistant Director of Strategic Growth and Development has delegated authority, in conjunction with the Leader and the Portfolio Holder for Housing, to make decisions relating to the purchase of properties in respect of this project, to reflect the need to act commercially to secure the homes.

This report relates to the purchase of all five properties required to deliver this project.

RECOMMENDATIONS

1. To approve the business case and approve the acquisition of five houses within the district.

REASONS FOR RECOMMENDATIONS

1. To fulfil the decision of Cabinet and Council to deliver homes within the Local Authority Housing Fund programme.
2. To meet short, medium and long-term housing needs within the district.
3. To increase the provision of affordable housing in the district.
4. To increase the number of homes owned by the authority, which enables the authority to directly deliver solutions to housing issues within the district.

OTHER OPTIONS CONSIDERED

Do Nothing. In this event the authority would not proceed to purchase these properties. As a consequence, the expected benefits set out in the Reasons for Recommendations section of this report would not be realised. Officers would seek to identify alternative, appropriate properties to acquire, for consideration by the Assistant Director of Strategic Growth & Development and the Leader of the Council and Portfolio Holder for Housing.

1. BACKGROUND

- 1.1 BBC was allocated £691,500 of grant funding to deliver 8 homes as part of the Local Authority Housing Fund (LAHF) Round One programme. The delivery of these homes is underway. BBC has been offered a second allocation to deliver five homes as part of the Local Authority Housing Fund Round Two programme.
- 1.2 The LAHF programme is intended to support local authorities to provide accommodation to Ukrainian and Afghan families who are settled in the UK legally under various government schemes. BBC's Round One programme included the delivery of 7 homes for Ukrainian families and one home for Afghan families. The Round Two programme requires 4 of the homes to be delivered for Afghan families with one property being available to the council to reduce housing pressures.
- 1.3 The Afghan scheme prioritises legal resettlement of those who assisted the UK with its military operations in the country, coupled with those at greatest risk as a result of the Taliban regime.
- 1.4 The LAHF2 programme objectives are:
 - Provide sustainable housing to those on Afghan resettlement schemes at risk of homelessness so that they can build new lives in the UK, find employment and integrate into communities.
 - Reduce local housing pressures beyond those on Afghan resettlement schemes by providing better quality temporary accommodation to families owed homelessness duties by LAs.
 - Reduce emergency, temporary and bridging accommodation costs.
 - Reduce impacts on the existing house and homelessness systems and those waiting for social housing.
- 1.5 Once the properties are no longer utilised by the cohort (likely upon the expiry of their visas), BBC will be free to use the 4 properties initially designated for Afghan families for whatever purpose they deem suitable. In other words, the homes will be available for use by the council as a long-term asset to meet housing need. This includes the potential to utilise the properties to provide short term accommodation for homeless families, or longer term settled accommodation.
- 1.6 The potential merits of participating in this project were considered by Cabinet and supported. They are set out below:
 - Involvement in the Local Authority Housing Fund and directly investing the grant in property owned by the council would align well with the Council's ambition to explore

holding and investing in new housing, as captured within the Council’s Annual Delivery Plan. The scheme would provide up to £471,950 in funding to provide five properties, paid for partially by government, for use by the authority over the longer term.

- That if the authority was not to take part in the scheme, the housing need that the properties are designed to meet is likely to arise anyway. Therefore, the homes provided under the scheme would make a net positive contribution to housing available to the council to meet need, therefore supporting the council in meeting the needs of the wider population too.
- The scheme will provide housing that the council can utilise for other needs over the longer term e.g. for use as temporary accommodation for homeless families or longer term settled accommodation.
- The properties would be held on the council’s General Fund and let under non-secure tenancies to the cohort. This would prevent the need for the council to re-open a Housing Revenue Account or create a housing company in order to hold the properties in the council’s ownership.
- Potential to deliver a positive financial impact upon the council, through investment in new property.

1.7 Given the timescales set by government around delivery of the properties (by March 2024), the council’s strategy has been to seek to acquire existing (or soon to complete) new build properties on the open market.

1.8 Following liaison with local developers, five properties have been identified, and purchase prices agreed. This report provides a business case for the acquisition of the properties. If this business case and the purchases are approved, this will conclude the LAHF Round 2 programme for BBC.

2. BUSINESS CASE

2.1 The properties are summarised in the table below.

Property type	Parking provision	Unit size (m2)	Anticipated completion date
2-bed house – Semi-Detached	2 spaces	60.48	Jan 24
2-bed house – Semi-Detached	2 spaces	60.48	Jan 24
3-bed house – Detached	2 spaces and single garage	73.24	Mar 24
3-bed house – Detached	2 spaces and single garage	75	Mar 24
3-bed house – Detached	2 spaces and single garage	75	Mar 24

2.2 The newbuild properties will be purchased directly from the developer. The homes will be provided with all relevant documentation and a 10-year NHBC structural warranty.

2.3 Prior to completion of the purchase, officers will undertake thorough due diligence. External legal advice will be sought to oversee the contract drafting, and a report on title will be provided to ensure the home is purchased with clean and marketable title. A Buyer’s Representative will also be appointed to ensure that all relevant documentation and regulatory certification is in place and that the properties are handed over in accordance with the contract.

- 2.4 The houses were for sale on the open market. Officers have negotiated a purchase price which provides a discount on the developer's proposed marketing price. A RICS 'Red Book' valuation will be obtained to corroborate the purchase price. The acquisition of these houses, and use as affordable housing, will increase the provision of affordable housing within the district.
- 2.5 The houses will handover in phases once construction is completed by the builder. BBC may exchange homes on all plots and then complete as they become available. Alternatively, simultaneous exchange/completion may be agreed. Paragraph 2.1 of this report provides the indicative delivery timetable.
- 2.6 An external managing agent has been appointed to manage the homes which will be occupied by Afghan families, on behalf of Boston Borough Council. This is considered to be the most appropriate management strategy for these properties. This reflects the expertise surrounding property management which is not currently available within the existing staff cohort. Following a procurement exercise, a managing agent was appointed and will manage the homes on behalf of the authority. Officers will maintain client-side management of the contract and monitor costs and performance. The financial evaluation provided at Appendix A is based on the costs agreed within the management contract (10% of rent collected)
- 2.7 The property acquired for the purposes of providing Temporary Accommodation will be managed by the Homelessness Team as per usual practices within BBC. The financial evaluation has made an assumption around the management costs for this accommodation and the appropriate rent to be charged. The rent assumed for the temporary accommodation dwelling (£85.78 per week) is lower than LHA rates but is considered to be suitable and will not result in any Housing Benefit subsidy reclaim. The internal management costs for the homelessness accommodation are higher than for the Afghan properties; this reflects the lower rents assumed to be charged and also the greater cost associated with managing temporary accommodation which has higher turnover rates and often vulnerable households. It should be noted that the rent level and management costs are modelled at prudent levels. Should BBC acquire more homes, the management costs may reduce. Additionally, on each 're-let' of the temporary accommodation property, the rent level could be re-visited and could increase if it is considered suitable to do so. This could increase the level of return this scheme achieves.
- 2.8 Following acquisition, the authority will charge rents on the four homes for Afghan families which will be no more than 80% of market rent levels in the district. The rents will also be no more than the current Local Housing Allowance rate to ensure that the homes are affordable to residents who are supported by welfare benefits.
- 2.9 A management company will be in place for this site and the cost of this has been taken into account in the financial evaluation at Appendix A.
- 2.10 The Afghan families will be offered non-secure tenancies, in accordance with the LAHF guidance. As the homes are not let on Secure Tenancies residents will not have a Right to Buy their home. The Temporary Accommodation dwelling will be let on licence.

- 2.11 Within the MOU, BBC agreed to make best endeavours to deliver these homes by 29th March 2024. As the construction of the homes is underway, this timescale is considered to be achievable.
- 2.12 The value of the five properties identified coupled with the structure of the grant funding means that the authority may underspend on the LAHF funds. Consequently, officers have engaged with central government around the options in the event of an underspend. Through these discussions, it has been indicated that it may be possible to direct any underspends into acquiring additional properties (i.e. exceeding the requirement to provide five homes under the programme, utilising the capped level of funding if financial circumstances allow). Consequently, in the event of an underspend, officers will explore options around expanding the number of homes delivered through the LAHF programme within the confines of the project.

3. CONCLUSION

- 3.1 The purchase of these homes will support the authority to deliver on its commitment to acquire five properties. The homes will be part-government funded utilising the £471,950 grant allocation which BBC has accepted. The business case for the acquisition of these properties demonstrates that it is a viable acquisition for the council, in a location for which there is evidence of need for new homes. The homes will meet short, medium and long-term housing needs within the district. These purchases will conclude the LAHF Round 2 programme.

4. EXPECTED BENEFITS TO THE PARTNERSHIP

- 4.1 The recommendations will support the aims and ambitions of the South and East Lincolnshire Council's Partnership which include to deliver ambitious growth and regeneration plans. The partnership's Annual Delivery Plan 2023/24 includes a corporate priority to purchase homes and a local priority to progress housing delivery including the development of proposals and options.

5. IMPLICATIONS

5.1 SOUTH AND EAST LINCOLNSHIRE COUNCILS PARTNERSHIP

- 5.1.1 None.

5.2 CORPORATE PRIORITIES

- 5.2.1 Priority One of the BBC Corporate Strategy 2020-2024 is to be People Focussed. The acquisition of these homes will support the delivery of this priority as BBC will be investing and supporting growth to meet local housing needs by co-funding affordable housing delivery. The project also aligns with Boston's Annual Delivery Plan, which includes action to progress the council's investment in new housing to meet needs within the borough.

5.3 STAFFING

- 5.3.1 Staffing resources to secure the acquisition of these properties is being provided by officers at South Holland District Council. The cost for this service is included within the capital fees shown in Appendix A. The methodology here reflects the same methodology that South Holland applies to the capitalisation of staffing costs within its own development programme.

5.3.2 The homes for Afghan families will be managed by an external managing agent and BBC officers will fulfil a client side contract management role. The homes for temporary accommodation will be managed by existing officers who are managing BBC's existing temporary accommodation.

5.4 CONSTITUTIONAL AND LEGAL IMPLICATIONS

5.4.1 BBC has already made a decision to proceed with the LAHF project and to accept the grant allocation and acquire five homes. Cabinet has delegated authority to the Assistant Director for Strategic Growth, in consultation with the Leader and Portfolio Holder for Housing, to make decisions relating to the purchase of properties.

5.4.2 An external legal representative will be appointed to oversee the contract for the acquisition of these five homes and will provide a Report on Title to ensure the properties benefit from a clean and marketable title. It is likely that BBC will exchange contracts with the developer at an early stage and will then complete on the purchase of dwellings as construction completes. The costs of this are accounted for within the business case.

5.4.3 Officers will undertake thorough due diligence before acquiring the homes. The Assistant Director for Strategic Growth and Development has delegated authority to make decisions relating to the purchase and this will include reviewing due diligence, valuation and contract terms, and to sign the contract and transfer documents. This may include approving minor variations to the scheme set out in this business case, in consultation with the Leader and Portfolio Holder for Housing.

5.5 DATA PROTECTION

5.5.1 None

5.6 FINANCIAL

5.6.1 BBC has accepted a £471,950 grant allocation to enable the purchase of five properties. BBC has also made £671,050 of its own funding available to deliver the project. A financial evaluation of the five property portfolio has been prepared (Appendix A). This shows that this project is on target to be delivered within the approved capital budget although these costs are indicative at this stage.

5.6.2 As shown in Appendix A, based on the current estimated total scheme cost of £1,052,682, the authority would generate a positive 30- year return on its investment (£580,732- net of grant funding) even after MRP and interest foregone have been taken into account. If the full project contingency is not spent, this could further improve the financial return to the authority.

5.6.3 Appendix A shows a provision for contingency as is usual in development projects. The contingency is established for any unforeseen costs which arise. Some of the contingency will be utilised to pay for property upgrades to reflect the nature of these homes as affordable housing. Additionally, some contingency costs will be to reduce future maintenance costs. Contingency costs incurred on other projects include for flooring, garden turf and window dressings. The contingency will only be spent if it is necessary to do so.

5.6.2 The financial evaluation makes an assumption around void costs, bad debt, repairs, maintenance and insurance. The assumptions around void costs and bad debt are based on a percent of rent due. The assumptions around repairs, maintenance and insurance are based

on an annual cost. The assumptions are as used by South Holland District Council for modelling Council housing delivery. The modelling also indicates the management cost which is based on the contract with the external managing agent and the interenal costs of providing temporary accommodation. The financial evaluation provides the net rental income. It also shows the return on Net investment both inclusive and exclusive of Minimum Revenue Provision (MRP) and interest foregone.

- 5.6.2 A reservation fee will be required to be paid. In the event that BBC does not complete the purchase of this house, the fee is unlikely to be returned and the cost would be abortive.
- 5.6.3 Subject to contract drafting, it is likely that on exchange of contracts, a deposit equal to 10% of the purchase price, will be paid. This deposit will be retained by solicitors, until completion.
- 5.6.4 A RICS Valuation will be sought to corroborate the agreed purchase price for the dwelling. The valuation findings will be included within the due diligence information to be reviewed and approved by the Assistant Director of Strategic Growth & Development.
- 5.6.5 The total project costs will only be known once all of the properties have completed. The anticipated scheme costs include project contingencies which might not be spent. Additionally, through procurement, best value will be sought for third party professionals.
- 5.6.6 The financial modelling does not take account of any wider cost avoidance which might occur due to any reduced use of nightly paid accommodation. However, it is anticipated that there will be a reduction in the use of nightly paid temporary accommodation for at least one household at any one time.
- 5.6.7 The modelling assumes a prudent rent for the Temporary Accommodation dwelling and this impacts the level of financial return. However, the rents could be revised/increased in due course, which would increase the financial return.

5.7.6 RISK MANAGEMENT

- 5.7.1 Acquisition and development activity has within it inherent risks. Officers strive to identify and manage risk at each stage of the project. Each project has a risk register that is reviewed throughout the lifecycle of the project, by the project team. Officers will seek to ensure that the contract is negotiated in the best interests of the authority.

5.8 STAKEHOLDER / CONSULTATION / TIMESCALES

- 5.8.1 Ward members have been informed of the proposal.
- 5.8.2 The MOU indicates that BBC will endeavour to deliver all eight homes by 29th March 2024 and this target date is achievable.
- 5.8.3 This purchase will conclude the LAHF Round 2 programme.

5.9 REPUTATION

- 5.9.1 Risks around reputation will be mitigated through a robust project management structure. The Delivery Team will work closely with colleagues in Communications to ensure that a Communications Plan is in place where appropriate.

5.10 CONTRACTS

- 5.10.1 A contract will be required between BBC and the developer. An external legal representative will be appointed to oversee the contract drafting and ensure the authority's interests are protected. The contract will contain a list of requirements and the homes will not be purchased until the requirements have been met. A Buyer's Representative will be appointed to review documentation provided by the developer and to ensure the homes are handed over in accordance with the contract.
- 5.10.2 The Assistant Director for Strategic Growth & Development is delegated authority to agree contractual matters and sign the contract and transfer document.
- 5.10.3 The tenancy agreement which is likely to be offered to the Afghan families is a 'Non-Secure-Tenancy'. A non-secure tenant would expect to receive the same level of service as a secure tenant. However, the right to buy, right to exchange, right to succession, the right to take in lodgers and the right to sublet do not apply to non-secure tenancies. This means that the occupants have the right to live safely in their home and the landlord must fulfil all landlord obligations relating to compliance. In the event that the authority seeks to recover a property, a Notice to Quit, giving the tenant four weeks' notice would need to be served. If the tenant does not vacate the property, the Council would be required to apply to the County Court for a possession order. Should the tenant continue in occupation after the expiry of the possession order, a further application would be required for a bailiff's warrant.
- 5.10.4 The occupants of the temporary accommodation will occupy the home on a licence which is consistent with other temporary accommodation provided directly by BBC.

5.11 CRIME AND DISORDER

5.11.1 None

5.12 EQUALITY AND DIVERSITY/ HUMAN RIGHTS/ SAFEGUARDING

5.12.1 The delivery of these homes will deliver solutions to meet local needs. It will support the delivery of the Corporate Strategy 2020-24 priority 'People Focussed' by investing and supporting growth to meet local housing needs by co-funding affordable housing delivery.

5.13 HEALTH AND WELL BEING

5.13.1 The delivery of new affordable homes in the district will contribute towards improving health and wellbeing in the district by the provision of good quality new homes to meet local housing needs.

5.14 CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

5.14.1 These homes will be built in accordance with the appropriate building regulations relating to sustainable construction. At handover, each property will have an energy performance certificate illustrating the energy efficiency of the property and the efficiency rating.

LINKS TO 12 MISSIONS IN THE LEVELLING UP WHITE PAPER

MISSIONS	
This paper contributes to the follow Missions outlined in the Government's Levelling Up White paper.	
Housing	By 2030, renters will have a secure path to ownership with the number of first-time buyers increasing in all areas; and the government's ambition is

	for the number of non-decent rented homes to have fallen by 50%, with the biggest improvements in the lowest performing areas.
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ACRONYMS

DLUHC – Department for Levelling Up, Housing and Communities

LAHF – Local Authority Housing Fund

MOU – Memorandum of Understanding

APPENDICES

Appendices are listed below and attached to the back of the report: -

APPENDIX A - Exempt	Financial Evaluation (five properties)
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BACKGROUND PAPERS

Background papers used in the production of this report are listed below: -

Document title	Where the document can be viewed
Cabinet report – Local Authority Housing Fund	<u>(Public Pack)Agenda Document for Cabinet, 02/08/2023 18:30 (boston.gov.uk)</u>
Council report – Local Authority Housing Fund	<u>(Public Pack)Agenda Document for Full Council, 18/09/2023 18:30 (boston.gov.uk)</u>

CHRONOLOGICAL HISTORY OF THIS REPORT

A report on this item has not been previously considered by a Council body.

REPORT APPROVAL

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