

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

10 JUNE 2013

REPORT OF THE HEAD OF FINANCE & RESOURCES

Report prepared by: Paul Riley

1. PROPERTY INVESTMENT

1.1 Key Issue for Decision

1.1.1 To consider changes to the criteria for prudential borrowing in relation to property investment as previously agreed by Cabinet in September 2012.

1.2 Recommendation of the Head of Finance & Resources

It is recommended that:

1.2.1 Audit Committee make recommendations to Cabinet on the Committee's views having considered both the proposal set out in the report and the recommendations that will be considered by Cabinet on 12th June 2013.

1.3 Cabinet Decisions

1.3.1 In September last year Cabinet agreed principles for property investment. These identified three categories of property investment for which prudential borrowing could be utilised to cover capital costs. These were:

- a) Additions to the Council's commercial property portfolio;
- b) Derelict residential property in order to restore and bring them back into use; and
- c) For strategic investment such as to progress stalled development.

1.3.2 At the meeting on 12th June 2013 Cabinet will consider the proposal as set out in this report and the following recommendations:

1.3.2.1 Cabinet agrees to broaden category b) for prudential borrowing for the purpose of property investment as

approved previously by Cabinet in September 2012 (see section 1.3.1 below) as follows:

“b) Residential property including derelict and long term empty property, in order to restore and bring them back into use and property suitable for use as temporary accommodation, in order to reduce reliance upon bed and breakfast accommodation.”

1.3.2.2 Cabinet agrees to include within the assessment of the business case the benefits gained from real terms cost reductions as well as the income generated directly by the investment property.

1.4 Reasons for Recommendation

1.4.1 Two issues have arisen from the current pressures on the Council's homelessness budget especially the pressures on the budget for bed and breakfast accommodation, due to increased demand.

1.4.2 Under category (b) above the key objective is to bring derelict property back into use thus increasing housing supply. This would have the effect of reducing homelessness and the related cost of temporary accommodation provided by the Council. Agents have been appointed to identify suitable property and a number of derelict properties have been identified and the owners are being sought. In some cases negotiations are underway to agree a purchase price, however, it is noted that these properties require considerable work to bring them back into use, which may make the proposition of refurbishment financially unviable.

1.4.3 The investigations to date by Housing Services have identified an option that was not previously considered in the categories set out in the original September 2012 report. This relates to property which, subject to some conversion and/or refurbishment, would be suitable to use as temporary accommodation for those people who the council has a duty to provide emergency housing. This is not derelict housing and does not come within the criteria under category (b) above for capital financing through prudential borrowing.

1.4.4 As the Committee will be aware from monitoring and performance reports during 2012/13, the number of households requiring housing assistance has increased considerably in the current economic climate. The return of derelict property into housing use would help to reduce the level of demand for temporary accommodation and thus the cost of homelessness. The acquisition of property that would provide alternative accommodation to the bed and breakfast arrangements used at present would have a direct impact on the cost of

homelessness and the circumstances of those currently in temporary accommodation.

1.4.5 It is therefore proposed that consideration is given to varying the criteria for prudential borrowing under category (b) above to include consideration of property that is not derelict, where the business case identifies this as a suitable alternative to temporary accommodation through bed and breakfast and enables the council to reduce the overall cost of the provision to homeless individuals and households.

1.4.6 If the variation of category (b) for prudential borrowing as set out above is agreed the business case for such schemes could include not only the income generated by the proposal but the reduction in the budget for alternative provision as currently provided by the Council.

1.5 Alternative Action and why not Recommended

1.5.1 The Audit Committee could decide not to support the proposal but this would prevent the opportunity to provide better accommodation for homeless people and make savings against the revenue account budget.

1.5.2 The Audit Committee could decide to recommend that Cabinet do not agree the proposed amendment to category (b) and propose that the acquisition of such property is completed as a one-off business case outside of the current investment activity. This is not recommended as it would reduce the speed at which such property could be brought forward and would divide the focus of Housing Services between two possible routes to achieve the same objective.

1.6 Impact on Corporate Objectives

1.6.1 These changes will help to provide excellent customer service and contribute to Maidstone being a decent place to live.

1.7 Risk Management

1.7.1 There is a risk that property values could fall but such acquisitions will be a long term investment and will be carefully managed by the property team. It is also proposed that the arrangements for such purchases be supported in principle subject to the governance arrangements previously agreed.

1.7.2 In order to mitigate the risk it is suggested that external professional advice is provided regarding the management of the properties.

1.8 Other Implications

1.8.1

1.	Financial	X
2.	Staffing	
3.	Legal	X
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.8.2 Financial Implications –The financial consequences of this decision can best be explained by reference to the scheme currently being developed. In principle the financial situation is as follows:

- Net budget provision for temporary accommodation in 2012/13 was £125,000. Net expenditure on temporary accommodation in 2012/13 exceeded £300,000 with over 160 households being placed into bed & breakfast during that time.
- The proposal currently being considered would halve the use of bed and breakfast accommodation at a cost to the Council of approximately £50,000 per annum. This would reduce overall outlay by £100,000.
- If at a future date the property was no longer required the balance of prudential borrowing would need to be covered from the sale proceeds of the property on disposal. Valuation of the expected future value of the property will form part of the business case of any scheme brought forward.

1.8.3 Legal Implications - Legal support will be required to provide the usual conveyance service to enable the purchase of the properties.

1.9 Relevant Documents

1.10 Cabinet Report of the Assistant Director of Environment and Regulatory Services agreed in September 2012.

1.10.1 Appendices

1.10.2 None

1.10.3 Background Documents – none

IS THIS A KEY DECISION REPORT?

Yes

No

If yes, when did it first appear in the Forward Plan?

Wards/Parishes affected: