

# CAPITAL INVESTMENT BUSINESS CASE

(Provision of council acquired temporary accommodation utilising the Local Authority Homes Fund, round 2 capital grant allocation)



## EXECUTIVE SUMMARY

The Executive Summary is a short summary of the Business Case and should be the last section you complete, this will enable you to extract or only the key facts from relevant sections i.e. 'project on a page'. The summary is a 'snapshot' of the business case which will need to tell the story and sell the proposal.

Under the Local Authority Housing Fund Round 2, Plymouth City Council ("The Council") has been awarded a capital grant allocation of £1,020,000 towards the purchase of 10 family homes in the City to be let to meet the demand under Government resettlement schemes as well as wider homelessness temporary accommodation challenges in the City.

The time scales for delivery are tight with an expectation of using best endeavours to deliver the properties by March 2024. However, this is in line with the strategic direction of the council to acquire additional homes in the City to meet the demands for affordable housing and temporary accommodation to meet homelessness duties. This grant affords the opportunity for some of the purchase costs to be met through grant funding. A key risk is not being able to acquire suitable properties in appropriate locations at affordable prices within the necessary timeframes. There are no financial or other penalties for not delivering this programme on time as the memorandum of understanding between the Council and DLUHC is not legally binding.

Once the properties are acquired there will be a need to maintain and manage them to a standard compliant with our legal standards and duties. In order to mitigate any risk around this a partner with experience of repairs and maintenance and compliance in social housing will be sought to deliver these services on our behalf. This will enable the council to deliver a compliant service within the immediate programme delivery timescales.

Extensive modelling has been undertaken to understand the financial implications of the programme and the grant funding. However, elements of the financial modelling are based on assumptions around the numbers, sizes and locations of properties. There is therefore a risk that the predicted rental income based on the number of properties will not materialise, leading to a revenue funding shortfall which may not be able to be covered by grant funding.

## SECTION I: PROJECT DETAIL

<b>Project Value (indicate capital or revenue)</b>	£2,250,000	<b>Contingency (show as £ and % of project value)</b>	Included within project value
<b>Programme</b>	Homes and Communities	<b>Directorate</b>	People
<b>Portfolio Holder</b>	Councillor Chris Penberthy	<b>Service Director</b>	Matt Garrett
<b>Senior Responsible Officer (client)</b>	Jackie Kings	<b>Project Manager</b>	Ruth Tune-Holmes
<b>Address and Post Code</b>	Various	<b>Ward</b>	Citywide

**Current Situation:** *(Provide a brief, concise paragraph outlining the current situation and explain the current business need, problem, opportunity or change of circumstances that needs to be resolved)*

The Local Authority Housing Fund is a £500m capital grant fund in financial years 2022/2023 and 2023/2024 to support selected local authorities in England to obtain and refurbish property. Administered by the Department for Levelling Up, Housing and Communities (DLUHC), the fund is designed to provide sustainable housing for families who would fall into the following categories:

- Afghan Citizen Resettlement Scheme (ACRS)
- Afghan Relocations and Assistance Policy (ARAP)
- Temporary Accommodation for Homeless Families

A number of Local Authorities have been allocated capital funding under section 31 of the Local Government Act 2003 based on a formula, set out in the LAHF prospectus.

Plymouth City Council have been offered a capital grant allocation of £1,020,200 towards the provision of total of 10 homes to be let under Government schemes including two temporary accommodation houses to meet our duties for homeless families.

A Registered Provider partner has been sought in the first instance to deliver LAHF 2 on our behalf however this has not been possible, and this paper lays out the proposed framework for the Council using the LAHF 2 capital allocation to directly deliver these homes:

Moreover, the Council aims to:

- Deliver the target number of 10 homes, which meet the eligibility criteria outlined within the Local Authority Housing Fund (LAHF) prospectus. The Memorandum of Understanding (MoU) sets out the basis for the grant funding and needs to be approved and returned to the Department of Levelling Up, Housing and Communities by the 14 September 2023
- Outline the projected capital and revenue implications and potential risks and benefits of proceeding with this scheme. Given the capital funding and potential borrowing requirement necessary for the LAHF scheme, approval will need to be sought for appropriate financial allocations to be made to allow the scheme to proceed.

The necessary scoping, feasibility and assessment work, is underway, including with procurement to source external companies to support the purchasing of properties, related survey and legal work, and refurbishment of properties to bring them up to the appropriate standard and energy rating. The costs of engaging a specialist company can be covered from the capital grant allocation.

**Proposal:** *(Provide a brief, concise paragraph outlining your scheme and explain how the business proposal will address the current situation above or take advantage of the business opportunity) and (What would happen if we didn't proceed with this scheme?)*

The DLUHC capital grant allocation will provide approximately 40 per cent of the capital cost of purchasing the 10 properties. Plymouth City Council will need to fund the balance of the purchasing costs. This will be financed by Service Borrowing.

DLUHC has not provided any specific funding for the management, financing and operational running costs of these properties and these revenue costs will need to be covered by the rental income paid by the residents living in these homes.

A range of assumptions have had to be made to establish the likely financial impact on the revenue budget of the costs of providing a landlord function for these properties. These include principal and interest costs on borrowing, rental income, repairs & maintenance costs, rent collection, staff costs, insurance costs, etc

The financial modelling is based on the council buying the full 10 properties for which funding has been provided. It assumes that Stamp Duty Land Tax will not be payable because the council is registered with the Regulator of Social Housing as a Registered Provider and the use of LAHF funding falls within the exemption category for Stamp Duty Land Tax announced in the recent budget.

In setting the budget, it is assumed that the rental income would offset the borrowing and running costs for the properties.

In the long term, it is expected that these properties will become available for general needs or, if not required, could be sold. It should be borne in mind that whilst DLUHC has funded 40 per cent of the purchase price, the houses will be 100 per cent council owned assets and there is no clawback of grant funding should the house be transferred into general needs use or sold at some future date.

As these properties will be meeting the temporary accommodation need in the City, a partnership model is in development with a Registered Housing provider, to manage and maintain these properties on behalf of the Council. This approach would also mean that the Department Works and Pensions subsidy around housing benefit regulations would be higher and therefore at a much-reduced cost to the local authority.

Milestones and Date:		
Contract Award Date	Start On Site Date	Completion Date

**SECTION 2: PROJECT RISK, OUTCOMES AND BENEFITS**

**Risk Register:** *The Risk Register/Risk Log is a master document created during the early stages of a project. It includes information about each identified risk, level of risk, who owns it and what measures are in place to mitigate the risks (cut and paste more boxes if required).*

Potential Risks Identified		Likelihood	Impact	Overall Rating
<b>Risk</b>	Refurbishment costs are higher than budgeted	Low	Low	Low
<b>Mitigation</b>	Surveys will be carried out prior to a decision to purchase. There is still a possibility of discovering a problem once works commence which was not previously detectable, but a contingency has been built into the modelling and some homes may need less than the full amount budgeted for refurbishment	Low	Low	Low
<b>Calculated risk value in £ (Extent of financial risk)</b>	£0			

<b>Risk</b>	Unable to identify sufficient properties capable of being refurbished to a high enough standard	Low	Low	Low
<b>Mitigation</b>	If possible, we will agree an extension to the funding deadline with DLUHC, otherwise the unspent grant will be returned to them.	Low	Low	Low
<b>Calculated risk value in £ (Extent of financial risk)</b>	£0			
<b>Risk</b>	Sales falling through near the final stages in acquisition resulting in abortive costs of around £2,000 per unit	Low	Low	Low
<b>Mitigation</b>	New properties will need to be quickly	Low	Low	Low
<b>Calculated risk value in £ (Extent of financial risk)</b>	£4,000			

### Outcomes and Benefits

#### List the outcomes and benefits expected from this project.

(An **outcome** is the result of the change derived from using the project's deliverables. This section should describe the anticipated outcome)

(A **benefit** is the measurable improvement resulting from an outcome that is perceived as an advantage. Benefits are the expected value to be delivered by the project, measurable whenever possible)

#### Financial outcomes and benefits:

#### Non-financial outcomes and benefits:

Increase in PCC's fixed assets

Reduced B&B costs

Additional affordable, suitable temporary accommodation for homeless families and Afghan families living in hotels

In the future, these properties can be used for general needs

Reduction in carbon emissions from housing

Reduction in fuel poverty

### Low Carbon

#### What is the anticipated impact of the proposal on carbon emissions

Refurbishing 10 homes up to EPC C will improve the energy efficiency of these homes, thereby reducing carbon emissions of these properties, whilst simultaneously reducing fuel poverty/energy costs, and improving tenant comfort.

#### How does it contribute to the Council becoming Carbon neutral by 2030

By commissioning these works, we will support Plymouth's green economy by further stimulating demand for green jobs, skills, products, services and local collaboration.

#### Have you engaged with Procurement Service?

Yes

#### Procurement route options considered for goods, services or works

#### Procurements Recommended route.

Not needed at this stage

#### Who is your Procurement Lead?

Kim Kingdom

#### Is this business case a purchase of a commercial property

No

<b>If yes then provide evidence to show that it is not 'primarily for yield'</b>	
Which Members have you engaged with and how have they been consulted ( <i>including the Leader, Portfolio Holders and Ward Members</i> )	

## SECTION 4: FINANCIAL ASSESSMENT

**FINANCIAL ASSESSMENT:** *In this section the robustness of the proposals should be set out in financial terms. The Project Manager will need to work closely with the capital and revenue finance teams to ensure that these sections demonstrate the affordability of the proposals to the Council as a whole. Exact amounts only throughout the paper - not to be rounded.*

### CAPITAL COSTS AND FINANCING

<b>Breakdown of project costs including fees surveys and contingency</b>	<b>Prev. Yr.</b>	<b>23/24</b>	<b>24/25</b>	<b>25/26</b>	<b>26/27</b>	<b>27/28</b>	<b>Future Yrs.</b>	<b>Total</b>
	£	£	£	£	£	£	£	£
Purchase Price		2,050,000						
Fees, Surveys & Refurbishment		200,000						
<b>Total capital spend</b>		<b>2,250,000</b>						

### Provide details of proposed funding: *Funding to match with Project Value*

<b>Breakdown of proposed funding</b>	<b>Prev. Yr.</b>	<b>23/24</b>	<b>24/25</b>	<b>25/26</b>	<b>26/27</b>	<b>27/28</b>	<b>Future Yrs.</b>	<b>Total</b>
	£	£	£	£	£	£	£	£
DLUHC Grant		1,020,000						
Service Borrowing		1,230,000						
<b>Total funding</b>		<b>2,250,000</b>						

<b>Which external funding sources been explored</b>	
<b>Are there any bidding constraints and/or any restrictions or conditions attached to your funding</b>	Target delivery date of 29 <sup>th</sup> March 2024
<b>Tax and VAT implications</b>	The receipt of rental income from the properties will relate to a VAT-exempt activity of the Council. This means that the VAT incurred by the Council on costs relating to the purchase of the properties, and the future ongoing revenue costs, will need to be included in the

	Council's partial exemption review and so the expenditure will need to be closely monitored to ensure that the VAT is fully recoverable by the Council. Since the properties will be used for a residential purpose, the Council will be unable to opt to tax the properties to be able to exclude the VAT on costs from the partial exemption
<b>Tax and VAT reviewed by</b>	Sarah Scott, Service Accountant

## REVENUE COSTS AND IMPLICATIONS

### Cost of Developing the Capital Project (To be incurred at risk to Service area)

<b>Total Cost of developing the project</b>	N/A
<b>Revenue cost code for the development costs</b>	0915
<b>Revenue costs incurred for developing the project are to be included in the capital total, some of the expenditure could be capitalised if it meets the criteria</b>	Y
<b>Budget Managers Name</b>	Jackie Kings

### Ongoing Revenue Implications for Service Area

	Prev . Yr. £	23/24 £	24/25 £	25/26 £	26/27 £	27/28 £	Future Yrs. £
<b>Service area revenue cost</b>							
<b>Other</b> (eg: maintenance, utilities, etc)		2,956	57,052	57,052	57,052	157,052	57,052
<b>Loan repayment</b> (terms agreed with Treasury Management)			86,319	86,319	86,319	86,319	86,319
<b>Total Revenue Cost (A)</b>		<b>2,956</b>	<b>143,371</b>	<b>143,371</b>	<b>143,371</b>	<b>243,371</b>	<b>143,371</b>
<b>Service area revenue benefits/savings</b>							
<b>Annual revenue income</b> (eg: rents, etc)		(5,035)	(60,415)	(60,415)	(60,415)	(60,415)	(60,415)
<b>Savings on nightly paid accommodation</b>		(19,830)	(237,962)	(237,962)	(237,962)	(237,962)	(237,962)
<b>Total Revenue Income (B)</b>		(24,865)	(298,377)	(298,377)	(298,377)	(298,377)	(298,377)
<b>Service area net (benefit) cost (B-A)</b>		<b>(21,909)</b>	<b>(155,006)</b>	<b>(155,006)</b>	<b>(155,006)</b>	<b>(55,006)</b>	<b>(155,006)</b>
<b>Has the revenue cost been budgeted for or would this make a revenue pressure</b>	This would create a revenue saving vs what we are currently paying/forecasting to pay						

<b>Which cost centre would the revenue pressure be shown</b>	0915	<b>Has this been reviewed by the budget manager</b>	Y/N
<b>Name of budget manager</b>	Jackie Kings		
<b>Loan value</b>	£1,230,000	<b>Interest Rate</b>	6.75%
		<b>Term Years</b>	50
		<b>Annual Repayment</b>	£86,319
<b>Revenue code for annual repayments</b>	0915		
<b>Service area or corporate borrowing</b>	Service		
<b>Revenue implications reviewed by</b>	Nathan Franklin		

**Version Control:** (The version control table must be updated and signed off each time a change is made to the document to provide an audit trail for the revision and update of draft and final versions)


<b>Author of Business Case</b>	<b>Date</b>	<b>Document Version</b>	<b>Reviewed By</b>	<b>Date</b>
Ruth Tune-Holmes	04/09/2023	v 1.0	Anna-Leigh Selvester Jackie Kings	05/09/2023

## SECTION 6: RECOMMENDATION AND ENDORSEMENT

### Recommended Decision

#### It is recommended that the Leader of the Council:

1. Accept the Local Authority Housing Fund, Round 2 (LAHF) capital grant £1,020,000 from (Department of Levelling Up, Housing and Communities; DLUHC);
2. Delegate authority to the Section 151 officer to sign the Memorandum of Understanding with DLUHC;
3. Approves the Capital Business Case and allocates £2,250,000 to the Capital Programme financed by £1,020,000 DLUHC Grant and £1,230,000 Service Borrowing.

<b>Councillor Tudor Evans, Leader of the Council</b>		<b>Service Director: Matt Garrett</b>	
<b>Either email dated:</b>		<b>Either email dated:</b>	5 <sup>th</sup> September 2023
<b>Or signed:</b>		<b>Or signed:</b>	
<b>Date: 06 September 2023</b>		<b>Date:</b>	