

CAPITAL INVESTMENT BUSINESS CASE

PURCHASE OF ACCOMMODATION IN RESPONSE TO THE HOMELESSNESS DEMAND AND BUDGET PRESSURES



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.

This Business Case outlines Plymouth City Council's intention to purchase units of accommodation in response to the homelessness crisis and to support temporary accommodation budget pressures.

This approach is required in response to the consequences of the national and local challenges faced in recent times leading to an increase in homelessness and use of expensive nightly paid accommodation to meet statutory duties. Notably there is:

- A declined private rented sector as landlords exit the market/ increase rents to unaffordable levels
- Declining social housing market due to disposals, delayed development and regeneration
- Increase in homelessness
- Increase in demand for temporary and short term accommodation
- Silted up temporary accommodation provision as move on options are reduced
- Households are in temporary accommodation for longer periods
- Expensive nightly paid accommodation is accessed to meet statutory duties

The proposal is to utilise £10million of service borrowing and additional grant from Homes England of £3-£5 million (subject to bid outcomes) to: -

- Provide homes to meet current and future local need
- Deliver housing that is affordable
- Support Council strategic direction and priorities
- Reduce temporary accommodation costs by an estimated £1.010m per year

The average annual cost of a Bed and Breakfast (B&B) room is **£21,797**.

There is an estimated annual revenue cost per property purchased of **£8,194**. (There will be some variations on this dependent upon grant rates, purchase price, remedial costs, and rental levels.)

Therefore, the estimated annual saving per property purchased is **£13,603**.

It is calculated that estimated service revenue savings will be **£1,009,917** per annum when offset against current costs which includes utilisation of higher rate nightly paid accommodation (holiday lets) and B&B costs.

This project also supports the Council being compliant in meeting its statutory homelessness accommodation duties.

The financial modelling shows the project to be viable, providing significant savings whether grant funding is achieved, or the purchases are via service borrowing only. The annual costs remain considerably less than the cost of nightly paid accommodation.

The preferred option is to access newly built properties as this :-

- Does not impact existing housing stock
- Provides 10-year building guarantee
- Provides a good standard of accommodation
- Reinvigorates building in the City

This is a good capital investment as it:

- Supports health and wellbeing needs of homeless households
- Meets the statutory duties of the Council
- Increases the local authority ability to provide affordable supported short term accommodation for homeless households
- Attracts 'Affordable Homes Programme' capital grant from Homes England
- Reduces the revenue budget pressures of providing statutory temporary accommodation

Once the properties have been acquired, there will be a requirement to have a housing management and maintenance service. The costs of the management and maintenance services via a managing agent have been built into the financial modelling.

In the long term, it is expected that these properties will become available for general needs social housing. If successful in our grant application, Homes England will have funded a proportion of the purchase price, however, the houses will be 100 per cent council owned assets and there is no clawback of grant funding if the houses are transferred into general needs use.

Should the housing be used for anything other than affordable housing, any Homes England grant will need to be recycled back into affordable housing provision.

SECTION I: PROJECT DETAIL

Project Value (indicate capital or revenue)	£10,000,000 - £15,000,000	Contingency (show as £ and % of project value)	N/A
Programme	Housing	Directorate	People
Portfolio Holder	Cllr Chris Penberthy, Housing and Co- operative Development	Service Director	Matt Garrett (Community Connections)

Senior Responsible Officer (client)	Jackie Kings Strategic Manager Community Connections	Project Manager	Ruth Tune-Holmes Technical Lead Community Connections
Address and Post Code	Citywide	Ward	Citywide
Current Situation: <i>(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)</i>			
<p>Nationally, homelessness continues to rise as a result of the global and national challenges faced in recent times, i.e. Covid, Ukraine War, Cost of Living crisis. These have significantly impacted the housing market and people's ability to meet day to day bills (rent, mortgage, utilities, food, travel etc). The health and wellbeing impact on people is also reflected in the level of need of those presenting as homeless.</p> <p>This picture is directly reflected in Plymouth where the continued impact of rising inflation and the lack of affordable housing across all housing tenures has resulted in further demand for housing and homelessness services.</p> <p>The private rented sector in Plymouth has historically provided affordable housing. This provision has shrunk significantly as landlords exit the market or increase rents to the point where there is very little affordable private sector accommodation available.</p> <p>The number of available social housing lets has also declined, reducing by 36% over the last 5 years. In 2022/23, the number of households in significant need of an affordable home (Band B and C on Devon Home Choice) outstripped supply by 2575.</p> <p>Key consequences are the increasing number of households presenting as homeless or at risk of homelessness and staying in statutory temporary accommodation for longer. As existing temporary accommodation has become silted up, households are increasingly placed in costly night paid accommodation. The health and wellbeing impact on households is significant as B&B is not suitable for a sustained period of time. The budgetary impact is significant to the local authority with a forecast £2.4 million financial pressure in 23/24.</p> <p>There has been a 158% increase in demand on temporary accommodation since 2019/20 (as a maximum snapshot - from 160 households in 2019 to 413 households in 2023) and the number of families in temporary accommodation is increasing.</p> <p>Linear forecasting has identified a demand gap of just over 300 units of accommodation to meet increasing demand. Whilst linear forecasting has limitations the demand is projected to continue and there is a clear business case to intervene as proposed.</p> <p>The initiative within this business case will utilise £10 million service borrowing and apply for grant funding (Homes England Affordable Homes Programme) up to £5 million to purchase houses and provide an alternative to B&B and other nightly paid accommodation currently accessed by homeless households.</p>			

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?)*

It is proposed that significant action is required to meet the statutory homelessness and temporary accommodation demand and reduce the related budget pressures.

Community Connections proposes to undertake service borrowing of £10 million and apply to Homes England Affordable Homes Programme for additional capital to purchase properties to provide temporary accommodation with support for homeless households.

It is anticipated that £3 to £5million in capital grant funding could be made available from Homes England Affordable Homes Programme. The Capital Programme will be amended dependant on the grant value received.

If the Council is awarded capital grant, this will result in more properties being able to be purchased. If capital grant funding is not received, this will not stop the delivery of this project as the project remains viable without grant funding. The cost of the service borrowing is significantly less than the cost of providing expensive, unsuitable, nightly paid accommodation and will reduce the budget pressure.

Homes acquired through this initiative will meet the statutory duties of the Council to provide temporary accommodation for homeless households who would otherwise have placements in B&B and other nightly paid accommodation. If families are in B&B for over 6 weeks, this is a breach of our statutory duty.

The purchase of these properties directly and positively addresses the budget pressures faced by the Council as well as improving the health and wellbeing outcomes for homeless households by providing them with affordable, self-contained accommodation with support to meet their needs until they move on to a suitable affordable home.

If we do not proceed, the spend on statutory temporary accommodation will continue to rise resulting in; unsustainable budget pressures, households being accommodated in unsuitable accommodation with the negative effects on health and wellbeing, and breach of statutory duties. The potential of capital grant funding from Homes England would also be lost.

Why is this your preferred option: *(Provide a brief explanation why this option is preferred) and (Explain why this is a good capital investment and how this would be an advantage for the Council) and (explain how the preferred option is the right balance between the risks and benefits identified below).*

Acquiring homes is the preferred option as it is in line with Plymouth City Council's strategic direction to meet the demand for affordable housing and temporary accommodation.

This is a good capital investment as it:

- Supports health and wellbeing needs of homeless households
- Meets the statutory duties of the Council
- Attracts 'Affordable Homes Programme' capital grant from Homes England

- Reduces the revenue budget pressures of providing statutory temporary accommodation

The *Affordable Homes Programme* capital grant regime sets out to fund a proportion of the purchase costs, providing the opportunity to deliver affordable homes. It aims to increase overall financial viability in both the short term and long term by reducing borrowing costs and increasing the Council's fixed assets.

It is anticipated that on successful application, Homes England will fund around 40% of the purchase price, and the houses will be 100% Council owned assets. There is no clawback of grant funding should the property be transferred into general needs use. In the long term it is expected that these properties will become available for general needs as the need for temporary accommodation reduces.

Where Homes England provides grant through the *Affordable Homes Programme*, the properties are required to be either affordable general needs or affordable supported accommodation. The properties acquired for this programme will be classified as supported accommodation and the Council is required to provide a family support service. There is an existing Family Support Team provided by the Plymouth Alliance and this will be extended and funded through existing funding streams to:

- Identify needs and deliver holistic family support
- Strengthen family stability through improved relationships, financial stability and seeking secure housing
- Build personal and family strengths through signposting to early years development, education, mental and physical health and tackling addiction
- Tap into other families support funding and services, such as children's services, health agencies, domestic abuse services, safeguarding and other community-based services
- Increase family safety by diverting families from crime, safe from domestic abuse, and children safe from abuse or exploitation

There has been wide ranging consultation with registered providers and other similar organisations over the delivery of supported and temporary housing to meet the homelessness demand. There is little appetite to deliver temporary or supported accommodation due to competing priorities and capacity within partner organisations already delivering extensive projects in the city.

An acquisition strategy supports this proposal with capacity and contingency built into the finance and rent modelling to support the end to end programme management and delivery.

The Acquisition Strategy takes into consideration :-

- Grant funding bids
- Meeting reporting requirements for Homes England
- Co-ordinating meetings with Homes England, PCC and external stakeholders
- Identification of and negotiation on property costs
- Development and agreement of specifications and schedules of work
- Development and agreement of key performance measures and milestones

- Engaging and monitoring of specialist companies to acquire and refurbish as required
- Working across Council teams to secure legal, surveying, and procurement resource
- Budget reporting
- Development of management agreements and related schedules in partnership with the legal team
- Engagement and monitoring of the managing agent
- Development of key end to end processes and documentation, including letting of properties

The strategy identifies the following resource requirements :-

- A Programme Manager will be engaged to oversee/coordinate the Programme
- Existing capacity in Community Connections, the Housing Delivery, and Finance Teams are supporting the programme.
- Council resources in Legal, Land and Property, Strategic Developments and Procurement will be backfilled or newly acquired to support delivery of the purchases.
- A delivery partner will be engaged to deliver the management and maintenance of the properties

Option Analysis: (Provide an analysis of 'other' options which were considered and discounted, the options considered must be a 'do Nothing' and 'do minimum' and 'viable alternative' options. A SWOT – Strength, Benefit, Opportunity, Threat analysis could be attached as an appendix).

Do Nothing Option	Do not increase level of temporary accommodation
List Benefits:	No borrowing required
List Risk / Issues:	Budget pressures will continue to rise as homeless households will continue to be accommodated in expensive nightly paid temporary accommodation and the Council will continue to fail to meet its statutory duty.
Cost:	Growing pressure on current £2.4 million budget pressure
Why did you discount this option	There is a requirement to respond to the increase in homelessness and the related budget pressure. To do nothing would not support the need to meet statutory homelessness duties or the need to reduce the related budget pressure.
Do Minimum Option	Borrow less and purchase fewer units
List Benefits:	Less borrowing required
List Risk / Issues:	Budget pressures will continue to rise as homeless households continue to be accommodated in expensive nightly paid temporary accommodation and the Council will continue to fail to meet its statutory duty.
Cost:	At least existing £2.4 million pressure

Why did you discount this option	This would not provide sufficient accommodation to meet the demand and manage the budget pressure
Viable Alternative Option	Ask partner Registered Provider (RP) organisations to provide more emergency temporary accommodation
List Benefits:	No borrowing required
List Risk / Issues:	No capacity in RP partners to do this. No control over the speed of delivery. Change of use of existing stock impacts and reduces the number of general needs properties which is already failing to meet demand.
Cost:	Any viability gap requests to support RP partners to provide additional accommodation
Why did you discount this option	No partner currently has capacity or appetite to provide this option. This is not a time effective option in the current climate

Strategic Case:	
Which Corporate Plan priorities does this project deliver?	keep young people, children and adults protected
	focus on prevention and early intervention
	reduced health inequalities
	people feel safe in Plymouth

Milestones and Date:		
Contract Award Date	Start On Site Date	Completion Date
Executive Decision	As soon as possible	When full allocation has been spent

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
Risk	Stock conditions in Plymouth due to considerable volume of older stock could be a challenge in acquiring suitable properties.	Low	Medium	Medium
Mitigation	Newer properties will be the preferred option within 10-year NHBC (National House Building Council) Surveys will be carried out prior to a decision to purchase.	High	Medium	High

	Any additional mitigation will be dealt with through the acquisition strategy (Part 2 commercially sensitive)			
Calculated risk value in £ (Extent of financial risk)	Commercially sensitive information	Risk Owner	Jackie Kings	
Risk	Unable to identify sufficient properties capable of being refurbished to a high enough standard	Low	Medium	Medium
Mitigation	Newer properties will be preferred option. Any additional mitigation will be dealt with through the acquisition strategy (Part II commercially sensitive)	Medium	Medium	Medium
Calculated risk value in £ (Extent of financial risk)	Commercially sensitive information	Risk Owner	Jackie Kings	
Risk	Sales falling through near the final stages in acquisition resulting in abortive costs impacting revenue budget.	Low	Medium	Low
Mitigation	<ul style="list-style-type: none"> • Vacant properties and new to market properties are part of preferred option. • Costs will be absorbed into savings from capital delivery across this project and built into Service revenue budgets. • Any additional mitigation will be dealt with through the acquisition strategy (Part II commercially sensitive) 	Medium	Medium	Medium
Calculated risk value in £ (Extent of financial risk)	Commercially sensitive information	Risk Owner	Jackie Kings	
Risk	House prices and/or borrowing costs increase	Low	Medium	Medium
Mitigation	Current indications are that house prices are falling, and interest rates have stabilised. If either prediction is incorrect this will result in fewer homes being purchased or a greater number of smaller, therefore cheaper, homes.	High	Medium	High
Calculated risk value in £ (Extent of financial risk)	£0	Risk Owner	Jackie Kings	

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)

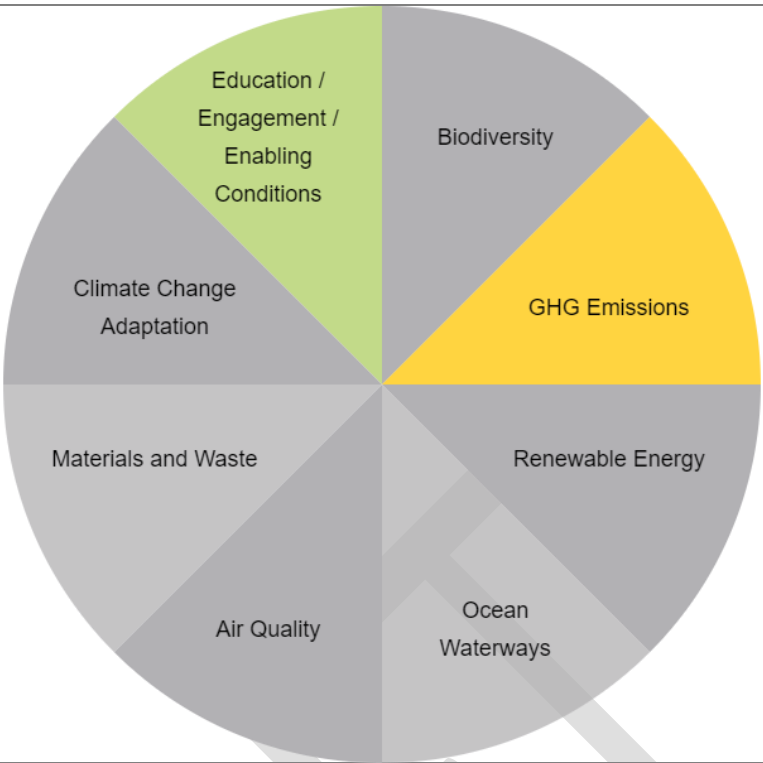
(A **benefit** is the measurable improvement resulting from an outcome that is perceived as an advantage. Benefits are the expected value to be delivered by the project, measurable whenever possible)

Financial outcomes and benefits:	Non-financial outcomes and benefits:
Increase in PCC's accommodation to meet statutory duties	Additional affordable, suitable temporary accommodation for homeless families. In the future, these properties can be used for general needs.
Reduced nightly paid accommodation costs to meet statutory homelessness duties reducing the existing £2.4 million pressure	Households are in good quality temporary accommodation with support that meets their needs, whilst they wait for an offer of an affordable longer-term home
Increased health and wellbeing outcomes for households reducing impact on wider council and partner resources in the short, medium and long term	Children are less impacted through homelessness as a result of being in a temporary home
	Freeing up hospitality accommodation to increase visitor spend in the city

SECTION 3: CONSULTATION

Does this business case need to go to CMT	Yes	Date business case approved by CMT (if required)	31/10/2023
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Climate Impact Assessment

<p>Upload Climate Impact Wheel</p>	
<p>Summary of the anticipated impact of the proposal on the climate (including any proposed mitigations and impacts beyond 2030)</p>	<p>Bringing temporary accommodation within the Council's portfolio will increase the Council's corporate carbon footprint in the short term. In the long term, this offers the opportunity to improve the energy efficiency of these properties and add renewable energy capacity which will support the city's net zero trajectory and reduce the impact on corporate emissions.</p> <p>In the short term, the intention is to source A-C EPC rated accommodation, and we are mandated to improve that if properties fall below 'C'. At a city level, the climate impacts are likely to be minimal due to sourcing from existing housing stocks rather than new build. Steps will also be taken to ensure selected sites provide access to public and active modes of travel and are within walking distance of amenities as much as possible. Meanwhile - providing homeless residents with accommodation increases their agency to adopt climate friendly behaviours.</p>

<p>Have you engaged with Procurement Service?</p>	<p>Yes</p>
<p>Procurement route options considered for goods, services or works</p>	<p>Framework or full tender process if required</p>
<p>Procurements Recommended route.</p>	<p>TBC if required</p>
<p>Who is your Procurement Lead?</p>	<p>Kim Kingdom</p>
<p>Is this business case a purchase of a commercial property?</p>	<p>No</p>

If yes, then provide evidence to show that it is not 'primarily for yield'	
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Which Members have you engaged with and how have they been consulted (including the Leader, Portfolio Holders and Ward Members)	Cllr Penberthy, Portfolio Holder for Housing, Cooperative Development and Communities and Cllr Lowry, Portfolio Holder for Finance both through Portfolio Holder meetings and the Homelessness Workshop.
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Confirm you have taken necessary Legal advice, is this proposal State Aid compliant, if yes please explain why.	Yes – no subsidy control issues
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Who is your Legal advisor you have consulted with?	Alison Critchfield
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Equalities Impact Assessment completed (This is a working document which should inform the project throughout its development. The final version will need to be submitted with your Executive Decision)	Yes
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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 are commercially sensitive and contained within Part II of this report.

CAPITAL COSTS AND FINANCING

Breakdown of project costs including fees surveys and contingency	Prev. Yr.	23/24	24/25	25/26	26/27	27/28	Future Yrs.	Total
	£	£	£	£	£	£	£	£
Total capital spend			15,000,000					

Provide details of proposed funding: Funding to match with Project Value								
Breakdown of proposed funding	Prev. Yr. £	23/24 £	24/25 £	25/26 £	26/27 £	27/28 £	Future Yrs. £	Total £
Service Borrowing			10,000,000					
Grant (subject to bid)			5,000,000					
Total funding			15,000,000					

SI06 or CIL (Provide Planning App or site numbers)	N/A
Which alternative external funding sources been explored	Homes England Affordable Homes Programme Grant
Are there any bidding constraints and/or any restrictions or conditions attached to your funding	<p>RP Investment Partner Status with Homes England needs to be submitted and if successful, grants will require property purchased to be on an affordable or social rent model. This is in line with our approach and financial modelling.</p> <p>Homes England stipulate that a social rent or an affordable rent model must be applied to the rent and service charge of each of the properties and that they must meet regulatory standards. If these properties are no longer used as affordable homes, the Council will be required to recycle or pay back the grant contribution.</p>
Tax and VAT implications	The receipt of rental income from the residential 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 identified and 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 calculation. It might be necessary, therefore, to obtain external VAT advice.
Tax and VAT reviewed by	Sarah Scott

Will this project deliver capital receipts? <i>(If so, please provide details)</i>	There will be no immediate capital receipts however the homes purchased could potentially be sold to provide capital receipts in the future should the need for them reduce. Any Homes England funding would need to be recycled into affordable housing provision.
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REVENUE COSTS AND IMPLICATIONS

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

Total Cost of developing the project	£0
Revenue cost code for the development costs	2887/6401
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	Y
Budget Managers Name	Jackie Kings

Full revenue costs and implications are commercially sensitive and contained in Part 2.

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)*

Author of Business Case	Document Version	Date
Ruth Tune Holmes	v 1.0	02/10/2023
Liz Dunster	v 2.0	06/10/2023
Anna Leigh Selvester	v 3.0	10/10/2023
Jackie Kings	v 4.0	13/10/23
Jackie Kings	v 5.0	26/10/2023
Jackie Kings	v 6.0	10/11/2023
Jackie Kings	v 7.0	28/11/2023

SECTION 5: RECOMMENDATION AND ENDORSEMENT

Recommended Decision

It is recommended that Cabinet:

- Approve the Business Case to enable the purchase of properties to
 - a) provide appropriate supported temporary accommodation for homeless households as an alternative to bed and breakfast and other high cost nightly paid accommodation, and;
 - b) support reduction of temporary accommodation costs;

- Allocate £10,000,000 for the project into the Capital Programme funded by service borrowing;
- Allocate up to £5,000,000 of Homes England grant to the Capital Programme, subject to successful bid;
- Delegate the approval of individual and bulk purchases to the Service Director for Community Connections for all purchases within the approved financial envelope in consultation with the cross departmental Strategic Steering Group, Cabinet Member for Housing, Cooperative Development and Communities and Cabinet Member for Finance.
- Authorises the Service Director for Community Connections to approve business cases and award contracts relating to this project where they would otherwise not have authority to do so.

Cllr Penberthy		Service Director Matt Garrett	
Either email dated:	25/11/2023	Either email dated:	24/11/2023
Or signed:		Signed:	
Date:		Date:	

DRAFT