

# **BUSINESS CASE**

## **FOR**

**Purchase of Temporary Accommodation**

**PROJECT TITLE- Purchase of Temporary Accommodation**

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## 1. Project overview

### 1.1 Background

Shepway, like many areas across the county and nationally, has experienced an ongoing rise in the number of people presenting as homeless, despite excellent performance in preventing homelessness, for a number of reasons including:

- Government Welfare Reform, Benefit caps and Local Housing Allowance caps limit the number of private rented properties locally that are affordable, therefore the number of working homeless households looks set to grow.
- The high cost of home ownership has created higher competition for private rented housing and increased rental costs, means this option is no longer affordable for many households.

The Council has a statutory duty to secure accommodation to certain homeless households (Part VII Housing Act 1996 (as amended)). Currently, the Council uses a number of private specialist providers alongside mainstream hotel companies. Households can range from single people through to family groups who must be given emergency accommodation if they have no other accommodation available to them.

Over the last few years, there has been an increase in the numbers of homeless people seeking assistance and an increase in numbers of homeless people requiring emergency accommodation. Since there are limited numbers of local providers, the Council must compete with other districts for these finite resources. Where no local accommodation is available, the Council is forced to find more expensive accommodation or look to neighbouring authority areas. These issues clearly affect these homeless people who are already under great stress, but also have a huge financial implication on Council finances.

This project is defined as the purchase, renovation and subsequent utilisation of a property in the district to provide accommodation in order that the Council meets its duties under the homelessness legislation.

Once the purchase and subsequent renovation works are completed, the accommodation will be operated on behalf of the Council to provide emergency temporary accommodation for homeless households.

### 1.2 Introduction

With no apparent improvement expected in the current climate, it is anticipated that this will become a growing issue rather than a diminishing problem. Shepway's situation reflects the national picture to the extent that during the year 2015/16, 177 households were placed into emergency accommodation.

<b>Household Type</b>	<b>Numbers placed</b>
Families (including pregnant)	65
Singles	96
Couple/non cohabiting couples	16
<b>Total</b>	<b>177</b>

The negative effect of poor quality emergency accommodation on individuals and families with children has been well documented by organisations such as Shelter and the Joseph Rowntree Trust. In addition, the cost of providing good quality emergency accommodation is significant. In 2015/16, the Council spent in excess of £588,468

(net of income) on the provision of emergency accommodation. In 2016/17, the Council spent £552,512 on the provision of emergency accommodation (net of income).

One of the key concerns is that the Council does not get this back in subsidy as we only get expenditure up to the lower of the one bedroom self-contained LHA rate (£86.30p/w) and the upper limit (£375). To put this into context we are estimating expenditure in B&B and short term accommodation for 2017/18 as £941,329 for Housing Benefit, from this we will only receive subsidy back from DWP of £301,474, essentially at a cost of £639,855 to the Council.

As at 1 November 2017, the Council currently has 68 households placed in temporary accommodation.

The proposed solution is to consider the provision of emergency temporary accommodation directly by the Council and not through the use of standard temporary accommodation (i.e. hotels and guest houses). If the Council owned an appropriate asset, the cost of emergency accommodation to the Council would be reduced and the quality of the accommodation assured.

At present, the Council does not own a suitable asset, but could look towards borrowing the funding required to make the purchase of a property, which would be repayable within a given timescale

In order for such a scheme to be viable, the annual cost of provision must provide for management of the site and maintenance of the site. In addition, the benefit of the scheme must be realised which is to reduce the overall cost of emergency accommodation to the Council.

The expectation is that the proposal will be required for a minimum period of ten years, therefore, any proposal must also ensure that the asset value at the end of the ten years is sufficient to provide a return on investment.

A need in the community has been identified, in this case, homelessness and the lack of B&B accommodation for families. The outcomes of the project include reducing homelessness rates and spend on B&B accommodation, as well as other outcomes that strengthen the key corporate priorities.

In order to consider which options to take for service provision, the following options must be considered during any commissioning process:

- **How efficient is the service?:** Does it represent value for money? Will it be run in the best possible way for the resources being spent? Will it deliver the service for the least expense, time and effort?
- **How effective is the service?:** Does it achieve the outcomes for the project and does it work towards our key corporate priorities?
- **How equitable is the service?:** Does the service reach all people that it is intended to? Will everyone receive a level of service appropriate to their level of need?
- **How sustainable is the service?:** Will the service be sustainable over its lifetime?

## 2. Capital funding

Housing Revenue Account ☐

General Fund **X**

	2017/18	2018/19	2019/20	Totals
Direct capital costs	£720K	-	-	<b>£900</b>
Purchase price – example property (properties providing total of 6 x 1 bedroom flats) and conversion costs, to deliver 12 bedsit flats	£180K			
Contingency sum	£100K	-	-	<b>£100K</b>
Less external funding, grants etc.	-	-	-	-
Net estimated total cost to SDC	<b>£1million</b>			<b>£1million</b>

### Comments:

The above suggests an overall estimated property purchase price of approximately £720,000 with a future valuation of £1million in 10 years (in good condition, excluding goodwill. This is based on the current average market value of £120K for 1 bedroom flats in the district.

The suggested direct capital costs are at this stage is an estimate, as a property has not been identified.

1. Officer's preference is to seek properties in the Folkestone wards, within easy access to local services and which can be easily converted and with relevant planning requirements in place, e.g. an existing guest house or care home, which may reduce initial outlay costs considerably.
2. However, having reviewed the local housing market, these types of properties are rarely available and officers have instead searched residential properties with the potential for conversion, but requiring planning consent for change of use, which may be a potential hurdle. However, it is clear that it is feasible for the Council to acquire a suitable property to deliver the proposed temporary accommodation.
3. A Temporary Accommodation Officer Working Group has considered details of a number of potential properties in the district. An alternative option is to purchase a property containing 6 x one bedroom flats and then convert each flat to form 2 x bedsits with shared bathroom facilities and basic cooking facility in each bedsit flat. This proposal would provide 12 x bedsit flats in total. Each bedsit could then be used to provide temporary accommodation for smaller households or alternatively 2 bedsits could be combined to provide temporary accommodation for a larger family. Based on the initial feasibility work completed, it is estimated that each 1 bedroom flat can be converted to provide 2 x bedsit units at an approximate cost of £25K-£30K. This will allow for any upgrade work in the communal areas within the property, including fire protection works. The proposal also includes a 10% contingency sum to cover any unforeseen works. A full property survey will be completed prior to any property purchase being completed to ensure that the proposed conversion is viable.

### 3. Revenue implications

<i>Please specify</i>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Additional expenditure ( <i>Refurbishment</i> )			
Tenancy management and support	-	£50,000	£50,000
Maintenance Costs per year	-	£20,000	£20,000
Loan: Estimated Annual Revenue Cost ( <i>over 50 years</i> )*	£45,000*	£45,000*	£45,000*
Savings to existing budget ( <i>Reduction in B&amp;B budget</i> )	-	£93,194 +	£186,388
Income generated per year (based on 5 % bedsit void rate per annum)	-	£26,000^	£51,336

*\*Finance has calculated at £1m borrowing over 50 years*

*+ Housing benefit does not cover all of the B and B costs; a top up payment is required*

*^Assumes accommodation will only be available from the second half of the financial year*

- Households occupying the accommodation will be responsible for paying all the utility costs associated with the accommodation. These costs will be collected through a service charge arrangement.
- An effective management and maintenance service will need to be delivered to residents living in the accommodation. This will also need to be factored into the accommodation charges,

#### Comments:

As part of the Working Group actions, the Procurement team have contacted other local authorities and service contractors to gain an understanding of the contracts required and cost implications. These have been reflected in the table above. Procurement would be involved from the earliest stages in terms of procuring elements such as building contractors, tenancy management, support, cleaning and maintenance.

Fire safety requirements of buildings requiring conversion may increase initial outlay costs. A contingency sum has been factored into the Capital funding requirements set out in section 2 of this Business Case.

The Council will still have ongoing management and maintenance costs for the property and these will need to be reviewed beyond 2018/19.

### 4. Risks (including financial risks)

<b>Risk</b>	<b>Likelihood score (1)</b>	<b>Impact score (2)</b>	<b>Total score (1x2)</b>	<b>Mitigation measures</b>
Unable to source a suitable supply of properties at the target prices to purchase in Folkestone.	3	3	9	Consider properties across the district.
Property acquisition scheme revenue costs prove to be more expensive than Bed and Breakfast.	1	3	3	Dispose of property and offset with capital growth or turn to self-contained rented units.

### Comments:

The business plan makes cautious assumptions to demonstrate the benefits of the proposed acquisition of property for use as temporary accommodation. Doing nothing has far riskier outcomes with regard to legal challenge as more people are placed in Bed and Breakfast for increasing lengths of stay and substantial increasing costs to the Council's General Fund.

Councils can legally place individuals and families in B&B accommodation for no more than more than 6 weeks.

Tenants within the proposed accommodation would be given licences of no more than 6 months, which would allow for support and future homeless prevention interventions to be provided and suitable move on accommodation to be secured.

### Financial Comments:

Finance has estimated an indicative summary of the annual cost of borrowing £1 million. Details of the proposed borrowing arrangement are set out below.

#### **Assumptions**

1. Property useful life = 50 years
2. Link borrowing and MRP to useful life
3. Loan = PWLB maturity loan using Certainty Rate

<b><u>Borrowing:</u></b>	£1,000,000
<b>Loan – years:</b>	50
<b>Interest Rate:</b>	2.50%

<b>Loan</b>	<b>Annual Cost</b>
Annual Interest	£25,000

Minimum Revenue Provision (50 years)	<u>£20,000</u>
Total Annual Revenue Cost	<u>£45,000</u>

## 5. Options (to include a 'do nothing' option if appropriate)

The options are

1. Do nothing. The Council will continue to incur increasing costs in respect of its temporary accommodation provision.
2. Purchase, renovate and subsequent utilisation of a property in the district to provide accommodation in order that the Council meets its duties under the homelessness legislation.

## Preferred Option

Purchase, renovate and subsequent utilisation of a property in the district to provide accommodation in order that the Council meets its duties under the homelessness legislation (2)

## 6. Links to Corporate aims and objectives

	✓
More home	✓
More jobs	
Appearance matters	
Health Matters	✓
Achieving stability	✓
Delivering excellence	

### Explanation of the link:

This proposal will contribute positively to the Council's objectives by making a difference for the vulnerable and making a difference for families, providing local, good quality temporary housing for those who are most in need.

### Links to other strategies:

Housing Strategy

East Kent Homelessness Strategy



## 7. Statutory or non-statutory

	✓
Statutory	✓
Non-statutory	
Grant aided	

**Evidence:** The Council has a statutory duty to secure accommodation to certain homeless households (Part VII Housing Act 1996 (as amended)).

## 8. Timescale

Task	Start	End
CMT Report – present Business Case	Oct 17	Oct 17
Cabinet and Full Council	Nov 17	Nov 17
Source property	Nov 17	Apr 18
Purchase property	Apr 18	May 18
Refurbishment	June 18	Dec 18
Arrange management and maintenance	Apr 18	Oct 18
Six monthly review	Jun 19	Jul 19

*Summary of key dates and milestones*

## Comments

The above provides basic lead times for implementation. As a property has not been identified, these times are subject to change.

It is proposed that the Council should appoint a suitably qualified surveyor to make necessary enquiries into available properties on its behalf and leading on any purchase.

An initial assessment must be made on any property, as planning requirements to change usage, seeks permissions etc. will increase any timelines.

## 9. Pre-requisites for initiation

An in house working group has assessed the viability of the proposed temporary accommodation delivery model and has confirmed the financial outcomes that will be achieved by the Council through the delivery of this model.

## 10. Anticipated benefits

- The current average cost of providing emergency temporary accommodation is £55 per night, per room or £385 per week, or £20,020 per annum. For 12 units of temporary accommodation, this equates to £240,240.
- Income, available currently from housing benefit is capped at £86.30 per household, per week (in line with LHA), equating to £4,487.60 per annum. Therefore, for 12 units of temporary accommodation, the Council would only receive a DWP subsidy return of £53,851.20.
- If the Council were to deliver its own temporary accommodation, it would charge in line with the DWP weekly subsidy of £86.30 per week, rather than the high B&B cost of £385 per week, in order to eliminate any additional cost to the Council.
- Therefore, it is envisaged that the Council could achieve a bed and breakfast (B&B) expenditure saving of £186,388.52 (£240,240 minus £53,851.20) per annum based on a 12 unit property.
- This represents a very prudent expectation of the reduction in use of B&B accommodation that could be achieved from the provision of emergency temporary accommodation directly by the Council.
- The proposal will enable the Council to provide good quality accommodation and to provide specific services to help disadvantaged people who find themselves homeless. The proposal will help meet the Corporate Plan priorities of More Homes and Deliver Value for Money.
- The Council would be acquiring a capital asset which will (subject to housing market conditions) increase in value.

## 11. Use of Resources

### (i) Value for Money

The project delivers a substantial saving on projected Bed and Breakfast costs. There will be long-term capital asset value which can be realised in future years for the ultimate benefit of the Council.

### (ii) Supporting the Local Economy

N/A

### (iii) Improving Environmental Sustainability

Improvements will be made to a property acquired under this programme to bring it up to the lettable standards for temporary accommodation. Works may include for example replacement of boilers with energy efficient models where necessary to meet current regulations. Additionally it may be possible to include these properties within any Council-led schemes to install Photovoltaic(PV) systems. This may therefore have the impact of improving a property and contributing to climate change objectives, benefits which would otherwise not be realised within the same timescales.

#### **(iv) Responding to the Needs and Aspirations of the Community**

If the proposal to purchase properties does not go ahead, the council will have little option but to use expensive Bed and Breakfast as temporary accommodation for increasing numbers of families. As well as being of lower quality to a self-contained flat or house, increasingly this may have to be outside of the district, which will also increase the risk of legal challenge.

#### **(v) Promoting Equality and Inclusiveness**

The proposal will have no negative impacts on any protected characteristics and a positive impact on families, including lone parent families and those from an ethnic minority community who are over-represented amongst homeless families and therefore more likely to be housed in less suitable Bed and Breakfast accommodation if this proposal is not taken forward.

#### **(vi) Managing Resources (people, natural and physical assets)**

A suitably qualified surveyor/agent should be appointed to make enquiries and lead on the property acquisition, working alongside the Council's legal team. Existing Council staff will oversee the project management. The tenancy management and maintenance for the temporary accommodation proposal are factored into the business plan assumptions under the revenue costs.

## **12. Communication**

A communications plan will be developed in consultation with the Communications team to demonstrate that the project:

- Increases the supply of temporary accommodation stock within or near to the district and reduces uncertainty of availability. We will be less reliant on the vagaries of supply in the lower quartile private rented market;
- It is a far superior housing solution for families in housing need providing good quality housing in the district;
- It delivers a substantial saving on projected Bed and Breakfast costs;

### **12.1 Stakeholders**

Change will be communicated widely. A communication plan will be prepared.

### **12.2 Engagement**

The project group will consult with the Shepway Homelessness Forum.

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## Appendices