

Birmingham City Council

Report to Cabinet

8th February 2022



Subject: Acceleration of City Housing Transformation to enable reduction in Temporary Accommodation - update

Report of: Julie Griffin, Managing Director of City Housing
Paul Kitson, Strategic Director of Places, Prosperity and Sustainability

Relevant Cabinet Member: Councillor Sharon Thompson – Vulnerable Children and Families
Councillor Ian Ward Leader of the Council
Councillor Tristan Chatfield – Finance and Resources

Relevant O & S Chair: Councillor Kate Booth – Housing and Neighbourhoods
Councillor Mohammed Aikhlaq - Resources

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Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, add Forward Plan Reference: 009542/2022		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, provide exempt information paragraph number or reason if confidential: No		

1. Executive Summary

- 1.1. This Cabinet Report is an update to the Cabinet Report of the 27th July 2021.
- 1.2. Further intervention is required to help the City reduce the increased risks of bed & breakfast (B&B) usage
- 1.3. This report sets out the approvals for investment required to achieve additional reductions in B&B usage and cost. To realise these benefits the following changes to the approvals already received in July 2021 are requested:
 - Capital investment of an additional £2.5m for a Temporary Accommodation (TA) property project
 - Capital investment of £60m for a Property Acquisition Programme to procure up to 230 properties for TA and Social Housing use, instead of approving loans to InReach, the Council's wholly owned company, as proposed in the original Cabinet paper in July 2021. This route offers the best financial, legal, operational and tax option.
 - To authorise the Birmingham City Council's City Housing Service, to undertake the Property Acquisition Programme on behalf of the Council.

2. Recommendations

That Cabinet:

TA Property Project – Oscott Gardens

- 2.1. Approves the provision of an additional £2.5m capital funding from general fund for a TA property project. Recognising the scheme will still deliver a financial surplus.

Property Acquisition Programme

- 2.2. Approves the Detailed Business Case at Appendix 1, concerning the preferred delivery approach for the acquisition of properties for Temporary Accommodation and Social Housing use.
- 2.3. Approves the provision of £60m capital funding for the Property Acquisition Programme to procure up to 230 properties for TA and Social Housing.
- 2.4. Delegates authority to the Managing Director of City Housing (or their delegate) in conjunction with the Strategic Director of Places, Prosperity and Sustainability (or their delegate), and the Chief Finance Officer (or their delegate) to negotiate the acquisition of up to 230 properties for TA and Social Housing use where it makes financial sense.
- 2.5. Authorises the City Solicitor to negotiate, execute and complete all necessary documentation to give effect to the above recommendations.

3. Background

- 3.1 Further intervention is required to help the City reduce the increased risks of temporary accommodation (TA) and bed & breakfast (B&B) usage. It is the provision of TA, and more specifically the use of Bed and Breakfast accommodation, which places extreme cost pressures and other performance challenges upon the City Housing Service.
- 3.2 The Cabinet Report dated 27th July 2021, approved the Strategic Outline Business Case, concerning the proposal “to accelerate interventions to reduce the use of B&B accommodation”.

Updates for the TA property project – Oscott Gardens.

- 3.3 Oscott Gardens is part of the major regeneration at Perry Barr. The Perry Barr 2040 scheme is going to take a number of years to come to fruition. The use of the Oscott Gardens property offers immediate benefits to the Council and the City in the short term, while the wider development continues. It forms part of the Perry Barr Business Case taken to Cabinet in July 2021.
- 3.4 The cost estimates used to produce the Strategic Business Case for the Cabinet Report in July 2021 was the best information available at that point, as the detailed analysis had not been completed. Once approval to proceed was given detailed estimates were produced, based on a full condition survey and comprehensive statement of works.
- 3.5 The Strategic Business Case assumed the works required would be superficial and minimal. The assumption was that the buildings would be in a reasonable condition, for a building of its age and from when they had previously been viewed. No allowance was made for; the significant damage caused by an extensive asbestos survey which resulted in multiple holes in every wall, having to replace stolen boilers, repairing and replacing fire doors, and the general poor condition of the buildings.
- 3.6 A full condition survey has now been completed and a quotation received, which has identified most of the potential risks. These include additional fire safety work, mechanical and electrical systems work and meeting the conditions attached to the planning permission. As this is a large building scheme, a contingency has been added to cover additional unplanned works or risks.
- 3.7 To confirm value for money and to ensure a competitive price, significant work has been undertaken by the Council's Quantity Surveyors (QS) and other experienced property professionals to scrutinise and challenge the quotation. To define the scope of works and generally to ensure it is offering a competitive price.
- 3.8 The Council's Quantity Surveyors applied the agreed approach and method from discussions with Birmingham City Council's Audit Team, to determine the most appropriate methods of demonstrating value for money.
- 3.9 The method is to use the Price per Element Rates (PPE) in the first instance (e.g. Fire Doors) then the Schedule of Rates (SOR) and Nat Fed Rates (NFR), which

has already been priced and agreed following a competitive tender process. At the TA Property the PPE, NHF and SOR rates were used initially, resulting in the first high quotation.

- 3.10 The current quotation for the works is £4m, plus a further £0.5m for contingency.
- 3.11 The Quantity Surveyors involved in these negotiations are experienced professionals who are able to consider the costs in line with their experience and other projects of a similar nature to validate the costs. The Head of the Council's Quantity Surveyors believes that a robust approach has been followed and value for money has been achieved.

4. Options considered for the TA property project and recommended proposal

- 4.1 Continue only with the service improvements to eradicate B&B by 2025: Although vital will not deliver the objectives within the timescales, as current limitations in service delivery and housing capacity are being exacerbated by changes to COVID policy (increased listing of possession cases at courts, tapering of furlough) which means the numbers of people presenting as homeless is likely to increase in the short term. This will maintain or enhance cost pressures on the service. To fully implement the new operating model will take many months to mobilise.
- 4.2 Stop providing the service: This is not feasible as most of the service areas are statutory in nature.
- 4.3 To undertake a separate procurement exercise using the Constructing West Midlands 2 Framework Agreement in accordance with its protocol with Acivico providing the professional services. This is not considered a viable option, due to the timescales involved, the additional costs and resulting loss of financial benefits. To comply with public procurement rules a competition of contractors on the framework would be required. To complete the procurement process and award the contract would take approximately four months, resulting in the first accommodation being available by June 2022 and the last by October 2022. During this time additional bed and breakfast costs would have been incurred of circa £3m, in addition to the cost of the works, so this option was dismissed.
- 4.4 Commission an alternative cost plan (pre-tender estimate) from Acivico for the TA Property work, to determine value for money and to confirm the existing quote is cost competitive in line with current market conditions. This option was dismissed as the Council's own experienced Quantity Surveyors have already undertaken this exercise and it was felt it would not add any value.
- 4.5 Obtain a full cost quotation from other contractors under the Housing Repairs and Maintenance Contract. The Quantity Surveyors advised this may only achieve a small cost reduction, as in many instances the supply chains are common for the different contractors. It would delay and add risk to the programme. The time delay would result in additional bed and breakfast costs being incurred. This is not considered a viable option.
- 4.6 Refurbish a reduced number of the accommodation blocks at the TA Property, i.e. in line with the existing approved budget. This would reduce the amount of Acceleration of City Housing Transformation to enable Reduction in Temporary Accommodation - update

accommodation available, limit the number of bed and breakfast reductions and not deliver the planned financial benefits. This is not considered a viable option.

- 4.7 To continue with the existing scheme and request the additional investment. Will deliver the planned benefits with the minimum risk for the lowest cost. Will quickly increase supply of TA accommodation and enable the reduction of Bed and Breakfast accommodation usage - **THE PREFERRED OPTION**

Options considered for the Property Acquisition Programme and recommended proposal

- 4.8 To accelerate the reduction in the use of Bed and Breakfast accommodation, there is a need for the Council to acquire up to 230 properties, in the most effective manner, balancing financial, legal, operational and tax factors. In particular the Council needs to protect the investment from the Right to Buy exposure to ensure the Temporary Accommodation provision remains constant and does not deplete over time.
- 4.9 Option 1 - Continue only with the service improvements to eradicate B&B by 2025: Although vital will not deliver the objectives within the timescales for the reasons given in 3.12 above.
- 4.10 Option 2 - Stop providing the service: This is not feasible for the reasons given in 3.13 above
- 4.11 Option 3 - Use of the Council wholly owned company, INReach (Birmingham) Limited to acquire and own the properties, providing them to the Council on a commercial leaseback and full repairs arrangement. This option has been explored in detail in the attached Detailed Business Case.
- 4.12 This option delivers some of the objectives of enabling the reduction of Bed and Breakfast accommodation, through the provision of additional Temporary Accommodation and any properties where the freehold is held by INReach would not be subject to Right to Buy risk.
- 4.13 The option does not offer a good financial return to the Council as INReach would incur operational and financial costs that would be recovered in any commercial arrangement. INReach would need to expand its administration, financial, legal and operational cost base to manage the property acquisition and agreements. Any loans to INReach would be at a commercial interest rate, INReach has to pay VAT on expenditure, is subject to Corporation Tax on any profits, etc. This is not considered a viable option.
- 4.14 Option 4 - Use of the Councils wholly owned company PropCo to acquire and own the properties, providing them to the Council on a commercial leaseback and full repairs arrangement. Not considered a viable option for similar reasons to Option 3 above.
- 4.15 Option 5 - City Housing will commission a property acquisition service with support from Inclusive Growth to acquire the properties. The properties once acquired will be owned by the City, vested in Housing General Fund and

managed by City Housing Service. This route offers the best financial, legal, operational and tax option.

- 4.16 The properties will be categorised as temporary accommodation for financial and asset management purposes. City Housing will grant a licence to occupy temporary accommodation under common law and thus mitigating the risk of Right to Buy exposure. Legal Services have confirmed there is no risk from Right to Buy exposure as the properties are being used by the Council to discharge either 'interim' duties or the 'main duty' to secure accommodation.
- 4.17 The Right to Buy exposure arises if the Council grants a 'secure tenancy' in order to bring their duty to an end. Even then, the risk of Right to Buy is only 15 years after the date on which the Council first acquired the property.
- 4.18 This route offers the most tax efficient option as there is no VAT or Corporation Tax liabilities as the Council is exempt from corporation tax and is able to recover VAT.
- 4.19 This route offers the best financial option as the costs are significantly reduced, the Council would not incur tax costs and there are no commercial loans involved, The Council is able to claim 100% rent rate as the freeholder of the properties, where only 90% is possible if the property was leased.
- 4.20 For this scheme to progress, it needs to be financially sound, the cost will be less than the cost for a B&B setting for each individual unit.
- 4.21 As per existing TA provision, the accommodation will be offered in compliance with S206 Housing Act 1996, ensuring the accommodation is suitable and charges are reasonable in line with an individual's circumstances.
- 4.22 The administration and management are more straightforward, using the Council's existing processes for the acquisition of properties.
- 4.23 Option 6 - City Housing will need to undertake a number of actions to accelerate the reduction of the use of bed and breakfast, including commissioning a service to acquire properties (Option 5) and where possible, accelerating the actions to eradicate the use of B&B (planned under Option 1) - THE PREFERRED OPTION
- 4.24 There are four separate cabinet reports that should be in due course read in conjunction with this report:
 - 1. Increasing Private Sector Leasing property growth for TA usage (approved)
 - 2. Working with the private sector to deliver housing growth (proposed Autumn 2021)
 - 3. Delivering a programme of additional housing (proposed Autumn 2021)
 - 4. Acceleration of City Housing Transformation to enable reduction in Temporary Accommodation (approved)

5. Consultation

Capital Board has been consulted with regards to the capital investment.

6. Risk Management

- Demand continues to be greater than available affordable housing supply.
- A continued increase in the levels of homelessness that exceeds the Council's resources.
- Demand exceeds modelled expectations resulting in increased costs and continued use of B&B accommodation.
- Available supply of larger properties at the estimated price within the timescales.

7. Compliance Issues:

7.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies? The proposals within this report will make a direct contribution to both Corporate and Directorate outcomes:

Birmingham City Council Plan 2018-22: Outcome 4 - Birmingham is a great city to live in:

- Priority 2: We will have appropriate housing to meet the needs of our citizens measured through:
 - *Minimising the number (and time) of households living in Temporary Accommodation.*
- Priority 3: We will work with partners to tackle rough sleeping and homelessness measured through:
 - *Reducing the number of rough sleepers across the city.*
 - *Increasing the number of households where homelessness is successfully prevented or relieved.*

7.2 Legal Implications

- 7.2.1 Sections 120 to 123 of the Local Government Act 1972 contain the Council's powers to acquire, appropriate and dispose of land for the purpose of the discharge of any of their statutory functions.
- 7.2.2 Section 111 of the Local Government Act 1972 contains the Council's subsidiary powers to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions.
- 7.2.3 Part VII of the Housing Act 1996 contains the Council's duties relating to homelessness and threatened homelessness.

7.3 Financial Implications

7.3.1 The report seeks to progress a proposal which would provide alternative accommodation to Bed and Breakfast through additional hostel capacity and a property acquisition programme. This is part of the wider programme to eliminate the use of Bed and Breakfast through an early intervention and prevention model.

Hostel Accommodation

7.3.2 In July 2021, Cabinet approved £2m capital investment funding for a TA property project to provide additional hostel units and reduce demand on expensive B&B accommodation. The estimated cost of the project has now increased by £2.5m to £4.5m. The additional £2.5m will be service funded prudential borrowing consistent with the initial £2m.

7.3.3 The financial model has been updated to reflect the additional cost of borrowing and continues to deliver a surplus. The net surplus of the repurposed asset is now projected to be £0.356m compared to £0.877m as reported in July on a full year basis. The project continues to deliver cost reductions through a reduced use of B&B of £5.9m on a full year basis, as summarised in the table below.

- Below is a table summarising the different actions;

Hostel - Repurposed Asset	2021/22	2022/23	2023/2024	2024/2025
Gross B&B Costs avoided	(£238,981)	(£5,513,056)	(£5,933,333)	(£5,933,333)
Revenue Expenditure	£134,061	£2,196,675	£2,407,271	£2,407,271
Rent Revenue Generated	(£149,053)	(£3,438,507)	(£3,700,635)	(£3,700,635)
Cost of Borrowing	£0	£936,775	£936,775	£936,775
Hostel net surplus	(£14,992)	(£305,057)	(£356,589)	(£356,589)
Net Position including B&B savings	(£253,974)	(£5,818,112)	(£6,289,922)	(£6,289,922)

Property Acquisition Programme

7.3.4 In July 2021, Cabinet approved £60m capital investment funding for a property acquisition programme to procure up to 230 properties for TA and Social Housing. The £60m will be service funded prudential borrowing.

7.3.5 The property acquisition programme is to provide additional family sized accommodation and reduce demand on expensive B&B accommodation.

7.3.6 The financial model has been updated to reflect the costs of acquiring the properties by Birmingham City Council. The project continues to deliver cost reductions through a reduced use of B&B.

Property Acquisition Programme	2022/23	2023/2024	2024/2025	2025/26
Gross B&B Costs avoided	(£173,056)	(£1,592,111)	(£3,222,130)	(£3,757,778)
Expenditure (Maintenance / Insurance / Annual Safety Checks)	£22,050	£260,068	£684,081	£784,700
Revenue (Rent Income)	(£95,852)	(£881,842)	(£1,784,680)	(£2,081,366)
Repayment Borrowing	£0	£790,550	£1,844,617	£2,384,199
Net position of property acquisition programme	(£73,802)	£168,775	£744,017	£1,087,532
Net Position including B&B costs avoided	(£246,858)	(£1,423,336)	(£2,478,112)	(£2,670,246)

7.3.7 Assumptions in the property acquisition model

- Average purchase price of a property will be circa £290k, with fees £315k.
- Based on this purchase price, will be acquiring circa 190 properties, to meet the approved capital investment of £60m.
- Rents will be circa £228.22 per week for each property, consistent with the existing dispersed properties.

7.3.8 Impact of assumptions of the property acquisition model

- If the average purchase price of a properties exceeds £290k, will result in less properties being purchased and not being able to achieve the reduction in the use of B&B accommodation.

7.3.9 MTFP contribution

- Across the next 3 years, B&B growth if unchecked will cause a circa £30m cost pressure, while the current MTFP assumes a reduction in budget of £8.9m, therefore requiring £39m of prevention and more cost effective temporary accommodation options. This will be achieved through a combination of actions, including the use of HRA dispersed properties, use of additional private rented leased properties, prevention actions, additional accommodation at Oscott Gardens, the acquisition of family sized properties recommended in this paper and further initiatives around cost reduction and recovery.
- The use of HRA dispersed properties is intended as a short-term measure and cannot be sustained over the long term. There is a need to replace the use of dispersed properties through the property acquisition programme.
- However, this action will result in a negative impact on potential savings over the long term. It is the reduction in the use of dispersed properties which results in the financial burden.

7.4 Procurement Implications:

The work will require the procurement of additional temporary / agency staff and specialist consultants using the Council's current contracts or following the Council's Procurement Governance Arrangements.

Revenue related services to support the accommodation will be provided by the existing Councils Housing Repairs and Maintenance contracts.

7.5 Public Sector Equality Duty

Regarding section 149 of the Equality Act 2010, the proposed operating model has no practices that could be considered unfair, unlawful or discriminatory within this context. The Equality Assessment (EA) that reflects the changes of this proposal will be monitored and re-evaluated at the end of consultation.

8. Background Documents:

- Working with the private sector to deliver temporary accommodation solutions – 10th November 2020.

Appendices:

Appendix 1 – Strategic Outline Business Case - To accelerate interventions to reduce the usage of Bed and Breakfast accommodation.

Appendix 2 – Equality Assessment.