Appendix 3

The case for investment to support the Birmingham Temporary Accommodation Strategy 2023 to 2028

Introduction

Over the last 3 years, the number of households accommodated in Temporary Accommodation (TA) has increased by 38%. The current cost to the Council of providing TA has risen to an estimated cost of around £25.2m per year or £2.1m per month. The cost of accommodation vary significantly by type, with Bed & Breakfast (B&B) accommodation remaining easily the most expensive, but detailed cost analysis suggests all types of accommodation are a net cost to the Council. Birmingham has been able to grow the supply of TA in recent years from an increase in supply of lower cost accommodation from dispersed units in its own stock as well as Council owned homelessness centre accommodation. It has been agreed there can be no further increase in supply of dispersed accommodation. It is unclear that there are council sites for more homelessness centres, which are in any case unsuitable for long stays. Despite these increases B&B has risen with associated large increases in the Council's costs.

This document aims to summarise the arguments for the capital and revenue investment proposed in the draft Birmingham City Council Temporary Accommodation strategy, which considers the issues facing Birmingham's Housing Solutions service and the range of work in greater depth. The strategy aims to reduce B&B use over the next 18 months and help bring the cost of TA onto a more sustainable long term path.

The strategy and strategy annexes also include detailed analysis of the costs of the different types of TA and alternatives to TA and how those might change in the future under different scenarios. That analysis underpins this document but is not repeated here. In so far as possible, costs are considered for the whole council and not just costs to the Housing Solutions service.

Costs quoted are based on analysis of the position at the beginning of November 2022, when the TA strategy was completed.

Figure 1. Summary of Change in Households in Temporary Accommodation last 3 years

Households in Temporary Accommodation - Type	Mar-20	Mar-23	Change last 3 years	
			absolute	%
Dispersed within Council stock	1,748	2,028	280	16%
Bed and breakfast	299	754	455	152%
Homelessness centres	315	526	211	67%
PSL	923	1,210	287	31%
Total	**3,285**	**4,518**	**1,233**	**38%**

Summary of Investment Requests

The TA strategy aims to increase the quality and supply of accommodation available to the Council to be used as Temporary Accommodation and in particular to eliminate the use of B&B (except for short term emergency use) over the next 18 months.

To deliver this, the proposals summarised in this paper would require the following capital and revenue investment beyond what has already been committed.

Capital

- Additional funding into the Councils acquisition programme (either within the general fund or HRA), beginning with a further £80m for 2023/4, with a commitment to continue over the next 5 years by an equivalent annual amount subject to the scheme meeting operational and financial targets.

  This would deliver an estimated 300 family homes per year, which would be available for the life of the properties or until the Council decided to sell them.

- A possible £30m investment in Resonance NAPF2 fund to support the acquisition of properties where the Council can end homelessness duties for families.

  This would deliver an estimated 120 to 150 family homes with Council nomination rights for 10 to 15 years after which the portfolio would be sold or refinanced.

- Up to £5m capital over 5 years to upgrade private sector properties to a lettable condition or to convert exempt accommodation to family use in return for letting the accommodation to homeless families.

  This could deliver between 500 and 1,000 lettings to homeless families over 5 years depending on the success of the programme.

Revenue

- Up to £1.5m revenue per year for landlord incentives to support the Accommodation Finding Team's work to end homelessness duties in the Private Rented Sector.

  This would deliver up to 300 lettings per year for homeless families depending on the success of the programme.

Resource

- Up to £2.1m to March 2024 for staffing resource to maintain existing headcount, to implement the TA strategy, and to support further transformation.

The types of temporary accommodation

The Council currently uses four main types of TA.

1. **Dispersed Accommodation**

   These are units of Council stock being let as TA on a temporary basis. Rental income is enhanced compared to a social let by including an additional service charge.

   The number of TA dispersed units has grown from around 300 homes in 2014 to over 2000 today, and has been a major reason why the financial pressure from TA has not been even greater than it currently is. However, the number of units of dispersed accommodation will not be permitted to grow further once the latest agreed increase of 300 units has been achieved.

   Quality is typically similar to other Council stock, although when used as TA, dispersed accommodation is often overcrowded by one bedroom. However by using stock as TA, the Council is losing a valuable supply of social housing, exacerbating the challenges of helping households move out of TA.

2. **Private Sector Leased (PSL)**

   These are properties leased or licensed from private sector owners or agencies. The Council has recently set up a new 10 year block contract (with break clauses) for the bulk of current provision. Leases under the block contract rise each year with September CPI, which will mean a 10.1% increase in April 2023.

   In addition the Council is about to start adding properties through the new and more flexible Dynamic Purchasing System (DPS), expected to begin to supply new properties by April 2023. DPS properties are likely to be more expensive to the Council than those let under the block contract. This will mean a 10.1% rise in April 2023. The DPS agreement provides for annual increases in lease rent paid by the Council to match percentage increases in Local Housing Allowance.

   Rental income received by the Council for this type of accommodation is fixed at 90% of the 2011 LHA rate, which is substantially below the amount paid to secure the accommodation, meaning that the net costs to the Council will increase more rapidly that the increase in CPI or LHA[1]

PSL accommodation is generally of good or reasonable quality, although also sometimes overcrowded by one bedroom.

3. Bed and Breakfast (B&B)

B&B for families is used by the Council out of necessity when it has no other accommodation available to accommodate families to whom it owes a legal duty to house.

B&B is acknowledged to be an unsuitable form of TA for families. Legally B&B is only allowed to be used for homeless families in an emergency, and even then for no longer than 6 weeks.

Birmingham has far more families in B&B for 6 weeks than any other Council in the UK, and more than the whole of London. B&B is often provided in areas outside Birmingham as a result of there being no available supply in Birmingham. This means that children's education is further disrupted if there is no practical way for them to attend school.

Apart from being very expensive in itself, there is an ongoing risk of the Council being required by the Ombudsman to compensate families in B&B over 6 weeks financially, which would add to costs further.

4. Homelessness Centres (family hostels)

The Council has been increasing its use of homelessness centres to accommodate homeless families, with the new Oscott Gardens facility for 300 homeless families, the largest of its kind in Europe.

Homelessness Centres owned by the Council are able, within the housing benefit subsidy rules, to charge much higher rents than other forms of TA and have them fully covered by housing benefit. Although the different homelessness centres vary in their costs, broadly speaking, rents have been set at a level that allows them to break even operationally.

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[1] ***Example:*** If, in Year 1., the lease rent paid by the Council on a PSL property is £250 p.w. and the Council can obtain rental income of £150 p.w., the net cost to the Council (excluding management, voids and bad debts) in Year 1. is £100p.w..

If LHA (DPS) or CPI (Block) rises by an average 2.5% per year, then by Year 6, the lease rent will have risen by 13% to £283 p.w.. The Council's income, however, remains pegged to the 2011 LHA rate at £150 p.w.

The net cost to the Council will therefore rise from £100p.w. in Year 1. to £133 p.w. in Year 6., a 33% rise over 5 years. This is equivalent to an almost 5.9% per year inflation in the Council's payments compared to the 2.5% annual increase in LHA.

Although, with one exception, the homelessness centres used by the Council were already Council owned, some homelessness centres do have borrowing costs, based on the conversion work which was needed to bring them into use.

Although located within Birmingham, well-staffed and much more safe and secure for residents than most B&B, homelessness centres are overcrowded in much the same way B&B is. Typically several people have to share a bedroom, with kitchens and sometimes washing facilities being shared by more than one household. There is often little space for children to do schoolwork.

In addition, homelessness centres have curfews and severe restrictions on visitors. They are generally not suitable places for a family for more than a few months, but families currently often stay for 18 months or longer.

If new homelessness centres were to be bought or leased, their total costs might be expected to be much higher than the current ones, which use Council owned property.

The costs of temporary accommodation

It is not completely straightforward to obtain complete, accurate and up to date costs for temporary accommodation.

This is for reasons including:

- Some of the cost data is not up to date because of continued difficulties with the new Oracle system
- Some costs are split between the HRA and the General Fund i.e. in Dispersed TA
- Some staffing costs are not clearly split between the different types of TA
- Voids and Bad debts are based on estimates using historical data
- The costs of accommodation for larger and smaller households are hard to split out in the data
- It is difficult to estimate the average length of stay in TA and therefore the average total cost of a household going into TA, especially at a time when TA has been increasing
- Sometimes different datasets held by the council on the numbers in TA do not appear to be completely consistent with each other

Nevertheless, the unit costs of the different TA types can be estimated based on the available information. These cost are shown in Figure 2.

Figure 2. Costs of the different types of TA

Type of TA	No of placements at end October 2022	Net annual cost per household - including management costs, voids and bad debts	Net weekly cost per placement	Total net annual cost, based on the number of placements at end October 2022
Dispersed	2013	£412	**£8**	**£0.83m**
PSL	1177	£6,675	**£128**	**£7.86m**
B&B	725	£21,723	**£418**	**£15.75m**
Homelessness Centres	468	£1,710	**£33**	**£0.80m**

Based on these figures the total cost of TA to the Council is currently **£25.2m per year** or **£2.1m per month**.

Because of the disproportionately high cost of B&B compared to other forms of TA, the total cost of TA is very sensitive to whether B&B falls or rises.

Why have TA costs been rising and what can be done to reduce them?

Put simply the need for TA rises if more households enter TA each month than leave. This has been the case for many years in Birmingham. In the six months to the end of October 2022 an average of 40 households more entered TA every month than left TA. Over one year, this is equivalent to the number of households in TA growing by 480. Based on the current average cost of TA, this would add a further £3.0m budget pressure to Housing Solutions service. If accommodation could only be sourced from B&B, then the additional cost could be as high as £10.4m.

There are essentially three ways to reduce the number of households in B&B:

a) **Reduce the number of households entering TA**
b) **Increase the number of households leaving TA**
c) **Increase the amount of TA available that is not B&B**

Taking these in turn:

Reducing the number of households entering TA

This can happen in a number of ways

A. Homelessness pressures decrease as a result of wider economic changes e.g. private sector rents fall or LHA rates rise faster than rents, or the population of Birmingham decreases – none of these seem likely at present…
B. The Council becomes better at homelessness prevention so that more households are able to remain in their existing home
C. The Council becomes more robust/effective in its assessment of homelessness presentations, so that any who are not genuinely homeless are not accepted. This is not always easy to determine

D. The Council becomes better at supporting households to move into new PRS accommodation so that they do not become homeless and have to go into TA – this is an important element of the TA strategy

Ways to try to achieve B. and C. are set out in some detail in TOM deep dive report, and the Council has taken a number of steps to improve its prevention work. This work requires skilled staff with the time to do proper prevention work.

However, even if the Council's performance improves significantly in these areas, this may not reduce entries to TA if underlying demand continues to increase because of the cost of living crisis and the declining affordability of the PRS as rents continue to increase and landlords exit the market, whilst LHA remains frozen for 2023/24.

Increasing the number of households leaving TA

This can happen in four main ways:

1. More households move out of TA into social housing through the allocations system – this is an important element of the TA strategy
2. More households move out of TA into the PRS – this is an important element of the TA strategy
3. More households leave TA of their own accord, because they find another solution or move back to where they were living previously
4. More households are evicted from TA because they breach the terms of their agreement with the Council, or are given a negative decision

The scope to do much more through the last two of these is limited, especially for families with children.

Increasing the amount of TA available that is not B&B

The Council is already doing a number of things in this territory and the TA strategy proposes to do more. Areas include:

1. Letting more Council stock as Dispersed TA. This is already planned, but there is a clear political limit preventing further expansion - this is an important element of the TA strategy
2. Procuring more PSL accommodation through the DPS scheme - this is an important element of the TA strategy, but one of the most costly as a long term solution
3. Purchasing properties to be let as TA through a property acquisitions process - this is an important element of the TA strategy
4. Building, converting, purchasing or leasing new homelessness centres - this is a possible element of the TA strategy if the other measures are not sufficient

TA strategy proposals

Rationale

Based on the above the TA strategy proposes action in a number of areas. If the strategy is to be successful in eliminating B&B, the combined measures need to achieve two results.

I. Providing an amount of net new accommodation that meets net future demand. If net homelessness demand remains at current levels, then the Council needs to provide at least additional 40 lettings of (non-B&B) accommodation, compared to the recent position on a long term and sustainable basis

II. Providing additional units of accommodation to substitute from current B&B usage, in order to reduce it as fast as possible. There are currently 750 households in B&B, so to reduce this to zero over 18 months would require net additional accommodation of 42 units per month on top of that which is required to meet future demand.

If demand rises from current levels then the additional 40 lettings needed long term will need to increase to match the increased demand. If demand were to rise by one third on a long term basis, then the TA strategy estimates an addition 100 lettings per month would be needed long term instead of 40, with many more than 100 in the initial period in order to bring B&B down.

In essence, the main historical problem has been that the Council’s endeavours to increase the amount of TA available, by increasing the number of dispersed units or bringing on new homelessness centres, have worked in their own terms, but have been insufficient to address the growing imbalance between the number of households entering TA and leaving TA. As a result B&B has continued to rise, although by less than if the measures had not been taken.

It is preferable to aim to do more than is needed, so that there is some contingency in the plans to cope with rising demand if it occurs, or if some measures are less successful than hoped for.

It is also preferable to include measures which are flexible enough to be increased or reduced depending on demand and the success or otherwise of the other measures being implemented.

Proposals

The main proposals to reduce the use of B&B in the TA strategy are as follows:

1. **Increasing the number of lettings of family sized accommodation through the allocations system to families in TA to 70% for one year and then to 50% thereafter, subject to review.**

   This is estimated to produce an additional 88 lettings per month for the first year and 44 lettings per month for subsequent years, although this depends on the total number of lettings available, which has been shrinking steadily over a number of years and continues to do so.

   This has no explicit cost but may not be sustainable in the longer term because of the negative impact on other families who need to move but who are not homeless, and the risk of creating a perverse incentive to apply as homeless as the only credible route to social housing.

2. **Increasing the number of lettings through the property acquisitions programme to 25 per month and investing further into the programme so that it can provide 300 properties per year for the next 5 years.**

   The experience of the property acquisition work so far suggests that there is more than sufficient capacity in the Birmingham housing market to purchase suitable family sized street properties at the rate of 25 per month without distorting the market or impacting prices.

   There are different options here. One option is to buy all the properties through the existing scheme, which buys properties in the general fund and lets them as TA at the same total rents as dispersed TA in the Council's own stock. There are already plans in place to increase the acquisition rate to 20 lettings per month from August 2023.

   Consideration should be given to whether it is best to continue to invest from the general fund or if it may be preferable to buy properties within the HRA.

   Other complementary options include investing in the Resonance 'NHPF 2' fund, and potential co-investment with other bodies/organizations.

3. **Increasing the number of PRS lettings through the establishment of a £5m capital programme over 5 years to bring properties up to a lettable standard and convert supported exempt accommodation to family use, in return for an agreed period let to a homeless family to end a duty in the private rented sector.**

   The proposition here is to address a number of problems at once by using capital funding to improve the quality of sub-standard PRS stock within the city and/or to covert some excess supported exempt accommodation back to family use. This would be conditional on the landlord agreeing to let to a homeless family for an agreed period at LHA rents once works are complete.

   £5m over five years is a notional figure. In practice the funding would be drawn down according to the number of properties improved, so that value for money is assured.

   The number of additional PRS duty discharges is uncertain, as this will depend on the success of the scheme.

4. **Putting the Accommodation Finding Team (AFT) on a more sustainable footing by budgeting £1.5m per year for landlord incentive payments, continuing with existing staffing numbers on a long term basis, and increasing capacity through the development of a 'Find your own' property scheme.**

   The AFT team procures PRS properties to end homelessness duties in the private rented sector by securing an agreement from the landlord to let to a homeless family at LHA rents for a period of two years.

As market rents are almost always substantially higher than LHA rents, this requires payment of a landlord incentive. Landlord incentives are currently averaging around £3,000 each.

However, there is no separate identified budget for landlord incentives and the team has to make use of part of the Council's Homelessness Prevention Grant (HPG). This has two main consequences.

- Funds are less available for other types of prevention activity.
- If the AFT is successful in achieving its targets the funding for incentives will run out.

It is therefore proposed to budget for £1.5m in landlord incentive payments within 2023/24, to be reviewed in subsequent years. On the basis of £3,000 per property this would support 500 PRS move per year. Once again, this money would only be drawn down according to the success of the work.

Analysis in the TA strategy suggests that each time a homeless family has a duty ended in the PRS by the AFT team this produces a net saving to the Council of approximately £19,000 in avoided TA costs (based on B&B and PSL).

The case for ensuring sufficient funding is available to pay for landlord incentives is every clear. Similarly it makes sense on a spend to save basis to continue to employ the full complement of staff currently working for the AFT team, some of whom are currently only funded temporarily through the transformation budget.

There is also considerable merit in employing officers specifically to set up and run a 'Find your own' PRS property scheme. This aims to add to the properties procured by the AFT team by empowering citizens who are in TA or who would otherwise be in TA to find a PRS property they would be interested to move to and approach the landlord themselves.

This is used in many other local authorities and has the potential to substantially increase the number of moves into the PRS. It also increases households' agency in finding a solution to their own housing crisis. Once a property is found, the Council is then able to help with negotiations with a landlord which may involve inspecting the property and paying an incentive. The scheme officers could train other staff in TA, Housing Solutions and EIP to support applicants in this way, as well as setting up systems and supporting applicants directly.

Proposals 3. and 4. between them hope to increase the number of homelessness duties ended in the PRS from around 200 per year currently to 500 per year i.e. An increase of 300 lettings per year.

However, success is uncertain, as the PRS market in Birmingham is increasingly unaffordable to tenants who can only pay LHA rents. Recent work by Crisis and Zoopla suggests that of Birmingham properties advertised for rent on Zoopla in September 2022, only 3% of 3-beds were available at LHA rents!

Resource Implications

Some additional officer resource will be needed to implement these and other proposals in the TA strategy as well as larger sums to continue the ongoing housing solutions work, currently only funded on a temporary basis. In addition, there are proposals to increase resources for income collection and in other areas:

This provides a total request for £2.09m Operational and Programme Resource

Of which:

- £976k is to extend the funding of current Fixed Term resource to March 2024
- £635k is to provide operational enablement capacity to March 2024 ahead of the Target Operating Model Service Design implementation. This additional operational headcount is for new initiatives:
    - Income Recovery (7 posts) - an invest to save business case
    - Move on/Lettings Support to manage increased number of moves from and within TA (8 posts) **TA Strategy**
    - Accommodation Finding to support households finding their own PRS (Private Rented Sector) property (4 posts) **TA Strategy**
    - To set up and administer Capital Grant to improve/convert PRS/supp exempt (2 posts) **TA Strategy**
- £482k is to resource additional HSS Programme resource up to March 2024
    - 6 current programme resources to support implementation of the TA Strategy including Property Acquisition Management, Move On and Prevention activity. It also includes driving operational effectiveness and digital efficiencies.

Costs and benefits of the property acquisitions programme

If 300 family homes per year were purchased on the same basis as the current scheme, this would require further capital investment of approximately £80m per year, based on an average total acquisitions cost of £266k per property. Properties need not all come from street purchases but can also include RTB buy backs, properties from new developments and properties being sold by housing associations or other large portfolio landlords. These are all now active parts of the current operation.

Apart from the capital cost, which, if £80m per year were sustained for 5 years, could total a £400m investment, there is also a revenue cost.

If purchased in the general fund then, as well as PWLB interest payments, the principal will also need to be paid off as a result of the Minimum Revenue Provision (MRP) rules. The MRP annuity tables calculate the MRP that would be chargeable to the General Fund for capital projects. Using the table for 2024/25, the annuity factor for 40 years is 0.06150, equating to an interest rate of 5.4% p.a.. If this is applied to £80m, the annual MRP charge to the General Fund would be **£4.92m**[2]. This charge covers the principal and interest obligations and would need to be included in the budgeted revenue costs. For each additional year/£80m, the MRP would increase by the same amount (assuming an unchanged interest rate).

These costs are shown in Figure 3. alongside Year. 1 annual rental income and operating costs for an initial portfolio of 300 units.

Figure 3. Summary financial position of 300 unit acquired portfolio once fully let

	300 units (annual) - £ mn	Per Unit Per Week - £
Gross Rent	£3.38m	£216
Voids and bad debts	(£0.51m)	(£32)
Operating costs	(£1.14m)	(£73)
Net Property Income	**£1.73m**	**£111**
Interest costs	(£4.29m)	(£274)
Net Cost/Surplus post interest	**(£2.56m)**	**(£164)**
Debt principal repayment	(£0.63m)	(£41)
Net Surplus/(Cost) to BCC	**(£3.19m)**	**(£205)**

This shows that there is an operational surplus in Year 1. of £111 per week per property – significantly higher than in homelessness centres, which break even operationally.

[2] The MRP rate was based on annuity tables prepared in October 2022, which reflected the PWLB rates at this point in time. It is worth noting that the current PWLB rate of 4.83% (16th March 2023) would reduce overall MRP by around £370K per year for each £80m invested.

However, the deficit due to interest costs and debt principal repayment means that there is a net revenue deficit to the Council of £205 p.w. in Year 1.

It might be judged reasonable to exclude debt repayment costs, as these are purchasing an asset which is likely to hold and potentially to grow its value over the longer term. In this case the net revenue costs in Year 1. would be lower at £164 p.w.

This compares to an estimated cost of PSL per household of £128 p.w. currently, an estimated PSL cost of £150pw post April 2023 and a current B&B cost of £418 p.w. as shown in Figure 4.

Figure 4. Comparison of net weekly costs per unit of TA source

Source of Accommodation	Net cost per week per unit
Bed and Breakfast	**£418**
Acquired units (including debt repayment)	£205
Acquired units (excluding debt repayment)	£164
Private Sector Leased (estimated April 2023)	**£150**
Private Sector Leased (October 22)	**£128**
Acquired units (excluding debt repayment) – Year 10	£125
Homelessness centre using Council owned property	**£33**
Dispersed	**£8**
Acquired units (excluding debt repayment) – Year 26	-£7

Over time and assuming some inflation, the operating surplus/net property income on the acquired properties can be expected to grow, increasingly offsetting the fixed total finance cost (debt and interest payments). Excluding debt repayment, the operating surplus exceeds the interest cost in Year 26 (reflecting the higher income as well as reduced interest burden as debt is repaid).

However, for accounting purposes in the general fund, excluding debt repayment costs may not be a valid assumption to make. Combined debt repayment and interest rate costs remain flat throughout the life of the loan, with debt repayments rising as interest costs fall. The acquired units have a net annual cost to the council over the 40 year life, albeit one that declines over time. This cost does not take into account the fact that the Council is effectively acquiring a net asset through the debt principal repayment.

Figure 5. illustrates the divergence of property acquisition costs with PSL costs assuming PSL costs rise with modest inflation and that the same inflation rate applies to rental income and costs. In practice the cost of PSL to the Council are likely to increase at a rate higher than CPI inflation as illustrated in the footnote example on page 3. PSL payments also do not lead to the generation of any asset value for the Council.

Figure 5: Over time net cost of PSL is likely to increase while acquired units cost falls (with debt fully repaid at the end of 40 years) (cost per unit per week)[3]

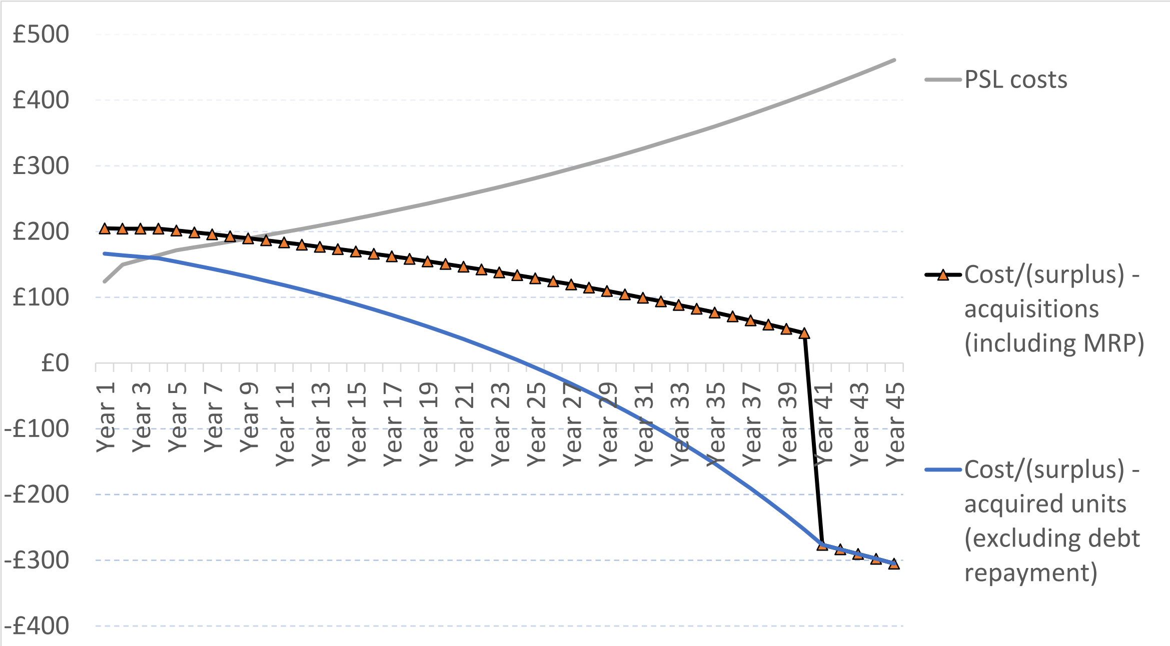


Figure 6. shows the sensitivity of net costs of acquired units to variations in interest rates. Initial costs are sensitive to the initial interest rate, with a 50bp increase in interest rates adding around £21 per week to the net initial cost of the acquired units.

Figure 6: Sensitivity of weekly net cost per property acquired to changes in interest rate

Interest rate	Weekly net cost	Weekly net cost excluding debt principal repayment	
2.00%	77	-10	
2.50%	93	15	
3.00%	111	41	
3.50%	129	66	
4.00%	148	92	
4.50%	168	118	
4.83%	181	135	40 year PWLB rate - 16th March 2023
5.00%	188	143	
5.40%	**205**	**164**	Current forecast MRP
5.50%	209	169	
6.00%	230	195	
6.50%	252	221	
7.00%	274	246	

[3] Assume zero inflation in LHA rents or rents charged for acquired units for first 5 years, 2.5% per annum thereafter. Cost of PSL unit conservatively assumed to increase by CPI (10.1% for Year 2, as per Sept 2022 CPI, 2.5% p.a. thereafter).

Property Acquisition Options

The draft TA strategy's current commitment on continuing property acquisitions reads as follows:

"Continuation of property acquisitions over the life of the strategy
The Council commits to further medium term investment in property acquisition through a continuation of the existing programme at an accelerated rate and by working with investment partners when this represents value for money and complements the in house programme. The intention is to secure at least 300 family sized properties per year, subject to an annual review to ensure value for money continues to be achieved."

This does not specify a specific amount of money and allows for a range of options.

Options could include:

Option 1.

Seek agreement from Cabinet to spend a further sum of money on the existing scheme within the general fund. This could be anything between £80m[4] and say £400m. It would be helpful if this could be agreed before the current funding begins to run out and new property searches have to stop.

Figure 7. below summarises the financial position associated with this approach if the Council was to commit to a five year programme of investing £80m per year to acquire 1,500 homes, relative to using either PSL or B&B to house an equivalent number of households. Allowance has been made for the likely timing of interest and debt principal payment. As can be seen the revenue costs are similar to that of PSL and substantially below that of relying on B&B accommodation over this initial period. Figure 8 below provides an indicative picture of costs from alternative sources of accommodation over 40 years, making some assumptions over inflation. As can be seen in later years the cost of acquired units is strictly lower than the other approaches. The key reason for this, is as shown in Figure 9, is that while the MRP associated with the initial borrowing is constant, the operating surplus (rent minus voids, bad debts, maintenance and management) potentially grows with inflation.

[4] A minimum £80m is based on this covering one year's acquisitions at 25 properties per month, and one year being a sensible minimum contract length

Figure 7: Revenue and capital for five year acquisition programme

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Number of units purchased	300	300	300	300	300	0	0
Cumulative no. of units	*300*	*600*	*900*	*1200*	*1500*	*1500*	*1500*
Let units (FY Equivalent terms) - allowing 3 month delay acquisition to let	*84*	*373*	*673*	*973*	*1273*	*1489*	*1500*
Capital cost - £mn	80	80	80	80	80	0	0
Cumulative capital cost - £mn	*80*	*160*	*240*	*320*	*400*	*400*	*400*
Net income from properties (rent less operating costs) - £ mn	0.4	2.0	3.8	5.5	7.2	8.8	9.1
MRP - 5.4% interest rate (40 year annuity, forecast interest rate) - £ mn		-4.9	-9.8	-14.8	-19.7	-24.6	-24.6
Net Revenue Surplus/(Cost) Acquisitions - to BCC - £ mn	**0.4**	**-2.9**	**-6.1**	**-9.3**	**-12.5**	**-15.8**	**-15.5**
Net revenue surplus/(cost) per unit per week		-211	-208	-207	-206	-202	-199
B&B costs - £ mn	**-1.8**	**-8.1**	**-14.6**	**-21.1**	**-27.7**	**-32.4**	**-32.6**
Weekly cost per unit per week	-418	-418	-418	-418	-418	-418	-418
PSL costs	**-0.7**	**-3.0**	**-5.7**	**-8.7**	**-11.7**	**-14.0**	**-14.4**
Weekly cost per unit per week*	-150	-157	-164	-172	-176	-180	-185

*PSL costs linked to CPI, Year 1 inflated for latest CPI increase, assume 2.5% inflation thereafter

Figure 8: Cost of Acquisition scheme declines over time, whereas PSL and B&B costs are likely to increase

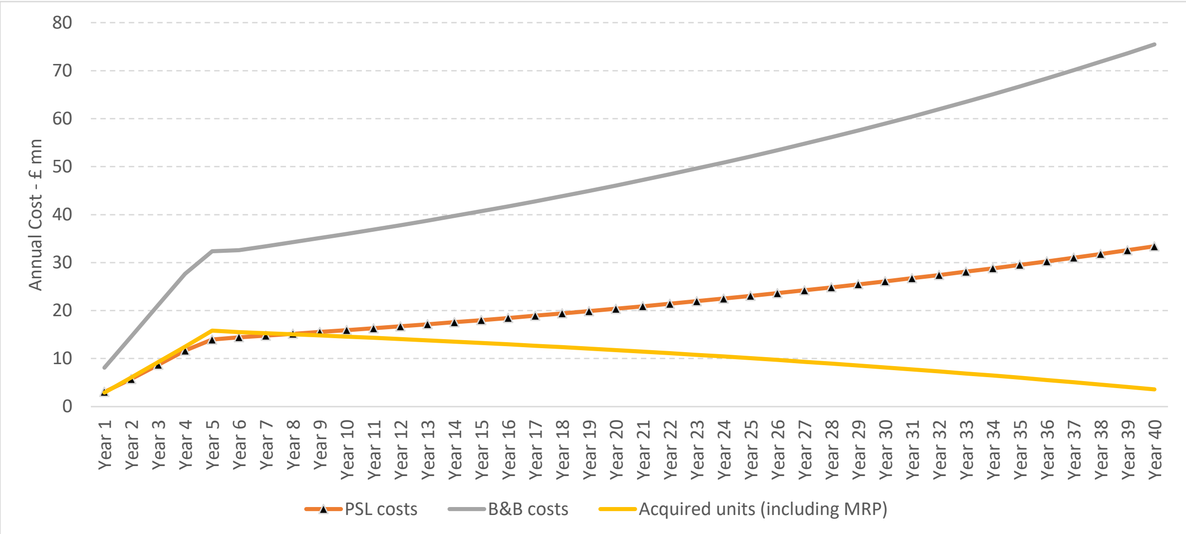
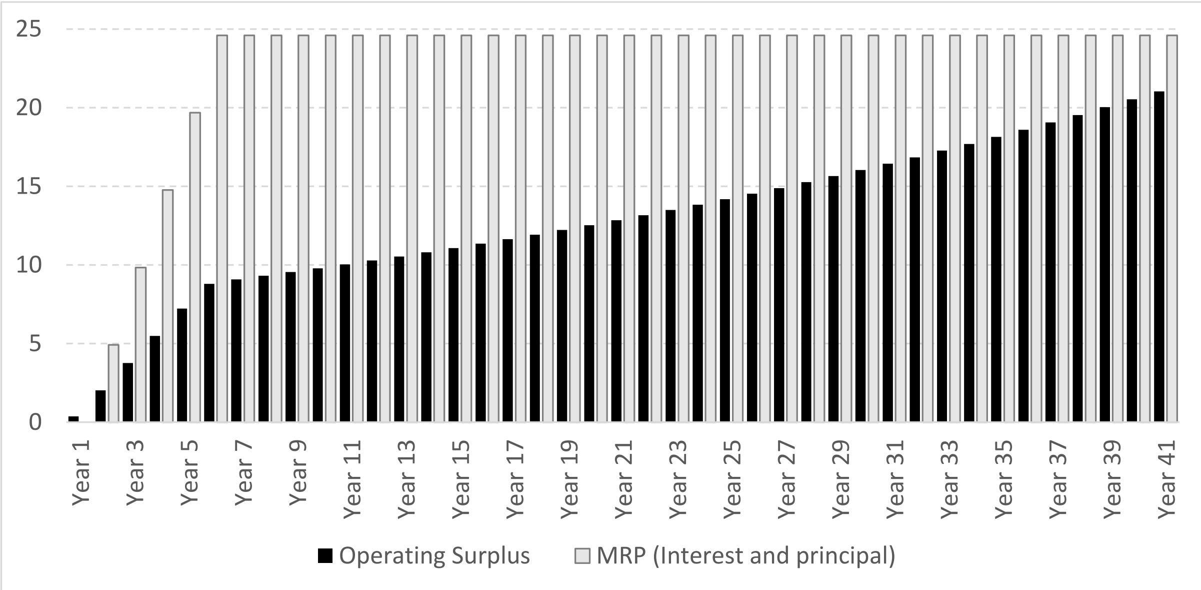


Figure 9: Operating surplus of acquired units is estimated to increase over time reducing the deficit against MRP associated with the borrowing.



Option 2.

Progress the decision on investment in the Resonance NHPF2 scheme. This has been assessed elsewhere as potentially offering similar or better value for money for the Council than the current in house scheme, but is not large enough to replace it, at an estimated £30m total capital investment.

The scheme has the advantage of having of allowing the council to end homelessness duties in the PRS rather than continue to accommodate families in TA.

The scheme offers a target 3% annual cash return and a target 6.5% IRR when the portfolio is sold or refinanced after 10 to 15 years. Target returns are of course not necessarily the same as actual returns.

An important next stage of the process would be to undertake external due diligence. The cost of this is estimated to be c. £15,000.

Option 3.

Seek to partner with external investors to make better use of the Council's funds to leverage in external investment. There may be a number of options here, which would need to be assessed on factors including risk, value for money, control and flexibility. Reversionary leases have already been ruled out based on these factors.

However, any such arrangements would typically take months or even years before producing any lettings for homeless families. It is therefore not recommended that this option be pursued without also making an initial commitment to continue with the existing programme.

Should the Council invest in further property acquisition?

In a best case scenario, there could be no imperative need for further capital investment in property acquisition for homeless families.

Increased social lettings to families in TA combined with the existing acquisitions scheme and the DPS programme and a possible increase in PRS access could be enough to get the Council out of B&B if demand remains stable. There are however some good reasons for further investment. These include:

a. The history of the past years suggests that optimism about ending B&B can be misplaced. It is no bad thing to have planned to do more than is strictly necessary in a best case scenario

b. Demand is highly likely to rise in the future as PRS accommodation becomes less affordable and social lets continue to decline. This could lead to spiralling costs if B&B numbers rise.

c. The alternatives to property acquisition are limited.

    - More dispersed TA using Council stock has been ruled out
    - More PRS access is very difficult in the current market and may not be achievable at scale
    - More DPS is likely to be very expensive over the longer term and generates no assets for the Council
    - More homelessness centres are unattractive and are only likely to be viable on Council owned sites – meaning those sites cannot be redeveloped

d. Property acquisitions allow the Council to invest in the wellbeing of its more vulnerable citizens, providing accommodation which can be used for the next 40 years or more, and are the most effective means of achieving the Council's goals of increasing affordable housing in the short to medium term.

e. The costs of property acquisitions decrease over time, whilst the costs of the alternatives are likely to increase over time.