

CITY HOUSING

- Property Acquisition Programme Detailed Business Case

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2 Executive Summary

This detailed business case seeks formal approval to invest £60m in the 2022/23 and 2023/24 financial years to undertake the Property Acquisition Programme to accelerate the reduction of the use of Bed and Breakfast for homeless families seeking temporary accommodation. The scope of this work is:

- Identify a delivery approach
- Establish a property acquisition capability
- Coordinate and manage all internal services and teams
- Establish approvals and governance framework and process

The preferred way forward as outlined in the Outline Business Case (OBC) and subsequently agreed by the Councils Corporate Leadership Team in 27 July 2021. The Cabinet report titled “Acceleration of City Housing Transformation to enable a reduction in Temporary Accommodation” was approved in July 2021, and it was agreed that a business case would be presented to support an investment decision by the Council and the recommended delivery approach.

3 Purpose

The 27 July 2021 Cabinet report titled “Acceleration of City Housing Transformation to enable a reduction in Temporary Accommodation” approves an investment proposal to accelerate homeless prevention activity and achieve an additional reduction on B&B usage and cost. The report approves developing a Detailed Business Case to identify a financially viable option and preferred delivery approach that would acquire up to 230 properties for Temporary Accommodation and Social Housing use.

The purpose of this Business Case is to:

- Identify the investment options that optimise value for money (delivery approach)
- Prepare the investment proposal for procurement of a managed service provider
- Plan the necessary funding and management arrangements for the successful delivery of the project

4 Background

The Council has a statutory duty to provide or secure suitable accommodation for residents that present as homeless and are eligible for assistance. The ability to discharge this responsibility effectively has become increasingly challenging, which has resulted in a huge increase in the use of Temporary Accommodation. It is the provision of Temporary Accommodation, and more specifically the use of Bed & Breakfast, which places extreme cost pressures and other performance challenges upon the Housing Options Service.

Whilst the Housing Service is working hard to reduce Bed & Breakfast and its associated expense, the full benefits of the Prevention and Early Intervention Strategy will take time to realise. In the interim, further interventions are required to accelerate the reduction in the use of Bed & Breakfast, with a specific focus on making available accessible and large family accommodations.

The preferred way forward was outlined in an Outline Business Case and subsequently agreed by Cabinet in July 2021. To plan the way forward, it was agreed that a Business Case would be presented to support an investment decision by the Council.

4.1 Revisiting the July 21 Cabinet Report and Outline Business Case

The purpose of this section is to revisit the analysis and assumptions in the earlier Outline Business Case. The intent is to briefly outline any significant changes that may have occurred since the previous business case.

Revisiting Strategic Case

1. To meet the customer needs, with a focus on reducing the number of households in Bed & Breakfast and reducing the overall cumulative cost in line with the Council's long-term plan.

Reviewing the Economic Case

The scope of the project is limited to:

2. Increase the supply of affordable housing

3. Reducing the use of Bed & Breakfast as a form of Temporary Accommodation
4. Reduction in all unnecessary costs whilst contributing to the long-term financial sustainability of the council
5. A detailed review of the financial, legal and governance implications

Reviewing the Commercial Case

6. Identify alternate delivery approach options and acquisition capability
7. Review operational capacity and capability

Reviewing the Financial Case

8. Analysis of the financial implications of delivery options and acquisition capability

4.2 Requirement

To accelerate the reduction in the use of Bed & Breakfast, there is a need for the Council to acquire up to 230 properties as an alternative to Bed & Breakfast that are accessible and suitable for large family households. To meet the current demand for temporary accommodation the acquisition of the properties needs to be over a period of no more than twelve months or sooner with effective property acquisition and procurement strategy. In doing so the council would need to protect the properties from the Right to Buy exposure to ensure the temporary accommodation provision remains constant and does not deplete over time.

5 Property Acquisition Programme

5.1 Scope

The scope of the programme is to:

- Establish a property acquisition capability
 - Set up or commission a managed service provider to successfully manage and deliver the Council's property acquisition programme
 - Identify suitable properties, including opportunities both on and off-market.
 - To lead and undertake negotiations with vendors to achieve best value
 - To provide condition survey advice and information
 - Organise searches and Land Registry details
 - To provide legal conveyancing service
- Coordinate and manage all internal services and teams
- Establish approvals, governance framework and processes/structure

5.2 Objectives

The objectives of this proposal are:

1. To acquire up to 230 properties, particular focus on larger homes
2. Strategic and cost-effective use of accommodation as an alternate to Bed & Breakfast
3. Reduce the use of Bed & Breakfast
4. Protection from the exposure from Right to Buy

5.3 Assumption

- Sufficient larger family-sized properties are available within Birmingham
- To purchase properties within an average cost of £250k per property budget
- Able to establish a property acquisition capability to successfully manage and deliver the acquisition of up to 230 large family-sized residential properties

6 Selection Criteria

The Detailed Business Case consider the following criteria when determining the recommended option.

Legal aspects

- The risk from Right to Buy exposure
- The statutory duty under Part VII of the Housing Act
- Potential legal challenges for not complying with legislation

Tax aspects

- Tax effective operation (avoid leakage)
- Liability of VAT and Corporation tax

Financial

- Cost-effective delivery model (include tax saving)
- Revenue savings incurred by not using Bed & Breakfast.
- Council is investing in assets that will increase in value

Operational

- Ability to acquire properties at pace
- Capacity and capability

Strategic Fit

- Aligns and supports the Council's objectives

7 Options

The following options were considered to achieve the desired outcomes.

Option 1: Do Nothing

- i. Continue only with the service improvements to eradicate B&B by 2025
- ii. Stop providing the service

Option 2: Acquire the properties by using INReach (Birmingham) Limited

Option 3: Acquire the properties by using PropCo

Option 4: Birmingham City Council acquire the properties

7.1 Option 1: Do Nothing

For this business case two options are presented:

- iii. Continue only with the service improvements to eradicate B&B by 2025
- iv. Stop providing the service

Continue only with the service improvements to eradicate B&B by 2025: This is not viable on its own as current limitations in service delivery and housing capacity are being exacerbated by changes to COVID policy (increased listing of 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. This option does not meet the immediate objectives.

Stop providing the service: The council has a statutory duty under part 7 of the Housing Act to provide and secure suitable accommodation for residents that present as homeless and are eligible for assistance. Therefore, the option of not providing temporary accommodation is not an option and risks legal action against the Council and bringing the Council to disrepute.

7.2 Option 2: Acquire the properties by using INReach (Birmingham) Limited

The option is to utilise the Council Wholly Owned Company, INReach to acquire the properties and subsequently lease them to the Council, on a Full Repairing and Insuring basis. It would be necessary to provide funding to INReach to facilitate this approach, likely to be a blend of additional equity investment and loan finance on commercial terms. INReach would acquire the properties on the open market and lease them to the Council to then be used as temporary accommodation to reduce the numbers in Bed & Breakfast. The acquisition would be carried out by a commissioned land agent on behalf of INReach. The freehold of the properties is held by INReach and the properties are transferred to the Council for 21 years plus 1-day full repair lease agreement and the Council is to pay the lease value to INReach.

This option has the potential to meet some of the investment objectives of providing properties for temporary accommodation and to reduce the use of Bed & Breakfast and protection from the exposure from Right to Buy, as the freehold is acquired and held by INReach and are therefore, out of scope of Right to Buy. However, does not achieve optimal value for money to the council due to:

- INReach is unable to recover VAT incurred on expenditure and net costs would therefore increase by up to 20% based on current VAT rates
- INReach is subject to Corporation Tax on any profits generated, increasing administrative complexity and tax leakage
- Complexity and cost of necessary legal agreements including leases and loan agreements
- INReach existing company structure and governance would need to strengthen to undertake the property acquisition

INReach has separately commissioned taxation advice on its existing business model and the proposed property acquisition project. The initial analysis suggests that whilst it may be possible to support a loan to a value of up to 60% of the overall costs of the project before tax liability challenges are encountered, a range of 40-50% would be more prudent. This would therefore indicate that a substantial proportion of any funding would need to be in the form of equity investment, which is likely to materially increase the company's corporation tax liability and reduce the value of interest payments to the Council. INReach currently has only a single investment, therefore it does not yet have the 'portfolio' effect of a more diversified property investment business, with a range of individual assets at differing levels of maturity and debt/equity funding splits to enable more robust management of tax liabilities.

7.3 Option 3: Acquire the properties by using PropCo

PropCo is a newly developed company of the council and it does not have the capability or governance structure to deliver the investment objectives. It would also face the same issues and problems as INReach.

7.4 Option 4: Birmingham City Council acquire the properties

This option explores the proposal for the Council to acquire the properties directly from the market to meet the needs for additional accommodation. The properties once acquired will be vested in Housing General Fund and managed by Home Options Service and to be utilised as Temporary Accommodation to place homeless households. The properties will be categorised as 'dispersed' accommodation for financial and asset management purposes. Home Options Service will grant an unsecured tenancy under common law and thus mitigating the risk of Right to Buy exposure.

The Council's Legal Services have confirmed that 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. More, 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.

The initial capital investment needed for asset renewal is allocated in the project budget and future repairs and maintenance works will be funded from the rental revenue generated from the properties. The Home Options Service will utilise the existing internal arrangement with the Housing Revenue Account (HRA) to maintain the properties. All costs incurred by HRA will be a pass-through charge to the Housing General Fund payable through interdepartmental transfer (IDT).

The Council will conduct the property acquisition, by utilising its buying powers through an appointed land 'Agent' who would identify the suitable properties, provide valuation advice and conduct a conditional survey. The Council will achieve completion by utilising service agreements with Property

Services and Legal Services. The properties will be owned by the City and vested in Housing General Fund.

As the Council, it is exempt from corporation tax and is able to recover VAT, payable towards service charges. The Council is able to claim 100% Local Housing Allowance rent rate as the freeholder of the properties, where only 75% is possible if leased.

8 Analysis

Options considered:

- Option 1: Do Nothing
- Option 2: Acquire the properties by using INReach (Birmingham) Limited
- Option 3: Acquire the properties by using PropCo
- Option 4: Birmingham City Council acquire the properties

Criteria considered:

- Legal aspects
- Tax aspects
- Financial
- Operational
- Strategic Fit

	Option 1 – Do nothing	Option 2 – INReach	Option 3 - PropCo	Option 4 – Council
Legal				
Risk from Right to Buy exposure	N/A	No	No	mitigated
Statutory duty under part VII of the Housing Act	No	Yes	Limited	Yes
Potential legal challenges	Yes	No	No	No
Tax efficiency				
Tax effective operation	N/A	No	No	Yes
Liability of VAT and Corporation tax	N/A	Yes	Yes	No
Financial				
Cost effective delivery model	No	No	No	Yes
Revenue saving	No	Yes	Yes	Yes
Investing in assets	No	No	No	Yes
Operational				

Ability to acquire properties at pace	N/A	Yes	Limited	Yes
Capacity and capability	No	Yes	Limited	Yes
Will it meet the main benefits identified?				
	No	Some but not all	Some but not all	Yes
Birmingham City Council Plan 2018 -22				
Priority 2	No	Yes	Yes	Yes
Priority 3	No	Yes	Yes	Yes
	No	N/A	N/A	Yes
Do Advantages Outweigh the Disadvantages				
	No	Limited	Limited	Yes
Shortlist				Yes

For options 2, 3 and 4 the maintenance is to remain with the Council by utilising its existing Housing Repairs and Maintenance contractor and managed from existing resources within the Home Option Services.

8.1 Cost / Benefit Analysis

Option 1: Do Nothing

- i. Continue only with the service improvements to eradicate B&B by 2025: Although vital will not deliver the objectives within the timescales
- ii. Stop providing the service: This is not feasible as most of the service areas are statutory in nature

Option 2: Acquire the properties by using INReach (Birmingham) Limited

Not a good financial option as the costs for acquiring and providing the properties would be higher. Any costs would be passed on to the Council.

- INReach is unable to recover VAT incurred on expenditure and net costs would therefore increase by up to 20% based on current VAT rates
- INReach is subject to Corporation Tax on any profits generated, increasing administrative complexity and tax leakage
- Complexity and cost of necessary legal agreements including leases and loan agreements
- INReach existing company structure and governance would need to strengthen to undertake the property acquisition

Option 3: Acquire the properties by using PropCo

- Not a good financial option for similar reasons to Option 2

Option 4: Birmingham City Council acquire the properties

- The Council can recover any VAT
- Local Authorities don't pay Corporation Tax.
- More simplified administration and little or no tax leakage

- Avoiding complex and costly legal agreements
- Avoids costly loan agreements
- Minimal investment in governance and management capability to undertake the property acquisition
- Best cost efficient option

9 Recommended Option

Option Four was identified as the preferred option for the following reasons:

- Tax efficiency – No VAT or Corporation Tax liabilities
- Administratively straightforward as the only parties involved are the Council
- The Council's existing processes supports the acquisition of properties
- Flexibility to switch tenure to social housing by appropriation in HRA
- Flexibility of disposal for capital receipt and not restricted by legislation
- Achieve overall cost savings to the Council
- Legal compliance and ability to minimise risk from Right to Buy exposure

The preferred option meets the Council's objective and vision for the reduction and use of Bed and Breakfast, and in particular to optimise cost and contribute to its strategic goal. While cost is relevant for comparative purposes, the preferred option is the one that delivers best on the strategic objectives.

9.1 Assumptions

- Repairs and maintenance of the properties to be carried out by the Housing Repairs and Maintenance contractors using the existing framework
- The acquisition is under the delegated authority of the Director of Property Services
- Management of the properties using existing resources in Home Options

9.2 Benefits

The Business case outlines the following benefits:

1. Reduction in revenue costs
2. Generate rental revenue
3. Upon purchase and refurbishment, immediate availability to replace Bed & Breakfast
4. Property assets can be repurposed as affordable housing
5. Property assets can be repurposed and sold at later date for capital receipts

Financial (cashable) benefit

There are several benefits that are anticipated to derive financial savings or benefits.

1. Revenue savings incurred by using Bed & Breakfast.
2. Strategic long-term reuse of acquired properties
3. Increasing the capital value of properties
4. VAT and Corporation tax saving

Financial (non-cashable) benefit

5. Increasing supply of affordable homes
6. Potential legal challenges and reputation of the Council

Non-financial benefit

7. The improved reputation of the Council
8. Contribute to the Council strategic objectives
9. Increase Pride and lifestyle factors
10. Community Engagement
11. Community Health

10 Approach to Recommended Option

10.1 Strategic Case

The reduction in the use of Bed and Breakfast accommodation that deliver social and financial benefits for the council is in line with the cabinet adopted - Investing in our Future Strategy (Jan 2021) and 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.*

There is an identified need to source suitable family accommodation to house homeless families seeking Temporary Accommodation. The Property Acquisition Programme has the following drives:

- Reduce the use of Bed and Breakfast as Temporary Accommodation to house homeless households
- Reduce the overall cumulative cost to the council

The objectives of this proposal are:

1. Reducing the use of Bed & Breakfast
2. Reduction in all unnecessary costs whilst contributing to the long-term financial sustainability of the council
3. Increase the supply of quality affordable housing

10.2 Commercial Case

The Commercial case considered:

- a. Procurement strategy
- b. Required services
- c. Payment mechanism;

a. Procurement strategy

Procurement for this project will be managed in line with the Councils Contracts Policy and Procurement framework. The central drivers being:

- Obtaining best value for money – delivering the project to the best quality for the lowest cost. Values include financial and non-financial attributes, including quality
- Fair competition and competitive and efficient markets

It is anticipated that the procurement approach will be a combination of in-house expertise and external suppliers under contract, utilising procurement frameworks.

b. Required Services

The required services are:

Required Services	Anticipated Service Delivery Mechanism	Quality Attributes
Service provider <ul style="list-style-type: none">- Identify properties- Valuation advice- Surveying advice- Legal Conveyancing	External supplier	<ul style="list-style-type: none">- As per commissioning specifications- Acquisition strategy- Regular reporting- Delivered to time and quality specifications- Meet costs estimates
Asset maintenance and repairs capability	External supplier	<ul style="list-style-type: none">- Meet costs estimates- Regular reporting- Delivered to time and quality specifications
Management of properties (letting etc – home options)	In-house	<ul style="list-style-type: none">- Delivered to time and quality specifications- Meet costs estimates
Facility management (estate)	In-house	<ul style="list-style-type: none">- Delivered to time and quality specifications
Project Management	In-house	<ul style="list-style-type: none">- Regular reporting- Delivered to time and quality specifications- Meet costs estimates

c. Potential Payment Mechanisms

The proposed payment approach is to match the payment to key project deliverables, which will be agreed upon as part of the contract negotiation process and governance framework for internal departments.

10.3 Management case

This section of the Detailed Business Case addresses the preferred way forward. Its purpose is to set out the process to ensure the successful delivery of the property acquisition project.

The project will be managed using the project management methodology. The project will involve four stages:

1. Project initiation (of which this Detailed Business Case process is part)
2. Project planning
3. Project execution
4. Project completion and evaluation

A Project Sponsor, Project Manager and Project Delivery Group will oversee the project. The Project Manager will be responsible for the delivery of the project, working across directorates and with contractors to ensure the successful delivery.

The delivery of the next stage of the property acquisition will be operated as a project and managed in line with the Council's Project Management Process.

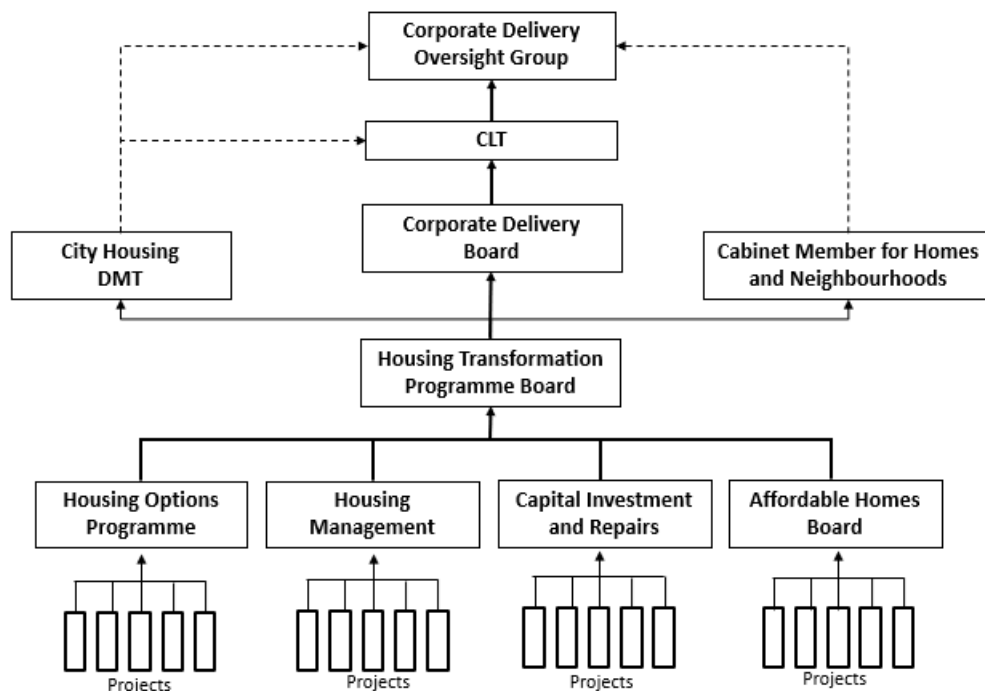
A project sponsor, project manager and delivery group will oversee the project.

The delivery of the acquisition programme will be managed by the Project Manager by utilising internal resourcing and existing property and legal framework. A service provider will identify, provide valuation, conduct a conditional survey, and carry out conveyancing and legal completion. On acquisition the properties will be vested in Housing General Fund committee and managed by Home Options services, they in turn will utilise the existing Housing repairs and maintenance contractors for capital and ongoing repairs and maintenance works.

The management of benefits to ensure they are realised will form part of the project.

Proposed Governance arrangement

The project will be managed through the City Housing Transformation Board chaired by the Director of City Housing. That board reports to the Corporate Delivery Board, part of CLT.



Delivery Capacity

A Project Manager is required to own, manage and deliver the property acquisition project. The Project Manager will work closely with Property Services, BCC Legal Services, external contractor(s), Housing Options Services, Housing Repairs and Maintenance Contractors and housing management with all progress reported into the governance as set out above.

The Housing Options Service manages a number of temporary accommodation properties. A review of the current capability to manage the additional 220+ property and to support and work to accelerate move-on and resettlement to alternative housing options need to be undertaken.

10.4 Finance Case

The business case seeks approval of the capital investment of £60m funded from prudential borrowing. The ongoing operational costs of the properties will be funded from the rental revenue generated from the properties and will not present a financial burden on the Council.

The financial model below shows the capital and operational costs for the properties.

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)

The financial analysis model and the associated methodology are based on the following assumptions:

- The capital investment required for the acquisition can be accommodated through prudential borrowing
- Depreciation has been estimated based on the economic lives of assets. Asset lives range from 10 years for gas central heating to 50 years for buildings and permanent structures.
- An allowance has been made for property maintenance. While some estimates may take the lower end of a possible range, costs for similar properties have been used wherever possible.
- The weekly rental is in line with current market levels for similar family sized properties.
- All acquired property will be maintained by the Council utilising the existing Housing R&M contractors and agreed framework.
- Appropriate contingencies have been made for risk and uncertainties during the acquisition phase.

The proposed funding arrangements for the £60.8 million cost of the project are:

Capital borrowing	£60,000,000
Revenue costs	£818,000
Total Project funding	£60,800,000

11 Timescale & Implementation

11.1 Indicative Timescales

Activity/Milestone	End Dates	Output/Deliverable
Financial Modelling	Nov 2021	Refresh of the financial modelling confirming project cost and saving
Transformation Board approval	Dec 2021	Approval
Business Case	Dec 2021	Approval of Detailed business case to support the investment decision
CLT approval	Jan 2022	Approval
Tender Issued for Property Managed Service	January 2022	ITT Issued to procure a service to manage and deliver the property acquisition programme, from confirmation of need to legal completion
Cabinet report approval	February 2022	Investment approval
Tenders received	February 2022	Tenders received from Property Managed Service providers
Contract Award	March 2022	
Contract start	April 2022	
Acquire first property	June 2022	
First Tenants move in	August 2022	
Project Completion (estimate)	June 2023	