BUSINESS CASE

Supply of Housing to meet needs of people with Adult Social Care need

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This document should be handled in accordance with advice contained in the
"**The Government Security Classification Policy (GSC) Rev. May 2016**"

Purpose of the Document

The purpose of a business case is to justify the undertaking of a project based on the estimated cost of development and implementation against the risks and the anticipated business benefits and savings to be gained. The Business Case explains why the forecast effort and time will be worth the expenditure and effort.

Version Control & Approval

Version	Summary of Change	Reviewed By (Name & Role)	Review Date	Approving Board	Approved Date
DFV	Not applicable				

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Appendices

1.0 Executive Summary

1.1 Over the next 4 years it is estimated that we will deal with 258 clients who will need housing options for a range of reasons, including discharge from long-term hospital accommodation, moving on from home, or currently living in inappropriate accommodation. In most cases this need will not be met by general needs housing via the Housing Register – the limited supply of available housing stock is not always appropriate for everyone with a social care need, and our clients are often not top priority for housing. As a direct consequence of a lack of suitable housing that does not maximise independence the council is having to pay higher care costs and not achieving the performance it would want on some key Adult Social Care Outcome Framework measures.

1.2 A range of housing provision has been considered to address both immediate and longer term demand, including: traditional design and build, purchase and refurbishment, and modular housing. To address immediate housing demand identified and contribute to both improved quality and financial outcomes modular accommodation is the preferred option. Modular buildings have significant benefits over build or purchase: firstly, modular accommodation can be sourced and on site within a 6-month period whereas the other options can take between 9 and 36 months; secondly it offers flexibility, whereas build or purchase can only be developed once the client's identity is known. With modular housing we can develop a portfolio of houses across the County thereby creating capacity that can facilitate and satisfy the immediate and mid-term demand. Thirdly, modular housing is considerably cheaper at £45,000 per unit against £100,000 for a house in multiple occupancy or £216,000 for single occupancy. There are no additional planning benefits, as under current planning regulations Modular Housing requires a full planning application.

1.3 To meet this demand will require the Directorate to invest in effective housing management resources, systems and processes, also designing and procuring flexible, robust and low-cost housing options. The benefits are:

- 1.3.1 The creation of a portfolio of flexible housing units dedicated to this cohort of clients. That are also available to cope with emergency demand;
- 1.3.2 The ability to create a flexible approach to housing management, allocation and demand management;
- 1.3.3 The ability to develop housing to meet individual needs and timelines, but which can be used for other clients when the individual's timelines or needs change;
- 1.3.4 Access to Transforming Care Programme funding, provided by NHS England for people with complex Learning Disabilities and/or Autism to prevent hospital admission, can be developed on a tactical and planned basis forming part of the portfolio of housing provision and encouraging development of partnerships with Registered Providers to provide the housing;
- 1.3.5 The opportunity to work with private developers to provide housing as part of our portfolio.

1.4 We have considered five options, with option 1 - being maintaining the status quo; option 2 - were the Council purchase the 258 units and appoint a Registered Provider (RP) to deliver the housing management function; option 3 - the Council purchase 30 units to trial the concept and complete a proof of concept test bed, if successful the Council would purchase the balance of units. Appointing an RP to provide the Housing Management services. Option 4 - the Council carry out a procurement exercise and appoint an RP to procure and manage the 258 units and Option 5 – Develop and procure a Joint Venture (JV) model, who procure and manage the units.

1.5 The preferred option is a mix of Option 3 and 5 with the Council using its capital to purchase 30 units (Option 3). This will result in the Council satisfying immediate demand, delivering 30 units on site by October 18. To satisfy the demand over the next 4 years it is proposed to undertake further work to investigate and scope out Option 5, but for only 100 units. This blend of options provides a lower risk profile, lower borrowing requirements and the ability to satisfy 50% of the housing requirements (258) for modular housing in the next 15 months.

1.6 The key financial benefits to this approach is: 1) to de-risk the Council's capital outlay and breakeven period and 2) optimise service cost savings that can result from the use of this type of housing to generate revenue income. The summary of financial benefits is:

1.6.1 Minimal capital outlay of £1.5m required to deliver 30 housing units, repaid within 8 to 12 years;

1.6.2 Generates a net rental income from 130 units of £132k over the 8 to 12 years, if our assumptions about the Joint Venture model are born out;

1.6.3 Generates site leasing income of £116k over 10 years, under the Joint Venture model;

1.6.4 Estimated service cost savings of £3.7m to £4.0m over 8 to 12 years, dependent on the service model.

2.0 Strategic Case - Why would we want to do this?

Over the next 4 years it is estimated that we will deal with 258 clients who will need housing options for a range of reasons, including discharge from long-term hospital accommodation, moving on from home, or currently living in inappropriate accommodation. In most cases this need will not be met by general needs housing via the Housing Register – the limited supply of available housing stock is not always appropriate for everyone with a social care need, and our clients are often not top priority for housing.

The Adult Social Care budgets is facing increasing financial pressure due to the cost of care. The cost of care packages is driven by a number of factors including workforce costs due to availability and rurality. However, we also have evidence that the type, location and availability of housing is also driving cost which needs to be addressed immediately in order to achieve a balanced budget and meet need

A characteristic of this housing need is the uncertainty over the discharge date for clients who are hospitalised. This is particularly the case for people with learning disabilities and/or mental health issues who have been sectioned under the Mental Health Act. In other cases people are living at homes supported by their parents but either want to make the transition to independent living, or their parents are increasingly struggling to manage their needs. Often there are specific and specialist requirements associated with the client group, which range from low need independent clients to those clients who require bespoke accommodation, such as those people who prefer to live in an isolated environment, or have behaviour that can challenge services or create risk when sharing accommodation with others. General needs housing via the Housing Register is unable to meet the needs of these people for a number of reasons. Some solutions are inappropriate – for example, Bed and Breakfast accommodation for people presenting as homeless discharges the statutory homelessness duty, but can often be detrimental to wellbeing of people with Mental Health problems. Private landlords and Registered

Providers can be wary of granting tenancies to Social Care customers – often due to stigma and unfounded fears around behaviour and other tenancy issues.

A needs survey has been carried out by the commissioning team and this has demonstrated a significant requirement for this type of accommodation.

A range of housing provision has been considered, including traditional design and build, purchase and refurbishment and modular housing. The latter has significant benefits over build or purchase: firstly, modular accommodation can be sourced and on site within a 6-month period, whereas the other options can take between 9 and 36 months; secondly - flexibility, whereas build or purchase can only be developed once the client's identity is known. With modular housing, we will develop a portfolio of 130 houses across the County so creating capacity that can facilitate and satisfy the immediate need. Thirdly, modular housing is considerably cheaper at £45,000 per unit against £100,000 for a house in multiple occupancy or £216,000 for single occupancy (Rightmove data 2017).

2.1 Background

The Adult Social Care operational teams have identified two client cohorts that have a need for immediate housing. The first cohort is those clients that are on the Transforming Care Programme (TCP) register. This list contains clients with Learning Disabilities and/or Autism who are currently in a hospital setting, or who are at risk of admission to hospital. The lists are not complete and are currently being updated. From the completed lists from four of the six areas we know that there are 46 clients on the register, of which 7 clients are in a hospital setting. Aspirational discharge dates are recorded and NHS England require us to be actively working to bring people back into community-based in-county services. Discharge dates are affected by how ready the client is, and once the tribunal has deemed a client ready for discharge there is usually a very short window to put this into action. The TCP cohort also contains a client base of 11 clients who are currently accommodated but who are considered to be at risk of admission to hospital, in part due to the unsuitability of their current accommodation.

The second main cohort is people with Learning Disabilities (LD), who again require housing over the next 5 years and have specific and specialist housing requirements. There is a total of 200 clients across Dorset of which 130 require housing within the first two year. The remaining cases are from our Adult Mental Health teams, and more information is expected from these teams over the next month.

Some people within both cohorts may require specialist and specific types of accommodation and the ability for flexible, easily modified housing is required. Durability is also a key requisite as a minority of clients have behaviour that can challenge which may include destructive behaviour or may lead to greater than average wear and tear.

The overall requirement is 258 houses over the next 4-years and the schedule of housing need is contained in Table 1.

Table 1

Locality	Shared	Night Support	Alone	Total
Purbeck	36	29	6	42
Weymouth/Portland	49	46	17	66

West Dorset	33	30	10	43
North Dorset	43	39	10	53
Christchurch	18	15	4	22
East Dorset	27	23	5	32
Total	**206**	**182**	**52**	**258**

Dorset County Council, working in partnership with Registered Providers, has been very successful in attracting funding from NHS England to develop new TCP-specific accommodation, but this is a relatively small number of houses per year, and is not sufficient to meet all expected demand. For the wider cohort of LD clients, we either refer to vacancies in existing shared supported living schemes, or work with social investors to purchase or rent specific housing. In all cases, the supply is greatly outstripped by demand with a particular shortage of 1-bedroom accommodation, and the operational teams regularly struggle to find suitable housing.

A further problem is the suitability of the current housing stock and clients are regularly deprioritised for re-housing due to being considered as already accommodated – either because they live in shared accommodation where in fact they need individual accommodation, or because they are living at home with parents but are at risk of family breakdown. People with learning disabilities and mental health issues are rarely considered a priority for housing through the housing register, and operational teams report discrimination due to a lack of understanding of learning disabilities and mental health issues among those registered providers who manage general needs housing stock. Generally, there is a reported reluctance of private and social landlords to accept Adult Social care clients, and current housing allocation policy does not go far enough to address this.

This led to research being carried out into alternative types of housing, and the opportunity to use portable prefabricated metal built housing has been identified as a preferred option. This can provide flexible, robust, portable housing to short timelines and at low cost to the Council. It can be clad to provide an attractive façade, and can be configured in multiple ways to suit a range of needs including mobility-adapted accommodation.

We anticipate that people will need to see how the modular accommodation will look and feel, and so our proposed plans include retaining one or two units across the county for Crisis Accommodation that can also be used in a ‘show-home’ capacity to help illustrate to customers and families what this option can offer. Images One and Two show early concepts of a proposed Modular Development on DCC Land in Wareham. Images Three to Six show photographs of interior living accommodation of one of the possible Modular Housing products available on the market.

2.1

Image One.

Image Two

Image Three

Image Four

Image Five

Image Six

A further reason for choosing modular housing is that is it a viable portable solution, in that it is factory built and comes to site fully build and furnished. The associated site works and utility connections are low cost and allow the units to be easily disconnected and the units moved to another site. This means that we can site the units to meet local demand on sites that the Council owns at relatively low cost. This lends itself to a model whereby sites identified for future development can host the modular housing prior to development often two to three years. For sites that have limited or no value then they can be used to site the units, providing longer term housing for clients.

This will require the Directorate to invest in effective housing management resources, systems and processes, also designing and procuring flexible, robust and low-cost housing options.

The Council is well placed to develop this approach to social care housing, both in terms of land availability and the ability to generate “Meanwhile Use” income from sites that are designated for future development.

In terms of land we have identified potential sites that, subject to planning, can host the housing units prior to development, the initial sites are:

- Fisherman's Arms site, Bridport – 8 housing units. We are finalising our development proposals for care accommodation on this site with a target completion date of 2021, and our feasibility studies indicate that 8 units of modular housing can be sited here while long-term Supported Living accommodation is constructed.
- Wareham Middle School Site, Wareham – 16 housing units. We have begun the development process to sit alongside the development of the DCHT Community Hub, which is predicted to reach completion in 2022. As above, this offers good use of the site pending long-term development.
- A further nine potential sites have been identified within the Farm Estate and other land owned by the Council, such as land adjacent to Candys Farm in Corfe Mullen, and land adjacent to Littlemoor Library in Weymouth. The balance of units can be accommodated on one or more of these sites.

Meanwhile Use is where land that is earmarked for future development, usually a two to three-year period, is used to generate income from the period prior to the development starting, or aligned with the construction phasing to optimise the meanwhile period. Modular housing lends itself to this use as we can lease the land to the housing provider, so generating income. Once the long-term development requires the land to be released, the modular housing can be transported by lorry to an alternative site at a relatively small sum – circa £600 per unit.

To ensure the sites are not blighted by this short-term development. Tenancies will be short-term to avoid any claims for Right to Buy, through a Registered Provider who will be appointed to provide housing management. To avoid issues with vacant possession, both the Registered Provider and developer will be contractually obliged to work with each other to manage the termination/transfer of tenancies and the relocation of the modular housing units so vacant possession is achieved. This would include contractual compensation to the Council in the event of delays. We will take legal advice to ensure the tenancy agreements include these requirements.

An example of this working in practice is through the recent TCP funding round which saw East Borough Housing Trust (EBHT) and the Council receiving grant funding to fully fund 12 modular units to be located on Council owned land. This funding included lease payments from EBHT to the Council. This meanwhile use will optimise land use and provide revenue income to the Council.

2.2 Business Need

The requirement for 258 housing units has been identified in the emerging Adult Social Care Strategic Asset Strategy over the next 4 years, based on real-time caseload information provided by the locality teams.

The business need is therefore to firstly commission the development of the 258 housing units and secondly develop a housing management system that will deliver an effective housing management service.

This type of housing development is unique, as typically a housing provider is building housing based on general market demand and builds housing to meet this demand, satisfying it, on an as and when required basis. The housing provider would take the risk on not selling or renting the house on completion.

Our requirement is driven by the needs of individuals and the relatively unpredictable timescales for when accommodation is required. Equally for those clients who are at immediate risk of being hospitalised we need available housing stock, this currently is not available. We need therefore to commission housing based on individual need and defined timelines, whilst still maintaining flexibility, minimising development risk and developing low-cost options.

The need therefore is to move from the current practice of sourcing accommodation on a reactive basis, to one whereby we develop housing capacity to create a portfolio of options ranging from traditional build housing to modular housing, the latter to satisfy immediate on-demand need.

2.3 Success Criteria

Master Planning - whilst housing capacity is of prime importance, a key success criterion would be the effectiveness of the design, capacity planning, and flexibility achieved by the development for the 258 houses – i.e. a master plan. Alongside effective service design and delivery. Enabling the service to deliver a tactical approach to housing demand and management and service provision. The key components would be:

- Development of a housing register containing knowledge of the client's housing needs, timelines etc with the service provision also mapped out to present a holistic housing and service package;
- The development of the design code, housing specification, capacity requirements and land assembly required to complete a Master Plan for Dorset;
- The creation and implementation of a housing development plan to map out the route to delivering the 258 houses within 4 years.

Housing Management – it is vital that the service stops being reactive and becomes proactive when it comes to housing provision. So, another key criterion is the development of sound, tactical housing management systems and processes. Effective systems will mean that the plans laid out in the Master Plan are supported by robust capacity planning driven by a holistic approach to cross County provision, a common, client-focused housing and service package would be available for Commissioners and individuals and the cost of housing and service provision would be known and planned for and the portfolio is being managed efficiently.

Client Outcomes – it is clear in discussions with operational staff, that the right housing accommodation, matched by appropriate service provision can: prevent clients from being readmitted to hospital, assist with managing their condition(s) and give them the opportunity to live a more independent lifestyle and enhance their experience.

Lower Service Costs – it is probable that a tactical approach to capacity planning and the ability to provide low cost separate-individual housing may lower, not increase costs, as grouping of these clients may optimise the need for less care staff support, moving from one to one support to providing support to a group of clients in a community setting.

3.0 Economic Case - what are the options for doing this?

3.1 Options

2.2 We have considered five options.

Option 1 – Maintain Status quo

This option has been rejected as the current housing provision does not meet the current or future needs of the service. This is demonstrated by the lack of suitable available accommodation to satisfy current and future demand. That it is reactive to need and therefore the client is often placed in unsuitable housing and importantly the client needs and experience is not fully optimised, leading to a worsening condition or admission to hospital. In cases where accommodation is sought, we are often not able to construct the most suitable support package for that individual since support is often tied into existing shared housing options, leading to some inefficiencies in support cost.

Option 2 – *Purchase 258 Housing Units*

This option is to directly purchase the housing units and appoint an RP to provide the housing management service. Within this option two variations have been reviewed: One, is to purchase all 258 units and two, purchase the 130 units identified in the Strategic Asset Strategy to satisfy the initial demand over the next 4 years – Phase 1.

- Variation One has been rejected as the total capital requirement of £10.320m, plus interest repayment takes the total capital expenditure to more than £20m This funding requirement is considered to be outside the borrowing capacity and risk appetite of the Council. The Asset Strategy also proposes a mixed approach to the housing provision (258) with a mix of modular and traditional housing required. Therefore, the figure of 130 units is the most sustainable and viable figure to use.
- Variation Two, to procure 130 houses has advantages, i.e. it aligns with the Asset Strategy, providing 50% of the demand in the first 18 months of the 10- year plan. It has a lower capital outlay and risk profile and can be delivered within 15 months. The downside is that, whilst it requires a lower capital outlay at £6.0m (after HCA and/or TCP grant funding) it is probable that the Council does not have this level of capital to invest and the risk profile is still above acceptable levels, i.e. the payback period would be between 12 years with grant and 14 years without grant and requires a steady rental flow. If a 10% loss of rental income occurred the breakeven period increases to 16 years.
- For the purpose of this business case, Variation one has not been considered due to the high-risk profile. Therefore, the financial modelling for this option is based on 130 units.

We have not yet identified sites capable of accommodating all 130 units of accommodation, so further work is required to do this.

Option 3 – *Purchase 30 Housing Units*

A similar approach to the previous option is proposed, with the exception that we purchase 30 units to act as a proof of concept phase. If successful, the proposal would be to purchase a further 100 units.

This has advantages, as it enables a qualitative and economic appraisal to be carried out and a gateway review to be held to decide whether to proceed to the purchase of the 100 units. It enables the operational and commissioning teams to test the concept across a holistic set of criteria including, the success of the allocations process, client experience, potential cost savings and capacity. A further advantage is that we can fast track the development by running the planning and procurement processes concurrently, with clients taking up occupancy in October 2018.

A further advantage is that this smaller number of units can be used to trial the implementation of the housing management systems that are being developed to compliment the development projects.

The downside is the potential loss of economy of scale, as it is likely to be more cost effective per unit to purchase 130 units rather than the 30 proposed.

We have already identified appropriate sites that can accommodate 30 units for the next 3 years

Option 4 – *Procure through Registered Provider*

This option minimises risk and does not require the Council provide capital funding. It would see the Council carry out a procurement exercise to appoint an RP who would procure and manage the 130 units.

Again, this has several benefits, other than funding and risk, including: a turn key approach to housing provision, enabling the Commissioning and Service teams to focus on their key roles; the development timelines would still be faster than tradition house building and short-term housing capacity is delivered within 18 months.

Option 5 – Joint Venture

Option 5 expands on Option 4 and proposes the development of a Joint Venture approach, whereby the Council carry out a procurement exercise to appoint a partner to create and implement a Joint Venture (JV) with the Council. The JV would develop and manage the 130 units under a joint venture agreement.

To minimise risk and avoid any injection of capital, the proposal would be for the JV partner to source the funding, provide the housing management service and possibly other services to produce a profit/income share that would be shared with the Council. This would generate a revenue stream for the Council and provide much needed housing capacity.

3.2 Option Appraisal

This options appraisal should be read in conjunction with the Financial Modelling in Appendix 1

Define / Describe	**Option 1 Do Nothing**	**Option 2 *Purchase 130 units***	**Option 3 *Purchase 30 units***	**Option 4 Registered Provider**	**Option 5 *Joint Venture***
Describes a key component or element of the solution	The current housing management system is not fit for current or future use.	We purchase 130 modular units to house clients, satisfying the needs in the first 5 years	We purchase 30 modular units to satisfy the immediate client needs i.e. 6 months	We appoint a Register Provider who procure and manage the 130 units.	We appoint a joint venture partner to procure and manage the 130 units with the Council taking an income share
Provide the 'whole life' costs of this option	Option rejected, no modelling carried out	The whole system cost over 10 years is £103m (with grant) to £164M (without grant)	The whole system cost is £28m	The whole system cost is £101m (modelled over 10 years to be comparable to option 2)	The whole system cost is £101m (modelled over 10 years to be comparable to option 2)
Detail the benefits of this option	None	It aligns with the Asset Strategy, providing 50% of the demand in the first 18 months of the 10- year plan, it has a lower capital outlay – risk profile and can be delivered within 15 months.	This has advantages, as it enables a qualitative and economic appraisal to be carried out and a gateway review to be held to decide whether or not to proceed to the purchase of the 100 units. It enables the operational and commissioning teams to test the concept across a holistic set of criteria	No Council capital is required to fund procurement. Risk is transferred to the RP A turn key approach to housing provision, enabling the Commissioning and Service team to focus on their key roles; the development timelines would still be faster than	No Council capital is required to fund procurement. Risk is transferred to the RP To minimise risk and avoid any injection of capital, the proposal would be for the JV partner to source the funding, provide the housing management service and possibly other

			including, the success of the allocations process, client experience, potential cost savings and capacity. A further advantage is that we can fast track the development by running the planning and procurement processes concurrently, with clients taking up occupancy in October 2018.	tradition house building and short-term housing capacity is delivered.	services to produce a profit that would be shared with the Council. This would generate a revenue stream for the Council and provide much needed housing capacity.
Detail the dis-benefits of this option	The current service is reactive, with client placed in short term, unsuitable housing.	The Council's financial exposure ranges from £6m to £9M over 12 to 14 years. A 10% loss of rental income would increase this this to 16 years. years. This is viewed as too great an exposure as there is no asset value in year 20. We are also reliant on third party housing management	It is probable that the cost of purchase for each unit will be more expensive than purchasing the 130 units.	Whilst control over the allocations policy for clients would remain with the Council. A disadvantage is that the overall management of the units would lie with the RP and this may result in operational and contractual difficulties. If the RP does provide the standard of service required by	This option has similar disadvantages to option 4. However, unlike Option 4 which would likely be only a form of client nomination agreement. This Option allows the Council as a partner in the JV to be jointly responsible for the housing management function. So

		and the possibility that the RP providing the service may not provide a viable, sustainable service offering over the 20 years. To obtain the 10-year breakeven position £1.25m of HCA/TCP grant has been modelled. This is a high-risk strategy as modular housing is still embryonic and whilst currently attracting TCP funding. This scale of funding may be too "big an ask" for the NHS to approve?		the Council, then is may have limited ability to terminate the agreement	can step in and resolve issues.
Describe the overarching risks associated with this option	If no changes are made the housing commissioning service will continue to allocate unsuitable housing with limited control	The Council is exposed to high levels of borrowing against an asset with no value at year 20.	The concept does not work and the modular housing is not used.	The concept does not work and the modular housing is not used. Risk of unresolved operational	The concept does not work and the modular housing is not used. The procurement exercise does

	over demand and supply	The rental and service savings profiles needed to cover the capital and interest costs are volatile with a 10% loss or rental income taking breakeven to year 16. The concept does not work and the modular housing is not used.		and contractual issues resulting in poor quality service provision. There is no appetite in the market place for this type of housing provision	not generate the projected financial return. There is no appetite in the market place for this type of housing provision

3.3 Recommended Option

Option 1 has been rejected as the current housing provision does not meet the current or future needs of the service.

Option 2 has been rejected as: the level of borrowing is considered to be outside the Council's borrowing capacity and risk appetite; the breakeven period is likely to be approaching 16 years, which is considered to be too long and there is no asset value at the end of their economic life – 20 years.

Option 3 has been selected as it aligns with the Strategic Asset Strategy the proposal being to procure 30 units as a test bed pilot, before purchasing the balance of units. Of all the options, this gets housing units on site by October 2018, which satisfies the immediate need. Whereas options 4 and 5 will require a procurement process, followed by a planning application, site enabling work and manufacture time, taking the timeline to March 2019. It is also a relatively low risk option.

Options 4 and 5 are similar in nature, i.e. we procure a Registered Provider and they purchase and manage the 130 units. The variation, is that Option 5 is structured as a Joint Venture and the Council and its Partner jointly manage the housing provision. Both options benefit the Council as no capital spend is required from the Council and we get housing units on site by March 19. Option 5 does provide a better return as the Council generates income from the leasing of land and a rental income share. It also provides a better level of management control for the Council. It is proposed that a Detailed Business Case is put together to fully explore Option 5, including full scoping of the payback model and identification of sites capable of accommodating these units.

3.4 In scope

The delivery of 130 modular housing units to meet the needs of the service using a direct purchase and a Joint Venture vehicle.

3.5 Out of scope

The focus will be solely on the delivery of the 130 units, with no plans being developed to deliver the outstanding balance to deliver the 258 houses targeted in the Strategic Asset Strategy.

3.6 Assumptions

- A Register Provider/Joint Venture (RP/JV) will purchase the housing units and recovers capital and interest costs via the rent roll;
- The Council will pay for relocation of units, as it will determine where and when the modular housing will be required to meet the demands of the service;
- Where feasible, we will lease sites to the RP/JV and receipt a lease payment in return.
- The average service cost for supported living used in the financial modelling is £1700 per week. Based on the current average cost of the service
- The cost of residential care ranges from £800 upwards with the average cost at £1400 per week. Prudently, the average cost of £1,100 per week has been used in the financial modelling.
- The financial modelling used is a cashflow model and does not present a Net Present Value (NPV) figure.
- The financial modelling is based on an estimate that 33% of units will to be used to re-house clients currently in residential care. And 67% for supported living clients.

3.7 Constraints, Dependencies & Interdependencies

A dependency and risk is that Option 3 has been modelled using a grant from the HCA/TCP to offset the capital cost. Clearly the risk is that we do not receive this funding. This is projected as a low-cost risk as we have recently received TCP grant funding for 12 modular units and at a higher level of funding.

We are also dependent on the successful appointment of a Registered Provider to manage our modular housing stock. Effective market promotion and engagement will lead the way to creating robust partnership working that delivers high levels of customer service. If we wanted to take forward a Joint Venture, we would be dependent on successful creation of the JV with an RP partner. Initial engagement with three RP’s suggest that there is a market for this type of joint venture with several of the RPs already operating such a model with other authorities. A detailed exploration of these arrangements and how the deals have been constructed will be beneficial.

Planning can be a constraint to this type of development and we have begun early consultation with planners in preparation for the planning process.

4.0 Commercial Case – how would we buy it?

4.1 Procurement & Licencing

We will require two procurement processes, one for the 30 units and the second to find an RP to manage the accommodation on our behalf. The procurement strategy for the 30 units has been prepared and will use the Hampshire Modular Framework. Initial engagement has commenced with Hampshire and we have 3 bidders who have expressed an interest in tendering. Early engagement has indicated interest from RPs to provide a Housing Management service, and we will create a specification and advertise this opportunity formally.

The next steps will be to undertake a Detailed Business Case to fully explore the advantages and disadvantages of a Joint Venture, with a view to developing a procurement strategy for the Joint Venture.

5.0 Financial Case – How would we pay for this?

The key financial benefits to this approach is: 1) to de-risk the Council's capital outlay and breakeven period and 2) optimise service cost savings that can result from the use of this type of housing to generates revenue income.

The summary of financial benefits is:

- Minimal capital outlay of £1.5m required to deliver 30 housing units, repaid within 8 to 12 years;
- Generates a net rental income from 130 units of £131k over 10 years, JV model;
- Generates site leasing income of £116k over 10 years;
- Estimated service cost savings of £3.7m to £4.0m over 10 years.

Purchase 30 housing units

The capital requirement is £1.5m (£1.3m plus a contingency of £200k, in the eventuality that TCP grant funding is not forthcoming). The proposal is to fund the cost of capital from the capital budget allocation for the Bridport Connect replacement building, as described above.

The cost of development is estimated at £1.96m, made up of capital, interest and fees. This will be recovered over a 12-year period (breakeven) from the net rental income and service cost savings.

"Income" will come from two sources: the first is the ability to receive income from rents paid through the Housing Benefits system to clients. This has been modelled on LHA rates - £96 per week, however, a proportion of clients will qualify for enhanced rent allowance, potentially of up to £300 per week. For the sake of prudence the financial model is based entirely on the LHA rate.

The second source is through service cost savings. The ability to produce savings is predicated on the relocation of clients from high costs care provision into modular housing. The rationale behind this is that that we can use the housing environment to create a more appropriate configuration of service, rationalising the ratio of care staff required, for example for sleep-in support; provide a more suitable home environment for clients, so reducing their care requirements or by co-locating housing enables services to be better integrated and more effective. Service modelling has begun and will be available for the final version of this business case.

The financial model uses a range of service cost savings to reflect the complexity of services provided. Hence of a 2% to 5% reduction in service cost over the 8 to 12 years (breakeven period). This results in savings ranging from £515k to £820k.

Whilst this has been used to achieve a break-even position, in this option 12 years, it is also important to point out the breakeven position calculated solely on the net rental income. The latter would mean that a breakeven position would be achieved in year 18. As a benchmark, Registered Providers would typically seek to recover the cost of housing development over a 25-year period. The benefit to the Council is that Adult Social Care can use the projected savings to reduce the revenue spend in line with the budget reduction programme.

A financial summary is contained in Table 2 and Appendix 1 contains a summary of the outcomes of the financial modelling.

Table 2 - Financial Summary		**Purchase 30 housing units**
Breakeven	8 to 12 Years	Breakeven is forecast for year 12, based on income and 2% service savings off-setting the cost of development. With a 5% cost reduction breakeven is achieved in year 8
Income		
Net Rental Income	898,560	This is the net rental income after the cost of providing housing management services has been deducted form the gross rental income
Rental Income Share	-	Not applicable for this option
Leasing income	-	Not applicable for this option
Total	**898,560**	
Service Cost Savings		
Savings forecast	**515,486 to 820,092**	The savings calculation has been based on an estimated 2% to 5% savings against the current average cost of service provision.
Development Costs		
Capital	1,172,000	This covers the cost of purchasing the hosuing units, factoring in a TCP grant of £15,000 per unit for 50% of the units
Interest	703,200	Interest has been calculated at 5% per annum for 12 years.
Professional Fees	10,000	Legal and property fees
Technical Fees	70,000	Design, land investigation and planning fees
Total	**1,955,200**	
Sources of Funding		
Capital	1,500,000	A capital allocation of £4.7m has been approved for the Bridport Connect project. This is no longer required. It is proposed that the £1.5m is reallocated from this capital budget.
Interest	703,200	This will be a revenue cost, but will be offset by rental income and service cost savings
Professional Fees	10,000	This will be a revenue cost, but will be offset by rental income and service cost savings
Technical Fees	70,000	As these costs are associated with the building working, they can be capitalised, with the cost recovered from the rental income and service cost savings

Joint Venture

The concept is for the Council to enter into a Joint Venture with a Registered Provider/Developer/Funder, with the JV purchasing and managing the housing units. The financial impacts are described below.

The proposed commercial structure for the JV would be that the private sector partner(s) would fund the capital requirements, recovering the borrowing costs from the rent roll. The cost of borrowing and housing management would be offset by the rent roll.

An income/profit sharing arrangement would be use to generate revenue income for the Council. Plus, income would be received from the leasing of sites for the modular accommodation.

The financial model uses a range of service cost savings based on the complexity of client need within the range of a 2% to 5% reduction in service cost over a 10-year period (breakeven period). This equates to £1.6m to £3.24m of savings over the 10 years.

A key benefit of this option is that the service cost savings are retained by the Council. Table 3 contains a financial summary.

Table 3 - Financial Summary		**Joint Venture**
Breakeven	10 years	for the purpose of this analysis the modelling is based on 10 years
Income		
Rental Income Share	132,388	This is based on a 3% estimate, a conservative figure as the net profit - surplus for an RP is 9%
Leasing Income	116,250	Land is leased to the JV
Total	**248,638**	
Service Cost Savings	**3,241,160**	Forecast is for a 10 year period
Development Costs	Nil	Funded by JV private sector partner
Sources of Funding	Nil	Not required.

6.0 Management Case – How would we deliver it?

The governance structure is already developed as follows

A project team has been set up consisting of three task teams i.e. Service Design, Asset Design and Financial Modelling. They will develop, design and implement the delivery of the 30 housing units.

The project team reports to the Asset Delivery Programme Group. This group monitors and directs the portfolio of asset projects, including this project. It reports to the Programme Delivery Board.

The Programme Delivery Board leads and directs the overall transformation programme.

6.1 Stakeholder Management

Stakeholder	Expected communications – **R** - responsible **A** - accountable **C** - consulted **I** - informed	Frequency	Media
Planners and Planning Committee	This will follow the formal Planning process, with public, external and statutory stakeholders being consulted. Prior to and as part of the planning process.	To follow the formal pre-planning and planning applications timelines.	Public stakeholder presentations. Formal meetings and presentations with planning, environmental and utility suppliers.
DCC senior managers	The process will follow DCC's formal approvals process including approvals by: • Programme Delivery Board; • Property Boards • Cabinet Review of financial modelling with Revenue and Capital Accountants	• 06/02/18 • 15/02/18 (PMG) 22/02/18 (MOAG) • 07/03/18 w/e 09/02/18	Formal Detailed Business Case Board and Cabinet report pro-forma

Stakeholder	**Expected communications –** **R** - responsible **A** - accountable **C** - consulted **I** - informed	**Frequency**	**Media**
Political Interface	Informal briefings to Transformation Director and Cabinet Members -direction of travel Formal consultation on final recommendations Cabinet Report finalised Key Member briefings prior to Cabinet Cabinet meeting	w/e 09/02/18 w/e 09/02/18 w/e 23/02/18 5th or 6th Mar 07/03/18	Verbal and written presentations. Draft and Final DBC Draft and final Board and Cabinet reports.

Stakeholder	Expected communications – **R** - responsible **A** - accountable **C** - consulted **I** - informed	Frequency	Media
Public	Extensive consultation has recently been carried out by the Property Team in the Bridport, Wareham and Weymouth areas for asset related projects. The engagement strategy will therefore be to refresh consultation using targeted audiences. Local key stakeholder groups are already part of the asset design groups for Bridport and Wareham and will help shape the modular housing proposals	Engagement strategy to be developed by 09/02/18 Asset Design Teams ongoing.	Meetings, public events and project team involvement. Proactive press and media campaign.

6.2 Timescales & Milestones

Project Milestones	
DBC to Programme Delivery Board	06/02/2018
Report to PMG	15/02/2018
Report to MOAG	22/02/2018
DBC & Cabinet Report to CTB	27/02/2018
Cabinet approval	07/03/2018
Procurement 30 units	31/05/2018
Planning Approvals	31/07/2018
Manufacturing period	28/09/2018
Installation period	30/11/2018
Appoint service provider	28/09/2018
Clients housed	07/12/2018

Detailed Business Case on Joint Venture	31/05/2018

6.3 Project Governance & Control

Described in section 6.0

7.0 Recommendations

It is recommended that this business case be approved for implementation.

Business Case Recommendations for Approval:	**Approved**	
	Yes	**No**
Not applicable		

8.0 Glossary of Terms

Appendix 1

FINANCIAL MODEL OPTIONS APPRAISAL				
OPTIONS SUMMARY				
1	**Maintain Status Quo**	Capital and interest cost		
		(breakeven years)		
	No modelling carried out	Total Service Cost		
		(breakeven years)		
		Gross Whole System Costs		
		(breakeven years)		
		Net Rental Income		
		(breakeven years)		
		Service cost savings		
		(breakeven years)		
		Income & savings		
		(breakeven years)		
		Net Whole System Costs		
		(breakeven years)		
2	**Purchase 130 Housing Units**	Capital and interest cost	5,972,692	Breakeven is achieved in year 10.
		(breakeven years)		
	With HCA/TCP Grant	Total Service Cost	102,644,922	The total service cost is based on £1,700 per week for Supported Care and an average of £1,100 per week for Residential Care for 10 years
		(breakeven years)		
		Gross Whole System Costs	108,617,614	
		(breakeven years)		
		Net Rental Income	4,420,416	In this model the net rental income is used to repay capital and interest costs
		(breakeven years)		
		Service cost savings	1,624,563	In this option the service cost savings are used to repay capital and interest costs
		(breakeven years)		

		Income & savings	6,044,979	
		(breakeven years)		
		Net Whole System Costs	102,572,635	
		(breakeven years)		
		Sensitivity Analysis		A 10% loss of rental income would reduce the income by £442K and b/e would be in year 12
2a	**Purchase 130 Housing Units**	Capital and interest cost	8,993,654	Breakeven is achieved in year 14.
		(breakeven years)		
	No Grant	Total Service Cost	164,675,763	The total service cost is based on £1,700 per week for Supported Care and an average of £1,100 per week for Residential Care for 14 years
		(breakeven years)		
		Gross Whole System Costs	173,669,417	
		(breakeven years)		
		Net Rental Income	6,626,880	In this model the net rental income is used to repay capital and interest costs
		(breakeven years)		
		Service cost savings	2,436,845	In this option the service cost savings are used to repay capital and interest costs
		(breakeven years)		
		Income & savings	9,063,725	
		(breakeven years)		
		Net Whole System Costs	164,605,692	
		(breakeven years)		
		Sensitivity Analysis		A 10% loss of rental income would reduce the income by £663k and b/e would be year 16
3	**Purchase 30 Housing Units**	Capital and interest cost	1,875,200	Breakeven is achieved in year 12
		(breakeven years)		
	With HCA/TCP grant	Total Service Cost	28,080,000	The total service cost is based on £1,700 per week for Supported Care and an

				average of £1,100 per week for Residential Care for 12 years
		(breakeven years)		
		Gross Whole System Costs	29,955,200	
		(breakeven years)		
		Net Rental Income	1,407,744	In this model the net rental income is used to repay capital and interest costs
		(breakeven years)		
		Service cost savings	515,486	In this option the service cost savings are used to repay capital and interest costs
		(breakeven years)		
		Income & savings	1,923,230	
		(breakeven years)		
		Net Whole System Costs	28,031,970	
		(breakeven years)		
		Sensitivity Analysis		A 10% loss of rental income would reduce the income by £140k. B/e would be achieved in year 13.
4	**Procure 130 housing units**	Capital and interest cost	Nil	To align with option 2, option is modelled over 10 years
	through a Registered	(breakeven years)		
	Provider	Total Service Cost	102,644,922	The total service cost is based on £1,700 per week for Supported Care and an average of £1,100 per week for Residential Care for 10 years
		(breakeven years)		
	Using 10 year breakeven	Gross Whole System Costs	102,644,922	
	model - option 2	(breakeven years)		
		Net Rental Income	116,250	leasing income from leasing of land to RP
		(breakeven years)		
		Service cost savings	1,624,563	service cost savings are retained by Council
		(breakeven years)		
		Income & savings	1,740,813	

		(breakeven years)		
		Net Whole System Costs	100,904,108	
		(breakeven years)		
		Sensitivity Analysis		a 10% loss of leasing income would reduce income by £12k. No significant impact
5	**Joint Venture with**	Capital and interest cost	Nil	To align with option 2, option is modelled over 10 years
	Registered Provider	(breakeven years)		
	Procure 130 units	Total Service Cost	102,644,922	
		(breakeven years)		
		Gross Whole System Costs	102,644,922	
		(breakeven years)		
		Net Rental Income	248,638	Leasing income from leasing income and rental income share
		(breakeven years)		
		Service cost savings	1,624,563	service cost savings are retained by Council
		(breakeven years)		
		Income & savings	1,873,201	
		(breakeven years)		
		Net Whole System Costs	100,771,721	
		(breakeven years)		
		Sensitivity Analysis		A 10% loss of rental and leasing incomes would reduce income by £25k. No significant impact.