

Cabinet

8 September 2020

Capital funding request to support housing projects

For Decision

Portfolio Holder: Cllr G Carr-Jones, Housing and Community Safety

Local Councillor(s):

Executive Director: Vivienne Broadhurst, Executive Director People - Adults

Report Author: Rebecca Kirk
Title: Corporate Director – Housing
Tel: 01929 557208
Email: rebecca.kirk@dorsetcouncil.gov.uk

Report Status: Public report. Exempt/Confidential Appendices

Recommendation:

- 1 Cabinet approve the allocation of £3.13m in the 20/21 capital programme and a further £1.65m in the 21/22 capital programme for the purchase and refurbishment of accommodation to support homeless and rough sleeper households.
2. Delegate authority to the Corporate Director of Housing, in consultation with the Portfolio Holder for Housing and Community Safety and the Section 151 Officer, the ability to purchase 1-bedroom properties for use as temporary accommodation.
3. Delegate authority to the Corporate Director for Property and Assets, in consultation with the Portfolio Holder for Housing and Community Safety, the Section 151 Officer, and Corporate Director of Housing the ability to purchase properties for use as hostel accommodation.

Reason for Recommendation:

Dorset Council has a statutory duty under the Housing Act 1996 as amended by the Homelessness Reduction Act 2018 to provide a number of principle duties to those threatened with or who are homeless, including providing emergency and temporary accommodation. By increasing the number of properties owned and managed by the Council there will be a reduction of the Council's use of Bed and Breakfast (B&B) accommodation, a direct revenue saving to the Council and an opportunity to generate income – whilst also providing a better service to our residents who find themselves homeless.

1. Executive Summary

Prior to the Covid-19 Pandemic Dorset Council had been advised by the Ministry of Housing, Communities and Local Government (MHCLG) that its use of B&B placements for temporary accommodation (TA) are disproportionately high in comparison to other local authorities. The Council has a statutory duty to provide emergency and temporary accommodation and is overly reliant on B&B placements due to the lack of property under its ownership and control. Registered Housing providers (RP's) do not provide TA, their business model relies on "long term lets" and they are not legally required to provide TA. The void is met in some way through the private sector rental scheme, although despite many years of effort there is simply not enough accommodation meet the need.

As a result of the Covid-19 pandemic and the government requirement to accommodate rough sleepers additional grant funding from MHCLG has been made available to provide long term accommodation solutions and ease the pressure on B&B. This report explains the current revenue costs to the Council in providing TA to homeless households and seeks approval to create a capital fund to purchase suitable properties for use as TA and make a direct revenue saving to the Council. The purchase of properties will also generate income for the Council. The report also describes the current MHCLG bidding process open to local authorities and outlines the bids made by the Council to MHCLG for capital and revenue funding to support the increase in TA. These bids have been co-produced with a wide range of partners including Homes England, Dorset Health Care, Public Health, Homelessness support charities and RP's. The Council has asked for £1.2m of grant funding and if the bid to MHCLG is successful the capital contribution from the Council for some of these projects would be reduced. MHCLG will only provide the grant funding if the Council also contribute capital funding.

The report asks for a total of £4.78m capital funding over 2 years (£3.58m if all grant funding obtained). This investment will result in an annual revenue saving in 2021/22 of £458k but also generate (after costs) an annual income of £71k from the new property portfolio. Revenue savings for 22/23 would be £643k as the refurbishment of the hostel will provide additional beds.

2. Financial Implications

- 2.1 Section 8 below outlines statutory duties placed on the Council in having to provide TA to homeless households. Due to a shortage of suitable accommodation for use as TA, the Council is dependent on B&B accommodation. The government made it clear that the use of B&B for TA should be an option of last resort and have structured the housing benefit system of payments to reflect this. A person placed in B&B can claim £125 per week. The typical B&B cost for a single person is £350 week (£50 per night), the Council has to pay the difference of £225 per person per week, and cannot claim this back, resulting in a significant revenue implication for the Council.
- 2.2 The Covid-19 pandemic has doubled the numbers of households in B&B, with an average of 10 households per week still presenting to the council, and being accepted as homeless. As soon as one household is moved into alternative non-B&B accommodation another household is filling the vacancy. As the economic impact of the pandemic start to be realised and people lose their homes through rent or mortgage arrears and job losses this number will continue to increase. As of the 7th August 2020 the Council had 139 households in B&B accommodation, 127 of whom are single people. Revenue and Benefit colleagues estimate that the B&B spend for 20/21 will be £1.1m however, based on the figures outlined above, the current cost to the Council is £31,200 per week or £1.6m per year.
- 2.3 The direct revenue cost to the Council for 19/20 of covering the housing benefit shortfall was £805,175. There are additional costs incurred by a household during their stay at a B&B such as breakfast, heating and lighting. These costs can be recovered and households are invoiced by the Council. However, the financial circumstances of many homeless people means the reality is very few can afford to pay back the difference and ultimately the Council bears the cost of the debt. The B&B Bad Debt provision for 19/20 was £353k. Approximately 50% of this type of housing debt remains unpaid after a year, currently the total amount outstanding for this type of debt is £182k.
- 2.4 Dorset Council has submitted a bid to The Ministry of Housing, Communities and Local Government (MHCLG) who have launched their Next Steps Accommodation Programme (NSAP). This programme makes available some financial resources to support local authorities to ensure that as few individuals as possible return to the streets following time spent in emergency accommodation. The programme provides funding for longer-term move on accommodation, including capital for acquisitions, refurbishments and new build, and an attached long-term revenue stream to ensure people are supported in their new tenancies. The success of the bid relies on a capital contribution from the Council.

If successful MHCLG will give the Council a grant to gap fund the purchase of some accommodation or contribute to the refurbishment costs. There are strict conditions regarding the bid criteria but if successful the capital contribution from the Council for 2020/2021 would be reduced by £1.2m. More detail about the scheme is covered in section 9 below.

- 2.5 Regardless of whether the Council is successful in securing some or all of the grant requested, capital investment is needed. To increase the amount of TA and reduce the dependence on B&B and make a saving to the revenue budget a number of options have been pulled together that require capital funding. These options will provide 60 – 80 bed spaces. More detail about each project can be found in section 9 below. The table below lists the projects and the capital cost of investment to bring forward for TA as well as the number of beds.

Project title	Capital investment required	MHCLG grant requested	Bed space created	Annual revenue saving	Year for delivery
Bridport	£100k	£100k	10 -12	£117k	2020/2021
Purchase of 20 x 1 bedroom flats and houses	£2.45m	£808k	20 min up to 40 if couples or single families	£236k (plus £71k surplus income)	2020/2021
Portland YHA – Phase 1	£576k	£275k	9	£105k	2020/2021
Portland YHA – Phase 2	£1.65m	N/A	23	£290k	2021/2022
Total 2020/2021	£3.13m	£1.2m			
Total 2021/2022	£1.65m				

MHCLG have indicated that work needed for projects identified for 2021/2022 can be bid for as part of their continuous market engagement phase, but are focusing on supporting projects that will deliver housing in this financial year, hence N/A against Portland YHA phase 2 element.

- 2.6 If Cabinet approve the capital investment, then the 2020/21 funding will be drawn down from the £15M 'unallocated capital funding' agreed by Cabinet when setting the budget in February 2020. The Capital contribution required in 2021/22 will be incorporated in the 2021/22 budget.

2.7 As well as owning a number of assets that will increase in value, the purchase of 20 properties will generate income for the Council. Detailed modelling has been undertaken for the 30 year lifecycle income and costs for the properties. Once all costs have been taken into account for the maintenance, letting and management (including any void periods) there would be a surplus of £71K per year. Properties owned by the Council and used as TA are exempt from the right to buy legislation.

3 Climate implications

There are no significant climate change implications arising from this report. However, according to the MHCLG houses account for 14% of the UK's carbon emissions. The council will not purchase properties with an EPC rating (a review of a property's energy efficiency) of E or lower.

4 Other Implications

The purchase of properties by the Council for the use of temporary accommodation ensures the Council can have the right type of accommodation to meet safeguarding needs. It can also ensure a small number of properties would be suitably adapted to accommodate a disabled household, something the Council is severely lacking.

5 Risk Assessment

The Council currently has the following risk flagged as high in the risk register 247 - *Temporary Accommodation is insufficient to meet community need*. This risk has been in the register for the past 12 months and has recently been reviewed and remains high. The purchase of properties will contribute to the reduction of the risk.

Current Risk: High

Residual Risk: Medium if report recommendations approved.

There are some other risks not on the register that are associated with the purchase of property these are;

Rental income does not cover the cost of managing and maintaining the property

- Current risk: Medium
- Mitigation Actions: Acquire properties at values which result in gross rental yields in excess of 4.5% / 5.0%. Acquire properties requiring no or only limited improvements initially and no major works over the short to medium term.
- Residual Risk: Low

6 Equalities Impact Assessment

An equalities impact assessment is not required at the moment but specific assessments will be carried out for each of the hostel accommodation bought forward to ensure it meets the needs of everyone.

7 Appendices (exempt from publication)

Appendix 1 – Analysis of needs assessments

Appendix 2 – Property purchase information and returns.

Appendix 3 - Properties currently owned by Dorset Council

Appendix 4 - Revenue savings from hostel development

8 Background

8.1 Dorset Council has a statutory duty under the Housing Act 1996 as amended by the Homelessness Reduction Act 2018 to provide a number of principle duties to those threatened with or who are homeless that include:

- providing free advisory services
- assessing an applicant's case and agree a personalised housing plan
- make enquiries about an individual's circumstances
- take reasonable steps to prevent homelessness
- provide interim accommodation if there is nowhere for the individual or household to stay
- take reasonable steps to secure accommodation (under prevention or relief duty)
- secure ongoing accommodation (main housing duty).

The duties owed to an applicant will depend upon their particular circumstances and when the person applied as homeless. However, if the Council determines a prevention or relief duty, it falls to the Council to secure emergency temporary accommodation and support the household into secure ongoing accommodation either in the social or private rented sector. The provision of temporary accommodation is not one that falls to registered housing providers but is the sole responsibility of the Council.

8.1 On the 26th March Dorset Council along with all other local authorities in England were e-mailed by Dame Louise Casey with the heading "Everyone In" asking housing teams to focus on getting every rough sleeper an offer of somewhere they could stay safely by the weekend of the 29th March. At the same time and over the following few days and weeks the Council saw an unprecedented increase in homeless persons who came to the Council for help and support.

There were many reasons for this increased demand but mainly it was single people who were being asked to leave shared accommodation, and with the private sector housing market closed down and social landlords' not advertising properties to rent there was no accommodation for people to move into. At the height of the restrictions the council had 156 households in B&B accommodation of which 147 were single people. This has decreased as restrictions were lifted but the number in B&B accommodation remains high and as of 3rd August 2020 there were 132 households in B&B. Despite efforts to move people into other temporary accommodation there are still households presenting as homeless that the Council has a legal duty to support, during the 2 week period 17th to 28th August 2020 a further 25 people needed temporary accommodation.

- 8.3 Before the Covid-19 pandemic Dorset Council had a disproportionately high amount of households accommodated in B&B due to the lack of suitable temporary accommodation. For the 6 month period (Aug 19 – Jan 20) the average number of households in B&B accommodation was 75, and, on average 42 households exceeded a 6 week stay.
- 8.4 The Council has undertaken a number of initiatives to work with the private rented sector to increase the amount of general needs and temporary accommodation available, but with a competitive private rented sector most landlords are not interested in offering their property to the Council. Others have flagged difficulty in obtaining insurance if they let their property to the Council for use by homeless families. Therefore, the Council has had to resort to using expensive B&B accommodation.
- 8.5 The Council already owns a number of houses and hostels (see appendix 3) but is primarily dependent on arrangements with the private sector to secure other accommodation options. The table below provides a breakdown of those in TA at the end of July 2020 and the type of accommodation used.

Type of Accommodation	Families	Singles
Leased Accommodation (privately owned and managed by us)	57	20
Bed & Breakfast	12	127
Self-contained mobile homes	12	11
Shared Hostels	1	14
Air B&B	1	5
Other accommodation	52	13
Total	137	198

- 8.6 There are a significant number of households already on the housing waiting lists (5,900 June 2020) and the turnover of social housing is relatively low, as is the provision of new additional affordable housing. As a result, new households presenting themselves to the Council as homeless, or about to become homeless i.e. those who have an immediate and urgent need, have little chance of securing accommodation in this manner, or a very long wait in temporary accommodation for a suitable property.
- 8.7 As outlined above the Council has a statutory duty to support these households with emergency / temporary accommodation and as such, the Council relies heavily on identifying rented accommodation in the private sector. Registered Housing providers (RP's) are not obliged to offer the Council accommodation for use as TA, however to support the Council in increasing the provision of TA a small number of properties have been directly leased to the Council. However, for every property leased to the Council this is one less property for social rent.
- 8.8 MHCLG have advised the Council that it is on the list of 20 local authorities outside of London with the highest numbers of placements under the coronavirus response. As such Dorset has been receiving enhanced support from the MHCLG and Homes England. The MHCLG homelessness data collection system, H-CLIC shows that Dorset Council's B&B placements are disproportionately high and this includes families in B&B over the six week statutory limit. [H-CLIC data is available online.](#)
- 8.9 Any household provided with TA by the Council will not be offered a traditional tenancy but is leased the property or room under a licence. The individual / household will be expected to join the Council housing register and actively bid for properties. Accommodation Officers and Resettlement Officers will continue to support the householder in not only bidding for socially rented properties but will help support a search and move into the private rented sector. To prevent overstaying in TA those not actively engaging in the search for long term settled accommodation will after the appropriate warnings have their housing duty discharged and have their licence agreement for the property terminated. Clearly the Council does not want to make someone homeless but equally need to manage the stay in TA so the warnings should act as an incentive to move on.

9 MHCLG Next Steps Accommodation Programme (NSAP)

- 9.1 On 24th May, MHCLG announced £161m would be made available in 2020/21 for 3,300 homes for rough sleepers in the next 12 months. Following this, on 24 June, it was further announced that a fund of £105m to enable local authorities to best support the nearly 15,000 people placed into emergency accommodation during the Covid-19 pandemic would be available.

On the 18th July 2020 the NSAP guidance was released outlining the process of bidding for both for these funds, giving 5 weeks for a bid to be written and submitted by the 20th August deadline.

- 9.2 Dorset Council has been working with colleagues from MHCLG and Homes England to co-produce a bid based on current and future need. In addition a wide variety of partners from Public Health, Dorset Health Care, Homelessness support charities including Julian House, Lantern Trust, Bus Shelter and Shelter, Probation Services, Registered Housing Providers and REACH drug and alcohol support services have all contributed to the production of the bid.
- 9.3 Shortly after the issue of the guidance it became clear that there were some strict criteria and rules attached to the funding. For example, the government are aware there are a high number of single homeless people therefore bids could only be for projects to provide accommodation of single person units. Family accommodation cannot be considered as part of this bidding round. Bids that will provide accommodation by 31 March 2021 will only be considered. Projects that could start this year and be completed mid-way into 2021 will not be considered. Only local authorities can make a bid. Joint projects with RP's where the RP is asking for funding will be considered but the Council must submit the bid on behalf of the RP.
- 9.4 Council's such as Dorset Council that are a non-stock holding authority or are not a registered housing provider could not submit a bid. Therefore the Council has applied to become a registered housing provider to make it eligible for the grant funding. MHCLG have indicated that there will be a 'continuous market engagement phase' where Councils can bid for grant funding to deliver projects that will start this year but would be completed beyond the 31 March 2021 deadline.
- 9.5 In preparing for the bid a full needs assessment of the homeless households Dorset is supporting was undertaken. This involved completing a questionnaire with every single person currently in B&B accommodation asking a wide range of questions ranging from health and wellbeing through to their background and understanding why they were homeless. From this information it was possible to group people into a high, medium and low need categories. The information collected from these assessments has helped inform the strategy of what type of accommodation is needed and where as well as what level of support would be required at the property. Appendix 1 provides some of the findings from the needs assessments. The needs assessments also determined the locations for the property purchases as well as information from the housing register.

- 9.6 The bid to MHCLG has asked for capital and revenue funding to support the following projects listed below. There are other projects that have been included in the bid that do not need capital funding from the Council. As stated above it is not possible to ask for 100% capital grant but the Council has asked for the maximum it is able. If all or some aspects of the MHCLG are not successful there is still a need to create the additional bed space hence the request for the full capital funding amount. The table in section 2 details the level of grant requested for each project and if successful will reduce the amount of capital investment from the Council. As part of the work to meet future need the Council will be applying for further grant funding as part of the continuous market engagement opportunities that if successful would reduce further the capital investment required by the Council.
- 9.6 Because MHCLG have raised concerns about high numbers of homeless households in B&B accommodation in Dorset they have provided support to officers in preparing the bid and have indicated there is backing in MHCLG for the projects identified in Dorset. However, the success of the bid depends on the Council also investing capital funding into the projects. If capital funding is not approved by the Council the MHCLG bids cannot progress.
- 9.7 The projects listed below are those that have been included in the bid to MHCLG along with the estimated capital funding required to deliver them. There are also projects identified for the next financial year that would be included in the next bidding round but some funding would be required this year to purchase the property.

Bridport

- 9.6 The Council has been working for some time with Magna who own a property in Bridport that was used as a refuge with Magna staff accommodation above it. Magna will lease the property to the Council, and the site then converted to provide 10-12 self-contained units for single people. The Council has already earmarked capital funding of £130k but a further £100k is needed to complete the works. The full £100k has been requested as part of the bid. The accommodation will provide a mixture of supported lettings and move on accommodation where support is steadily reduced to then enable a move into the private sector housing market. Future plans include purchasing the freehold from Magna Housing to further reduce pressure on the revenue account and increase income. MHCLG have given positive feedback about supporting this scheme.

Purchase of street properties

- 9.7 The government are keen to support bids where existing accommodation can be purchased for use by local authorities for either TA or wider supported housing options. However the criteria will not give the full 100% grant towards the purchase of a property but will gap fund some of the cost of purchase. The needs assessment has highlighted the urgent need for 1 bedroom units across the whole of Dorset. A mix of locations across the county for properties has been identified based on the needs assessments. It is proposed to purchase 20 x 1 bedroom flats and houses that would be used to support high, medium and low needs households. Those allocated to those with high needs will have additional support provided through a series of projects funded from existing commissioned services. These services are funded from revenue as well as additional support that will be bid for, such as housing first. To purchase 20 units £2.45m capital investment will be required. The Council has asked MHCLG for £807,810 to support this project, which is about £40k per unit.

Appendix 2 provides a detailed breakdown of the average property prices in Dorset, where it is proposed to purchase the units the projected rental income as well as the costs associated with managing the properties. Financial modelling indicates that there would be an annual surplus of £71k after the cost of management, voids and maintenance is taken into account. Capital growth of the asset has not been included in any of the estimates.

Portland YHA

- 9.8 The Council own the leasehold rights to Portland YHA and the YHA have made it known they wish to sell the property, it is on the market for £350k. The Council have entered into an arrangement to lease the YHA at Portland for 6 months at cost of £32 per night per room. To comply with Covid-19 social distancing the current layout restricts numbers to 6 people. However this is still a cheaper option than B&B and because it is classed as a hostel the LHA for each room is £114pw so there is still a shortfall to be met by the Council. The project is split into 2 phases. Phase 1 would be initial purchase securing the property for future use and some works to increase the sleeping capacity from 6 to 9 beds. The total project cost including purchase and refurbishment would be £576k, with a £275k grant applied for. Indications are MHCLG are supportive of this bid. As owner of the property the Council can set the rent levels which would be £144pw and not have to make up the current shortfall. In addition guests would be asked to pay a service charge for lighting, heating and cleaning.

Phase 2 would be the conversion of the property into a 20 – 25 room hostel with en-suite bedrooms, with associated support to those at risk of rough sleeping and returning to the streets.

As it will take several months to complete the necessary planning and design work this project could not be delivered by the MHCLG 31 March 2021 deadline. Therefore further capital funding will be sought in the next phase. It is estimated it would cost £1.65m to undertake the conversion and the Council could ask for £500k towards the cost, but there is no guarantee this will be forthcoming. Appendix 4 shows the estimated costs and savings from this project.

10 Homes Dorset

- 10.1 Homes Dorset Ltd was established by WDDC as a Local Authority Trading Company (LATC) and incorporated as a Private Limited Company on 28th June 2018 with the aim of increasing the supply of housing. As a result of Local Government Reorganisation in April 2019, Dorset Council has obtained 100% ownership of the housing company. It was considered if Homes Dorset would be able to play a role in supporting these bids or bring forward housing schemes.
- 10.2 When the company was created, WDDC purchased £200k of shares in two separate transactions: £50k in December 2018 and £150k in March 2019 with the remaining £3.8m moved from WDDC to the DC accounts. However, following a finance review of all the Dorset Council reserves the funding that was previously earmarked for Homes Dorset is no longer earmarked. That is to say, the new Council is not bound by the predecessor Council's decision to invest in Homes Dorset and that any proposal to invest funds into the company will need approval by Dorset Council.
- 10.3 In early 2020, the two Directors of Homes Dorset Cllr Graham Carr-Jones and the Executive Director for Place along with the Corporate Director for Housing (with external consultancy support from Stephen Blake Consultancy Ltd) began exploring different options of how the Council could best use the company to help address housing issues across the Dorset Council area. This culminated in a half day workshop, held in March 2020, with various members and officers of the Council to gather their input. The workshop considered the current housing issues across the area, what the Council and other providers (Housing associations, developers, etc.) are doing and as a result, which housing issues were not being adequately addressed. It also considered if the Council actually needed a housing company.
- 10.4 The workshop concluded one of the key housing issues not currently being adequately addressed is the availability of suitable housing which can be used on as emergency / temporary accommodation by people presenting themselves as homeless to the Council. It was suggested that the company could use the remaining £3.8m to purchase street properties for use as TA.

Debt funding would be provided as a loan and Homes Dorset Ltd would be required to pay interest payments (and potentially capital repayments) on this loan.

- 10.5 Further exploration of the need for a housing company has determined that at this stage the purchase and management of properties can be undertaken by the Council now it become a RP. If the council were not a RP it would not legally be allowed to own and rent properties and would need a housing company to undertake this function.
- 10.6 When a Council's own housing stock reaches above a certain level (200 houses) it will be necessary for it to create a whole separate finance system called a Housing Revenue Account (HRA) that records expenditure and income on running a council's own housing stock and closely related services or facilities, which are provided primarily for the benefit of the council's own tenants. HRA's are governed by a wide amount of legislation and can be time consuming to administer. This is where having a housing company can be an advantage as it would be possible to register it as an RP and move the stock to the company should Dorset Council not wish to have a HRA.
- 10.7 It is therefore proposed for the time being to leave Homes Dorset as a dormant company whilst ensuring the necessary governance is maintained ready for it to be used as and when necessary.