

## Appendix 2

### Appraisals Abound: Temporary Accommodation Options Business Plan

#### Mid Sussex District Council – Summarised Results June 2018

The summarised Business Plan shows that the Council could make substantial cost reductions by purchasing and leasing properties over the projected 15 year period in comparison to current and assumed future costs incurred in housing homeless households in guest house accommodation.

The Business Plan is based on the Council using c£6.5m of its reserves to acquire 20 units which would produce an overall reduction in running costs of c £5.7m over 15 years. The disposal receipts from the units would generate a capital receipt of c7.8 m which would finance the initial acquisition costs and the capitalised investment into the units over the life of the business plan. The Council could decide to retain the units depending on the demand for temporary accommodation at that point or if it chooses to dispose it could dispose to one of the Housing Associations who provide affordable housing in the district and thus use the units to continue to meet housing need in the district going forward.

By leasing 10 units the Council would achieve cost reductions of c75k per annum when compared with current costs incurred. Over the 15 years of the plan it is forecast that the Council could achieve cost reductions of c£1.4m through the leasing scheme.

### 1. Acquiring Properties

The summarised Business Plan shows that the Council could make substantial cost reductions in comparison to current costs incurred in housing homeless households in guest house accommodation.

#### Assumptions

The 15-year Business Plan provides for the acquisition of 20 units which would replace the current use of guest houses as temporary accommodation.

#### Summary Results

- Initial Investment of £6.6m required to purchase 20 properties, including on-costs associated with purchase
  - Purchase price - £5.7m
  - On costs - £0.9m - Stamp Duty Land Tax at enhanced rates, refurb and fitout, associated fees
- Purchase financed from existing funds and therefore no borrowing costs modelled
- Rental levels modelled at 90% of 2011 Local Housing Allowance rates, running costs at c84% of income in year 1
- Total saving/cost reduction of £5.7m over 15 years identified from reduced running costs

## Overall BP Results

<b>15 Year Business Plan</b>			
	<b>Cash</b>	<b>NPV</b>	
	<b>£'000</b>	<b>£'000</b>	
Acquisition costs	(6,553)	(6,553)	
Revenue	2,341	1,797	
Running Costs	(2,281)	(1,732)	
Capitalised Investment	(1,086)	(760)	
Income from Disposal	7,829	4,673	
	<b>249</b>	<b>(2,575)</b>	
Minimum Revenue Provision			
Interest			
<b>Net performance of Business Plan</b>	<b>249</b>	<b>(2,575)</b>	
<b>Reduction in Current Costs</b>	<b>5,446</b>	<b>4,078</b>	
<b>NPV with cost savings</b>	<b>5,696</b>	<b>1,503</b>	
<b>Please note a positive figures indicates a viable business plan</b>			
Discount rate used	3.50%		

## Average Cost of Unit including On-costs

We have undertaken a review of the demand for properties of our homeless clients which has identified the need for a mixture of 1, 2 and 3 bed properties. We have undertaken a desktop market research exercise of the value of properties available in the 3 main towns of Mid Sussex to arrive at a maximum value that properties can be purchased at. These values will allow the business plan to make a small surplus during the operational stage of it.

Total Acquisition Costs		
Description	Total	Average per unit
Number of units purchased	20	
	£'000	£
Value of units	5,690	284,500
Stamp Duty Rates	266	13,300
Refurbishment / Fit out costs	427	21,338
Acquisition Fees	171	8,535
Irrecoverable VAT	-	-
HCA/GLA Grant Monies	-	-
	6,553	327,673
Average cost per unit	£327,673	
Average grant per unit		
On costs as a %age of value	15.17%	

Analysis of Units				
House Type	Number	Average Weekly Rent £	Average Acquisition Cost £	Gorss Yield %age
1 bed flat	9	125	240,050	2.70%
2 bed flat	-	-	-	-
3 bed flat	-	-	-	-
4 bed flat	-	-	-	-
2 bed house	8	161	375,125	2.23%
3 bed house	3	197	464,000	2.21%
4 bed house	-	-	-	-
	20	150	327,673	2.38%

## Business Plan Assumptions Used

Running Costs/Capitalised Investment Assumptions								
Description	Notes	1 bed flat	2 bed flat	3 bed flat	4 bed flat	2 bed house	3 bed house	4 bed house
Voids in year 1	Enter percentage	8.33%	8.33%	8.33%		8.33%	8.33%	8.33%
Voids thereafter	Enter percentage	11.00%	11.00%	11.00%		11.00%	11.00%	11.00%
Ground rents/service charges	Enter amount per annum for flats only	£1,500.00	£1,500.00	£1,500.00				
Day to day management	Enter amount per annum per unit	£3,350.00	£3,350.00	£3,350.00		£3,350.00	£3,350.00	£3,350.00
Day to day maintenance	Enter amount per annum per unit	£1,500.00	£1,500.00	£1,500.00		£1,500.00	£1,500.00	£1,500.00
Bad debt provision	Enter percentage	5.00%	5.00%	5.00%		5.00%	5.00%	5.00%
Capitalised Investment	£15k every 5 years from year 6	£15,000.00	£15,000.00	£15,000.00		£15,000.00	£15,000.00	£15,000.00
Spare	Enter amount per annum per unit	£0.00	£0.00	£0.00		£0.00	£0.00	£0.00
Spare	Enter amount per annum per unit	£0.00	£0.00	£0.00		£0.00	£0.00	£0.00
Spare	Enter amount per annum per unit	£0.00	£0.00	£0.00		£0.00	£0.00	£0.00

Generic Business Plan Assumptions								
Description	Notes	1 bed flat	2 bed flat	3 bed flat	4 bed flat	2 bed house	3 bed house	4 bed house
Business Plan years	Enter number	15	15	15		15	15	15
Discount rate to be used	Government Green Book	3.50%	3.50%	3.50%		3.50%	3.50%	3.50%
Interest rate to be charged on debt	15 year PWLB monies - 0.2% discount	0.00%	0.00%	0.00%		0.00%	0.00%	0.00%
Type of Loan	Select from Drop Down Box	Maturity	Maturity	Maturity		Maturity	Maturity	Maturity
Rent increase	Enter percentage	0.00%	0.00%	0.00%		0.00%	0.00%	0.00%
Cost inflation	Enter percentage	2.00%	2.00%	2.00%		2.00%	2.00%	2.00%
House price inflation	Enter percentage	2.50%	2.50%	2.50%		2.50%	2.50%	2.50%
Disposal percentage	Enter percentage	95.00%	95.00%	95.00%		95.00%	95.00%	95.00%
Minimum Revenue Provision Required	See separate sheet	See separate sheet						
Forecast Annum Increase in HB Loss	Enter percentage	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Not used								
Not used								

## Summarised Results over 15 Years

Mid Sussex District Council - Property Acquisition Model - Effect on General Fund							
Year	From Properties Acquired				Total £'000	Reduction in Current Costs £'000	Total Cost reductions £'000
	Income from Activities £'000	Running Costs £'000	Interest on Loan £'000	MRP Allowance £'000			
0							-
1	156	(131)	-		25	272	297
2	156	(138)	-		18	283	301
3	156	(140)	-		16	294	310
4	156	(142)	-		14	306	320
5	156	(145)	-		11	318	330
6	156	(147)	-		9	331	340
7	156	(149)	-		7	344	351
8	156	(152)	-		4	358	362
9	156	(154)	-		2	372	374
10	156	(157)	-		(1)	387	386
11	156	(160)	-		(4)	403	399
12	156	(162)	-		(6)	419	412
13	156	(165)	-		(9)	435	426
14	156	(168)	-		(12)	453	441
15	156	(171)	-		(15)	471	456
Total	2,341	(2,281)	-	-	60	5,446	5,506

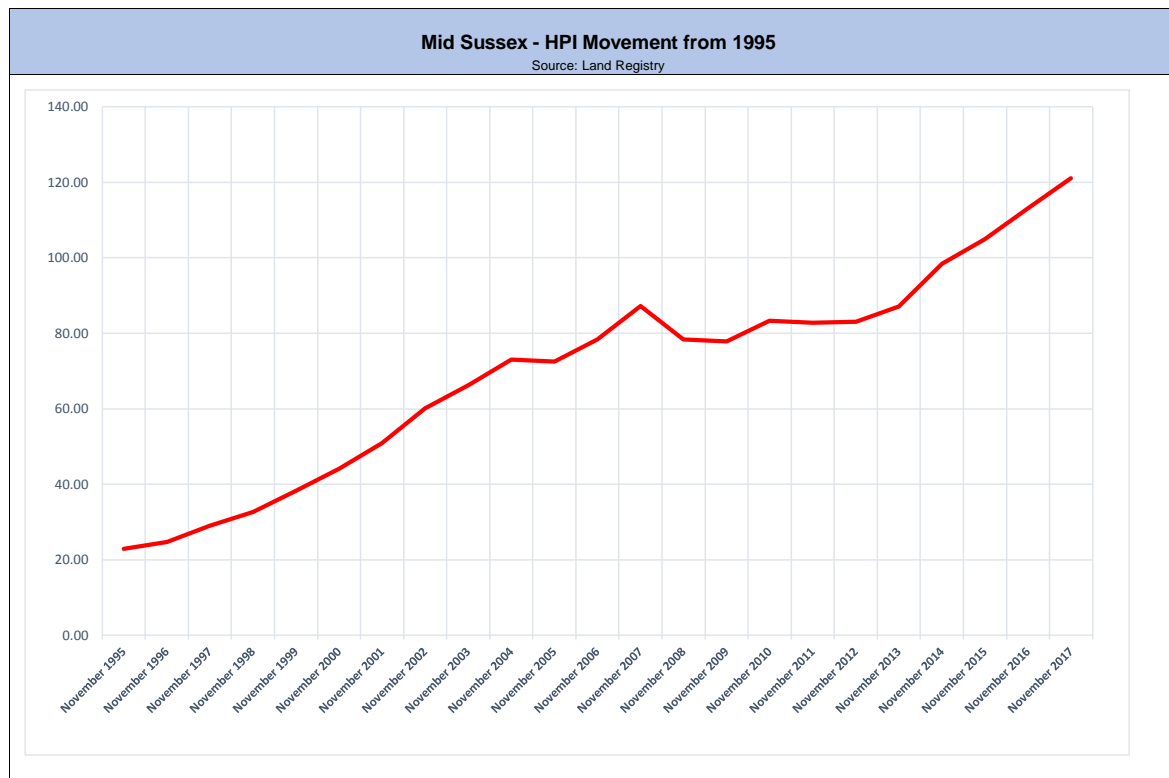
## Split of Running Costs

Breakdown of Running Costs					
Year	Voids	Management	Maintenance	Service Charges	Total
	£	£	£	£	£
1	(20,803)	(67,000)	(30,000)	(13,500)	(131,303)
2	(24,970)	(68,340)	(30,600)	(13,770)	(137,680)
3	(24,970)	(69,707)	(31,212)	(14,045)	(139,934)
4	(24,970)	(71,101)	(31,836)	(14,326)	(142,233)
5	(24,970)	(72,523)	(32,473)	(14,613)	(144,579)
6	(24,970)	(73,973)	(33,122)	(14,905)	(146,971)
7	(24,970)	(75,453)	(33,785)	(15,203)	(149,411)
8	(24,970)	(76,962)	(34,461)	(15,507)	(151,900)
9	(24,970)	(78,501)	(35,150)	(15,817)	(154,438)
10	(24,970)	(80,071)	(35,853)	(16,134)	(157,028)
11	(24,970)	(81,673)	(36,570)	(16,456)	(159,669)
12	(24,970)	(83,306)	(37,301)	(16,786)	(162,363)
13	(24,970)	(84,972)	(38,047)	(17,121)	(165,111)
14	(24,970)	(86,672)	(38,808)	(17,464)	(167,914)
15	(24,970)	(88,405)	(39,584)	(17,813)	(170,772)
	(370,383)	(1,158,659)	(518,803)	(233,461)	(2,281,306)

## House Price Inflation in Mid Sussex

The table below shows the average house price inflation since 1995 (source: Land Registry)

Mid Sussex - HPI Movement from 1995			
Source: Land Registry			
Year	Index	Annual Movement %age	Cumulative Movement %age
November 1995	22.90		
November 1996	24.67	7.73%	7.73%
November 1997	28.99	17.51%	26.59%
November 1998	32.70	12.80%	42.79%
November 1999	38.27	17.03%	67.12%
November 2000	44.10	15.23%	92.58%
November 2001	50.85	15.31%	122.05%
November 2002	60.10	18.19%	162.45%
November 2003	66.26	10.25%	189.34%
November 2004	73.07	10.28%	219.08%
November 2005	72.48	-0.81%	216.51%
November 2006	78.38	8.14%	242.27%
November 2007	87.21	11.27%	280.83%
November 2008	78.36	-10.15%	242.18%
November 2009	77.79	-0.73%	239.69%
November 2010	83.26	7.03%	263.58%
November 2011	82.74	-0.62%	261.31%
November 2012	83.07	0.40%	262.75%
November 2013	87.12	4.88%	280.44%
November 2014	98.35	12.89%	329.48%
November 2015	104.92	6.68%	358.17%
November 2016	113.11	7.81%	393.93%
November 2017	121.10	7.06%	428.82%
Net change over past year			7.06%
Net change over 5 years			45.78%
Net change over 10 years			38.86%
Average annual HPI compounded from 1995			7.86%



Mid Sussex HPI and Ranking to Sussex Councils		
Source: Land Registry		
Description	%age	Position
Average annual HPI over 22 years	7.86%	7
Average annual HPI over 10 years	3.34%	3
Average annual HPI over 5 years	7.83%	7
HPI over last 12 months	7.06%	6
HPI over last 6 months	7.52%	4

### **Other Considerations**

The following paragraphs highlight other considerations that the Council may wish to consider if it wishes to implement the business plan.

### **Specification of Properties**

It is imperative that the Council decides upon the specification and quality of unit it wishes to purchase before embarking upon the purchase of them. This will avoid unnecessary work and potential abortive costs in relation to investigating properties. It will also provide direction to the acquisition team to ensure that the correct units are purchased.

Particular attention should be paid when looking at purchasing flats, especially in relation to the lease terms and future major repairs that are planned for the block that they are in.

### **Acquisition of Properties**

Whilst the Council needs to ensure that it adheres to its procurement rules it needs to create a streamlined approach in order for properties to be purchased as quickly as possible. It may possibly need to appoint the following consultants to carry out the acquisition due diligence

- A project manager to manage the process (this could be an internal resource)
- Solicitors for conveyancing purposes
- Valuation advice and property surveys
- Incentivise local Estate Agents to ensure that the Council receives forward notification of available properties

### **Management Arrangements**

The Council need to consider the management arrangements in relation to the option(s) it decides to pursue. It is possible to split the management arrangements between housing management and property management.

The Council may consider to carry out the housing management internally whilst externalising the property management and utilise its arrangements with its existing property management provider.

The business plan that has been created assumes that the Council will carry out the management of the units purchased internally and the Council has provided the costs of employing two members of staff to provide this service.

It is possible that if the Council combines the use of PSL properties together with the acquisition of units that there will be some management costs savings as these members of staff may be able to carry out both areas of activity and therefore savings will accrue as the initial costs are contained within the acquisition of units business plan.

## 2. Private Sector Leasing Results

### Assumptions

10 properties leased/rented from private sector at 85% of market rent  
 Business Plan run for 15 years  
 Replace use of current guest house

### Results

£1.4m of savings/cost reductions identified over 15 years

### Table of Assumptions

Mid Sussex District Council - PSL Leasing Model						
Description	1 bed flat	2 bed flat	2 bed house	3 bed house	4 bed house	Total
<b>Unit Numbers and Rents Paid to Landlord</b>						
Number of Units	4	0	4	1	1	10
Full Market Rent (Monthly)	£800	£900	£1,100	£1,300	£1,500	£10,400
Discount Received	15%	15%	15%	15%	15%	
<b>Net Rent to be paid</b>	<b>£680</b>	<b>£765</b>	<b>£935</b>	<b>£1,105</b>	<b>£1,275</b>	<b>£8,840</b>
<b>Other Annual Costs to MSDC</b>						
Management Costs	£2,000	£2,000	£2,000	£2,000	£2,000	£20,000
Maintenance Allowance	£500	£500	£500	£500	£500	£5,000
Council Tax						£0
Utility Bills						£0
Service Charges & Ground Rent						£0
Spare						£0
Spare						£0
Spare						£0
Spare						£0
Spare						£0
<b>Totals</b>	<b>£2,500</b>	<b>£2,500</b>	<b>£2,500</b>	<b>£2,500</b>	<b>£2,500</b>	<b>£25,000</b>
<b>Initial Furnishing Cost of Units</b>						
Do you want to model this?	No	No	No	No	No	
Initial budget for furnishing unit	£5,000	£6,000	£6,000	£7,000	£8,000	
Replacement Every XX years	3	3	3	3	3	
<b>MANUAL ADJUSTMENT REQUIRED IN COLUMN AT ONCE REPLACEMENT PERIOD HAS BEEN SET</b>						
<b>Income to MSDC</b>						
Rental Income - Based on 2011 LHA Rates	£540	£697	£697	£855	£1,305	7,110
Income from Resident						0
Other Income						0
Other Income						0
Other Income						0
<b>Totals</b>	<b>£540</b>	<b>£697</b>	<b>£697</b>	<b>£855</b>	<b>£1,305</b>	<b>£7,110</b>
<b>Other Business Plan Assumptions</b>						
Description	Amount					
Length of Business Plan in Years	15					
Discount Rate to model	3.50%					
Average Current HB Loss (Annual figure)	£13,600					
Annual Void and Bad Debt Allowance	16.00%					
Annual Rent Cost Inflation	3.00%					
Annual Inflation - Other Costs	2.00%					
Annual Rent Income Inflation	0.00%					
Forecast Annual Income in HB Loss	4.00%					
Spare						
Spare						
Spare						
Spare						
Spare						

## Summarised Results

Mid Sussex District Council - PSL Business Plan Results											
Income and Expenditure within General Fund											
Year	Rent Income	Other Income	Voids	Rent Payments	Mgmt	Mtnce	Other	Furnishing	Annual Surplus / (Deficit)	Reduced Costs from Current Position	Net Savings / (Costs)
	£	£	£	£	£	£	£	£	£	£	£
1	85,315	0	(13,650)	(106,080)	(20,000)	(5,000)	0	0	(59,416)	136,000	76,584
2	85,315	0	(13,650)	(109,262)	(20,400)	(5,100)	0	0	(63,098)	141,440	78,342
3	85,315	0	(13,650)	(112,540)	(20,808)	(5,202)	0	0	(66,886)	147,098	80,212
4	85,315	0	(13,650)	(115,916)	(21,224)	(5,306)	0	0	(70,782)	152,982	82,199
5	85,315	0	(13,650)	(119,394)	(21,649)	(5,412)	0	0	(74,791)	159,101	84,310
6	85,315	0	(13,650)	(122,976)	(22,082)	(5,520)	0	0	(78,914)	165,465	86,551
7	85,315	0	(13,650)	(126,665)	(22,523)	(5,631)	0	0	(83,155)	172,083	88,928
8	85,315	0	(13,650)	(130,465)	(22,974)	(5,743)	0	0	(87,518)	178,967	91,449
9	85,315	0	(13,650)	(134,379)	(23,433)	(5,858)	0	0	(92,006)	186,125	94,119
10	85,315	0	(13,650)	(138,410)	(23,902)	(5,975)	0	0	(96,623)	193,570	96,947
11	85,315	0	(13,650)	(142,563)	(24,380)	(6,095)	0	0	(101,373)	201,313	99,940
12	85,315	0	(13,650)	(146,840)	(24,867)	(6,217)	0	0	(106,260)	209,366	103,106
13	85,315	0	(13,650)	(151,245)	(25,365)	(6,341)	0	0	(111,287)	217,740	106,454
14	85,315	0	(13,650)	(155,782)	(25,872)	(6,468)	0	0	(116,458)	226,450	109,992
15	85,315	0	(13,650)	(160,456)	(26,390)	(6,597)	0	0	(121,778)	235,508	113,730
16	0	0	0	0	0	0	0	0	0	0	0
17	0	0	0	0	0	0	0	0	0	0	0
18	0	0	0	0	0	0	0	0	0	0	0
19	0	0	0	0	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0	0	0	0	0
21	0	0	0	0	0	0	0	0	0	0	0
22	0	0	0	0	0	0	0	0	0	0	0
23	0	0	0	0	0	0	0	0	0	0	0
24	0	0	0	0	0	0	0	0	0	0	0
25	0	0	0	0	0	0	0	0	0	0	0
26	0	0	0	0	0	0	0	0	0	0	0
27	0	0	0	0	0	0	0	0	0	0	0
28	0	0	0	0	0	0	0	0	0	0	0
29	0	0	0	0	0	0	0	0	0	0	0
30	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>1,279,718</b>	<b>0</b>	<b>(204,755)</b>	<b>(1,972,973)</b>	<b>(345,868)</b>	<b>(86,467)</b>	<b>0</b>	<b>0</b>	<b>(1,330,345)</b>	<b>2,723,208</b>	<b>1,392,863</b>
<b>NPV</b>	<b>982,602</b>	<b>0</b>	<b>(157,216)</b>	<b>(1,486,475)</b>	<b>(262,218)</b>	<b>(65,555)</b>	<b>0</b>	<b>0</b>	<b>(988,862)</b>	<b>2,039,083</b>	<b>1,050,221</b>

## Overall savings

The table demonstrates the possible reduction in costs to the Council if it acquires 20 units and leases 10 private sector leased properties (PSL). These figures will change throughout the life of the business plan and will be driven



by the demand for properties. The reduction in guest house costs will be driven by reduction in the number of households that we have to place in guest houses. The surplus from disposal is a projected figure taking into account the money that has been spent on the maintenance and management of the properties over the 15 year period of the business plan.

<b>Comparison of Performance to Current Costs</b>					
Year	Annual Surplus / Loss i.e. Income less Running Costs		Cost reduction in NOT using B&B accommodation		Annual Reduction in Costs
	20 Acquired Units	10 PSL Units	20 Acquired Units	10 PSL Units	
	£'000	£'000	£'000	£'000	£'000
Year 1	25	(59)	272	136	373
Year 2	18	(63)	283	141	380
Year 3	16	(67)	294	147	391
Year 4	14	(71)	306	153	402
Year 5	11	(75)	318	159	414
Year 6	9	(79)	331	165	427
Year 7	7	(83)	344	172	440
Year 8	4	(88)	358	179	454
Year 9	2	(92)	372	186	468
Year 10	(1)	(97)	387	194	483
Year 11	(4)	(101)	403	201	499
Year 12	(6)	(106)	419	209	516
Year 13	(9)	(111)	435	218	533
Year 14	(12)	(116)	453	226	551
Year 15	(15)	(122)	471	236	570
<b>Total after Year 15</b>	<b>60</b>	<b>(1,330)</b>	<b>5,446</b>	<b>2,723</b>	<b>6,899</b>
Surplus from Disposal of Units at end of Year 15					190
Total reduction in costs					<b>7,089</b>

## Other Options

This section of the report considers other options that the Council may wish to investigate.

### Purchasing void units from other Councils/RPs

This option is a variant on purchasing individual properties on the market, however the Council may be able to purchase the units in bulk and receive a discount on the original purchase price.

The success of this proposal will be driven by the number, location and state of repair of the units within Mid Sussex.

### Purchasing Blocks of Existing Flats

Whilst this option is likely to be financially viable, these blocks are normally occupied and therefore the Council is likely to receive negative publicity as in effect they are making people homeless to house the homeless.

### Purchasing off plan units in a new build development

This option maybe viable, however it is likely that the original purchase price will be greater than buying existing properties. There is also likely to be a lead in time of c18 to 24 months before the properties become available.

This option may work financially if the Council purchased a block of flats from the development.

### Purpose Built Accommodation

The Council could consider purchasing an existing piece of land or utilise some of its land holding to create a purpose-built hostel. Whilst this may work financially, the lead in time is likely to be between 2 and 4 years and therefore is more of a long-term solution.