

To: Cabinet – 15 September 2021
Council – 04 October 2021

Report of: Executive Director of Housing

Title of Report: A bid for Government Rough Sleeping Accommodation Programme funding to boost the supply of accommodation to prevent homelessness and reduce rough sleeping, and match-investment funding from Oxford City Council.

Summary and recommendations	
Purpose of report:	To seek approval to proceed with the bid to MHCLG for funding from the Rough Sleeping Accommodation Programme (RSAP) and to agree to include the required capital match funding in the Council’s budget.
Key decision:	Yes
Cabinet Member:	Councillor Blackings Cabinet Member for Affordable Housing, Housing Security and Housing the Homeless
Corporate Priority:	Deliver more, affordable housing
Policy Framework:	Housing and Homelessness Strategy
Recommendations: That Cabinet resolves to:	
<ol style="list-style-type: none"> 1. Agree the Rough Sleeping Accommodation Programme bid and the further £2m investment in the National Homelessness Property Fund by the Council; 2. Recommend to Council that budget provision is agreed for the required match funding of £2m; and 3. Delegate to the Executive Director of Housing the entering into of supporting agreements. 	

Appendices
None

Background and Strategic Context

1. The Homelessness Reduction Act 2017 places a statutory duty on Housing Authorities to prevent all households from becoming homeless. This prevention activity is a key responsibility for the Housing Needs Service. If homelessness cannot be prevented, or otherwise relieved, this duty often extends to the provision of emergency interim accommodation, or temporary accommodation (TA).
2. The Council has 114 units of TA used for this purpose. When there is no suitable TA accommodation available, then nightly charge placements have to be made into hotels (noting that homelessness legislation states that no families with children should be placed in B&B/hotel accommodation for more than 6 weeks). Despite an initial spike at the start of the pandemic, the trends show the number of households requiring TA has been decreasing overall, despite in-year fluctuations.
3. However, since the introduction of the Homelessness Reduction Act, there has been a marked increase in the proportion of single vulnerable people placed into TA. Single people now occupy over 50% of temporary accommodation and many have high/complex support needs that exceed the accommodation and support provision traditionally offered by the Council. This is causing particular pressure in nightly charge where some single people with high needs stay for prolonged periods of time due to their risk, making placement difficult.
4. In addition, over this time period, the requirement for two bed TA units (acquired in the General Fund) has decreased due to improved prevention work, and therefore the rental income revenue predictions are not being realised due to higher than predicted numbers of voids.
5. A review of the strategy for temporary accommodation highlights work streams required to improve the accommodation supply, to better fit changes in demand. This work is underway and will be the subject of further reports to Cabinet in due course.
6. This report is confined to a proposal that will form part of that strategy and will start to redress the balance of supply and demand for appropriate sized temporary accommodation.

Proposal for further Social Investment in the National Homelessness Property Fund (NHPF2)

7. The Council has invested approx. £10m to date in the NHPF. This comprised of an initial investment of £5m (approved by Council in Sept 2015) as one of the initial funders of the national fund (outside of London), alongside Bristol City Council and Milton Keynes Borough Council, who each invested £5m, plus Big Society Capital who provided a £15m (match funding) investment. The purpose was to enable access to more affordable accommodation locally to help prevent homelessness and reduce temporary accommodation use. The first close of the Fund was in Dec 2015. The Council has since invested another £4.745m. Bristol City has also increased its investment by £5m, and a number of smaller investors and trusts have invested also. These subsequent closes have brought the fund total to £43.6m which has now been fully deployed in Oxford, Bristol and Milton Keynes. The fund closed for investment in Dec 2018, having purchased 229 properties – 69 of them in the Oxford area.
8. As a social impact investment, the Council is also able to see a financial return on the investment, in line with the principles of a balanced treasury management

strategy as well as delivering accommodation to be used for homelessness prevention. The loan was not undertaken using treasury management powers because the balance of service benefits was greater and so service powers were used. The Council used mixed funding sources for this investment, including the use of retained right to buy receipts and borrowing. The fund is now delivering a cash yield of 2% in line with projections and subject to quarterly review, with quarterly distribution of profits. Resonance is expecting the cash yield to increase to 2.3% this summer (2021), excluding any capital variations. In Oxford, the exclusive nominations agreement between St Mungo's, who manage the properties and support clients to sustain the tenancy and then move-on, and the Housing Needs private rented team, have resulted in 107 households having their homelessness prevented, comprising 140 Adults and 137 Children (to Jan 2021).

9. The primary exit strategy for this NHPF (ending Dec 2024) is for Resonance, the Fund Managers, to create a "follow on fund" primarily invested in by large scale institutional investors such as pension funds, who which can acquire the existing housing portfolios from existing investors. This will allow Oxford to release its investment, plus any capital growth, while leaving the property for the Council to access in beyond this period.
10. Resonance has now launched another national fund (NHPF2), specifically targeted at reducing rough sleeping. The legal structure will be the same as before, with a Unit Trust sitting above a Limited Partnership. The length of this fund will be ten years (to the end of 2030). The target size for the fund is at least £100m. £21.3m of funding has already been invested – predominantly from the North West (Greater Manchester Combined Authority and Greater Manchester Pension Fund, with match-funding from Big Society Capital). Another local Authority is expected to invest shortly (in a similar arrangement to that being proposed for Oxford City).
11. As an existing investor, Resonance is keen to continue the relationship with Oxford, and has proposed that the Council invest in this new national fund (NHPF2). In summary, the proposition is that Oxford City Council invests c. £2m in this ten-year fund. Resonance would then match-fund this by a further £2m from trusts and investors, and a joint funding bid to the MHCLG through the RSAP bid round, would request that MHCLG also match fund by c.£2m. This would create a £6m fund to invest in property in the Oxford area. It is estimated that this could fund approx. 47 bed spaces to support rough sleepers from the streets and into independent living. More information is provided on the acquisition approach below.
12. Resonance is in partnership with Response, a local housing and support provider for this initiative and the Council would engage with them with regards to nomination and support arrangements. £543k revenue funding for support up to April 2024 is part of the RSAP bid.
13. The proposal is for the Council to invest up to £2m in the NHPF2. This has formed part of a bid to the RSAP programme that was submitted by the 1st July deadline. At the time of writing the outcome of our bid is still awaited.

Property Acquisition

14. The £6m investment (£2m NHPF2 fund, £2m MHCLG, £2m Oxford Council) is proposed to be deployed as follows:

- 50% portfolio split into 3-4 Bed HMOs in Oxford City equating to c. £310k per unit (purchase price, acquisition costs, refurbishment) equating to c.10 units or min 30 bed spaces (more if the odd 4 bed property is acquired) – This approach ensures no completion in the city one bed acquisition market with the current RSAP funding initiative
- 50% portfolio spend on 1 bed flats outside of Oxford City c.£175k total investment per unit as above. Equating to 17 units. (Property to be sought in 'Next nearest' areas adjacent to the city and well connected to services and public transport)

15. For the 47 bed spaces - this would equate to a cost to Oxford of c£42k per bed space which is considered excellent value for money.

Support Provision and Nominations

16. The support package and tenant pathway will be bespoke to Oxford's needs and to fit with Response's operational reach and support model. The support arrangements are yet to be fully determined. Nomination agreements and support costs to fund these beyond RSAP revenue funding are yet to be confirmed although there is an expectation that future MHCLG programmes will seek to provide projects that are already supported with grant with further revenue support, this is subject to the Autumn spending review.

Financial Implications

17. Whether the money advanced to the Fund is undertaken through reliance on investment powers, or statutory powers driven by service objectives, it would be deemed capital expenditure. It would be an Unregulated Collective Investment Scheme for the purpose of Financial Services and Markets Act 2000.

18. Where the Council incurs capital expenditure funded by borrowing, it needs to consider whether a Minimum Revenue Provision (MRP) is necessary to pay for the capital cost incurred and if so, how much. The Head of Financial Services considers that there is no requirement to make an MRP over the term of the investment because the capital receipt would be used to repay the debt liability at the end of the investment period. This approach has previously been accepted by the Council's auditors with regards to the previous NHPF investment.

19. As this fund is targeted on a wider geography than the first national fund, and is focused on one bed homes for vulnerable single persons, the financial modelling is different – indeed more favourable for investors. The key financial assumptions are:

- Ten year fund (to end 2030)
- Target NIY – 4% average
- Target Cash Yield – 3% to Investors
- Lease Rent – Local Housing Allowance

- Assumption on Rent Increase – 2% in model but will be driven by any changes to LHA at 31st March rather than fixed amount
- Capital Appreciation Assumption – 4% per annum
- Target IRR - 5% (income during life of fund plus value of properties at exit)
- Investor Reporting – as per other funds Quarterly Investor Reporting, Annual Social Impact Report as well as Advisory and Annual General Meeting

20. At the end of the ten years, the expectation is that the Council would take out its investment (so no MRP) and an institutional investor/ pension fund would then take it over. The Council can continue to have access to the properties in beyond this period and into the future.

21. An investment on the proposed business case and model, as outlined above, is considered viable and cost effective, with the expected returns exceeding the equivalent borrowing rate from the PWLB on a ten-year fix.

22. This initiative does not provide a base revenue saving to the Council's homelessness budget but does mitigate the risk of a pressure on this budget.

Legal issues

23. The Local Government Act 2003, section 12, provides a local authority with the power to invest for "any purpose relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs".

24. In entering into arrangement to invest or obtain funding the Council will be required to adhere to contracts terms under agreement.

25. Any such agreements will be reviewed and negotiated by Oxford City Council Legal Services as per normal process and procedure.

Equalities impact

26. There is a positive impact around securing suitable and affordable accommodation locally for vulnerable homeless households in high housing need.

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Background Papers: None

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