

**Meeting:** Cabinet **Date:** 13 February 2024

**Wards affected:** Tormohun

**Report Title:** Leonard Stocks Acquisition

**When does the decision need to be implemented?** 21<sup>st</sup> February 2024

**Cabinet Member Contact Details:**

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## 1. Purpose of Report

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- 1.1 This report seeks approval to acquire the Leonard Stocks Homeless Hostel building and applicable packages of land, and to assume the grant liability attached to the site which is held with Homes England.
- 1.2 The acquisition would result in Torbay Council owning the entirety of the site and having full control the asset and subsequent income generated from Housing Benefit which will enable the provision to be operated more efficiently.
- 1.3 Owning the building and land in full would also provide Torbay Council more flexibility and options in the future, in terms of transitioning to a new model of service provision and future development of the Castle Circus area.

## 2. Reason for Proposal and its benefits

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- 2.1 The Leonard Stocks building and much of the land it sits on is currently owned by Langley House Trust (LHT), with one parcel of land owned by Torbay Council and leased to LHT in return for full nomination rights enforced via a Nomination Agreement.
- 2.2 In 2021, LHT approached Torbay Council with an offer to sell the building and their land holdings to Torbay Council for £1. It is understood that on review of their business model

and national footprint, LHT no longer see the Leonard Stock's Hostel as 'core business' and it now sits outside of their geographic focus.

- 2.3 LHT's alternative to selling to Torbay Council, would be either a) sell the building to another party (which would affect the deliverability of the service), or b) cease operation and management. As there is evident need for hostel-type provision, the impact of option b) would be that Torbay Council would need to set up alternative provision elsewhere.
- 2.4 The Leonard Stocks Hostel is Torbay's only purpose-built short term homeless hostel and is equipped to tackle rough sleeping and rehabilitation for multiple complex needs. It is a crucial part of Torbay's rough sleeping and homelessness strategy (2020-2025), and demand is always high for the services it provides.
- 2.5 The expected benefits of acquiring the site are:
- The Council maintains and enhances its only Homeless provision and remains compliant against legislative duties.
  - The Council would be able to utilise some of the income from Housing benefit to offset the operational staffing costs, in line with regulations (subject to agreement).
  - There would be potential to use some of the additional income (as outlined in section **Error! Reference source not found.**) to support the service offer which were identified by a commissioned report in 2022.
  - We would own the site in its entirety which would afford us regeneration and development options in the future should we move to a different model of delivery for our homeless provision.
  - We would be able to influence the positive regeneration of the wider regeneration of Union Square and Temperance Street.
  - There could be an opportunity (in the future) around adding solar PV and air source heat pumps. This would help to offset the Council's operational costs of running the building and demonstrate a continuous level of investment. This would also support the council's ambitions towards carbon neutrality.

### 3. Recommendation(s) / Proposed Decision

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1. That, subject to completion of all necessary due diligence, the Director of Pride in Place be authorised to proceed with the acquisition of the Leonard Stocks homeless hostel, with the Chief Executive to be given delegated authority to implement all necessary actions to achieve the same.
2. The Director of Adult and Community Services prepare options for discussion with the Cabinet Member for Adult and Community Services and all Group Leaders, as to how any residual income resulting from this acquisition can be best used to support the work of the hostel.

## **Appendices**

Business Case

## **Background Documents**

N/A

## 1. Introduction

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### Reason for change

- 1.1 The Leonard Stocks building and much of the land it sits on is currently owned by Langley House Trust (LHT), with one parcel of land owned by Torbay Council and leased to LHT in return for full nomination rights enforced via a nomination's agreement.
- 1.2 In 2021 LHT approached Torbay Council with an offer to sell the building and their land holdings to Torbay Council for £1. It is understood that on review of their business model and national footprint LHT no longer see the Leonard Stock's Hostel as 'core business' and it sits well outside of their usual business footprint geographically.
- 1.3 LHT's alternative to selling to Torbay Council would be either a) sell the building to another party (which would affect the deliverability of the service), or b) cease operation and management. As there is evident need for hostel-type provision, the impact of option b) would be that Torbay Council would need to set up alternative provision elsewhere.

### Strategic Need

- 1.4 The level of homelessness within Torbay is higher than the national average. Throughout June 2023, 54 cases of homelessness/rough sleeping were recorded, an increase of 54% in the last year. At its peak, 35 people were identified as sleeping rough in a single night.
- 1.5 Since the start of 2023, 7 individuals known to Torbay Council, have died whilst rough sleeping. Those affected by homelessness are 10 times more likely to die prematurely than those of a similar age in the general population; the life expectancy of a homeless person is just 47 years. The situation in Torbay is further nuanced with an estimated 55% of street homeless adults having some form of substance misuse problem, and an additional number suffering from complex mental health issues.
- 1.6 The Leonard Stocks Hostel is Torbay's only purpose-built short term homeless hostel and is equipped to tackle rough sleeping and rehabilitation for multiple complex needs. It is a crucial part of Torbay's rough sleeping and homelessness strategy (2020-2025), and demand is always high for the services it provides.

- 1.7 Torbay Council is required to take reasonable steps to help homeless clients secure suitable accommodation for at least 6 months. Without this provision the Local Authority would be required to look at alternative solutions such as other temporary accommodation or Hotel and Bed & Breakfast accommodation. However, such accommodation is often in short supply (particularly in peak tourist season) and is unsuitable for long-term occupation. Furthermore, it is expensive, and not all costs can be recovered from Housing Benefit, leading to a risk of significant revenue pressure on the Council's budgets.
- 1.8 A wider model of accommodation and support is being developed, to ensure sufficiency of supply. This will form part of the homelessness and Rough Sleeping Strategy which will commence development in January 2024. The wider model of delivery is currently limited and is in the form of leased step-down accommodation. Also, hotels will no longer take this client group due to other local authorities placing in our area, therefore impacting on the availability of accommodation.

### **Practical Considerations**

- 1.9 Development of the building was supported by £2.6m of Homes England grant in 2008. The sale of a grant-funded asset by an RP normally triggers a 'repayment event' in line with Homes England's Capital Funding Guide; however, there is an exception where the purchaser is also an RP, and where the scheme continues to provide an equivalent affordable housing product. This would apply to the Council's proposed acquisition, meaning that a repayment obligation is not triggered.
- 1.10 Notwithstanding the above, officers consider that the site may offer an opportunity for long-term town centre regeneration. As this would involve demolishing/repurposing the building, this would normally trigger a repayment event in the future. However, LHT and Council officers have mitigated this by renegotiating with Homes England to a) limit the value of the grant obligation to the asset's current Red Book market value of £1.275m; and b) limit the obligation to ten years from the date of signing a Deed of Covenant. If the facility ceases to be used for this purpose within 10 years, the original grant obligation would be recoverable by Homes England without discount.
- 1.11 Officers have secured an advantageous position in so far as the building's purchase helps to safeguard vital homeless accommodation in the Town Centre, whilst offering an opportunity to unlock a high-profile regeneration opportunity in the long-term. The minimum retention period of 10 years also gives the Council time to work out its longer-term ambitions and develop and put into operation more appropriate forms of homeless accommodation throughout The Bay, to reflect local need (and modern best practices of

such accommodation). Officers anticipate that should market values drop, there may be further opportunities to negotiate again with Homes England in due course.

## Operational Considerations

- 1.12 Previously the support provider was unable to deliver adequate through-put of clients through the site, with some clients being in place for as long as 5 years. In addition, there was an ongoing issue around the antisocial behaviour around the top end of Torquay Town. However, as of February 2023, Torbay Council have taken on the support and management element of the Homeless shelter due to being unable to source a suitable support provider through the Multiple Complex Needs (MCN) Alliance. This is currently in the form of an SLA with LHT, where they remain the responsible registered provider and Torbay Council get paid to undertake the administrative function related to the housing management. This allows for maximum Housing Benefit to be reclaimed for the accommodation.
- 1.13 Since Torbay Council management has been in place there has been a demonstrable improvement in throughput of clients through the service from the average stay of tenants being around 506 days in Feb 2023 down to a current average of 204 days in November 2023. This increased throughput enables more bed spaces to be available, therefore increasing the off the street provision for street homeless and those with complex needs.
- 1.14 The new management at the hostel has also implemented new initiatives to deal with the anti-social behaviour such as curfews and enhanced liaison with the police leading to an increased police presence and number of dispersal orders for those who have a negative influence on the hostel clients.
- 1.15 Although the service is now showing significant improvements, the onboarding and bolstering of staff for the service into Torbay Council employment has increased the operational costs for the service. Where appropriate in line with housing benefit regulations, it is expected that some of these costs may be absorbed or offset by the income generated by the scheme from Housing Benefit as identified in section **Error! Reference source not found.**

## Other Considerations

- 1.16 Leonard Stocks is near Union Square shopping centre and Temperance Street, an area identified for development as part of the Town Investment Plan work to improve the

vibrancy of the town centre, reduce the area's dominance of secondary retail and increase the residential footprint within town.

- 1.17 The schemes are high value projects, aimed at supporting working families into the town centre. This is a key part of the place-based regeneration of Torquay, and it is crucial that the two sites' redevelopment lead to a step-change in the profile and vibrancy of the town centre, if they are to lead to successful regeneration outcomes. As part of this place-based regeneration strategy it is therefore essential to consider whether any wider regeneration needs to take place, to support Union Square and Temperence Street to succeed.
- 1.18 The reality is that whilst it is an essential resource for the community in Torquay, the Leonard Stock's model is dated, in so far as it is a large concentration of highly vulnerable, complex needs individuals in a single place, in what is effectively a cul de sac. It is surrounded by disused brownfield land, which attracts anti-social behaviour itself; it also – by virtue of the vulnerable client group living in the site and having minimal natural surveillance – attracts (or risks attracting) antisocial behaviour by residents, visitors, and other people.
- 1.19 The modern approach is to move towards a dispersed model of such accommodation, whereby smaller facilities are built in multiple locations to help reduce both the impact and likelihood of antisocial behaviour. The reality is that it would be more difficult to achieve this outcome if the site is not in our control and this is therefore a welcome opportunity to take strong place-based leadership in the future success of Torquay.
- 1.20 The Homelessness and rough sleeping strategy is currently being developed and has an aspiration to move towards a dispersed model of delivery that recognises the complex levels of care and support required for the client group. Acquiring this site increases the Council's land ownership in a key area of the town and will allow us options and flexibility in the future to incorporate this site in the regeneration around the Castle Circus area. There is a risk that if we do not exercise the ability to purchase the asset now, we may lose an ability for long-term regeneration if whomever does purchase the site takes a different view about the longevity of the existing building. There is also a risk that this will cost us more.

## 2. Options under consideration

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### Option 1 - Do Nothing

- 2.1 We could choose to do nothing and let LHT decide the future of the site. LHT have stated that they would seek to change the operational model of the service or cease operation entirely if Torbay Council are unable to purchase the land and building from them.
- 2.2 Although unlikely due to the grant liability, LHT may be able sell the building to an external 3rd party and new nomination rights would have to be secured. This could potentially lead to a reduced number of spaces for Torbay referrals.
- 2.3 The **benefits** of this option are:
- No financial risk in relation to the acquisition of a capital asset, or revenue operation
  - 'Risk adverse' approach – no expenditure; no liability.
- 2.4 The **risks** associated with this option are dependent on a few scenarios based on how LHT will proceed:
- 2.4.1 Should the Council not proceed to purchase, and the LHT close the building:
- significant investment by Torbay Council (or another provider) would be required to re-provide an equivalent service elsewhere in The Bay.
  - The staff which have just been TUPE over to Torbay Council would be at risk of redundancy or redeployment.
  - Potential failure in our legislative duties if a suitable service is not available.
  - Significant reputational damage if we are unable to secure a suitable alternative as well as and relationship breakdown with the current owner/wider community.
- 2.4.2 Should LHT sell the facility to another provider:
- New nomination rights would need to be agreed. There is a risk that the Council may not be able to secure 100% nominations from a new provider.
  - New lease for the land would have to be agreed which would constrain the land for the foreseeable future and make any future acquisition more complex and costly.
  - The current support contract provided by Torbay Council may not be agreed to, as this is undertaken at the facility with the agreement of the current property owner.
- 2.4.3 In a best-case scenario where LHT change their minds and continue to operate the service.
- We would lose the opportunity to put the income the service receives to better operational use within the hostel. Currently any surplus is absorbed into LHTs wider portfolio.
  - LHT may not agree to continue to the support contact under the existing SLA.
- 2.4.4 In any scenario where we do not acquire:
- Torbay Council could lose the ability to secure the long-term regeneration of this part of Torquay (or the ability to purchase at a beneficial price).



- Does not support the Town Investment Plan objectives.
- Puts significant risk on the Union Square and Temperance Street development projects as having the hostel here long term impacts the attractiveness for residential / key worker accommodation use.
- We can acquire this site now at a peppercorn due to the grant liability which we have de-risked due to our negotiations with Homes England. If this opportunity passes us, it is likely that if we ever want to acquire the site in the future it will be at a much higher cost.

## Option 2 – Acquire the site / building from LHT.

2.5 We choose to acquire the land and building from LHT and accept the agreed grant liability and running costs.

2.6 The **benefits** of this option are:

- The Council maintains and enhances its only Homeless provision and remains compliant against legislative duties.
- In agreeing a purchase price of £1, no Stamp Duty Land Tax would be due.
- The Council would be able to utilise some of the income from Housing benefit to offset the operational staffing costs, in line with regulations (subject to agreement).
- There would be potential to use some of the additional income (as outlined in section **Error! Reference source not found.**) to support the service offer which were identified by a commissioned report in 2020.
- We would own the site in its entirety which would afford us regeneration and development options in the future should we move to a different model of delivery for our homeless provision.
- We would be able to influence the positive regeneration of the wider regeneration of Union Square and Temperance Street.
- There could be an opportunity (in the future) around adding solar PV and air source heat pumps. This would help to offset the Council's operational costs of running the building and demonstrate a continuous level of investment. This would also support the council's ambitions towards carbon neutrality.

2.7 The **risks** associated with this option are:

- The operational costs of the building are more, or become more, than anticipated due to increased energy bills for example. The estimates have however been constructed with heavy contingency to de-risk this. Also, investment in the energy efficiency of the building as suggested above may mitigate this issue.

- The building develops an unforeseen issue and requires repairs before the sinking fund is sufficiently established. A conditions survey has been carried out to assure us the state of the building is in good condition to mitigate the likelihood of this.
- The building would still retain a significant grant obligation of £1.275m. This will be capped at the current building value, so this risk has been reduced to as low as possible and could – in theory – be renegotiated again later if necessary. However, this obligation only remains for 10 years, which would allow the medium-long-term redevelopment of the site to take place without penalty.
- There is an uncertainty around who would fulfil the landlord function for the hostel. This is being reviewed as part of a wider question around TorVista and other Council Landlord requirements. Interim arrangements could be put in place, to allow wider strategies to be developed more comprehensively across all units owned by the Council.

### 3. Financial Opportunities and Implications

#### Acquisition costs and contingency

- 3.1 LHT have offered Torbay Council the building and the land on which it sits for £1. This reflects that Torbay Council own a portion of the land already and reflects the consented planning use of the site. Agreement of purchase at this price also reflects that the grant obligation will transfer to Torbay Council.
- 3.2 The below table identifies other indicative costs related to the acquisition of the site, including contingency funding for some of the mitigations of risk which has been identified, which will be met from existing budgets.

Resource	Cost	Description
Housing benefit Specialist (Mitigation of Risk 005)	£2000	Assist in developing the council's housing benefit application to ensure maximum and correct income is received. Will endeavour to complete this internally but there is a chance this will have to go external specialists.
Legal fees (searches)	£2000	Cost of any applicable searches and registration fees for the building.
External legal support (Mitigation for Risk 007)	£10000	Potential that we may need to go externally for legal support around the transfer of land should our own legal team not be able to resource this. We will try to avoid this.
<b>Total</b>	<b>£14,000</b>	

## Operational Costs of the building

3.3 The below table outlines the costs which have been provided by LHT from the financial year 2020/2021. This does not include any Staffing costs for the service as this is covered separately within other council budgets.

Description	2020/2021 Actuals	Modifier	Predicted costs	Comments
Maintenance	£ 81,848	200%	£163,697	*See note below Could be much less
Repairs	£13,000	300%	£39,000	Allowance for non-scheduled repairs. Tripled costs to reflect the market.
Utilities	£29,903	200%	£59,807	Using 22/23 usage from LHT and applying TC rates. This has also been doubled for good measure.
Insurance	£3,802	20%	£4,848	Allowed for a 20% increase.
Building Management	N/A	N/A	£30,000	Provision for specific resource or external contract to manage the building.
Total Operational Costs	N/A	N/A	<b>£297,353</b>	
Contingency / risk	N/A	10%	£29,735	10% of operational costs
Total (including contingency)	N/A	N/A	<b>£327,088</b>	Total all in cost including a 10% contingency

\*Note: The maintenance figures are based on the current 30-year scheduled maintenance plan from LHT. We have doubled this figure to accommodate the inflated costs we are seeing in the construction market; however, this assumes we keep the building for the 30-year period which would mean replacing large ticket items such as roofing, electrics throughout etc in years 20 to 30. If we were to relinquish this building before year 15 the maintenance costs would be significantly less and require a smaller sinking fund.

## Hostel Income

3.4 The primary source of income for Leonard Stocks is derived from enhanced Housing Benefit. The below figures are based on the new application from LHT for year 2023/2024. The figures assume 28 residents for the building rather than the current 30 as there are intentions to convert some of the rooms to communal areas to help with some of the anti-social behaviour the hostel experiences in the surrounding area.

Description	Value	Comments
Gross Rent	£518,612	This is based on the weekly eligible HB for each resident. (£356.19 x 28 residents x 52)
Voids	-£25,930	5% voids allowance to consider throughput of clients. Currently the site operates at max capacity with a waiting list.
Ineligible Service Charge	£48,688	This is the ineligible service charge which would go towards the general cost of living (utilities etc) which is deducted directly from the clients HE entitlement but should be recovered from the clients' personal monies. Current rate is £33.44 (x 28 residents x 52 weeks).  This income is not included as recovering these monies can be difficult and varies, however this does show <b>potential additional income</b> and is currently being reviewed with Housing Benefit.
Net Rent	<b>£492,682</b>	Gross rent minus the voids. (not including potential income from ineligible service charges)

### Residual income

3.5 The below table outlines the surplus funding available per year based on the current Housing Benefit income in **Error! Reference source not found.** against the predicted costs in **Error! Reference source not found.** with an additional balance against the current support contract top up which LHT currently contribute towards the support.

Description	Value	Comments
Net rental income	£492,682	As per <b>Error! Reference source not found.</b> , not including the potential income from the ineligible service charge.
Predicted building costs	-£327,088	As per <b>Error! Reference source not found.</b> , including the 10% contingency
Service tops up	-£100,000	Allocation of funding contributed towards the service provision (modelled upon LHT current contribution of circa £100k)

Total residual funding	<b>£65,593</b>	Funding which could be used to support and improve the service in line with Housing Benefit regulations.
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3.6 As identified in the table above there is a nominal amount of funding available (£65.5k) once all the building costs and service top up have been deducted from the income. This amount could be improved if the risk budget (£29,735) is not used and the management within the Hostel are able to recover the ineligible service charges to contribute towards the running costs (up to £48.6k), so there is potential for investment back into the service if we can optimise our costs and management of the rental collections.

### Ongoing cost profile

3.7 The year one costs which have been estimated within this section have been profiled across a 30-year term and assuming a 3% inflationary increase in Housing Benefit against a 3-5% increase across the various operational costs, the site continues to be viable over a 30-year duration.

## 4. Legal Implications

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- 4.1 Torbay Council Legal team have reviewed the Grant Agreement between LHT and Homes England as well as a version of the current nominations agreement and have confirmed there are no foreseen issues in taking on the conditions of the grant.
- 4.2 The original grant liability of £2.3m has been renegotiated with Homes England to the asset's current Red Book market value of £1.275m and to establish a ten-year lifespan for the grant liability from the date of signing a Deed of Covenant. If the facility ceases to be used for this purpose within 10 years, the original grant obligation would be recoverable by Homes England without discount, however further negotiations could be held in relation to this if Torbay Council is able to demonstrate alternative provision to support a recycling or reduction of the residual grant funding.
- 4.3 Upon agreement of this report Homes England will be instructed to draft a Deed of Covenant for the transfer of the grant liability. Once complete, Torbay Council legal team will review the Deed of Covenant and subject to satisfactory completion of this and other due diligence pertaining to the acquisition, will execute the necessary legal activities to acquire. These activities have been scoped with the legal team and agreed to be resourced internally.

## 5. Engagement and Consultation

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- 5.1 We have engaged at length with Homes England around the potential acquisitions and they were very supportive of the proposal, and it was on that basis that the grant liability was reduced. We maintain good communications with the historic grants team to enable us to conclude these elements of works and have established a good basis for potential future changes to the site once we have developed our long-term temporary accommodation strategy.
- 5.2 We have maintained a good relationship with Langley House Trust and have worked closely with them to produce the homes England business case and wider project feasibility and business case. As the sites current landlord and in collaboration with them towards a smoother transition, we have actively engaged with them to produce a building condition survey and LHT have worked towards rectifying all the material issues which were identified for the building.
- 5.3 The on-site operational team for the homeless hostel has also been consulted and have had input into the business case to ensure that the plans for the site and financial feasibility have been tailored according to the needs of the service. For example, the feasibility is based on an occupancy for 28 people rather than the current capacity of 30 due to the aspirations to reclaim 2 of the bedroom units for more communal space to prevent clients congregating on the outskirts of the hostel.
- 5.4 Due to Torbay Council already operating the site as a service provider there will be little public facing change to the homeless hostel other than the expected benefits to the site and surrounding area. The communications team has been consulted and would manage communications as they are currently.

## 6. Purchasing or Hiring of Goods and/or Services

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- 6.1 There is no competitive procurement involved with the acquisition of the land and building.
- 6.2 The provision of the support element has already been brought in house and is not subject to any ongoing procurement or contracts.
- 6.3 If the approval to acquire the site is granted, we will work closely with LHT to identify the current providers for the routine safety and maintenance checks and either look to novate their contracts over to the council or transfer those services over to the usual council suppliers. This will depend on any warranties, costs etc and will be determined on a case by case by the asset management team.
- 6.4 The maintenance, repairs and cleaning of the site will be procured using the same frameworks as the temporary accommodation.

6.5 If the need to procure any consultants arises (Legal works etc), we will seek out quotations from 3 appropriate sources and assess value for money based on advice from our own legal and procurement teams.

## 7. Tackling Climate Change

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7.1 Initial appraisals of the site have identified that there is potential scope to improve the energy efficiency by introducing ground source heat pumps and / or solar panels on the roof. This would reduce the running costs of the building as well as reducing its CO2 footprint. This would be assessed once firm costs for the maintenance and running costs of the site has been established and a cost / benefit analysis has been conducted.

## 8. Associated Risks

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8.1 Risks are outlined in the options appraisal in section 2, however the key risks here are:

- The potential loss of our only purpose-built homeless shelter, which will open us up to a legislative failure to provide temporary accommodation of rough sleepers.
- The loss of opportunity to acquire and control a key asset in the Castle Circus area.

## 9. Equality Impacts - Identify the potential positive and negative impacts on specific groups

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	Positive Impact	Negative Impact & Mitigating Actions	Neutral Impact
Older or younger people			X
People with caring Responsibilities			X
People with a disability			X
Women or men			X
People who are black or from a minority ethnic background (BME) (Please note Gypsies / Roma are within this community)			X

Religion or belief (including lack of belief)			X
People who are lesbian, gay or bisexual			X
People who are transgendered			X
People who are in a marriage or civil partnership			X
Women who are pregnant / on maternity leave			X
Socio-economic impacts (Including impact on child poverty issues and deprivation)	Rehabilitation of clients using the homeless shelter aims to reduce reliance on benefits and enable them to become productive members of society.		
Public Health impacts (How will your proposal impact on the general health of the population of Torbay)	Will improve the health and well-being of clients utilising the homeless hostel.		

## 10. Cumulative Council Impact

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None

## 11. Cumulative Community Impacts

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None