

## APPENDIX 2

### APPENDIX 2 - Financial Analysis

<b>Manor Place</b>	<b>2022/23*</b>	<b>2023/24</b>	<b>2024/25</b>
Rooms	34	34	34
Staffing – ASC	114,397	227,292	234,111
Staffing – service charge		164,446	169,380
Running costs	63,480	178,024	187,467
Rent	42,602	141,099	150,976
<b>TOTAL Expenditure</b>	<b>220,479</b>	<b>710,862</b>	<b>741,933</b>
Income	(149,496)	(461,807)	(475,539)
ASC contribution	(43,333)	(130,000)	(130,000)
<b>TOTAL Income</b>	<b>(192,829)</b>	<b>(591,807)</b>	<b>(605,539)</b>
<b>TOTAL Revenue Cost</b>	<b>27,650</b>	<b>119,054</b>	<b>136,393</b>
Transitional costs	100,000		
Sprinklers- Capital		225,000	
Upgrade of building condition		150,000	
<b>TOTAL Capital</b>	<b>100,000</b>	<b>375,000</b>	
<b>TOTAL Revenue and Capital</b>	<b>127,650</b>	<b>494,054</b>	<b>136,393</b>

\*four months of 2022/23

<b>David Barker House</b>	<b>2022/23*</b>	<b>2023/24</b>	<b>2024/25</b>
Rooms	45	45	45
Staffing – ASC	125,214	271,749	279,902
Staffing – service charge		169,386	174,468
Running costs	53,608	140,428	143,134
Rent	100,519	332,918	356,222
<b>TOTAL Expenditure</b>	<b>279,341</b>	<b>914,482</b>	<b>953,726</b>
Income	(193,697)	(598,348)	(616,140)
ASC contribution	(105,667)	(317,000)	(317,000)
<b>TOTAL Income</b>	<b>(299,363)</b>	<b>(915,348)</b>	<b>(933,140)</b>

<b>TOTAL Revenue Cost</b>	<b>(20,022)</b>	<b>(866)</b>	<b>20,585</b>
Transitional costs	100,000		
Sprinklers- Capital		N/A	
Upgrade of building condition		150,000	
<b>TOTAL Capital</b>	<b>100,000</b>	<b>150,000</b>	
<b>TOTAL Revenue and Capital</b>	<b>79,978</b>	<b>149,134</b>	<b>20,585</b>

\*four months of 2022/23

<b>Joe Richards House</b>	<b>2022/23*</b>	<b>2023/24</b>	<b>2024/25</b>
Rooms	42	42	42
Staffing – ASC	125,214	271,749	279,902
Staffing – service charge		169,386	174,468
Running costs	69,743	167,861	180,125
Rent	76,667	253,920	269,670
<b>TOTAL Expenditure</b>	<b>271,625</b>	<b>862,916</b>	<b>904,165</b>
Income	(180,783)	(568,849)	(596,699)
ASC contribution	(106,000)	(318,000)	(318,000)
<b>TOTAL Income</b>	<b>(286,784)</b>	<b>(886,849)</b>	<b>(914,699)</b>
<b>TOTAL Revenue Cost</b>	<b>(15,159)</b>	<b>(23,933)</b>	<b>(10,535)</b>
Transitional costs	100,000		
Sprinklers- Capital		225,000	
Upgrade of building condition		150,000	
<b>TOTAL Capital</b>	<b>100,000</b>	<b>375,000</b>	
<b>TOTAL Revenue and Capital</b>	<b>84,841</b>	<b>351,067</b>	<b>(10,535)</b>

\*four months of 2022/23

#### **ALL HOSTELS**

	<b>2022/23*</b>	<b>2023/24</b>	<b>2024/25</b>
Rooms	121	121	121
Staffing – ASC	364,826	770,790	793,915
Staffing – service charge	0	503,218	518,316
Running costs	186,831	486,313	510,726
Rent	219,788	727,937	776,868
<b>TOTAL Expenditure</b>	<b>771,445</b>	<b>2,488,258</b>	<b>2,599,825</b>
Income	(523,976)	(1,629,004)	(1,688,378)

ASC contribution	(255,000)	(765,000)	(765,000)
<b>TOTAL Income</b>	<b>(778,976)</b>	<b>(2,394,004)</b>	<b>(2,453,378)</b>
<b>TOTAL Revenue Cost</b>	<b>(7,531)</b>	<b>94,254</b>	<b>146,447</b>
Transitional costs	300,000		
Sprinklers- Capital		450,000	
Upgrade of building condition		450,000	
<b>TOTAL Capital</b>	<b>300,000</b>	<b>900,000</b>	<b>0</b>
<b>TOTAL Revenue and Capital</b>	<b>292,469</b>	<b>994,254</b>	<b>146,447</b>

\*four months of 2022/23

### Assumptions

- Under current proposals, these three hostels have between 34-45 units which could be rented at approximately £260 per week per unit. Set against this rental stream, various revenue costs will arise associated with running each hostel, including income collection, void control, utilities, repairing obligation (for Manor Place and Joe Richards), property related costs and the annual lease charges. However, a cautious financial model has been produced which anticipates that the hostels are expected to be managed on a cost-neutral basis year to year under current assumptions. The key assumptions are shown below along with the calculated net revenue position.
- For the model, the rent in 2022/23 across the three hostels is based on the current weekly payments for clients at Keyworth / Northcott, a similar weekly payment across London supported hostels. Although believed to be more than is currently paid at each of the three hostels, the rental income increases by CPI + 1% each year which is assumed to be 10.4% in year 1 and then 7% in year 2 (as it is expected inflation will slow down after peaking in Q4 22). In theory, the weekly payment is broken into rent, increase by CPI + 1% and the service charges would be rebased on the actual cost of the additional services provided to recoup costs, however, that has not always been the case at Keyworth and Northcott and without knowing the split the above assumption has been used.
- The above model highlights the current assumed position for the three hostels in 2022/23 for four months and handover runs smoothly and then two full financial years. Sprinklers would be required in Joe Richards and Manor Place and further capital works have been limited at £150,000 per hostel and will be prioritised based on need once the stock condition survey is completed and negotiations with landlords have been completed. This work will likely not begin until 23-24 due to the handover timeframe.
- Transitional costs are expected to be approx. £100,000 per hostel, made up of £60,000 surveying costs, legal cost £20,000 and IT / Telephony of £20,000, which could be capitalised. An allowance has been included for staffing in year 1 due to the unknown staffing and potentially agency.
- Voids have been based on the pre-Covid rates at Keyworth Street of 7%, apart from at Manor Place where the demand for bed space appears higher, so 5%

has been used instead. The bad debt allowance is set at 2% and assumes tenants are on full housing benefit, although a small element of their weekly rent (personal heating and hot water and water rates) is not eligible for housing benefit. This reflects current collection.

6. Indicative lease costs have been provided by Manor Place (L&Q) and the standard SAHA management agreement (for David Barker) whereby they retain 94% of the rent for the repair responsibility and the remaining 6% of the rent is passed to the managing agent for Housing Management Services. Joe Richards has yet to provide an indicative figure, therefore the Northcott lease agreement has been used as a comparator.
7. Whether a lease is agreed or a management agreement is put in place there is likely to be little difference in the comparative financial position.
8. Maintenance, Property and Office related costs are based on those at Northcott, or Keyworth Street, where it is more appropriate, increasing by RPI each year (currently assumed to be approx. 7%). RPI is currently at 11% and could increase up to 18%, however, most of the running costs are staffing based such as grounds and cleaning, refuse collection, pest control and council tax that will unlikely receive such significant changes.
9. The Adult and Social Care contribution is based on the 2022/23 amounts, and there is currently no inflation on this contract within the financial evaluation. Adult and Social Care have confirmed there is no anticipated increase in the budget, for the support across these three hostels. And savings were agreed for £130k for the hostels as part of 2021/22 budget challenge.
10. The model assumes look ahead staffing in year 1 who are substantially cheaper than Southwark staffing. Staffing harmonisation would occur in year 2 and is based on the current staff levels that we have at the council's in-house hostels. For the purposes of the model, it has been assumed the harmonisation would be in effect for the full year. Managing the safety risk at all hostels requires a minimum staffing level and any determined need to increase that level would have to be re-negotiated with ASC as may require an increase in the contribution.
11. In 2023/24, ASC contributions could cover the staffing across the three hostels if redistributed, but service charges would need to increase over and above the modelled CPI to cover the additional expenditure on security. With the current inflation rates, the current model becomes unviable with the ASC saving after 2023/24 as housing benefit can only cover housing related costs and additional services. If one hostel was closed, the staff at the other hostels would likely need to be amended (as some staff are shared across the hostels and only minimum staffing have been used due to the limited ASC contribution).
12. At this stage, based on the assumptions and considerations listed above, it is possible the hostels could breakeven on an annual basis, however, until the council has entered into in-depth discussions with the providers and managing agent, there are still many unknowns. The rental stream generated through occupation of the hostel should subsidise the additional revenue costs

associated with operating it, however, the financial analysis and viability is very sensitive to any changes in the assumptions.

13. If one of the hostels, is not insourced, transitional costs and building improvements will be saved, however, accommodation costs for these clients in the hostels would likely be needed.
14. The average cost of providing nightly paid self-contained accommodation (at Southwark pan London rate) would be greater than the revenue costs likely to be incurred with running each of the hostels over the financial year. The estimated annual net cost of nightly paid accommodation for the comparative number of units in each hostel, including the current bad debt allowance for nightly paid at approx. 15% is shown below. These costs would be met from the TA GF budget.

	Joe Richards	Manor Place	David Barker
<b>Total units</b>	<b>42</b>	<b>34</b>	<b>45</b>
Nightly paid cost	628,530	508,810	673,425
Nightly paid income (incl. bad debt)	(318,076)	(257,490)	(340,795)
<b>Net cost</b>	<b>310,454</b>	<b>251,320</b>	<b>332,630</b>

For reference Northcott House costs and income are below and vary year to year.

Note – this hostel is deemed low needs and therefore there is no ASC contribution.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Expenditure	516,657	452,045	381,912	335,670	370,777	419,470	560,348
Income	(539,764)	(551,067)	(536,552)	(435,981)	(344,366)	(395,539)	(468,792)
<b>TOTAL</b>	<b>(23,107)</b>	<b>(99,022)</b>	<b>(154,640)</b>	<b>(100,311)</b>	<b>26,411</b>	<b>23,930</b>	<b>91,556</b>
<b>Capital</b>						<b>200,000</b>	
	<b>(23,107)</b>	<b>(99,022)</b>	<b>(154,640)</b>	<b>(100,311)</b>	<b>26,411</b>	<b>223,930</b>	<b>91,556</b>

Year 2015/16 and 2016/17– include transitional costs and equipment purchases

Year 2019/20 – legal fees for lease renewal and voids as a result of FRA works

Year 2020/21 – additional cleaning /materials for Covid (and sprinklers were installed / funded by capitalised), voids as result of FRA works / Covid

Year 2021/22 – fire detection system not capitalised