

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

REPORT TO	ON
CABINET	17 October 2018



TITLE	PORTFOLIO	REPORT OF
Station Road, Bamber Bridge Site Conversion to Affordable Rented Accommodation.	Assets and Transformation/ Strategic Planning, Housing and Economic Growth	Director of Planning and Property

Is this report a KEY DECISION (i.e. more than £100,000 or impacting on more than 2 Borough wards?)	Yes
Is this report on the Statutory Cabinet Forward Plan ?	Yes
Is the request outside the policy and budgetary framework and therefore subject to confirmation at full Council?	No
Is this report confidential?	Yes - Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 applies.

1. PURPOSE OF THE REPORT

- 1.1 The purpose of this report is to seek Cabinet approval to progress proposals to convert the Council owned site at Station Road from its current use as commercial offices to the use of affordable rented housing and potentially ground floor office accommodation.

2. PORTFOLIO RECOMMENDATIONS

- 2.1 To approve the Capital Expenditure of up to £582,965 to refurbish the property at Station Road and convert to flats with office accommodation at ground floor.
- 2.2 To invite tenders for the works for the refurbishment and conversion of the property and to subsequently appoint a contractor to undertake the works
- 2.3 To enter into a legal agreement/contract with Methodist Action NW for them to manage the property at a cost of 25% with an initial lease term of 7 years, with an option to extend the lease.

3. REASONS FOR THE DECISION

- 3.1 The building at Station Road has been previously rented out as a commercial property, although it has remained vacant since 2016 whilst being actively marketed to let. . The property has recently been subject to a flood which has caused extensive damage and rendered it unusable.

- 3.2 Consequently potential options have been explored in order to ensure the financial and/or social value of the asset is maximised. The preferred option of converting to residential would enable us to meet key corporate aspirations for housing.

4. EXECUTIVE SUMMARY

- 4.1 The Council has key corporate aims to meet housing needs in the Borough and make efficient use of its assets. The property at Station Road is currently vacant and provides an excellent opportunity for conversion to meet housing need. The Council currently retains significant commuted sums towards to use towards providing affordable housing. This is an excellent opportunity to provide such accommodation which the market is not delivering.

5. CORPORATE PRIORITIES

- 5.1 The report relates to the following corporate priorities:

Excellence and Financial Sustainability	✓
Health and Wellbeing	
Place	✓

Projects relating to People in the Corporate Plan:

People	
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6. BACKGROUND TO THE REPORT

- 6.1 The Council's Corporate Plan identifies the implementation of the Housing Framework as a key priority. The revised Housing Framework was adopted in January 2018. Key aspirations in there are ensuring that housing meets the needs of the South Ribble and as aspiration for South Ribble to develop its own homes. A Housing Investment Strategy is currently being developed however the opportunity at Station Road is a current asset problem that can provide an immediate response to meeting housing needs in the Borough. Within the area of Bamber Bridge there are currently 153 active applications on select move. There is therefore a clear housing need in this locality.
- 6.2 The Council receives commuted sum payments where it has been agreed that a developer will provide financial contribution in lieu of providing affordable housing on site. Any commuted sum monies received are to be reinvested in affordable housing provision within the borough in accordance with the section 106 agreement.
- 6.3 Commuted sum monies were allocated to the provision of Affordable Housing in the Capital Programme as part of the 2016/17 budget-setting process. There is currently a total of £4.478m available in commuted sums due to additional monies being received during 2016/17 and 2017/18. Any such monies received by the Council are restrictive in that the payee can request for them to be repaid after a certain period of time as agreed within the section 106 agreement if they are not spent.
- 6.4 As the Station Road property was rendered unusable due to flooding, an opportunity arose to review the potential future options for the asset. In light of identified housing need, and the commuted sums available as above, it was considered beneficial to explore the merits of converting the property to provide affordable 1 & 2 bedroom flats, potentially including commercial space on the ground floor to be used as office space.

7. PROPOSALS (e.g. RATIONALE, DETAIL, FINANCIAL, PROCUREMENT)

- 7.1 Officers have reviewed options for making best use of the asset at Station Road to contribute towards meeting housing needs. To that end informal discussions have been held with three Registered Providers to gauge their level of interest in renting the property from us following conversion works. Two of the providers have provided detailed costings, a third showed interest but provided no costings.
- 7.2 The first provider, Methodist Action NW, are a housing charity and manage over 300 properties across Lancashire and are extremely keen to develop in the South Ribble area and work with the Council more widely in the future. They currently operate in Preston and Lancaster and deliver this council's empty homes programme which is used to allocate affordable rented housing in South Ribble.
- 7.3 The first option with that provider is for commuted sum monies to enable the delivery of 1 x 2 bed flat and 7 x1 bed flats for affordable rent and offices for the charity on the Council owned Station Road, Bamber Bridge site. The site would be leased on a 'guaranteed rent' model which would provide a rental income regardless of the flats being occupied or not for an initial period of 7 years with an option to extend, all tenant damage would be covered by Methodist Action and the site would be returned back to the council at the end of the lease term in the condition originally let excluding wear and tear, their management fee for this service would be 25%.
- 7.4 The second option with that provider is that the site could be leased providing a rental income while the flats are occupied only with no income to cover any void periods for an initial period of 7 years with an option to extend, all tenant damage would be covered by Methodist Action and the site would be returned back to the council at the end of the lease term in the condition originally let excluding wear and tear, their management fee for this service would be 17%.
- 7.5 The second provider, Community Gateway, is a not-for-profit community business, set up to meet the housing needs of people in Preston and the surrounding areas. They would consider any length of lease greater than three years. (They do not consider there to be an upper limit). A management charge with two elements would be applicable:
- a standing charge of £100 per property per annum regardless of whether homes are let; and
 - a management fee equal to 9% of the rent collected.
- 7.6 At the end of the lease term, the properties would be in good condition that allowed them to be let on the open market and they would all be redecorated. Other works would depend on the length of the lease and the replacement of some components may have been carried out.
- 7.7 It is important to note that the council would be responsible for the insuring the site, any maintenance which is not tenant damage (i.e. all external repair and maintenance) and provide an annual gas safety certificate. The cost implications of these liabilities have been estimated and reflected in the 'net' annual income identified in section 10.

8. CONSULTATION CARRIED OUT AND OUTCOME OF CONSULTATION

- 8.1 The council has carried out consultation for this development with 9 local housing providers. The opportunity was not opened nationally as a local provider presence would be required for this development. Following the consultation 3 expressions of interest was received from

Progress Housing,(albeit no costings were provided) Methodist Action and Community Gateway.

8.2 Based on the proposals submitted by the 3 interested providers a detailed costs analysis has been carried out and based on this it is recommended that Methodist Action should be selected as their proposal would provide the council the most income along with being based onsite which will assist tenant of the flats within the building.

9. ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

9.1 Dispose of the building at auction or open market - This option would realise a capital receipt and eliminate on-going revenue liabilities associated with management and maintenance of an asset which is not considered fit for purpose and does not represent an acceptable return as an investment property. It would however not support delivery of affordable housing nor utilise the commuted sums fund.

9.2 Refurbish the existing building and continue to market it as a commercial letting. This option is not recommended as the costs of refurbishment are considered to outweigh the income it would generate.

10. FINANCIAL IMPLICATIONS

10.1 Comparative potential net annual Income –

Potential annual Income after charges & Maintenance costs based on a 7 Year Lease			
<u>Methodist Action*</u>	<u>Community Gateway</u>	<u>Progress</u>	
£171,752.40	£149,633.10	£0.00	7 Years Return
£24,536.06	£21,376.16	£0.00	Annual Return
23.7	27.2	0	Payback Years

* assumes guaranteed rental and 25% fee and includes annual rent received for Commercial element of £5,339

10.2 Progress Housing did not provide any costings on their expression of interest form, therefore no costing have been included for Progress Housing, they have indicated that a short lease would not be beneficial for Progress and a more realistic term would be 20 years.

11. LEGAL IMPLICATIONS

11.1 Depending on the preferred option from Section 8, Legal Services will either:

- a) Undertake the necessary work in drafting and completing the required lease documents. As the term will be for an initial period of 7 years, legal will ensure the matter is registered at the Land Registry as necessary or;
- b) Undertake the required preparation of documents from instruction through to completion for a disposal, however this may take place or;
- c) Undertake a required new commercial lease as and when a successful commercial letting has been agreed.

12. HUMAN RESOURCES AND ORGANISATIONAL DEVELOPMENT IMPLICATIONS

12.1 None

13. ICT/TECHNOLOGY IMPLICATIONS

13.1 None

14. PROPERTY AND ASSET MANAGEMENT IMPLICATIONS

14.1 These are fully explained in the main report.

15. RISK MANAGEMENT

15.1 There is a potential risk that the selected managing organisation may not renew the lease after the 7 year period, this will then require the council to select a new managing agent or to dispose of the accommodation and receipt the funds.

16. EQUALITY AND DIVERSITY IMPACT

7.1 The Affordable Housing Commuted Sums Policy has previously been subject to an equality impact assessment. It was found to have a positive impact on the protected group of disability and a neutral impact on other protected groups.

17. RELEVANT DIRECTORS RECOMMENDATIONS

17.1 Approval of the full expenditure of £582,965 would enable the scheme to go ahead and would contribute towards much needed affordable housing in the borough. The scheme will be managed by Methodist Action NW with a management cost of 25% with an initial lease term of 7 years, with an option to extend the lease. The total lease period, in order to break even on the investment would need to be for a period of 23.7 years.

18. COMMENTS OF THE STATUTORY FINANCE OFFICER

18.1 The capital cost of the conversion can be met from existing affordable housing s106 receipts held by the council.

18.2 The potential £24,500 net annual income from the proposed development following the conversion compares favourably with the commercial rental of £20,000 previously charged for the property. The council would retain responsibility for the costs associated with external maintenance and repair and insurance cover but there would be more certainty in relation to annual income as the risk of voids would be transferred to the housing charity.

19. COMMENTS OF THE MONITORING OFFICER

19.1 Please see the legal implications section above. Any contractual documentation to be entered into will be thoroughly checked by Legal Services. Effective project management is essential

20. BACKGROUND DOCUMENTS

20.1 None

21. APPENDICES

Appendix A Location Plan
Appendix B Site Layout

Jonathan Noad
Director of Planning and Property

Report Author:	Telephone:	Date:
Pradip Patel and Cath Conroy	01772 625228	1 st October 2018

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