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| <b>DECISION TITLE: Authority for the acquisition of housing for temporary accommodation.</b> |
| <b>Councillor Steve Allen, Cabinet Member for Housing, Culture and Recreation</b>            |
| <b>SEPTEMBER 2019</b>  |
| <b>Deadline date: N/A</b>  |

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| Cabinet portfolio holder:<br>Responsible Director:                       | Councillor Steve Allen, Cabinet Member for Housing Culture and Recreation<br>Peter Carpenter, Acting Corporate Director of Resources   |
| Is this a Key Decision?  | YES<br>If yes has it been included on the Forward Plan: YES<br>Unique Key decision Reference from Forward Plan: KEY/30SEPT19/01  |
| Is this decision eligible for call-in?                                   | YES  |
| Does this Public report have any annex that contains exempt information? | YES<br>Appendix 1, business case for the acquisition with financial assessment, contains exempt information under paragraph 3 of Schedule 12 A of the Local Government Act 1972. |
| Is this a project and if so has it been registered on Verto?             | NO   |

## R E C O M M E N D A T I O N S

The Cabinet Member is recommended to:

1. Approve the freehold purchase of St Michael's Gate at £13.38m – consisting of 72 properties used for temporary accommodation.
2. Approve the associated professional fees.
3. Approve the capital expenditure for upgrading the windows.

### 1. PURPOSE OF THIS REPORT

- 1.1 This report is for the Cabinet Member for Housing, Culture and Recreation to consider exercising delegated authority under paragraph 3.4.8 of Part 3 of the constitution in accordance with the terms of their portfolio at paragraph (b).
- 1.2 There is an exempt annex attached to this report that is NOT FOR PUBLICATION by reason of paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972 because it contains commercially sensitive information. The public interest test has been applied to

the information contained within this exempt annex and it is considered that the need to retain the information as exempt outweighs the public interest in disclosing it. To release the business case for the acquisition with financial assessment would jeopardise negotiations which are ongoing.

## 2. **TIMESCALES**

|   |           |                                  |            |
|---|-----------|----------------------------------|------------|
| Is this a Major Policy Item/Statutory Plan? | <b>NO</b> | If yes, date for Cabinet meeting | <b>N/A</b> |
|---|-----------|----------------------------------|------------|

## 3. **BACKGROUND AND KEY ISSUES**

- 3.1
- St Michael’s Gate is an estate of 72 houses that Peterborough City Council currently leases from Stef and Philips Ltd for temporary accommodation (TA). PCC’s current lease comes to an end on 1<sup>st</sup> November 2019 and there is an opportunity to either renew it or purchase the freehold.
  - The lease to the council offers no statutory renewal rights, as such there is a significant risk to the council that it could lose this accommodation in the future, should the landlord not want to renew the lease.
  - This would have a detrimental impact on the number of homeless households within the authority. It also means the council is vulnerable to further above market rent increases in the future.
  - The lease to the council offers no statutory renewal rights and a purchase will remove the risk of the lease being terminated by the current landlord or putting commercial pressure on the council to agree inflated rents.
  - The council’s strategy is to retain the development in the long term; the purchase of the freehold will reduce outgoings and spread the cost by taking borrowing at Public Works Loan Board (PWLB) rates. A financial appraisal is included in the exempt annex to this report for information, setting out the business case.
  - The windows of the properties need replacing and the estimated cost is detailed in the annex. This work needs to be carried out in the near future and it is recommended that the borrowing covers this additional expenditure.

## 4. **CONSULTATION**

- 4.1 PCC’s Housing Needs and Financial departments have both been consulted in the drafting of this report.
- 4.2 Group Leaders have been consulted

## 5. **ANTICIPATED OUTCOMES OR IMPACT**

- 5.1
1. This purchase will protect the council from the risk of termination of the lease in future which would make a significant number of households homeless.
  2. The council will make savings against its current outgoings and secure the long term future of this housing development.
  3. It will protect the council from future rent increases in a situation where the council is commercially vulnerable.

## 6. **REASON FOR THE RECOMMENDATION**

- 6.1
- Removing a major risk of households being made homeless in the future.

- The acquisition protects the council from future rent increases and allows outgoings to be reduced.
- The opportunity to acquire housing which can be held within the council's Housing Revenue Account. Once the temporary housing situation improves these properties can be used for social rented accommodation.

## **7. ALTERNATIVE OPTIONS CONSIDERED**

### **7.1 Option 1- Renew the lease for St Michael's Gate for a period of 5 years**

- This option has been discounted. Leasing would only be appropriate if the council wanted to retain the property in the short term – say for the next five years. As this is a longer term hold, purchasing the property will be more economic.

### **Option 2 – Acquire the freehold of St Michael's Gate (recommended option)**

- Buying in the freehold offers benefits in terms of annual run rate savings for the council.
- It protects the council from further rental increases and gives the council complete control of a block of property which offers practical and economic advantages in terms of management.

### **Option 3 – Renew the lease for a period of 3-5 years during which the council acquires additional freehold properties (of an equivalent value) to be used for TA**

- There will be dual costs payable as the council continues to lease the existing properties and finds more property to purchase. It will not be possible to buy 72 properties in one go and so those dual costs would continue for an extended period of time until the council was ready to move the tenants from St Michael's Gate into newly acquired properties.
- As finding 72 properties together would prove difficult, it is more likely the council would obtain 72 properties spread out over the authority. Whilst the cost of leasing these would be lower, the management over a disparate area would be more difficult and the savings would likely be eroded by higher fees.

## **8. IMPLICATIONS**

### **8.1 Financial Implications**

8.1.1 The council no longer operates a Housing Revenue Account, its housing stock was transferred to Cross Key Homes in 2004. However it is permissible for the council to hold residential properties in its General Fund for the purpose of providing temporary accommodation.

8.1.2 Cabinet has approved a decision to commission a review of the current Housing Strategy and as part of that work an application will be made to set up a Housing Revenue Account. Once the Housing Revenue Account is open these properties will be considered for transfer from the council's General Fund into the new Housing Revenue Account.

8.1.3 Within the council's accounts the purchase of the properties will be initially funded through the Invest to Save budget but will transfer to the HRA on delivery of the HRA business case. The criteria for use of the Invest to Save budget will be satisfied by the savings made by ensuring the families currently accommodated within St Michael's Gate are not made homeless when the current lease expires. The costs of accommodating these families in bed and breakfast accommodation have been incorporated into the Business Case in the exempt annex. The council will have security over its investment as it will retain the

properties purchased and will benefit from any capital appreciation in the value of the properties.

- 8.1.4 The Business case, in the exempt annex, demonstrates that the provision of these homes will generate net savings from 2019/20 for the council when compared to accommodating these families in Bed and Breakfast accommodation if the council does not purchase or lease the properties when the current lease expires.

### **Legal Implications**

- 8.2 N/A

### **Equalities Implications**

- 8.3 N/A

### ***Other Relevant Implications***

- 8.5 It is proposed that the current managers Stef & Philips will continue to manage the properties in the short term whilst the council goes through a procurement exercise to find a supplier.

### ***Carbon Impact Implications***

- 8.6 Works to be done to the building include new UPVC windows and further installation of gas central heating, both of which will improve the energy efficiency of the properties.

## **9. DECLARATIONS / CONFLICTS OF INTEREST & DISPENSATIONS GRANTED**

- 9.1 None.

## **10. BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985) and The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

- 10.1 None

## **11. APPENDICES**

- 11.1 Appendix 1 (EXEMPT) - business case for the acquisition with financial assessment.

**EXEMPT ANNEX RELATING TO THE PURCHASE OF HOUSING AT ST. MICHAEL'S GATE PETERBOROUGH**

(Not for publication in accordance with Paragraph 3 of Schedule 12A of Part 1 to the Local Government Act 1972).

The information contained in the Exempt Annex should not be disclosed because the information:

- relates to an individual;
- is likely to reveal the identity of an individual;
- relates to the financial or business affairs (past or present) of a particular person (including the Council);
- relates to any consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matters (which are or may be the subject of a dispute) arising between the Council or a Minister of the Crown and employees (employed under an employment contract) or office holders of the Council;
- is in respect of a claim for legal professional privilege in legal proceedings;
- reveals that the Council proposes to: 1) give under any legislation a notice under which requirements are imposed on a person; or 2) make an order or direction under any legislation;
- relates to any action taken or to be taken in connection with the prevention, investigation or prosecution of a crime.

The public interest test has been applied to this information and it is considered that the need to retain this information as exempt outweighs the public interest in it because:

Commercial negotiations regarding the purchase of this property are still ongoing and therefore it is not appropriate for the financial details to be made public at this juncture.

**Details of the Exempt Information**

St Michael's Gate is a development of 72 houses owned by Stef & Philips Ltd in Parnwell, Peterborough.

Terms have been agreed for the Council to acquire the houses at £13,378,000. Although this is in excess of the market value specified by Barker Storey Matthews in their valuation report, it needs to be seen in the context of the Council already paying an above market rent of £960k per annum and being vulnerable to future rental increases.

The rent is set to increase to £1,032,000 per annum. Given the relatively low cost of borrowing via the PWLB, it makes financial sense for the Council to borrow the money to acquire the freehold of the site, should this be a long term hold for the council. This will have the benefit of giving the Council full control over the management of the site in the future.

The net cost after borrowing per annum is £197k for a purchase (50 year loan) compared to £790k per annum (based on the five year lease).

The Council will soon have the option to hold the property within a Housing Revenue Account (HRA); should the temporary housing situation improve in the future these properties could be held within the HRA and let out at LHA or market rents. (A financial summary of the HRA is included on the final page).

It is recommended that the borrowing be sufficient to cover the cost of replacing the double glazed windows which is estimated at £185k + VAT.

**Summary of Costs over five years**

|                              | <b><u>Comparison of Alternatives for St.Michael's Gate</u></b> |                         |                                     |                            |
|------------------------------|--|-------------------------|-------------------------------------|----------------------------|
|                              | <b>Present Costs</b>   | <b>Continue Leasing</b> | <b>Purchase Within General Fund</b> | <b>Purchase Within HRA</b> |
|                              | <b>£K</b>  | <b>£K</b>               | <b>£K</b>                           | <b>£K</b>                  |
|                              | <b>Net Cost Per Annum</b>                                      | <b>537</b>              | <b>790</b>                          | <b>197</b>                 |
| <b>Net Cost Over 5 Years</b> | <b>2,477</b>   | <b>3,170</b>            | <b>816</b>                          | <b>(268)</b>               |

| <b>St Michaels Gate - Lease Proposal</b> |                            |                            |
|--|----------------------------|----------------------------|
|  | <b>Per Annum costs</b>     | <b>costs for 5 years</b>   |
|  |                            | <b>5</b>                   |
| Steph and Phil proposal                  | 1,032,000.00               | 5,160,000.00               |
| SDLT                                     | 60,328.82                  | 60,328.82                  |
| contribution to windows - 75%            | 135,000.00                 | 135,000.00                 |
| additional maintenance and running costs | 38,160.00                  | 190,800.00                 |
| Income                                   | <b>-475,193.80</b>         | <b>-2,375,969.01</b>       |
|  | <u>790,295.02</u>          | <u>3,170,159.81</u>        |
| BSM market rent                          | 690,720.00                 | 3,453,600.00               |
| SDLT                                     | 48,500.00                  | 48,500.00                  |
| white goods                              | 41,800.00                  | 41,800.00                  |
| management costs                         | 7,480.00                   | 37,400.00                  |
| Income                                   | <b>-475,193.80</b>         | <b>-2,375,969.01</b>       |
|  | <u>313,306.20</u>          | <u>1,205,330.99</u>        |
| <b>B&amp;B Costs Avoided</b>             | <b><u>1,197,134.64</u></b> | <b><u>5,985,673.20</u></b> |

*N.B. BSM market rent refers to the estimated market rental value from Barker Storey Matthew's valuation which shows the Council is paying considerably above the estimated market rent.*

## St Michaels Gate - Purchase Proposal

|  |                   |
|--|-------------------|
| number of properties                           | 72                |
|  | £                 |
| Steph and Phil proposal                        | 13,378,000        |
| plus new windows                               | 180,000           |
| SDLT   | 497,900           |
| NPS advised additional purchase costs          | 61,000            |
| <b>A</b>                                       | <u>14,116,900</u> |
| <br>   |                   |
| BSM value placed on lease proposal (upper end) | 11,910,000        |
| SDLT   | 415,500           |
| NPS advised additional purchase costs          | 61,000            |
| <b>B</b>                                       | <u>12,386,500</u> |
| <br>   |                   |
| BSM value placed on market rent (upper end)    | 10,465,000        |
| SDLT   | 343,250           |
| NPS advised additional purchase costs          | 61,000            |
| <b>C</b>                                       | <u>10,869,250</u> |

### Borrowing Scenario for 50 years

|          |                       | year 1         | life of asset    |
|----------|-----------------------|----------------|------------------|
|          | <i>purchase price</i> |                | 50               |
| <b>A</b> | 13,378,000            |                |                  |
|          | borrowing costs       | 433,587        | 21,759,825       |
|          | maintenance costs     | 170,000        | 8,670,000        |
|          | management costs      | 7,480          | 374,000          |
|          | white goods           | 41,800         | 297,000          |
|          | estimated income      | -475,194       | -24,234,884      |
|          | voids                 | 19,008         | 969,395          |
|          |                       | <u>196,681</u> | <u>7,835,336</u> |

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## HRA financials

|                         | year 1         | life of asset     |
|-------------------------|----------------|-------------------|
| housing revenue account |                | 50                |
| borrowing costs         | 259,553        | 7,642,925         |
| maintenance costs       | 72,000         | 8,670,000         |
| management costs        | 7,480          | 374,000           |
| white goods             | 41,800         | 297,000           |
| estimated income        | -475,194       | -24,234,884       |
| voids                   | 19,008         | 969,395           |
| major repairs reserve   | 51,504         | 2,575,200         |
| right to buy provision  | 10,222         | 511,103           |
|                         | <u>-13,627</u> | <u>-6,281,564</u> |

|                        |                |                   |
|------------------------|----------------|-------------------|
| borrowing costs        | 199,842        | 5,884,639         |
| maintenance costs      | 170,000        | 8,670,000         |
| management costs       | 7,480          | 374,000           |
| white goods            | 41,800         | 297,000           |
| estimated income       | -475,194       | -24,234,884       |
| voids                  | 19,008         | 969,395           |
| major repairs reserve  | 51,504         | 2,575,200         |
| right to buy provision | 10,222         | 511,103           |
|                        | <u>-37,064</u> | <u>-8,039,849</u> |

|  |                     |                      |
|--|---------------------|----------------------|
|  | <u>1,197,134.64</u> | <u>59,856,732.00</u> |
|--|---------------------|----------------------|