

<b>Subject:</b>	<b>62 - 63 Old Steine and 3 - 4 Palace Place – Proposed appropriation from General Fund to Housing Revenue Account for council owned settled temporary accommodation</b>		
<b>Date of Meeting:</b>	<b>23 June 2021</b>		
<b>Report of:</b>	<b>Executive Director Housing, Neighbourhoods and Communities</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Martin Reid</b> <b>Glyn Huelin</b>	<b>Tel:</b> <b>01273 293321</b> <b>01273 293306</b>
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<b>Ward(s) affected:</b>	<b>All</b>		

## General Release

### 1. SUMMARY AND POLICY CONTEXT:

- 1.1 Improving access to good quality housing and reducing homelessness and rough sleeping are key Corporate Plan priorities. Priorities in the Housing Committee Work Plan 2019-2023 include providing 800 additional council homes and the provision of council run temporary accommodation.
- 1.2 The council must achieve capital receipts to contribute to the Medium Term Financial Strategy, through the disposal and appropriation of corporate property assets that are surplus to requirement and do not contribute to the council's corporate strategy priorities from within its commercial and operational portfolios in order to meet its minimum capital receipts target. This is done in a way that supports the council's target of delivering 800 additional council homes and 700 other affordable homes by 2023, and other strategic priorities relating to community wealth, economic or environmental policy.
- 1.3 The Council's Asset Disposal Process agreed at Policy & Resources Committee (19 March 2020) sets out the criteria for supporting the delivery of these targets to provide additional council homes and other affordable homes by 2023 in relation to where the council's commercial and operational property portfolio's may have the potential to enable delivery of homes by releasing identified sites for development. This Asset Disposal Process also agrees the criteria for identifying non-Housing Revenue Account (HRA) council owned property and land suitable for disposal
- 1.4 This is the context within which we are considering options for future use of 62 - 63 Old Steine and 3 – 4 Palace Place.

### 2. RECOMMENDATIONS:

- 2.1 The Housing Committee:

Recommends to Policy & Resources Committee that it agrees to proceed with Option A (the appropriation and development of a 100% affordable, 11-home housing scheme to meet demand for temporary accommodation).

Recommends to Policy & Resources Committee that it approves a budget of up to £2.660m to be included in the HRA capital programme for 2021/22 financed by HRA borrowing, right to buy Receipts, general capital receipts and HRA reserves.

Recommends to Policy & Resources Committee that it delegates authority to the Executive Director of Housing, Neighbourhoods and Communities to appropriate 62-63 Old Steine & 3-4 Palace Place from the General Fund to the Housing Revenue Account and agrees that the General Fund is compensated by £0.890m.

## 2.2 The Policy & Resources Committee:

Agrees to proceed with Option A (the appropriation and development of a 100% affordable, 11-home housing scheme to meet demand for temporary accommodation).

Approves a budget of up to £2.660m to be included in the HRA capital programme for 2021/22 financed by HRA borrowing, right to buy Receipts, general capital receipts and HRA reserves.

Delegates authority to the Executive Director of Housing, Neighbourhoods and Communities to appropriate 62-63 Old Steine & 3-4 Palace Place from the General Fund to the Housing Revenue Account and agrees that the General Fund is compensated by £0.890m.

## 3. RELEVANT BACKGROUND INFORMATION:

- 3.1 62 - 63 Old Steine and 3 - 4 Palace Place are two interlinked buildings forming one end of a period block. The property is currently vacant, and its last use by the Council was predominantly as operational offices. Following this the ground floor and part of the upper floors of the Old Steine building were occupied on a short-term lease until vacation in September 2017.
- 3.2 In July 2017 Policy, Resources & Growth Committee approved the proposal to lease the property for 20 years and borrow capital funds for the development of a new GP surgery in central Brighton subject to final agreement with the NHS and GP surgery. Change in health requirements in the area resulted in a decision in January 2019 not to proceed. Therefore, the property was offered to Housing Revenue Account for residential redevelopment.
- 3.3 In accordance with the Asset Disposal Process (agreed at Policy & Resources Committee on 19 March 2020), where a property held by the General Fund meets criteria for housing development and Housing has expressed an interest in a building an appropriation to the HRA is to be progressed over other disposal options.

- 3.4 Under S123 of the Local Government Act 1972, the council is under an obligation to obtain best consideration when disposing of land and property. This requirement does not apply to appropriations but under the Asset Disposal Process, it has been agreed appropriations by the HRA of property held in the General Fund occur at a value which represents best consideration as defined by open market value. This is to ensure that the General Fund receives the same value as they would if the property were sold on the open market. Similarly, the HRA would have to pay this value if they were considering an open market purchase.
- 3.5 Officers from Property, Housing, Planning, Finance and City Regeneration have developed a set of property related criteria to determine which properties are suitable for council housing development.
- 3.6 The building formed of 62-63 Old Steine and 3-4 Palace Place is no longer required within the General Fund (GF), and has been assessed against the criteria (as outlined in the table below) for potential appropriation to the Housing Revenue Account (HRA) for use as council owned temporary accommodation.
- 3.7 The council currently has over 2000 households in Temporary Accommodation, much of it leased from private sector owners, with close to 200 in nightly emergency accommodation, creating significant corporate cost pressures requiring funding in 2021/22 and beyond. In order to secure more cost effective temporary accommodation and be less reliant on the private sector, the council has pursued a policy of purchasing or developing more council owned temporary accommodation.

<b>Table 1: Palace Place assessment against potential housing development criteria</b>		
<b>Criteria</b>	<b>Explanation</b>	<b>Complies</b>
<b>Viability</b>	Can deliver 10 or more homes, and best consideration can be achieved.	Viable with additional funding provided by capital receipts and reserves.
<b>Planning</b>	If the proposal means the current building requires a change of use application that would undermine the council's City Plan it would be non-compliant.	Pre-planning advice supports a change of use to 100% affordable housing subject to committee approval and justification of the loss of office space.
<b>Ownership</b>	If the housing scheme involved mixed tenure or ownership of land/property it would be assessed as too complex to deliver within the council homes target timescales and therefore non-compliant.	Yes

<b>Location</b>	In cases where the land/property was unsuitably located (eg lacking in service infrastructure – drainage, highways, power etc.), the housing scheme was assessed as financially unviable or incongruous.	Yes
<b>Operational</b>	In cases where the property was required for ongoing service delivery to support corporate strategic priorities, the housing scheme would be assessed as incompatible with the council's other priorities.	Yes

3.8 The business case for the appropriation and development of 10 or 11 affordable rent flats at the above site by the HRA is considered broadly viable, although with some risk.

### Valuation and appropriation sum

3.9 In the absence of market engagement, independent valuations have been obtained to assess the market. The highest valuation was as the mixed-use residential scheme with planning permission, valued at **£1.000m**. This is also the most preferable in terms of planning policy. To establish the best outcome the market values of three options were considered:

- Existing Use as offices.
- Mixed-Use Scheme – offices and residential.
- Fully Residential Scheme.

3.10 The valuation on an existing use basis (as offices) is **£0.950m**; and this valuation has been used as a basis for discussions to appropriate as former one would have made any proposal unviable for Housing.

3.11 Although Housing will not be using the property for offices the value is what it is anticipated a purchaser in the market would look to pay if they were to use the property as offices, taking into account works required to put the office in a lettable condition. This was the next highest valuation.

3.12 Subject to committee approval, an appropriation value of **£0.890m** has been agreed between the HRA and General Fund. This appropriation value is less than the valuations obtained. However, has been agreed based on the following factors:

- The proposal holds the building for temporary accommodation use, which is a priority housing need and generates potential General Fund revenue savings against all types of temporary accommodation, which costs the council approximately £4,500 per household per year. The most expensive spot purchase temporary accommodation currently costs the council approximately £11,000 per household per year.

- At this level, based on costs to date, the preferred scheme is viable without further subsidy aside from the £0.755m capital receipts and reserves already assumed. The General Fund is willing to agree to this level due to the proposed scheme meeting a housing need.
- 3.13 The appropriation is below that which would be achieved through an open market disposal but is recommended on the following basis:
- The appropriation will be completed by the end of July 2021.
  - The General Fund would be unable to reduce the appropriation value further to make the scheme or an alternative scheme viable.
- 3.14 These caveats are important as the property has been held vacant since 2019 whilst the necessary feasibility, pre-planning application, appropriation level agreed, and the formal HRA decision-making path is pursued.
- 3.15 The estimated cost to the HRA to secure, maintain and repair the property whilst it remains vacant, as well as paying the utilities and business rates is in the region of £40k per annum. This will only be payable by the HRA following the appropriation from the GF and would therefore be funded from the capital budget approved.

### **Pre-planning advice**

- 3.16 Pre-planning advice has been obtained to ascertain the development potential of the site and identify any constraints based on a preferred option to provide 11 homes to the nationally prescribed space standards. The preference is not to provide a mixed-use space – i.e not to have a small commercial unit in the building.
- 3.17 The following is extracted from the formal pre-planning advice response:
- A residential and/or mixed-use development can be supported in principle, pending other planning considerations.
  - A mixed-use development, retaining some office space and an active use at ground floor being retained, may be easier to justify in planning policy terms if deemed a viable option.
  - The loss of the office space should be addressed using the criteria set out in Policy CP3.
  - A 100% affordable housing scheme would provide wider benefits to the City that could further mitigate against the loss of office space.
  - The housing mix should ideally reflect the City's assessed needs.

### **Options**

- 3.18 The options outlined below were reviewed and following discussion at Housing Member Supply Board on 23<sup>rd</sup> April. The preferred option was Option A - 11-

home housing scheme to meet demand for temporary accommodation. The consensus is the project is more suitable for single people not families. We agreed to take forward a local lettings plan to make sure the mix and level of support required is balanced and that we would include extra security / lighting provision.

**3.19 Option A: Proceed with the appropriation and develop a 100% affordable, 11-home housing scheme to meet demand for temporary accommodation.** A scheme would be firmed up over the coming months to achieve a mix of units to match housing demand, a full planning application submitted, and the necessary procurement activity in readiness to start on site early in 2022.

**3.20 Option B: Proceed with the appropriation and develop a 100% affordable, 10-home housing scheme to meet demand for temporary accommodation.** A scheme would be firmed up over the coming months to achieve a mix of units to match housing demand, a full planning application submitted, and the necessary procurement activity in readiness to start on site early in 2022.

<b>Table 2: 100% affordable residential options (subject to planning approval)</b>				
<b>Unit size</b>	<b>1 bed (1P /2P) (£135pw)</b>	<b>2 bed (3P) (£176.54pw)</b>	<b>3 bed (5P) (£228.47pw)</b>	<b>Total</b>
Option A	4 (2P) 5 (1P)	2 (3P)	0	11 homes
Option B	4 (2P) 2 (1P)	2 (4P) 1 (3P)	1 (5P)	10 homes

**3.21 Option C: Not proceed with the appropriation.** This option would see the HRA pursue other development opportunities and would see the GF seek alternative options for disposal. This decision would release the asset for the GF to receive a capital receipt, although it would not contribute to meeting the Council’s housing supply targets.

### **Financial appraisals and implications**

**3.22** The financial viability modelling sets out to show whether a given scheme can pay for the initial investment itself by using the new rental stream only (net of service charges, management, maintenance, and major repairs and voids costs) over a 60-year period. Assessing the project viability over a 60-year period not only matches the estimated life of the asset post refurbishment but also reduces the need to use existing tenant’s rents to support the project. The financial model is based on the units being used as Temporary Accommodation within the HRA, following the same principles as Stonehurst Court, Oxford Street and various Home Purchase Properties.

- 3.23 Table 3 details the estimated costs and Funding of the proposal for delivering 11 Temporary Accommodation units of mixed sizes. The estimated costs are based on Cheesman Consulting assumptions from February 2021 and standard Brighton & Hove City Council assumptions for professional fees. Currently no allowances have been made for inflation or contamination works such as removal of asbestos. However, the cost estimates do include carbon reduction measures while the refurbishment takes place rather than retrofit at a later date.
- 3.24 Funding assumes that this project will be funded by RTB receipts of up to £0.530m plus an additional £0.755m from reserves and capital receipts. The remaining funding of up to £1.375m will be from borrowing supported by the net rental income stream.
- 3.25 This proposal makes use of £0.410m of the sustainability and retrofit reserve of £4.010m that was set aside in the HRA budget paper and approved at full budget council on 25<sup>th</sup> February 2021. This is earmarked for costs in future years relating to sustainability measures and retrofit works required on Housing stock. This aspect of the project therefore fits with the purpose of this reserve.
- 3.26 The capital receipt from the sale of land at Braypool Lane was earmarked for use against the delivery of affordable housing, including Temporary Accommodation at Policy & Resources Committee on 9<sup>th</sup> July 2020. This proposal makes use of this capital receipt to offset some of the initial capital investment required.

<b>Estimated Funding</b>	<b>Option A £'000</b>	<b>Option B £'000</b>	<b>Notes</b>
Land Costs	890	890	Latest valuation from Estates Services for the site.
Redevelopment Costs	1,200	1,180	Based on the latest cost report from Cheesman consulting.
Zero Carbon works	410	410	Based on the latest cost report from Cheesman consulting.
Professional fees	160	160	10% included to cover professional fees.
<b>Total Estimated Investment</b>	<b>2,660</b>	<b>2,640</b>	
<b>Funded By:</b>			
Right to Buy Receipts	(530)	(525)	30% of eligible cost of delivering affordable housing.
Sustainability and Retrofit reserve	(410)	(410)	Used to cover the cost of the Zero Carbon works required.
Capital receipt	(345)	(345)	Receipt from Braypool Lane to be offset against the delivery of affordable housing.

HRA Borrowing	(1,375)	(1,360)	Remaining funding from HRA borrowing.
<b>Total Proposed Funding</b>	<b>(2,660)</b>	<b>(2,640)</b>	

3.27 The total estimated cost per unit is between £0.240m and £0.264m for option A and option B respectively. This does include a provision of £0.037m per unit for zero carbon works bringing the cost down to £0.203m and £0.227m for option A and option B respectively. In comparison under the Home Purchase Policy to date the average cost of a flat for TA use is £0.208m including associated refurbishment works.

3.28 Table 2 below outlines the financial appraisal result over a 60-year period, under the current assumptions this shows a break-even position for option A and a negligible surplus for option B. The project is highly sensitive to change with any significant changes impacting the viability of the project. Therefore, any increase in costs for Option A would mean further subsidy would start to be required. Whilst Option B is slightly less sensitive and could cope with a 3% increase in construction costs before requiring further subsidy.

<b>Table 5: Viability results: 60-year cashflow NPV (surplus) / subsidy</b>		
	<b>Option A £'000</b>	<b>Option B £'000</b>
Total 60-year cashflow NPV (surplus) / subsidy	0	(30)
60-year cashflow NPV (surplus) / subsidy per unit	0	(2.7)

3.29 Making use of the site as Temporary Accommodation will reduce cost pressures in the general fund as these units will have a nil cost to the general fund because housing benefit (where applicable) will cover the rental costs. Currently the most expensive spot purchase accommodation costs an estimated £210 per week, therefore annually this option could reduce costs by up to £0.121m. The budget for Temporary Accommodation is currently under pressure, the shortage of supply of affordable accommodation in the City together with the increasing demand means that the pressure on the Temporary Accommodation budget will continue for 2021/22 therefore any extra low cost units of accommodation will help mitigate this pressure.

3.30 If the option to redevelop Palace Place in affordable housing units is not taken then the building could be sold on the open market and achieve a market value of up to £1.000m, The net receipt, less any associated costs, will be used to support the council's capital investment programme over the medium term.

### **Benefits and risks**

3.31 The potential opportunities and risks have been set out in the Table 6 below.



**Table 6: Potential benefits and risks of proposal**

	Potential <b>advantages</b>	Potential <b>risks of appropriation</b>	Potential <b>risks of not appropriating</b>
<b>Strategic fit</b>	<p>Supports the Homelessness and Rough Sleeping Strategy.</p> <p>Supports the council's target of an additional 800 council homes by 2023 by adding 11 homes to the portfolio.</p> <p>Increases the Housing's capacity to meet current housing demand.</p> <p>Helps to reduce the reliance on spot - purchase for temporary accommodation.</p> <p>Supports the councils Asset Disposal Process to support the Medium-Term Financial Strategy and achievement of Capital Receipts.</p>	<p>Lengthy procurement route to secure contractors.</p> <p>Ongoing Covid-19 restrictions slowing progress of delivery.</p>	<p>If not appropriated by the HRA and developed, the property could be sold to private developers for apartments.</p> <p>The prime town centre location and the small number of dwellings are likely to mean there will be an absence of affordable homes.</p> <p>Another suitable site will need to be found to support the Homelessness and Rough Sleeping Strategy on the open market.</p>
<b>Use of council asset</b>	<p>Does not lose a council asset to a private developer.</p>	<p>Could more be achieved for the GF through open market sale.</p>	<p>Council is incurring ongoing costs for holding the building empty.</p>

<b>Cost</b>	Comparative cost per unit is similar when the zero-carbon works are not included in the comparison. Cost per unit is £0.203m or £0.227m, depending on the preferred option under this proposal compared to an average of £0.208m for HPP.	<p>The proposal is only marginally viable as it stands – and very sensitive to any cost creep. Approval for the appropriation will be followed by seeking approval for the final scheme.</p> <p>(Possibility of the HRA carrying the risk of obtaining a site that is then difficult to develop because of the cost creep. There are nationally reported issues of increasing labour and materials costs, as well as delays).</p> <p>Purchase and renovation costs - will be between £0.240m and £0.264m (including zero carbon provisions of £0.037m per unit) The average cost of 32 purchases of 1BF over the last year = £0.189m - lowest was £0.165m and highest £0.230m.</p> <p>Slower delivery route of completed homes than open market purchase of completed properties.</p> <p>If the budget is spent here, it cannot be spent elsewhere, where potentially better VFM could be achieved by not being in a prime site location.</p> <p>If costs increase beyond the level outlined further subsidy would be required.</p>	The HRA will incur purchase costs from purchasing a building in the open market.
<b>Tenure</b>	A tenure mix that minimises single occupancy and provides a high ratio of homes for couples and families not requiring additional support is being considered (although provides 10	It is not considered good housing management practice to house vulnerable households at density without the appropriate support and management.	

	homes under Option B, rather than the 11 homes with a higher number of single occupants in Option A).		
<b>Occupants</b>	The proposed number of homes is not too high for the intended occupants.	While there is a need for family sized temporary accommodation, there is currently a higher need for self-contained single person homes.	
<b>Location</b>	City centre location. This is an inclusive use of a centre location building.	11 town centre homes for homeless single people, in an area with reported ongoing drug related anti-social behaviour issues may be problematic.  If, as intended, children reside there, the disturbance in that city centre location could be problematic - night life, taxi rank, clubs and pubs nearby; and reported high incidence of drug-related ASB.	

### Timetable for appropriation and development

3.32 Should the decision be taken to move forward with a development, an indication of the timings is set out below.

Committee decision making process	June 2021 Housing Committee & Policy & Resources Committee
Public consultation	July 2021
Architectural appointment and planning application	July – October 2021
Detailed design and briefings	October – November 2021
Procurement through major projects construction framework	November – February 2022
Pre-construction phase	March 2022
Mobilisation	April 2022
Construction phase	May 2022 – March 2023

Commissioning	March 2023
Handover	March 2023
Lettings	From April 2023

#### 4. COMMUNITY ENGAGEMENT

- 4.1 As indicated in the proposed timetable for appropriation and development public consultation will be undertaken through planning applications. In addition, the council is committed to good engagement throughout construction works and will engage with neighbours throughout construction, letting and occupation phases providing regular updates.

#### 5. FINANCIAL & OTHER IMPLICATIONS:

##### Financial Implications:

- 5.1 The detailed financial implications have been included in the main body of the report.

As recommended at paragraphs 2.1 and 2.2, if approved a budget of up to £2.660m will be added to the HRA Capital programme for 2021/22, funded by HRA borrowing, RTB receipts, general capital receipts and HRA reserves. Any significant variations to the costs will be reported in accordance with the council's standard financial procedures and reported through Policy & resources Committee.

Any decision around the borrowing requirement for this project will be made in consultation with the council's Treasury Management team to ensure that it is undertaken in accordance with the council's borrowing strategy, authorised borrowing limits and prudential indicators.

Whether the option to appropriate or to sell the building on the open market is taken a capital receipt will be generated for the GF. The value and timing of this receipt is still to be determined by the option taken, with the appropriation this will occur in 2021/22, an open market sale may take longer. The net receipt, less any associated costs, will be used to support the council's capital investment programme over the medium term.

*Finance Officer Consulted: Craig Garoghan*

*Date: 14/06/2021*

##### Legal Implications:

- 5.2 Where a property is no longer required for the purposes for which it is held, a local authority may appropriate it for any purpose for which the authority is authorised to acquire land. The council has powers under the Housing Act 1985 to acquire land.

The decision to dispose of the property from the general fund is not covered by the Scheme of Delegations. Policy & Resources Committee will be required to make the decision to dispose of this property. The appropriation will occur when the Executive Director signs an appropriation memo to effect the appropriation.

*Lawyer Consulted: Joanne Dunyaglo*

*Date: 07/06/21*

Equalities Implications:

- 5.3 There are no immediate equality implications arising from this report. An equalities impact assessment will be conducted for future residents, staff and service users.

Sustainability Implications:

- 5.4 The conversion and refurbishment of existing buildings makes use of embodied energy and contributes to achieving carbon zero targets. The fabric of the building will be bought up to current u-values in line with building regulations, and carbon reduction measures have been included in the refurbishment work.

Crime & Disorder Implications:

- 5.5 None identified at this stage.

Risk and Opportunity Management Implications:

- 5.6 The report includes details of potential risks and opportunities of appropriation at 3.31.

Public Health Implications:

- 5.7 None identified at this stage.

Corporate / Citywide Implications:

- 5.8 Improving access to good quality housing and reducing homelessness and rough sleeping are key Corporate Plan priorities. Priorities in the Housing Committee Work Plan 2019-2023 include providing 800 additional council homes and the provision of council run temporary accommodation.

**6. EVALUATION OF ANY ALTERNATIVE OPTION(S):**

- 6.1 A range of options are considered in the body of the report.

**7. REASONS FOR REPORT RECOMMENDATIONS**

- 7.1 This report considers the potential options for the future use of 62 - 63 Old Steine and 3 – 4 Palace Place and recommends the property be appropriated by the

Housing Revenue Account from the General Fund and developed into an 11 home housing scheme to meet demand for temporary accommodation in the city.

**SUPPORTING DOCUMENTATION**

None