

Cabinet



Forest Heath
District Council

Title of Report:	EXEMPTION REMOVED – 17 April 2018 Investing in our Commercial Asset Portfolio	
Report No:	CAB/FH/18/019	
Report to and date/s:	Extraordinary Cabinet	13 March 2018
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Lead officer:	Ian Gallin Chief Executive Tel: 01284 757009 Email: ian.gallin@westsuffolk.gov.uk	
Purpose of report:	To advise Cabinet of the opportunity that has arisen to purchase a property in Newmarket and to seek Cabinet endorsement for the Chief Executive to use his urgency powers to facilitate the purchase of the property at auction.	

<p>Recommendation:</p>	<p>It is <u>RECOMMENDED</u> that, Cabinet:</p> <p>(1) Endorses the Chief Executive to use his powers of urgency to negotiate at auction, the purchase of the identified property at 113 High Street/3 The Avenue, Newmarket;</p> <p>(2) notes that subject to this endorsement, the Chief Executive would authorise a budget up to a maximum of £850,000 , to be made available to facilitate the purchase, including fees and Stamp Duty Land Tax, to be funded from the Investing in the Growth Agenda fund; and</p> <p>(3) notes that should the purchase be made, the Council’s Section 151 Officer will make the necessary changes to the Council’s prudential indicators as a result of Recommendation 2.</p>
<p>Key Decision:</p> <p><i>(Check the appropriate box and delete all those that do not apply.)</i></p>	<p><i>Is this a Key Decision and, if so, under which definition?</i></p> <p>Yes, it is a Key Decision - <input checked="" type="checkbox"/></p> <p>No, it is not a Key Decision - <input type="checkbox"/></p> <p>(ii) result in any new expenditure, income or savings of more than £50,000 in relation to the Council’s revenue budget or capital programme;</p>
<p><i>In this instance, the required 28 days’ advance notice of the above decision being taken has not been met. Following agreement obtained by the Chairman of the Overview and Scrutiny Committee, a Special Urgency Notice was published on 9 March 2018 providing reasons why the taking of this key decision in private session cannot reasonably be deferred. This Notice can be found here.</i></p>	
<p>Consultation:</p>	<p>As this is a decision of special urgency, the Chairman of Overview and Scrutiny has been consulted and agreed that this matter cannot be reasonably deferred, and a decision may be made. The Chairman of Overview and Scrutiny has also consented that any call-in rights made be waived due to the nature of the decision.</p>
<p>Alternative option(s):</p>	<p>The Council could choose not to take part in the auction. However, there are limited opportunities for this type of property becoming available to use for temporary accommodation.</p>

Implications:			
<i>Are there any financial implications? If yes, please give details</i>		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> A capital budget of £850,000 would be required funded from the Council's Investing in our Growth Agenda Fund 	
<i>Are there any staffing implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> 	
<i>Are there any ICT implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> 	
<i>Are there any legal and/or policy implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> The Legal Team has reviewed the documentation associated with this property, and have raised no concerns. The provision of temporary accommodation meets the aims set out in the Council's Homelessness Strategy. 	
<i>Are there any equality implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> 	
Risk/opportunity assessment:		<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	
Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
Purchase price beyond budgetary provision	Medium	As the property will be at auction, we have established the maximum acceptable bid for the council.	Low
Purchase of property without Building and Structural Surveys or formal valuation undertaken.	Medium	Normal auction risk. Building Surveyor has viewed property and no significant issues identified. In-house RICS Registered Valuer has carried out investment appraisal.	Low
Cost of remedial works goes beyond budgetary provision	Medium	Maintenance costs for the building have been calculated and included in the revenue implications of running the building.	Low
Building regulation checks to be carried out and arrangements for licensing the HMO	Low	Ensure that building control and Public Health and Housing are engaged as appropriate	Low
Voids on the temporary accommodation and reduced income	Low	Ensure that realistic void costs are factored in. Work with other support agencies in	Low

		Newmarket to agree use of any voids	
Unable to attract a registered provider to provide the management of the accommodation units	Low	Ensure there are conversations with a range of providers to agree a service level/arrangement	Low
Ward(s) affected:		All wards	
Background Documents:		None	
Documents attached:		Appendix A – location and site plan	

1. Introduction

- 1.1 The Council has the opportunity to purchase the freehold of 113 High Street and 3 The Avenue in Newmarket, which will be auctioned by Cheffins on Wednesday 14 March 2018. The guide price is £650,000 plus VAT.
- 1.2 The property purchase offers an opportunity for the Council to increase the number of temporary accommodation units available as well as providing a rental income to the Council. It also supports our Strategic Framework and Investment Strategy in that it provides an opportunity of blended return to provide much needed housing, future revenue and capital income as well as supporting business with retail accommodation.

2. The Property

- 2.1 The property occupies a prominent location on the junction of the High Street and The Avenue in Newmarket, next to the Innocence Nightclub and opposite the Town Council.
- 2.3 The property comprises two retail units on the ground floor and 10 bedsits with shared kitchen and bathroom facilities on the first and second floors. The residential accommodation is currently let privately through a single provider, Northwood (Camshire) Ltd. This agreement expires in November 2019.
- 2.4 The Council's Strategic Property and Building Surveying officers have viewed the property internally and externally, although formal Building and Structural Surveys have not been undertaken. The property appears to be in good decorative order internally, with some cosmetic repairs being required for the external facias. An allowance for non-exceptional property repairs and maintenance has been included in the financial appraisal.
- 2.5 Full legal documentation has been reviewed by the Council's legal team and no concerns have been raised.

3. Temporary accommodation opportunity

- 3.1 The property already provides 10 accommodation units over two floors with shared bathroom and kitchen facilities. An initial inspection suggests that there would be little or no conversation works. The ten units of accommodation would be suitable for single/couples and:
 - provide access to more suitable accommodation for households in priority need, in terms of size, facilities and location;
 - be an ongoing asset for the Council, which could be sold or be used for an alternative purpose at a future date if the demand for temporary accommodation were to reduce; and
 - reduce the risk of legal challenge or adverse Ombudsman decisions for placement in unsuitable accommodation or out of district.

- 3.2 It is proposed that the property would be managed on behalf of the Council by a suitable provider with relevant experience in the field.
- 3.3 Previous advice received from Legal and Procurement Officers is that such a management arrangement is not subject to procurement or contracts procedures rules. The detail of any arrangement with a registered provider would need to be developed but could operate on arrangements already in place elsewhere in West Suffolk i.e. the provider leases the property from the council (in this case the temporary accommodation units only) and retains the housing benefit payments received. An approximate income from a registered provider of £20,000 has been estimated and is based on current arrangements elsewhere but the detail would be subject to negotiation.
- 3.4 An objective within the West Suffolk Homelessness Strategy 2015-2018 is to eliminate the use of Bed and Breakfast, which is in line with latest Government advice. It will likely remain a priority in the new Homelessness Strategy which will be considered by Cabinet later this year. Using this property as temporary accommodation would reduce the need to use Bed and Breakfast.
- 3.5 Details of who will be placed in the temporary accommodation will be discussed with a registered provider. However, it likely to be used for single people and couples. It should be noted that it is difficult to find suitable accommodation for single people under the age of 35. This is due to the fact that they are **usually only entitled to housing benefit at the shared accommodation rate**. The Local Housing Allowance (LHA) limits the amount of housing benefit which tenants in the private sector can claim to help pay their rent. In the Forest Heath (specifically Newmarket) area this means that only £82.52 per week (£348.92 per month) is available. It is for this reason that the Council would want the rent capped at the LHA limit.

4. Commercial retail units

- 4.1 The ground floor of the property comprises two separate retail units which are leased out to, and occupied by, Dung Van Tran t/a TT Nails (113 High Street) and Cambridge Kitchens (3 The Avenue). The total current annual rental income received by the freeholder from these tenants is £21,750. These units would be managed by the Council's estate management team as part of our overall asset portfolio.

5. Auction documents

- 5.1 The auctioneer's legal documentation provided for the property, including title, have been reviewed by the council's legal team and no issues have been raised.

6. Financial appraisal

- 6.1 A financial appraisal of the property has been carried out, based upon a projected returns. An assumption has been made that the current retail occupiers remain in place, but that the residential accommodation reverts

back to the Council when the current provider agreement for the property expires in November 2019. On this basis, the rental income for the Council would be as follows:

113 High Street, G/F	Let to Dung Van Tran t/a TT Nails on effective FRI terms outside the 1954 L&T Act. <i>Lease expiry: Sept 2027</i> <i>Landlord Break option: Sept 2021</i> <i>Next Rent Review: Sept 2020</i>	£11,500 per annum
3 The Avenue, G/F	Let to Cambridge Kitchens on effective FRI terms, inside the 1954 L&T Act. <i>Lease expiry: March 2021</i> <i>Tenant Break option: March 2019</i>	£10,250 per annum
Flats 1 -10, Upper floors	Rental income from provider. Direct income from letting at LHA rates = £82.52 per week/flat. Assume 80% occupancy over a year = £33,496	£20,000 per annum (potential income from a registered provider) see 5.3 below for further info.
	Total Rent	£41,750 per annum

6.2 It is worth noting that the approach of using LHA rates and letting out to a provider, means that the landlord's income for the residential element is reduced compared to the current market arrangement (down from £43,065 per year at present to approximately £20,000 per year). However, officers have estimated that a saving of approximately £18,000 per person, per year, in Bed and Breakfast costs would arise from having this temporary accommodation available.

6.3 The table overleaf shows the financial implications of purchasing the property, based on three different sale price scenarios. Details of these scenarios are below:

Scenario 1: The auction guide price of £650,000 plus SDLT and fees.

Scenario 2: The estimated market price for the property based on the income the Council would achieve, plus SDLT and fees.

Scenario 3: The estimated market price for the property based on the income as currently let, plus SDLT and fees.

	Scenario 1	Scenario 2	Scenario 3
Capital Implications			
Purchase Cost of building	650,000.00	747,000.00	810,000.00
Other Capital Costs (Stamp Duty, Legal Fees)	27,500.00	34,300.00	38,100.00
Total Capital Cost	677,500.00	781,300.00	848,100.00
Revenue Implications			
Ongoing building maintenance (1.1% of capital cost)	7,500.00	8,500.00	9,500.00
Total cost per annum	7,500.00	8,500.00	9,500.00
Net Accommodation savings	(18,000.00)	(18,000.00)	(18,000.00)
Lease income			
- Shops	(21,750.00)	(21,750.00)	(21,750.00)
- Flats	(20,000.00)	(20,000.00)	(20,000.00)
Total income per annum	(59,750.00)	(59,750.00)	(59,750.00)
Overall (surplus)/deficit per annum before borrowing	(52,250.00)	(51,250.00)	(50,250.00)
Cost of borrowing (based on overall rate of 6.0%)	40,650.00	46,878.00	50,886.00
Overall (surplus)/deficit per annum after borrowing	(11,600.00)	(4,372.00)	636.00

- 6.4 The figures in the table above include the full cost of prudential borrowing, however, actual borrowing would only take place when the Council's treasury management activities identify such a need. For example, this could be when the Council's cash flow management activities anticipate that an external cash injection is required to maintain the appropriate level of cash balances for the council to operate and fulfil its budget and service delivery requirements.
- 6.5 Each of the three scenarios show at least a break even position on an annual basis, after taking into account borrowing costs. It is possible that interest from potential purchasers could increase the auction price to £810,000 as detailed in Scenario 3 as this value reflects our assessment of the commercial market value for the property. Therefore, the Council needs to be prepared to extend to this price in order to compete effectively in the auction process. The maximum offer authorised for this property would be £810,000 including fees, this would mean a total cost to the Council of £850,000. Note that VAT would be reclaimed.

7. Decision Making

- 7.1 The agreed Investment in our Growth Agenda £40m Fund across West Suffolk is to support investing in opportunities to support our growth agenda. It is proposed that this property purchase will be funded from the Investment Fund in line with our Growth Investment Strategy, however the present delegations (Council decision) anticipate the forthcoming Asset Management Strategy before further property purchases are made under new delegations. Given the unusual and urgent nature of this opportunity, it is proposed that the Chief Executive should use his powers of special urgency, as provided by the Constitution. However, he has indicated that he will only do so in this case with the endorsement of Cabinet.