

# Extraordinary Cabinet

07 April 2016



<b>Title</b>	Property acquisitions in the borough		
<b>Purpose of the report</b>	To make a Key Decision		
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<b>Cabinet Member</b>	Councillor Ian Harvey Councillor Howard Williams	<b>Confidential</b>	Report No Appendices Yes
<b>Corporate Priority</b>	Value for money Council		
<b>Cabinet Values</b>	Community and Self-Reliance		
<b>Recommendations</b>	<p><b>Cabinet is asked to agree:</b></p> <p><b><u>Property one</u></b> To agree the level of offer which has been put in for the purchase and conversion of property one To give delegated authority to the Deputy Chief Executive (Terry Collier) to undertake any necessary subsequent negotiations and to purchase (in consultation with the Leader and the Cabinet Member for Finance)</p> <p><b><u>Property two</u></b> To agree the level of offer for the purchase and upgrading of property two To give delegated authority to the Deputy Chief Executive (Terry Collier) to submit the offer and undertake any necessary subsequent negotiations, and purchase (in consultation with the Leader and the Cabinet Member for Finance)</p> <p><b><u>Generally</u></b> To confirm approval the setting up of a Local Authority Trading Company <i>Knowle Green Estates, as a 100% property trading company owned by the Council, as a potential vehicle to purchase and hold the properties</i></p> <p>To give delegated authority to the Deputy Chief Executive (Terry Collier) in consultation with the Leader and the Cabinet Member for Finance, and subject to taxation advice, to decide if the properties will be held by the Council or its property trading company</p>		

## **1. Key issues**

- 1.1 The Council is part way through implementing a wide reaching transformation programme - known as 'Towards a Sustainable Future' (TaSF). There are three strands: (1) use of assets and income generation (2) Knowle Green programme and new ways of working (3) structural review. This report links to assets and income generation, but also considers how to help to alleviate the increasing pressures being placed on affordable housing provision, and the rising costs of assisting homeless families.
- 1.2 The TaSF programme has been developed to ensure Spelthorne Borough Council is in a strong position to withstand the coming financial challenges. Since 2013/14 the Council's Revenue Support Grant (RSG) has fallen from £2.5m and stands at £580k for 2016/17. This financial year is the last year that the Council will receive RSG. By 2019-20, the Council may well be responsible for paying back up to an estimated £750,000 each year to Central Government.
- 1.3 As part of its TaSF strategy, the Council has said that it effectively needs to be fully self-financing by 2020 in order to continue to deliver the services that it currently provides.
- 1.4 The reductions in RSG have been on-going for a number of years, and this, combined with the need to 'stand on our own two feet' financially, means it is imperative that the Council focuses on the most effective ways of increasing on-going income streams. One of the identified ways of doing this is through property investment and the Council previously allowed the Cabinet a capital provision of £6m for 2016/17 to advance this policy. In the meantime, whilst trying to build additional sources of revenue income, the Council has experienced escalating revenue pressure resulting from the increased costs of dealing with the number of households who are either homeless or at risk of becoming homeless.
- 1.5 The Council now has an opportunity to address both issues through acquisition of properties which will provide income and capital growth and at the same time assist with its service delivery and rising costs. In order to achieve this, the capital provision which has previously been made has been reviewed. This is covered in more detail in the report to Extraordinary Council of 7<sup>th</sup> April 2016, which immediately precedes this meeting.
- 1.5 In March, several significant property opportunities arose which were not on the horizon at the time the Budget for 2016/17 was set. These will enable us to provide much needed affordable housing in the Borough (issues are set out in more detail in paragraphs 1.10 – 1.14 inclusive). There may also be other opportunities further down the line but these are not covered in this report.

### **Current budget position on acquisitions**

- 1.6 In February 2016, whilst setting the budget, the Council approved a Capital provision for asset acquisitions of £6m for 2016/17. This allows the Council to acquire assets to (1) assist in the economic and social regeneration of Staines upon Thames and our other town centres (2) to assist in service provision and/or (3) to generate an on-going income stream.

- 1.7 The Council also has at its disposal £1.1m which remains from a £2m budget (2015/16) which was set up specifically to acquire assets to deliver more affordable housing.
- 1.8 At the Extraordinary Council meeting on 7<sup>th</sup> April 2016 (which immediately precedes this meeting) Council will be considering whether to agree to approve supplementary capital expenditure for property acquisitions of up to £29m for 2016/17.
- 1.9 If that additional expenditure is agreed by Council, Cabinet will be able to consider whether the two potential property acquisitions referred to in this report should be acquired or not. If the additional expenditure is not agreed, then Cabinet are *only able to consider the acquisition of property two*, as this property can be acquired using existing budgetary provisions.

## **Housing**

### Affordable housing

- 1.10 Local Housing Authorities continue to face a series of challenges in responding to housing demand and preventing homelessness, particularly in high value areas like Surrey. Spelthorne has the added dimension of being bordered by three London Boroughs all of which have extensive housing need and problems with homelessness of their own. Accessing the housing market in Surrey is challenging given the affordability ratios in the County are up to 14 times an average income.
- 1.11 There are currently around 1,598 families on the Housing Register. The Council only receives around 180 – 230 re-lets each year out of a total social housing stock of around 5,500 units. Changes in government legislation regarding under occupation mean that the demand for two bedroomed properties has increased dramatically in the last 12 – 18 months, whilst three and four beds have dropped.
- 1.12 The number of re-lets however does not match total demand. Whilst increasing efforts are made to secure accommodation for people, the provision of new social housing and private rented sector units is a crucial element in 'bridging' the demand gap.

### Homelessness and B&B

- 1.13 In 2014/15 more than 1,300 households approached Spelthorne's Housing Options Team for advice on homelessness and prevention. Prevention is essential to reducing the statutory responsibility of assisting priority households with accommodation.
- 1.14 There are currently 74 families in bed and breakfast (B&B), but this figure has been as high as 104 (Aug 2015). B&B is not a long term acceptable alternative to a stable home. Currently accommodation is provided in Spelthorne, East Berkshire and West London. Placing 'out of borough' adds further complication. Not only does it reduce the support available from any near-by family members and friends but it also hampers the Council because it has ongoing duties towards these families which have to be met, such as: complying with our responsibilities to assist with child protection monitoring, mental health support and monitoring of vulnerable adults. These are all more difficult for the Council when we have to move families out of the local area.

- 1.15 The cost of providing (B&B) in 2015/16 will be circa £450,000 net (£6,000 per family per year). The need for B&B depends in part on the number of new affordable units coming on line. The number of families requiring this type of accommodation is very likely to increase in future years due to limited new supply.

### **Asset opportunities**

- 1.16 As a Council, we need to be able to respond promptly to opportunities that arise in the property market. We are competing against commercial developers who are building in the borough.
- 1.17 Two properties in the Borough have recently come to the attention of officers. If the Council wishes to acquire them, they may provide accommodation for homeless families, an income stream to the Council and an opportunity to increase our asset base. If acquired, they will require conversion and refurbishment and these have been built into the estimates of the increases the capital required. Details of the properties and associated financial and valuation advice is set out in **confidential Appendices 1 - 4**. Given the market interest in the properties it is necessary to restrict public access to the considerations of the expenditure which the Council is currently considering.
- 1.18 Property one will enable the Council to provide additional affordable rented accommodation in the borough for Spelthorne residents. Property two will enable the Council to secure emergency temporary accommodation in the borough for Spelthorne residents.
- 1.19 The Council has considered the use to which the properties will be put subsequent to purchase. There may be an advantage to the Council to hold these in a property trading company so as to allow greater flexibility in the types of tenure offered to potential tenants. The Council has formed a company Knowle Green Estates Limited as a 100% owned Council company. If needs be the properties could be purchased in the name of this vehicle. A delegation is included within this report to cover this eventuality. A further report will be submitted to Cabinet to outline the consequential relationships between the Council and the Company e.g. Repayment of loans, shareholders agreement, management arrangements etc. For the time being the company has been formed with members of Management Team appointed as the first directors of the company and the Council as the first subscriber.

## **2. Options analysis and proposal**

### **Options – Property one**

#### **2.1 Option 1**

*Formally agree the conditional offer for the sum already submitted to acquire the freehold*

- 2.2 This will provide the Council with a building which can then be used to provide a large number of family sized two bedroom units of affordable housing which will help meet the needs of Spelthorne residents. The financial and valuation advice to support the purchase is contained in **confidential Appendix 1**.

The main risk to the Council is in purchasing a property which (i) fails to appreciate in value at a sufficient rate, or at all (ii) costs more to deliver than it

yields in income or (iii) proves unsuitable for the service they are designed to deliver. *Not to formally agree the conditional offer already submitted*

- 2.3 Failure to acquire will mean the Council will need to continue to look elsewhere. The state of the property market is such that any opportunities are likely to be difficult to come by.

#### **Options – Property two**

*Formally agree the unconditional offer to acquire the freehold*

- 2.4 This will provide the Council with a building which can be upgraded and then used to provide temporary emergency accommodation to help meet the needs of Spelthorne residents. The financial and valuation advice to support the purchase is contained in **confidential Appendices 2 and 3**.

The main risk to the Council is in purchasing a property which (i) fails to appreciate in value at a sufficient rate, or at all (ii) cost more to deliver than it yields in income or (iii) proves unsuitable for the service they are designed to deliver. *Not to formally agree the unconditional offer to acquire the freehold*

- 2.5 If we do not acquire this property, either a commercial developer or possibly a neighbouring authority will purchase the site. As a result, we will almost certainly need to re-house the existing families, probably out of the borough.

#### **Proposal – Property one**

- 2.6 ***Subject to Extraordinary Council having agreed the supplementary capital estimate, it is recommended that the conditional offer already submitted (subject to survey and due diligence etc) as set out in confidential Appendix 1, be agreed.***

#### **Proposal – Property two**

- 2.7 ***It is recommended that the unconditional offer, as set out in confidential Appendix 2, be agreed.***

### **3. Financial implications**

- 3.1 Councils are in a strong financial position to acquire property due to their ability to access capital, coupled with the low cost of borrowing (for example Spelthorne can borrow at 1- 2% depending on the amount and length of a loan, whereas a developer would be likely to pay 5 - 6%). The Council is able to borrow from a wide variety of sources including the Public Works Loan Board and inter authority lending.
- 3.2 It makes financial sense to borrow money at these rates rather than using the Council's own capital, which is currently achieving an average of 5% return when re-invested in property funds. Over the last three years the Council has achieved a capital appreciation on our investment in a property fund in excess of 22%. Properties acquired are also likely to appreciate in capital value over time.
- 3.3 Our Treasury Management advisors Arlingclose, are comfortable with the level of borrowing required to acquire these two properties. It has been recommended that the funds are not borrowed until any acquisitions are completed and the cash is physically needed. To have this level of flexibility these funds would therefore need to be borrowed initially on a short term basis (at a low rate of interest) when required, and then further consideration

would be given to accessing longer term funding if deemed appropriate. This decision would be made in conjunction with Arlingclose. Accessing funds on a short term basis is a straightforward process, most probably from another local authority (potentially below 1%), and funds are readily available at competitive rates (current interest rates on a three year loan from the Public Works Loan Board are around 1.5%).

- 3.4 An Extraordinary Council immediately precedes this Cabinet meeting. Council are considering a request for supplementary capital expenditure for an additional £26m for 2016/17. If agreed by Council, Cabinet will be in a position to consider the acquisition of both property one and property two. If it is not agreed, then Cabinet will only be able to consider the acquisition of property two (as this falls within existing budgets).

#### **4. Other considerations**

##### **Legal**

- 4.1 Legal Services are currently undertaking a full Title Report for property one (part of due diligence). This will highlight all rights and obligations on the land no matter how small, some of which may not necessarily show up on the Land Registry title. Once received, the Council will be in a position to reach an informed view on what impact this may or may not have on our decision to acquire the property. The Council is not fully committed to buying the building until exchange of contracts (the timing of which is set out in **confidential Appendix 4**).
- 4.2 At the time of writing this report, all the above work was also being undertaken for property two. The Council will need to be in possession of all this information prior to making an unconditional offer (the timing of which is set out in **confidential Appendix 4**).
- 4.3 The Council is not as constrained when it acquires land or property as when it wishes to dispose of it. There are no EU procurement requirements which have to be met when buying a freehold. There is the acid test of whether the general public would agree it was a sensible investment to make. The robustness of the valuation advice for both properties ensures this test could be met.

##### **Planning**

- 4.4 One or both of these properties are likely to need planning permission for alterations and or additions. The outcome of such permissions would affect the number of units and/or bedrooms and would affect the value. More information is set out in **confidential Appendices 1 and 2**.

##### **Resources and skills**

- 4.5 One or both of the buildings would require conversion, refurbishment or extension. Additional resources would be required to drive these projects to a conclusion. The on-going management of these properties will need to be considered separately, and do not form part of this report.

#### **5. Timetable for implementation**

- 5.1 **Confidential Appendix 4** provided the relevant timescales for exchange and completion on both of the properties.

**Background papers:** None

## **Appendices:**

These contain exempt information within the meaning of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985 and by the Local Government (Access to information) (Variation) Order 2006 Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information) and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information because, disclosure to the public would prejudice the financial position of the authority in the bidding process for the site by allowing other bidders to know the position of the Council. This in turn prejudices the community by (i) distorting the bids process and (ii) prejudicing the opportunity for the community to acquire a site through the Council for the social, environmental and economic benefit of the borough.

## **Appendices:**

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|---|------------------------|
| 1- Financial information and valuation advice | Property one           |
| 2- Financial information                      | Property two           |
| 3- Valuation advice                           | Property two           |
| 4- Timescales                                 | Properties one and two |