



# **HARTLEPOOL BOROUGH COUNCIL**

## **OFFICER DECISION RECORD**

26<sup>th</sup> July 2018

### **Purchase of Avondene, 59-64 Church Street**

#### **Type of decision (Key/non Key)**

Non key

#### **Description**

It is proposed that the Council purchase and renovate a block of 12 apartments known as 'Avondene' at 59-64 Church Street as part of the ongoing programme to acquire additional housing units set out in the HRA Business and Asset Management Plan approved by Finance and Policy Committee at its meeting on 30<sup>th</sup> October 2017.

#### **Background**

The block of apartments in question is in the ownership of Home Group Ltd and was operated until recently by their subsidiary Stonham as accommodation for persons that would otherwise be homeless. Stonham have taken the strategic decision to re-align their services and exit this particular sector.

The Avondene block is one of the very few relatively modern purpose built residential blocks on Church Street. Constructed in around 1995 by Home Housing, it is of 3 storey brick construction over ground, first and second floors, providing 12 one bedroom apartments of approximately 360 – 450 sq ft each in size. The design of the development is such that the scheme has two separate blocks of 6 apartments, each over three floors, with its own Church Street entrance, as well as rear entrance off a private courtyard. With no internal connectivity, it is thus essentially two blocks of 6 apartments that could potentially come to the market for letting at different times depending upon refurbishment progress. To the rear of the property, there are 10 private parking spaces within the curtilage of the site for tenant use. As the scheme has 12 self-contained apartments, each with their own kitchen, living room, bathroom and bedroom, Council Planners have confirmed that no planning permission for change of use would be required for affordable housing accommodation.

#### **Proposal**

It is proposed that the Council purchase and renovate the Avondene block to use as social housing funded by Section 106 contributions as part of the proposals detailed in the HRA Business Plan approved by Finance and Policy Committee on 30<sup>th</sup> October.

The acquisition and funding using section 106 contributions will help to broaden the portfolio of properties held within the HRA and will help to ensure the continued use of the building within the Councils regeneration ISQ/Church Street area.

### Financial Considerations

A summary of the capital costs is shown in the table below.

**Table 1: Capital Costs**

	£
Purchase of Building	325,000
Stamp Duty	5,000
Renovation #	115,000
<b>Total</b>	<b>445,000</b>

# include contingency for potential fire safety measures.

A summary of the operating income and expenditure for the property and Sensitivity Analysis is shown in Table 2 below:

**Table 2: Revenue Budget**

	£
<b>Income</b>	
Rent	(44,000)
Voids and Bad Debt	4,500
<b>Sub Total – Income</b>	<b>(39,500)</b>
<b>Expenditure</b>	
Major repairs	15,000
Reactive repairs	3,500
Insurance	1,000
Council Tax	1,500
Management cost	6,000
<b>Sub Total – Expenditure</b>	<b>27,000</b>
<b>Net (Surplus)/Deficit</b>	<b>(12,500)</b>

<b>Key Risks - Sensitivity Factors +/- 10%</b>	
Voids & Bad Debt as % of Rent – income loss	4,400
Major Repairs – cost increase	1,500
Reactive Repairs – cost increase	350
<b>Total of Sensitivity Factors</b>	<b>6,250</b>

<b>Revised (Surplus)/Deficit after 10% negative change in abov factors</b>	<b>(6,250)</b>
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Rent income will be based on a "formula" rent of £71.20 per week for this type of accommodation on Church Street, relative to comparable evidence. This is judged achievable under Housing Credit Provisions, as well as Universal Credit, given they are one bedroom flats.

As shown above the Avondene block is expected to generate an annual surplus of £12,500 which can contribute towards the existing pressures within the Housing Revenue Account. The units are able to continue to make a surplus after a 10% increase in costs and loss of income and would still break-even if there was a 20% increase in costs and loss of income.

### **Risk Assessment and Mitigation**

The business case shows that the acquisition and development can progress however there are defined risks in terms of (i) capital expenditure, (ii) ongoing operational budget and maintenance, (iii) delivery timescale.

- (i) Capital Expenditure. Key risks are that the renovation costs both in terms of contracts and fees are greater than the indicative costs assumed included at this time. The risk is mitigated by the use of robust estimates including quotations by the in house team and competitive quotations received associated fixtures and fittings.
- (ii) Ongoing Operational Budgets and Maintenance. The identified risks are:
  - a) Loss of rental income through voids. The sensitivity analysis above includes a 10% reduction in rent which the business model is able to absorb.
  - b) Higher than forecast major and reactive repair costs. The business case includes prudent estimates for the replacement of fixtures and fittings and maintenance. Tenants will be charged for any damages, call outs or repairs that they cause.

Whilst there are defined risks attached to the acquisition and refurbishment of the building, the Council has identified mitigation where possible and the overall risk is assumed to be acceptable. A key risk going forward is that this key property becomes available for future private buyers who may not maintained to a high standard in the Councils key regeneration ISQ area. This risk will be mitigated by the Council owning this property.

### **Decision**

- 1) To approve the purchase of the 'Avondene' block at a cost of £330,000, (including stamp duty) and renovation work at a costs of £115,000 for use as social housing funded from Section 106 Contributions received to date.

## Reason for Decision

The purchase of purpose built high quality social housing will help to rebalance the Housing Revenue Account and broaden the range of Council owned housing stock. The purchase will also aid in the regeneration of the wider ISQ/Church Street area.

The Council's Constitution sets out in paragraph 4.6 of the Financial Procedures Rules that Financial Management of Self Funded Business Cases that:

*"The Council delivers a range of projects which do not require funding from the General Fund budget and are funded from either specific grant funding or specific income streams. It is necessary, to ensure good financial management and the making of timely business case decisions, where in the professional opinion of the Chief Executive, Director of Finance and Policy and Chief Solicitor, to delegate decision making where there is a robust and self funded business case to do so and which does not add a recurring financial commitment to the General Fund budget. Delegated authority shall be exercised by the Chief Executive, Director of Finance and Policy, and Chief Solicitor in consultation with the Chair of the Finance and Policy Committee. This delegation will also apply where revisions are needed to existing business cases but where such revisions still meet the objectives of the original business case and the tests above are satisfied. Details of business cases approved, or amendments to previously approved business cases, shall be reported to the next scheduled meeting of the Finance and Policy Committee for information."*

The Constitution specifically allows for the flexibility to delegate where appropriate assuming that the Chief Executive, Director of Finance and Policy, and Chief Solicitor in consultation with the Chair of the Finance and Policy Committee agree. This delegated decision document seeks that agreement.

Before progressing with any purchase officers will consult with the Chair of Finance and Policy Committee, the Chair of Regeneration Services Committee and the Chief Executive and their approval will be sought before purchases are formally progressed.


## Alternative Options Considered

The Council does not purchase, although outlined early in this document this document is not without risks and potential future adverse impact on this key regeneration area.

## Conflict of Interest(s)

None

(1) **NAME:** GILL ALEXANDER  
**POST:** CHIEF EXECUTIVE

**SIGNED:** 

**DATE:** 26 July 2018

(2) NAME: CHRIS LITTLE  
POST: DIRECTOR OF FINANCE AND POLICY

SIGNED:

DATE:

26/7/18

(3) NAME: HAYLEY MARTIN  
POST: ACTING CHIEF SOLICITOR

SIGNED:

DATE:

26/7/18

(4) NAME: DENISE OGDEN  
POST: DIRECTOR OF REGENERATION AND NEIGHBOURHOODS

SIGNED:

DATE:

26/7/18

In consultation with:

(4) NAME: CHRISTOPHER AKERS-BELCHER  
POST: CHAIR OF THE FINANCE AND POLICY COMMITTEE

SIGNED:

DATE:

28/7/18

