APPENDIX C

Portersbridge Street Properties

Report of the Finance Portfolio Holder

Recommended:

1. **That the budget set out in paragraph 1.9 of the confidential annex be added to the Capital Programme for works to Portersbridge Street properties.**
2. **That the expenditure be financed from the budget allocated in the Capital Programme to Project Enterprise projects identified in the year.**

Recommendation to Council

SUMMARY:

- The report considers options for how the Council can bring back in to use seven properties that it owns on Portersbridge Street, Romsey.

1 Introduction

1.1 The Council owns seven houses in Portersbridge Street, Romsey. They have been let to Aster since 2003 and are in the process of being returned to the Council.

1.2 This report presents options for how the Council can return the properties into use.

2 Background

2.1 The houses are small period properties located near the centre of the town. They each have a self-contained back yard but do not have any allocated parking. The houses have steep stairs to small bedrooms and most have ground floor bathrooms in rear extensions.

2.2 There are six three-bedroom houses and one two-bedroom house.

2.3 The properties are being returned to the Council at the end of a lease to Aster Communities.

2.4 There will be a range of lease-end dilapidation works that Aster will be required to undertake before the properties can be handed back. The exact nature of these works will, to a certain extent, be informed by the Council's decision on how it wants to return the properties to use. This is discussed in more detail in the confidential annex.

3 Corporate Objectives and Priorities

3.1 The recommended option will help to deliver the Council's Corporate Plan objective of growing the potential of people to be able to live well and fulfil their aspirations.

4 Options

4.1 The Council has the choice of whether to sell the properties to generate a one-off capital receipt or retain the properties as residential dwellings and lease them to Valley Housing Ltd (VHL), the Council's 100%-owned housing management company, for letting in the local housing market.

4.2 Further consideration has been given as to whether a better return would be achieved from retaining the properties in their existing layout or by undertaking an extension project to increase the living space on the ground floor and move the bathrooms to a more traditional first-floor position.

4.3 The options are summarised as:

Option 1 – sell the properties in their current condition
Option 2 – refurbish the properties and lease them to VHL (Recommended)
Option 3 – extend the properties then sell them
Option 4 – extend the properties then lease them to VHL
Option 5 – extend the properties, then sell some and lease the remainder to VHL.

4.4 Advice has been sought from a local architect and estate agent to inform the options appraisal and calculate the estimated return for each option.

5 Option Appraisal

<u>Option 1 – sell the properties in their current condition</u>

5.1 This option would enable the Council to generate a one-off capital receipt. However, it would also mean disposing of a valuable asset close to Romsey town centre.

5.2 The ongoing revenue impact (see paragraph 7) of this option is expected to be considerably less favourable than the recommended option.

5.3 This option is not recommended.

<u>Option 2 – refurbish the properties and lease them to VHL (Recommended)</u>

5.4 This option enables the Council to retain a valuable asset close to Romsey Town Centre and generate an ongoing revenue income.

5.5 The financial appraisal shows that this option will generate the highest level of revenue income to the Council over the medium-term.

5.6 If market conditions change in the future, the Council will be able to sell the houses (subject to any lease requirements with VHL) at a more opportune time.

5.7 Historically, house price inflation has outstripped general inflation, so deferring any sale is likely to lead to a better return. However, the Council would also bear the risk of any downturn in values in the property market by retaining the houses.

5.8 The directors of VHL have indicated that they will be willing to include these properties in their portfolio. This option would help to provide some geographical balance to the company portfolio which is currently centred around properties in Andover.

5.9 This is the recommended option.

Option 3 – extend the properties then sell them

5.10 The financial forecast shows that the estimated cost of an extension project would not be fully recovered by an increased sales value. This is explained in more detail in the confidential annex.

5.11 This option is not recommended.

Option 4 – extend the properties then lease them to VHL

5.12 Similar to option 3, the expected increase in monthly rent that could be demanded following an extension project would not be sufficient to recover the capital cost in an acceptable timeframe. This is principally due to the financing costs that would be required to cover the cost of borrowing that the project would require.

5.13 This option is not recommended.

Option 5 – extend the properties, then sell some and lease the remainder to VHL

5.14 This option is a hybrid of options 3 and 4. The advantage of this option is that selling three of the properties is expected to generate a sufficient income to recover the cost of the refurbishment programme, effectively leaving the other four houses to generate an ongoing rental income without the budget requirement to meet borrowing costs.

5.15 However, the financial analysis shows that this option would generate less income for the Council than the recommended option and therefore this option is not recommended.

5.16 A summary of the key assumptions used in the options appraisal is shown in the confidential annex.

6 Risk Management

6.1 There is a risk that, once tendered, the works required to refurbish the properties will be more than is recommended to be approved in the Capital Programme. A contingency has been included in the estimate to help mitigate this risk.

6.2 It is also possible that the sales / rental markets will move over the period of the project to refurbish the properties, affecting the figures used in the business case. However, it is considered highly unlikely that this would be sufficient to change the recommendation of this report.

7 Resource Implications

7.1 The principal assumptions used in calculating the potential return on investment for each of the options are shown in the confidential annex.

7.2 The results in the table below show the estimated revenue income that will be generated over the next 25 years, together with an average annual income for the first ten years.

7.3 For options 1 and 3, the revenue income is the expected return on investment from having an increased cash investment portfolio. For options 2, 4 and 5 the income represents the annual rental income that would be generated, net of management and maintenance charges and financing costs.

Option	Average annual income (first ten years) £'000	Total revenue income over 25 years £'000
Option 1 – sell now	29	730
Option 2 – lease to VHL now (recommended)	**61**	**1,644**
Option 3 – extend then sell	25	571
Option 4 – extend then lease to VHL	23	640
Option 5 – extend then sell 3 / lease 4 to VHL	47	1,210

7.4 The table shows that the recommended option is expected to generate the highest level of revenue income for the Council. The estimated payback period is only 3.3 years. This option will also see the Council retain the freehold of the underlying asset.

7.5 It should be noted that for options 2, 4 and 5, the figures shown represent the net income of VHL through its management of the properties. As the 100% shareholder of the company, it is assumed that, ultimately, this income shall all vest in the Council.

7.6 The above income will be included in future budget reports after the completion of the refurbishment and following the lease to VHL.

8 Legal Implications

8.1 Approval is already in place for VHL to include the Portersbridge Street properties in its business plan (Cabinet – 19 April 2017).

8.2 Leases to VHL can be completed under existing delegated authority.

9 Equality Issues

9.1 The recommended option will change the properties from temporary accommodation use to private market rental. This will not affect the Council's ability to continue to meet its obligations to secure temporary accommodation for priority households experiencing homelessness.

10 Conclusion and reasons for recommendation

10.1 The financial analysis shows that the highest level of return will be generated by refurbishing the properties and letting them in the local property market through Valley Housing Ltd.

10.2 It is recommended that the project set out in the confidential annex be added to the Capital Programme, to be financed from the Project Enterprise budget that is already approved.

<table>
<tr><td colspan="4"><u>Background Papers (Local Government Act 1972 Section 100D)</u>
None</td></tr>
<tr><td colspan="4"><u>Confidentiality</u>
<u>Report</u>
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.
<u>Annex</u>
It is considered that this report contains exempt information within the meaning of paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended. It is further considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information because the budget detail that is disclosed may fetter the Council's ability to achieve best value in procuring the recommended works.</td></tr>
<tr><td>No of Annexes:</td><td>1</td><td>File Ref:</td><td>N/A</td></tr>
<tr><td colspan="4">(Portfolio: Finance) Councillor M Flood</td></tr>
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<tr><td>Report to:</td><td>Cabinet</td><td>Date:</td><td>12 February 2020</td></tr>
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