



AGENDA ITEM: 5(c)

CABINET: 18th March 2014

Report of: Assistant Director Housing and Regeneration

Relevant Managing Director: Managing Director (Transformation)

Relevant Portfolio Holders: Councillor Mrs V. Hopley & Councillor A. Owens

**Contact for further information: Mr W. Berkley (Extn. 5259)
(E-mail: william.berkley@westlancs.gov.uk)**

SUBJECT: HOUSING ASSET MANAGEMENT – SECOND REVIVAL

Wards affected: Digmaor Ward

1.0 PURPOSE OF THE REPORT

1.1 To inform Cabinet of the option appraisal work that has been carried out in relation to Beechtrees flats and to establish a preferred revival option for consultation purposes.

2.0 RECOMMENDATIONS

2.1 That option 3 be adopted as the preferred option as set out in paragraph 6

2.2 That the Assistant Director Housing and Regeneration be authorised to undertake public consultation on the preferred option and present a further report to Cabinet in due course.

3.0 Background

3.1 Savills were commissioned in 2011 to carry out a 25% stock condition survey of the council retained housing Stock. This was following closure of the consultancy that previously carried out this work and introduction of self- financing.

3.2 To ensure a robust business plan and long term sustainability, Savills were further commissioned to carry out a sustainability analysis of our housing stock

and calculated its Net Present Value (NPV), This involved looking at future investment requirements, historic maintenance spend, void levels and management costs.

- 3.3 This analysis identified a number of areas that were potentially a drain on the business plan (had a negative NPV) and needed review prior to any major investment decisions being made. (A presentation of this analysis and how I intended to move forward was made to Landlord Services Committee and separate meetings for Council members tenants and staff).
- 3.4 In order to carry out this review an Option Appraisal Team was formed drawing from the various sections of the housing and regeneration service.
- 3.5 An up to date NPV analysis is included in Appendix A.

4.0 Option Appraisal Process

- 4.1 Beechtrees flats were identified as an area for review as they had a negative NPV and officers recognised the area was in need of revival. This decision was also endorsed by the sustainability study carried out by the Chartered Institute of Public Finance and Accountancy (CIPFA) which identified Beechtrees as one of the lowest scoring areas in terms of long term sustainability.
- 4.2 A review of data was undertaken to identify the reasons why the area was showing a negative value. The main reasons identified were, capital investment requirements, void income loss, void property turnaround costs and response maintenance costs.
- 4.3 Supply and demand was then reviewed; there are currently 54 lettable flats on Beechtrees and 25 useable garages. There has been a recent development in the local area, Miller Close comprising of 17 houses and Potter Way comprising of 12 Flats 17 houses. However, there does not appear to be an oversupply of smaller properties in the area as demand is still strong, with 309 people on the waiting list for smaller 1 and 2 bedroom properties that have included this area for consideration.
- 4.4 Whilst the demand appears to be present it was found that the turnaround for these properties is high, and this is illustrated in Appendix A of this report which shows the average void instances to be 0.43 times per property per annum resulting in an average 9.7 void days per property per annum this compares with 0.13 void instances for the remainder of the housing stock with the average void days of 6.36. The average repair cost for a void property is in the region of £1,600.
- 4.5 Whilst demand for smaller properties is expected to continue due to the impact of welfare reforms, whether this will address the property turnover frequency is unclear. However, it appears the client base for these properties has a tendency to leave properties on a more frequent basis incurring costs to the Council.

4.6 Following the analysis of the limited data we have available regarding the reason for people vacate the area I found that the main three reasons were as follows:

Reason	Percentage
Rent Too High	29%
Dislike Location	14%
Poor Condition of Property	14%

4.7 Our current customer demographic was then analysed and is shown in detail in Appendix H.

The main findings were that the largest group of tenants we have in Beechtrees flats are Males between 20-29.

4.8 The wider area was then considered by the option appraisal team and the potential for wider redevelopment. Unfortunately, the main area of adjoining land was the school playing field which had no plans for disposal. Some smaller pieces of land have been considered with the appropriate options.

4.9 In order to gain a more detailed understanding of how tenants felt about the flats and surrounding area a comprehensive consultation exercise was carried out with residents a comprehensive report of which is detailed in Appendix H. Although the response to the consultation was disappointing, those tenants that did respond were generally satisfied but wanted improvements to the properties and the appearance of the area. It is clear from the results that the ability to effectively heat and make comfortable the flats is of the highest importance to the tenants.

4.10 More efficient and effective heating systems combined with improved thermal performance of building elements such as windows and insulation would equate to substantial improvements in tenant satisfaction with their homes.

4.11 Security was also an issue for tenants; communal doors were reported to be frequently under attack from vandals affecting both their appearance and the security performance.

4.12 These benefits could lead to further improvements to the area in the form of increased desirability of the accommodation and less churn of tenancies.

4.13 Based on the above research it was felt that the main areas for concern were the void frequencies and days lost. It was also felt the demographic of typical customers for this stock were more likely to be transient which resulted in frequent void rates despite reasonable levels of demand. It was therefore felt essential to address the demographic issues to make the stock more sustainable. Making the properties more desirable was considered key in addressing the demographic issues, in particular the appearance of the blocks, lighting within communal areas and improving the heating systems and thermal performance of the properties.

5.0 Options

5.1 Based on the findings in 4.13 a series of options have been considered and costed.

- Option 1 Full Refurbishment of all flats on Beechtrees.
- Option 2 Full refurbishment of detached blocks, partial refurbishment of 2 attached blocks and the demolition of 3 attached blocks
- Option 3 Full refurbishment of detached blocks, partial refurbishment of 2 attached blocks and the demolition of 3 attached blocks. Demolition of 4 houses and construction of 14 new build houses.
- Option 4 Demolition of 48 flats plus 5 houses and the minor refurb of 7 flats, to enable the redevelopment and new build of approx. 44 dwellings. (e.g. 20 Houses and 24 flats).
- Option 5 Demolition of all 48 flats plus 9 houses and the minor refurb of 7 flats, to enable the redevelopment and new build of approx. 58 dwellings. (e.g. 34 Houses and 24 flats).
- Option 6 Demolition of 48 flats plus 9 houses to enable the disposal of land with outline planning permission for approx. 45 dwellings.

5.2 Formal planning permission will need to be sought following the agreement of a preferred option for consultation. Formal pre-application advice is currently being sought.

5.3 Option 1 is based on retaining all of the existing blocks of flats and refurbishing the exterior envelope. The internal communal areas would be refurbished and refreshed with the external areas adjacent to the flats landscaped to improve the appearance of the area. The communal doors and door entry systems would be replaced using the specification as used in other council schemes. The individual flats would be improved by inclusion in the on-going replacement schemes for Kitchens, Bathrooms and installation of wet gas central heating systems. In addition, the bedsits included in the detached blocks would be converted into 2 bedroom flats using the garages located at the front of the blocks which are little used. This has already been done in some cases both on Beechtrees and elsewhere on Digmaor. The aim of this option would be to improve the quality and desirability of the flats on Beechtrees in order to reverse the trend of transient tenancies and high void levels that have been seen in the past.

This option is discussed at length in Appendix B.

5.4 Option 2 is based on retaining the 6 detached blocks and refurbishing them as described in option 1, demolishing 3 of the attached blocks and bringing the other two blocks up to standard by inclusion in ongoing maintenance programmes.

The blocks that would be demolished under this option are among the most dilapidated in appearance and have suffered vandalism and damage partially due to their location directly along the footpath leading through the estate. These blocks are in an area of very high density of housing. All but 2 of the garages incorporated into the ground floors of these blocks are disused and blocked up. There are no alternative uses for the garages as they form the whole ground floor of the blocks apart from the stairwell. Design and specification for the refurbishment scheme for the detached blocks would be as detailed in option 1. Again the aim of this option would be to improve the quality and desirability of the flats on Beechtrees, removing the flats with the least potential and focusing investment on the detached blocks.

This option is discussed at length in Appendix C.

- 5.5 Option 3 is based on carrying out all of the work identified in option 2 and using the land cleared by the demolition of the 3 attached blocks to build 14no new dwellings. In order to provide enough space to have the option to build houses with driveways and gardens, 4no adjoining houses would also need to be demolished. The two houses adjoining the northernmost two blocks could be demolished independently. The house adjoining the southernmost block shares a rear outrigger with the next house in the terrace, so demolition of a single house would be very difficult. For this reason, the two houses adjoining the southernmost block would be demolished. This would also provide additional space for the new buildings. This, in turn gives more freedom over the types of accommodation to be built. Adoption of this scheme would mean that a corridor was created through the top of the estate that was brand new in appearance and surrounded by neatly landscaped areas. The development could be tailored to meet the specific housing need of the area and allow a selective lettings policy to help address some of the identified social problems of the area. Although demand is currently highest for one and two bedroom properties, the addition of houses with gardens or mews style low rise flats may help to encourage small families to the area rather than single tenants and couples. This in turn may encourage longer term tenancies and reduce the high levels of tenancy 'churn' experienced in the past. All of the 4 houses which would need to be demolished are council owned although the residents may be entitled to home loss payments.

This option is discussed at length in Appendix D

- 5.6 Option 4 consists of the demolition of nine blocks containing 48 flats and a short terrace of five houses, the subsequent cleared site could be followed by a potential redevelopment of the land, comprising approximately 44 new dwellings with a mix of houses and flats. In addition, the remaining 8 flats (including one leaseholder) would be partially refurbished to bring them up to the standard of other council properties in the area. This option would transform the appearance of the area and make the area much more desirable and provide a lower density of housing.

This option is discussed at length in Appendix E

5.7 Option 5 consists of the demolition of all nine blocks containing 48 flats and a short terrace of five houses and 4 end of terrace houses, the subsequent cleared site could be followed by a potential redevelopment of the land, comprising approximately 58 new dwellings with a mix of houses and flats. This option would transform the appearance the appearance of the area and make the area much more desirable and provide a full new build solution and reduced future maintenance costs and provide a modern level of comfort.

This option is discussed at length in Appendix F

5.8 Option 6 consists of the demolition of nine blocks containing 48 flats and a short terrace of five houses, the subsequently cleared site could be offered for sale and including with it outline planning permission for residential redevelopment of approximately 45 dwellings. Dependant on the sale value this option could provide a receipt to the Council and remove the negative NPV causing a drain on the business plan and result in new build properties with a percentage of affordable homes.

This option is discussed at length in Appendix G

5.9 A summary analysis of the outcomes for each of the options including costs is detailed in the table below, the appendices show, in detail the short terms costs and the long term financial projection of the payback period.

These options are summarized below:

Description	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Demolished House	0	0	4	5	9	9
Demolished Flat	0	12	12	48	48	48
Minor Refurb Flat	0	7	7	7	7	0
Fully Refurb Flat	56	36	36	0	0	0
New Build House	0	0	14	20	34	0
New Build Flat	0	0	0	24	24	0
Unoccupied Garages Lost	8	12	12	12	12	12
Occupied Garages Lost	4	4	4	13	13	13
Net Change in Lettable Units	+2 (including buyback leaseholders)	-11 (including buyback leaseholder)	-1 (Including buyback leaseholder)	-8 (including buyback leaseholder)	+2 (including buyback leaseholders)	-57

Overall Estimated Cost	£2,511,952.84	£1,759,847.17	£2,995,450.09	£4,271,361.00	£5,355,889.00	£3,423,495
Estimated Payback Period#	15-16 Years	14-15 Years	16-17 Years	27-28 Years	25-26 Years	N/A

#This is the estimated simple payback period, funding will be considered as part of the HRA business plan.

6.0 Recommended Option

6.1 Considering the advantages and disadvantages of the various options and the costs involved it was considered on balance that option 3 provided the best overall outcome. It will provide a corridor of new-build and refurbished properties towards the top of the estate whilst removing the most problematic blocks and provide a template for possible regeneration of similar blocks.

6.2 The report recommends option 3 to be consulted upon due to the following reasons:

- It will provide good visual impact removing unsightly end terrace flat blocks with new build houses and increasing the desirability of the remaining detached flats.
- Provides a cost effective solution in comparison with the other options
- Will help meet demand for smaller accommodation whilst removing some of the most problematic smaller properties
- It would remove surplus garages
- It would provide the benefits of a newbuild scheme at a reduced cost
- Provides payback between 16-17 years
- Results in a net loss of only 2 properties (1 counting the bought back leasehold)
- Landscaping works would be designed to reduce anti-social behaviour and increase perceived security
- It could provide a template to address similar blocks of flats on Digmaor and potentially leave financial headroom to start to address these towards the end of our 5 year plan.

6.2 As part of this option it is recommended that following the revival a local lettings policy is developed and implemented in the area with a view to minimising vacation rates of the refurbished and new build properties and rebalancing the demographic.

7.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY

7.1 The objective of this report is to ensure the long term sustainability of the flats on Beechtrees, to ensure they form a positive contribution to the business plan along with providing good quality homes for our tenants. Payback of the various schemes is detailed in section 5.9 and in the appropriate appendices.

8.0 FINANCIAL AND RESOURCE IMPLICATIONS

8.1 Estimates of the financial implications and potential cost profiling of the options on the business plan are detailed below. Funding options will be incorporated into the HRA business plan.

8.2 The table below shows the proposed profile of Spend under each option and excludes inflation.

Description	2014.15	2015.16	2016.17	2017.18	2018.19	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Option 1			482	807	1,223	2,512
Option 2			521	986	252	1,759
Option 3			568	850	1,578	2,996
Option 4			504	751	3,017	4,272
Option 5			405	930	4,021	5,356

8.3 Based on the current business plan the table below shows resources available for reinvestment.

Description	2014.15	2015.16	2016.17	2017.18	2018.19
	£'000	£'000	£'000	£'000	£'000
Currently Available for reinvestment	6,282	3,570	1,765	2,854	7,382

8.4 The table below shows the reduction on the available resources in the current HRA Business Plan from 2014-15 to 2018-19 after adjusting profiled expenditure for inflation and adjusting for stock changes.

	2014.15	2015.16	2016.17	2017.18	2018.19
	£'000	£'000	£'000	£'000	£'000
Option 1	-	-	554	1,471	2,906
Option 2	-	-	624	1,795	2,147
Option 3	-	-	686	1,719	3,640
Option 4	-	-	680	1,740	5,487
Option 5	-	-	583	1,879	6,837

8.5 The resulting remaining balance of available resources for each of the options is illustrated below.

	2014.15	2015.16	2016.17	2017.18	2018.19
	£'000	£'000	£'000	£'000	£'000
Option 1	6,282	3,570	1,211	1,383	4,476
Option 2	6,282	3,570	1,141	1,059	5,235
Option 3	6,282	3,570	1,079	1,135	3,742
Option 4	6,282	3,570	1,085	1,114	1,895
Option 5	6,282	3,570	1,182	975	545

- 8.6 The figures do not allow for possible ECO funding, One for One Replacement or HCA funding towards New build. The assumption applied to new build is that income would begin to be earned in the year following completion of the development. Based on this spend profile all the options are affordable with the lowest remaining balance being £545k in year 2018/19 for option 5.
- 8.7 Should a right to buy be made following completion of the project, the current legal opinion is that our investment in the stock will be protected (i.e. limiting the discount in connection with a Right to Buy, an amount that has been spent on the property) for 10 years for our older stock and 15 years for newbuild stock. Right to buy sale proceeds are also subject to a pooled sharing agreement with the Council and the Treasury and proceeds may not flow to the HRA.
- 8.8 The demolition of properties will reduce the value of New Homes Bonus grant that will be received in future years, but this financial loss must be offset against the overall benefits of the scheme including the plans for new housing that should deliver additional New Homes Bonus in future years.

9.0 RISK ASSESSMENT

- 9.1 The actions referred to in this report are covered by the scheme of delegation to officers and any necessary changes have been made in the relevant operational risk registers.

Background Documents

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

Equality Impact Assessment

There is a direct impact on members of the public, employees, elected members and / or stakeholders. Therefore an Equality Impact Assessment is required. A formal equality impact assessment is attached as an Appendix to this report, the results of which have been taken into account in the Recommendations contained within this report

Appendices

- Appendix A – Current NPV Analysis / Void Histories
- Appendix B – Option 1
- Appendix C – Option 2
- Appendix D – Option 3
- Appendix E – Option 4
- Appendix F – Option 5
- Appendix G – Option 6
- Appendix H – Tenant Consultation
- Appendix I – Equality Impact Assessment
- Appendix J– Minute of Landlord Services Committee (Cabinet Working Group) 12 March 2014 (to follow)