

EAST HERTS COUNCIL

EXECUTIVE – 11 SEPTEMBER 2018

REPORT BY EXECUTIVE MEMBER FOR FINANCE AND SUPPORT
SERVICES AND EXECUTIVE MEMBER FOR HOUSING

OPTIONS FOR THE FUTURE OF THE PINEHURST COMMUNITY CENTRE
AND ATTACHED PROPERTIES

WARD(S) AFFECTED: HERTFORD KINGSMEAD

Purpose/Summary of Report

- This report discusses the potential for improving and/or redeveloping the Pinehurst Community Centre, the adjacent shop and flat and attached Network Homes flat. This site is collectively referred to as the Kingsmead site.
- ‘In principle’ support is sought for the redevelopment of the site to reprovide an improved community centre, a shop and residential flats with an accompanying recommendation that the Executive recommend to Council that the council’s housing company be requested to carry out this development.

<u>RECOMMENDATIONS FOR THE EXECUTIVE: That:</u>	
(A)	support is granted ‘in principle’ for the redevelopment of the Pinehurst Community Centre and attached shops and flats, for the purposes of reproviding the community centre, a shop and residential flats as outlined in this report, and for engagement with residents and stakeholders, and
(B)	it recommends to Council that, acting in its role as shareholder of the council’s housing company, Millstream Property Investments Ltd, Council requests

that Millstream assesses the viability of the scheme for inclusion in its business plan.

1.0 Background

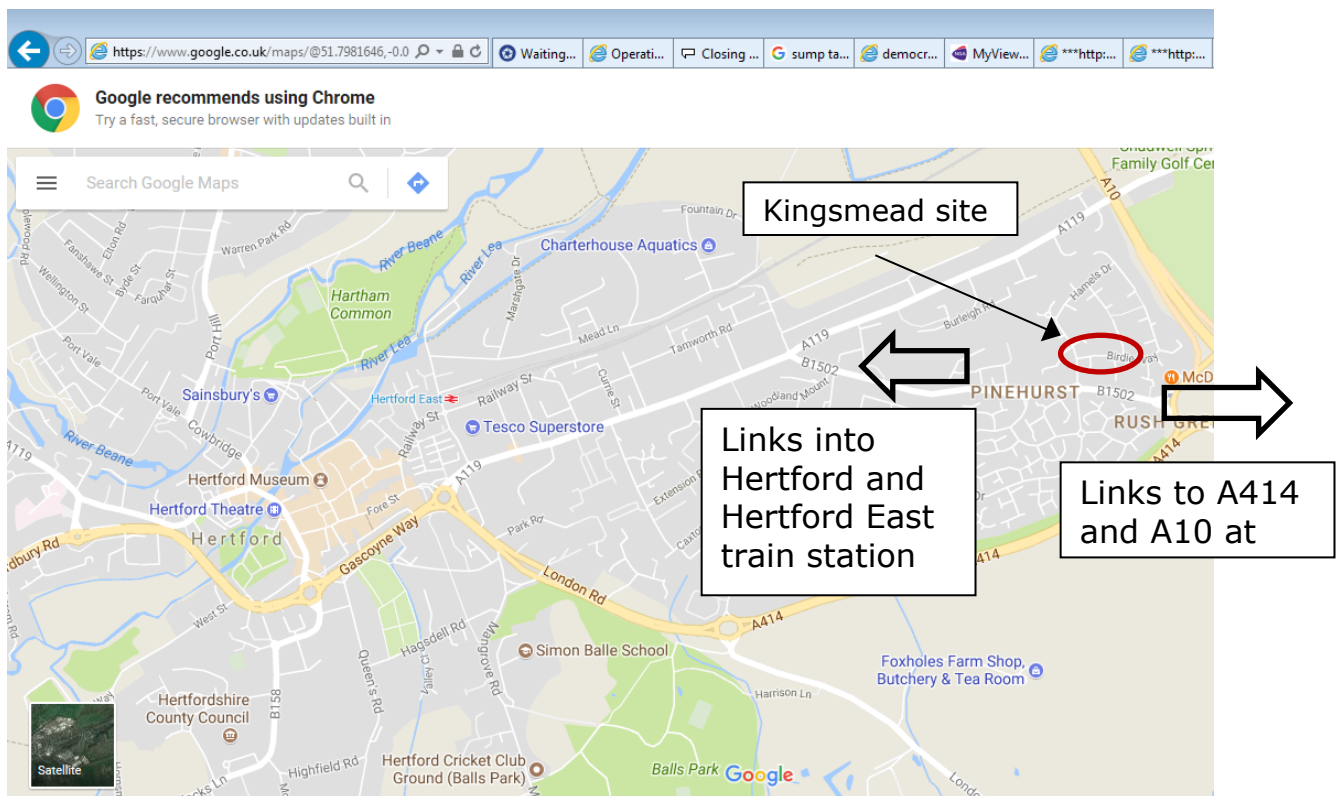
The site

1.1 The Pinehurst Community Centre and attached shops and flats, referred to herein at the 'Kingsmead site' is located on Birdie Way, Pinehurst, Hertford and consists of:

- the Pinehurst Community Centre, which is considered to be in urgent need of an upgrade
- two shop units which are leased and run as one shop with a two bedroom flat above included in the lease. The shops, run as one, are in need of improvement
- a two bedroom flat which was transferred to Network Homes on a long lease as part of the large scale voluntary stock transfer in 2002.

1.2 The council owns the freehold of the whole building.

1.3 The map below shows the site's location.



1.4 The picture below shows the current buildings.



Why do anything?

1.5 A fundamental question is; why does anything need to be done to the existing buildings?

1.6 The key issues / opportunities are as follows:

- the Pinehurst Community Centre urgently requires work to modernise it and replace aging elements such as the heating, fire safety equipment, toilets and kitchen. Over the coming five years, the council's Property team has estimated the investment of just under £250k will be required – see the confidential Essential Reference Paper (ERP) B for full details
- the Pinehurst Community Centre Management Committee is unwilling to take on a more formal management role and/or lease without significant improvements being made so that the centre is more attractive to a broader range of groups / activities. Management by and/or a

lease to a community group is the council's preferred approach as this places management of community assets in the hands of local people with the drive and commitment to make sure their local facility best meets local needs. The council has neither the capacity nor arguably the skill set to actively manage community centres to best effect

- the shops have proved hard-to-let in the past. Indeed, currently the two shops are let as a single unit which, from discussion with the current shop leaseholder, would appear to be a little too large given market conditions. It is estimated that works of around £20k would be required at the same time as works to the community centre
- the council owns the freehold of the building; this provides an opportunity for the council to make the best use of one its assets
- significant improvement or redevelopment would give the opportunity to increase the number of residential units on the site, including much needed affordable homes
- at the same time, significant improvement or redevelopment would give the opportunity to remodel and improve parking provision, including installing e-vehicle charging points and cycle racks
- there is an opportunity to work with Network Homes, who own around 40% of the homes on the Pinehurst Estate, to combine works with other environmental and parking improvements to bring about a more significant uplift to the estate. Discussions to date indicate Network Homes would be willing to explore this further.

2.0 Report

Options appraisal

2.1 An internal working group led by the Head of Housing and Health and consisting of officers from Housing Services, the corporate Policy Team, Property and Finance was formed to

identify and appraise a range of options. A member/officer working group including the two ward members, Cllr Jan Goodeve and Cllr Mari Stevenson, was also formed.

2.2 A number of initial options have been considered:

1. **refurbishment of the community centre and shop** with no changes to the two residential flats
2. **disposal of the site to a housing association or developer**
3. **council-led redevelopment of the site.**

2.3 Each of these options has been assessed on three key criteria:

- community benefits
- financial implications for the council, based on analysis by GVA consultancy
- deliverability.

Option	Community benefits	Financial implications - see ERP B for details	Deliverability
Refurbishment of the community centre and shop	Improved community centre Some upgrades to the shop	Council capital required with no means of recovery from the works	Council-led Relatively straightforward Works procured through tender process Control of asset retained
Disposal of the site to a housing association or developer	<i>So long as required by planning:</i> New community centre New shop A total of 11 flats Affordable provision dependent on the developers	Disposal of the freehold at nil value and loss of asset value of £159k <i>plus</i> Council capital required with no means of recovery from the works (other than	Developer-led Partner procured through tender process Limited control over development timescales and variations to building finally developed No means to recover any additional grant payments made by the

	viability assessment; council would be able to nominate to any affordable homes provided	possibly through overage) No ongoing revenue income from buildings developed	council Control of asset passed to purchaser
Council-led redevelopment of the site (through its housing company)	New community centre New shop A total of 11 flats, including three affordable units – the council’s housing company with have full control over who the flats are let to, with the council ability to nominate directly to the affordable flats	Disposal at nil value but increase in the value of the asset (held by the company and so ultimately accruing to the council) net of development finance costs Income generated by development Ongoing revenue income from the building	Council-led Council (or its housing company) would employ a development agent to manage the whole process Any additional grant payments made by the council could be offset from the income from the development Control of asset retained

Initial development viability modelling

2.4 Put simply, for a development scheme to be considered viable:

- the **gross development value** (that is, the value of the building(s) once complete plus any subsidies and other income)

must be equal to or greater than

- the **cost of development** (including the cost of acquisition and preparation of the site, construction costs, professional fees, finance costs and developer profit).

2.5 This is the standard approach to assessing scheme viability. If what the finished building is worth plus any subsidies and other income is at least equal to what it cost to build, the scheme can be considered viable.

- 2.6 Financial viability modelling has been conducted based on analysis by GVA consultancy funded by the LGA, using up-to-date cost estimates provided by The Design Partnership consultancy in June. More recently Network Homes' views have been sought on some of the assumptions given their development expertise and knowledge of the Pinehurst estate; these comments have been used to further refine the modelling.
- 2.7 The outcomes of the viability appraisal carried out to date are included in the confidential Essential Reference Paper B.
- 2.8 In summary, the viability assessment indicates that redevelopment by a housing association or private developer or council-led redevelopment through the council's housing company would deliver a building with a gross development value at or above the development costs and so the scheme would be viable. The two approaches, however, have different financial implications for the council – the details of this are included in the confidential Essential Reference Paper B.
- 2.9 The financial assessment indicates that disposal to a housing association or private developer to redevelop the site would require a capital contribution from the council with no means of recovery, other than possibly through some form of overage arrangements, couple with a loss of £159k in the value of the assets held.
- 2.10 The council-led redevelopment option, in contrast, would see a net income to the council arising from the development. In addition, the council, through its housing company, would retain the asset and see its value increase substantially, with a net increase in value having taken account of the repayment of development financing.
- 2.11 Council-led redevelopment, through the council's housing company, is predicated on use of the funding model approved by Council on 18 October 2017 to support the housing company's current activities. That is, the council would provide a commercial loan and a shareholder loan (a form of equity).

Further detail is provided in the confidential **Essential Reference Paper B**.

- 2.12 Just as in the established housing company funding model, the interest payable on the commercial loan would accrue to the council as the lender. In addition, the housing company's developer profit would return to its shareholder (the council) as a dividend.
- 2.13 The viability of the development model relies on nil land costs and a council contribution to the costs of the community centre, thus there are no resources accruing in the scheme to fund affordable housing. The council, however, would wish to see affordable homes included thus the model includes a contribution from commuted sums held for this purpose.

Initial financial appraisal of the retention phase

- 2.14 Under the disposal and redevelopment by a housing association or private developer option, the council would not retain the building once complete and so would not receive any ongoing income from rental of the residential and commercial elements of the development.
- 2.15 The member/officer working group has, however, explored the potential ongoing revenue income that could accrue from retention of the buildings through the council-led redevelopment route. In this scenario, the council's housing company would essentially 'purchase' the building from its development arm through a refinancing arrangement. This is particularly beneficial as it would allow the company to repay the high cost development finance by borrowing at a lower cost secured against the properties developed.
- 2.16 The confidential **Essential Reference Paper C** gives the key figures from an initial 30 year business plan produced in-house based on retention of the building. It assumes three affordable rented flats and eight private rented flats along with the shop and flat and the community centre.
- 2.17 The modelling assumes the loan principles are repaid to the council at year 30 through either disposal of all/some of the

units or refinancing of the debt. The modelling indicates a revenue income to the council from interest payments, recharges and dividends from after-tax-profits.

Member/officer working group's preferred option

2.18 Based on the options appraisal and initial financial appraisals, the member/officer working group's preferred option is council-led redevelopment, through the council's housing company. The group is of the view that this approach would maximise community benefits while representing the best financial value to the council. Furthermore, it would see the council, through its housing company, retaining the capital value of the asset and the income arising from the building in the future.

Overview and Scrutiny Committee's comments and preferred option

2.19 The options for the Kingsmead site were considered by the Overview and Scrutiny Committee on 10th July 2018. Committee members discussed the report in some detail. Of note:

- members noted the member/officer working group's preference for council-led redevelopment through the council's housing company
- members considered whether continuing to have a shop on the site was necessary and satisfied themselves that it provided a much needed local resource
- members questioned whether Millstream Property Investments Ltd was able to develop and own affordable housing given its commercial remit. Officers assured members the company's articles of association did not preclude this, the council's planning policies regarding the provision of affordable homes in a development of this type would apply and holding affordable homes incidental the company's over-riding commercial purpose would not be at odds with the government's views on local authority housing companies

- members noted that redevelopment of the site would be subject to gaining planning permission in due course.

2.20 Having scrutinised the options appraisal and financial assessment, the Overview and Scrutiny Committee supported the option of council-led redevelopment of the Kingsmead site.

Informal discussion with the directors of Millstream Property Investments Ltd

- 2.21 The Shareholder Agreement between the council and Millstream makes provision for the Shareholder Advisory Group to provide strategic guidance to the company. To date, the Shareholder Advisory Group has informally discussed the Kingsmead site the company's directors. The company's directors have indicated that if in due course the shareholder so requested, they would be happy to assess the viability of the company redeveloping the Kingsmead site so as to deliver the council's aspirations. There is no reason to suppose that the outcome of any viability work carried out by Millstream would be substantially different to that completed to date by the council.
- 2.22 Furthermore, Millstream's directors have indicated that assuming the financial assessment demonstrate viability, the company would be willing, if so requested, to include the redevelopment of the Kingsmead site in its Business Plan to be put to the shareholder (the council) for approval later this year in line with the timescales and requirements laid out in the Shareholder Agreement.
- 2.23 The company's directors have indicated that it would deliver a project of this type through the employment of a development agent to handle all relevant matters including planning, tendering, construction, handover and defects and final account closedown. In this way, the council could be assured that the necessary expertise would be available to deliver this scheme through the company.
- 2.24 The Shareholder Agreement reserves for the shareholder (the council), among other powers, decision-making regarding the

approval and/or adoption of any Business Plan or annual budget or any variation of the Business Plan or annual budget. In this way, the council shall be able to determine whether or not to proceed with this redevelopment scheme via its housing company.

3. Financial implications

- 3.1 Work by officers supported by GVA, external specialist consultants, and The Design Partnership, an architects and quality surveyor consultancy specialising in social housing and mixed use development, indicates that all options have financial implications for the council.
- 3.2 The member/officer working group's preferred option, that is, council-led redevelopment via the council's housing company, is the only option that would enable the council's capital contribution to the scheme to be offset by income arising from the development. The income would derive from the company's developer profit being made available as a dividend to the council and interest payments to the council on any loan extended to the company.
- 3.3 The financial modelling is based on prudential borrowing by the council from the Public Works Loan Board (PWLB) to provide development finance to the company. Interest modelled to accrue to the council from loans extended to company is net of the cost of borrowing from the PWLB.
- 3.4 The retention phase would also require council loans. Again, modelling is based on the council borrowing the required funds from the PWLB to on-lend to the company.

4. Legal implications

- 4.1 Each of the options considered in this report can be achieved legally thus members are invited to consider which option represents the best course of action and best value for the council.
- 4.2 Officers have recommended that the Executive recommends to Council that, acting as the company's shareholder, it

requests Millstream Property Investments Ltd to include the redevelopment as proposed in its business plan, which itself will require Council's approval in due course.

4.2 As noted above, the Shareholder Agreement between the council and its housing company, Millstream Property Investments Ltd, reserves decision-making on the pursuit of new schemes for the shareholder, that is, the council. The final details of the proposed scheme would therefore need to form part of the company's next business plan which will need to be approved by Council in due course.

5.0 Implications/Consultations

5.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

None

Contact Member: Cllr Jan Goodeve, Executive Member for Housing
jan.goodeve@eastherts.gov.uk

Cllr Geoff Williamson, Executive Member for Finance and Support Services

geoffrey.williamson@eastherts.gov.uk

Contact Officer: Jonathan Geall, Head of Housing and Health
01992 531594

jonathan.geall@eastherts.gov.uk

Report Author: As contact officer