

Subject: **Appendix 2 to item No. x**

Charles Kingston Gardens Lease Acquisition

Date of Meeting: **16th November 2022****NOT FOR PUBLICATION**

Note: The public are likely to be excluded from the meeting during consideration of this item as it contains exempt information as defined in paragraph 3 of schedule 12A, Part 1, to the Local Government Act 1972 (as amended).

1. PURPOSE OF REPORT AND POLICY CONTEXT

- 1.1 This Part 2 paper for the above report has been prepared because it contains financially sensitive information that the committee will need to be aware of.
- 1.2 The recommendation of the Part 1 paper at paragraph 2.2 asks the committee to recommend to Policy & Resources Committee that the Council makes an offer of up to the agreed sum and approves a budget line including on-costs to be included in the 2022/23 HRA Capital Programme the value of which is detailed in this part of the report.
- 1.3 Clarion Housing Association (Clarion) have requested an early surrender of their lease for their sheltered housing block, Charles Kingston Gardens. During early meetings, Clarion indicated that they required a premium of £0.865m for the early surrender of the lease. At the same time the council commissioned a Red Book valuation which outlined a value of c.£0.700m for the lease surrender. Negotiations took place over a period of time between the Council and Clarion which resulted in a value of £0.725m being agreed, subject to all further enquiries to be carried out proving satisfactory.
- 1.4 This information is commercially sensitive as the leaseholder also has the option of selling the lease on the open market.

2. FINANCIAL AND OTHER IMPLICATIONS:**Financial Appraisal:**

- 2.1 The financial appraisal undertaken is based on the Council funding the cost of any works required on the block in the medium term and bringing the rent and service charges in line with those charged at the neighbouring block, Elwyn Jones Court.
- 2.2 A standard 60 year Net Present Value financial appraisal has been undertaken on this basis the appraisal considers the capital costs, rental income and on-going management and maintenance costs to ensure the properties remain in a good state of repair over the 60 year period.

- 2.3 The appraisal concludes that over the 60 year period the council could invest up to £0.600m for the lease acquisition plus oncosts of £0.070m without requiring additional investment from current HRA revenue resources.
- 2.4 However, at the currently agreed valuation of £0.725m for the lease surrender plus on-costs of £0.070m there would be a funding gap of c.£0.125m, which would need to be funded from HRA resources such as borrowing financed by existing HRA resources.
- 2.5 The reasons why the internal financial appraisal undertaken could not generate the same value as Clarion and the Council's commissioned Red Book valuation is because of the different rent level assumptions. The rents that can be charged for tenants at Chares Kingston Gardens upon transfer are required to be equivalent to council owned stock in the same area. As Elwyn Jones Court is directly next to the property rents and service charges will be set at the same rate as those charged in that sheltered scheme. Section 4 of the Part 1 paper outlines that rents are lower than the current rents tenants pay and so the amount which can be supported from the new rental income falls short of the valuations which have been undertaken using the higher rent assumption.
- 2.6 The HRA is a pooled resource, as such the use of existing resources to fund any shortfall in a given project needs to be considered for Value for Money. In this instance the cost of financing the additional borrowing of up to £0.125m from existing resources is c.£0.006m per annum this is less than 1% of the interest cost currently being incurred by the HRA and currently budgeted for and it is considered that it will not have a significant impact on other investments required by the HRA on its currently owned stock. This can be managed through the budget setting process for 2023/24. Considered alongside the non-financial benefits of bringing 18 units of accommodation into the HRA, particularly where the block adjoins another asset already in HRA ownership provides assurance that the acquisition of the lease provides Value for Money.
- 2.7 Table 1 below outlines the total investment required and if the recommendation is approved the additional £0.795m budget will be added to the HRA capital investment programme and profiled across the financial years to reflect the programme of delivery. Any significant variations to the costs will be reported in accordance with the council's standard financial procedures and reported through Policy & Resources Committee.
- 2.8 Decisions around the borrowing requirement for this project will be made in consultation with the council's Treasury Management team to ensure that it is undertaken in accordance with the council's borrowing strategy, authorised borrowing limits and prudential indicators.

Table 1 – Investment & Funding	
	£'000
Lease Acquisition	725
On-cost allowance for professional fees	50
Stamp Duty Land Tax	20
Total Investment	795
Funded by:	
HRA Borrowing supported by new income and existing resources	795
Total Funding	795

- 2.9 To provide assurance on the cost of works required, several surveys have been undertaken on the state of Charles Kingston Gardens which indicate that the assumption of £0.390m for repairs and maintenance and major works during the first 5 years of the cashflow is a sufficient allowance at this time. The cost of repairs and maintenance will be included in the HRA's main capital programme over the medium term and where possible efficiencies will be made by ensuring similar works are undertaken at Charles Kingston Gardens and Elwyn Jones Court at the same time.
- 2.10 The cost of zero carbon works will also be aligned together in the HRA's main capital programme, officers continue to review whether grant funding is available to fund these works and where applicable will apply for this funding. The long term plans for government funding of decarbonisation projects are uncertain and the criteria for funding is subject to change, where funding isn't available, or the eligibility criteria is not applicable to our housing stock other resources will need to be considered such as the retrofit reserve held by the HRA.
- 2.11 In addition to our own modelling and planning work we are working collaboratively with local partners on a 'Retrofit Taskforce to Deliver Zero Carbon Homes'. This includes with the Greater Brighton sub- region led by Lewes District Council and the University of Brighton. The 'Retrofit Taskforce' promotes sub-regional working to seek the best solutions for delivering the decarbonisation of council owned housing stock to inform investment strategies to decarbonise council homes, support potential collaborative working on procurement to drive value for money and dialogue with Government to support potential sub-regional funding bids.

Appraisal Assumptions and Risks

A full list of assumptions and risks are listed below.

Financial Assumptions

- Standard management, maintenance, and major repairs for a General Needs development with an allowance made for current uplift in costs
- 3% voids and bad debts allowance provided for as the short term view is to bring void rent loss back to pre-pandemic levels
- BHCC Rents assumed at rates charged at Elwyn Jones Court in 2022/23
- Discount rate 3.5% for first 30 years and 3.0% for the second 30 years

- Refurbishment costs of £0.280m allowed for in accordance with advice from project manager received all of this is profile over the first 5 years of the cashflow analysis
- General maintenance of £0.110m over the first 5 years to support other works required under the surveys undertaken.
- 10% allowance made for professional fees
- SDLT assumed at highest rate payable following external advice sought from Ernst & Young

Financial Risks & Mitigations

Table 2 – Risks and Mitigations	
Risks	Mitigation
Costs increase beyond the allowances made.	Further borrowing or use of Direct revenue funding would be required to fund any cost increases.
Inflation for on-going expenditure increases at a rate greater than the income	This would need to be managed within HRA resources wither through the TBM process or budget setting process.
Void and Bad debt increase beyond the 3% allowance assumed	This would need to be managed within HRA resources wither through the TBM process or budget setting process.
Interest rates rises.	This would need to be managed within HRA resources wither through the TBM process or budget setting process.
Match funding not received for zero carbon works.	Use of current resources available to the HRA such as Direct revenue funding or reserves held for this purpose.