

Project Appraisal and Scrutiny Committee Recommendation

Project Name	Recommendation to Dispose of an HRA Asset (1 Engineers House) on the Open Market
Committee	Housing Scrutiny Committee / Strategy & Resources
Portfolio	HRA
Committee Date	Urgent Decision
Executive Councillor	Councillor Kevin Price, Executive Councillor for Housing & Councillor George Owers, Executive Councillor for Strategy & Resources
Lead Officer	Julia Hovells, Business Manager / Principal Accountant

Recommendation/s

Financial recommendations –

In line with the HRA Acquisition and Disposal Policy, the Executive Councillor for Housing, with the agreement of the Executive Councillor for Strategy & Resources, is asked to:

- Approve, following receipt and consideration of an independent valuation report, disposal of the HRA dwelling known as 1 Engineers House, following advertisement on the open market.
- Approve delegation of authority to the Director of Customer & Community Services, in consultation with the Head of Finance and Head of Property Services, to negotiate upon the original valuation to arrive a sale which demonstrates the best value achievable for the HRA in the market at the time of disposal.
- Approve the up-front capital costs associated with the project, estimated to be up to £10,350 (Valuation Fee, Agents Sales Fee, Legal Fee), which will be fully met from the capital receipt once the sale is complete.
- Recognise that the notional revenue loss arising from disposal of this dwelling has been excluded from the financial appraisal, as the property is not in lettable condition without significant investment.

1 Summary

1.1 The project

- This report considers and recommends the market disposal of the HRA residential dwelling known as 1 Engineers House, following consideration under the HRA Acquisition and Disposal Policy. The property is currently vacant.
- The HRA Acquisition and Disposal Policy includes a number of criteria upon which the disposal of a dwelling should be considered, including whether the property requires significant investment, its construction type and location.

1.2 The Property

Property Address	1 Engineers House Riverside Cambridge CB5 8HN
Property Type	House
Number of Bedrooms	3
Number of Reception Rooms	2
Garage in Curtilage	No

1.3 The Criteria

1	Property where the business case indicates a negative contribution to the business plan, with anticipated costs of managing, maintaining and improving to the required standard, expected to outweigh the rental stream realisable, with no clear social benefit to retention.	Yes
2	Property where the location detracts from ease of housing management and maintenance activity.	Yes
3	Property where the build type detracts from ease of housing maintenance.	Yes

1.4 Target Dates / Deadlines

Void Date	13/10/2014
Instruction to Valuer	4/12/2014
Stock Condition Survey completed	23/1/2015
Valuation Report received	29/1/2015
Circulation of Business Case to HMT for officer decision	6/2/2015
Urgent Decision circulated	TBC
Property marketed	March 2014

1.5 The Cost (using January's valuation report)

Capital Cost	
Sales Fee	£8,400
Legal Fees	£1,000
Valuation Fee	£950
Total Capital Cost	£10,350

Capital Cost Funded from:

Funding:	Amount:	Details:
Reserves	£0	
Repairs & Renewals	£0	
Section 106	£0	
Borrowing	£0	
Right to Buy Receipts	£0	
Other	(£10,350)	Capital receipt for the market disposal

Total Revenue Cost Per Annum

Management Costs	£470
Maintenance / Repairs	£750
Major Works / Improvements (MRA/Depreciation)	£1,250
Total Revenue Expenditure	£2,470
Revenue Income (Rent)	(£6,700)
Net Revenue Cost / (Surplus)	£4,230

The net revenue impact of the loss of the dwelling has not been incorporated into the financial appraisal for the option to dispose of the dwelling in its current condition, as the property is not considered to be lettable as it is today. If remedial works were to be carried out, then the revenue impact shown above would be realised by the HRA were the asset to be disposed of.

Capital Project Appraisal and Committee Report

1.6 What is the project?

The project has considered the options available to the HRA in relation to a 3 bedroomed house at 1 Engineers House, where it has been identified that considerable investment is required to bring the property up to an acceptable standard, The property is currently void, allowing the authority to fully explore all options.

The options considered include, full refurbishment and re-let as social housing, full refurbishment and disposal on the open market and disposal on the open market in its existing condition.

1.7 What are the aims & objectives of the project?

The aim of this project is to ensure that the HRA makes best use of its asset base and limited housing resources to maximise the delivery of affordable housing across the city.

1.8 Summarise the major issues for stakeholders & other departments?

The project has required input from the Estates & Facilities team to identify the investment required in the property should it be retained or refurbished and sold on. An initial stock condition survey has been undertaken, the findings of which have been incorporated into this report.

Legal are required to undertake and complete on the sale of the property, and have already been approached to allocate a Solicitor to this project.

Property Services will act on behalf of housing in respect of instructing an agent for the sale of the property and leading on any sales negotiations.

1.9 Summarise key risks associated with the project

There are risks associated with each of the options that have been investigated.

In either of the options which would require the authority to carry out the refurbishment works there is a significant risk that once works begin, the need for additional investment will be uncovered, due to the age and location of the property. This risk could jeopardise the anticipated pay-back that would be expected of the up-front investment in the case of retention, or the additional return that will have been assumed in the case of a market sale.

A decision to sell the property on the open market in its current condition is considered to carry a lower level of risk, but risks are still inherent in that the estimated value may not be achieved due to market forces. The only way to determine the property's actual worth is to market it for sale.

1.10 Financial and operational implications

An indication of the estimated market value of the property in its current condition, was provided by January's on 29th January 2015.

To refurbish the property to an acceptable standard to allow re-let, a significant level of investment would be required. It is estimated that following these works, a higher market value could be achieved.

Financial viability assessments have been carried out, considering three scenarios. These include:

- Refurbish and rent at Social Housing rent levels, 100% funded through HRA resources (Scenario 1)
- Refurbish and dispose of the property on the open market, using the receipt towards the delivery of 3 new affordable homes (using the Homerton scheme as a benchmark), assuming the balance of funding to be met from HRA resource (Scenario 2)
- Dispose of the property on the open market in its existing condition, using the receipt towards the delivery of 3 new affordable homes (using the Homerton scheme as a benchmark), assuming the balance of funding to be met from HRA (Scenario 3)

Refurbishment and re-let at social housing rent levels (Scenario 1) would take 27 years to pay back (recover the up-front investment from future net revenue streams) and would also carry significant risk in terms of the cost of the refurbishment work itself. The property is an old building and does not have easy access for vehicles for either the refurbishment works, or any future repair works that might be required. It is not located in the immediate vicinity of other City Council housing, making general housing management activity more complex.

Refurbishment and disposal of the property on the open market (Scenario 2) would generate a larger capital receipt than disposal of the dwelling in its existing condition, but would also carry significant risk in terms of the cost of the refurbishment work itself. Recognising that at this point the authority would be disposing of an asset which would then be lettable, in place of generating a capital receipt to re-provide 3 affordable homes, the scheme would take 10 years to pay back.

Disposal of the dwelling in its existing condition (Scenario 3) carries the lowest level of risk, and the anticipated capital receipt would allow for the re-provision of 3 affordable homes, with a pay back of 9 years, recognising that the property at 1 Engineers House is not a lettable asset in its current condition.

With this in mind, this business case has been prepared and presented on the basis of disposal of the property at 1 Engineers House in its existing condition.

1.11 VAT implications

There are no adverse VAT implications associated with the sale of this HRA dwelling.

Any decision to make alternative use of the property would require specific consideration of any potential negative vat implications, although these would not be anticipated to be significant.

1.12 Other implications

There are no other direct implications associated with this project.

1.13 Estimate of staffing resource required to deliver the project

A Surveyor in the Estates & Facilities Team has already completed the initial stock investment survey. This was a one-off visit to the property plus time to quantify the investment need and write the report.

The Business Team have undertaken the initial financial analysis required to evaluate the options and prepare the business case for decision.

Property Services will act to appoint an external sales agent and will negotiate a sales value with them at the point at which an offer is made. Input is not expected to exceed 10 hours.

Legal will be required to undertake the legal work associated with the sale of the property, and although the timeframe is unpredictable and dependent upon market forces, the workload is expected to be approximately 10 hours, unless negotiations become protracted, and is considered deliverable within existing staffing resources.

1.14 Identify any dependencies upon other work or projects

There are no direct dependencies upon other work or projects in relation to this project, as the input from each of the professionalisms from this point forward is not considered to be significant and is possible to deliver within existing capacity.

1.15 Confidential Background Papers / Appendices

(Exempt from publication under category 3 part 4b appendix 1 access to information procedure rules)

- January's Independent Valuation Report of 29th January 2015 (incorporating the findings from the Stock Condition Survey).
- Resulting financial implications for the Council

1.16 Inspection of Papers

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