

Report to: Cabinet

Date of Meeting: 2 September 2019

Report Title: 12/13 York Buildings

Report By: Peter Grace
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Purpose of Report

To seek approval for additional capital funding to convert the upper floors to six flats.

Recommendation(s)

- 1. To increase the capital budget to convert the upper floors to 6 flats to £846,000 (was previously £757,000).**

Reasons for Recommendations

Following delays with obtaining consent to discharging conditions of the listed building consent and changes required to the original specification the project costs have increased. However with the historically low interest rates there is still a window of opportunity to convert the derelict upper floors in this grade 2 listed building (which has high conversion costs), to create much needed new residential accommodation and generate additional income for the Council. The estimated additional income increases from that reported in July 2018 despite the cost increase; this is the result of reductions in overall borrowing costs.

Introduction

1. The total estimated project costs are now £845,038 which is £88,038 above the previously agreed budget of £757,000. We have spent £27,532 to date (professional fees, fire safety strategy report and floor plans).
2. The additional works costs are set out in more detail below.
 - a. An uplift for inflation at 3% due to the delays (the original tender was submitted in June 2018). This is considered reasonable by the Quantity Surveyor as the Building Cost Information Service All-In Tender Price Index is forecasting a 4% increase between 2Q/2018 and 3Q/2019.
 - b. Changes needed to the specified works to satisfy Conservation requirements:
 - i. Internal walls and partitions – overall increase of 3.5%.
 - ii. Internal doors – a major change to the specification as the doors are now to be made by a specialist joinery company.
 - iii. Wall finishes - various changes including new plasterboard lining and increased specification.
 - iv. Floor finishes – stair nosings changed from uPVC to brass at an increase of £6,559.
3. This has led to an overall increase in works costs from £668,006 to £751,653. These have been verified by the Quantity Surveyor.
4. The professional fees (these are based on a % of the work costs) have increased to £57,928. The surveyor's report is attached as a Part 2 item.
5. It should be noted that there would be significant costs that would need to be incurred should the Council not proceed with these works. The roof needs urgent repairs and there will also be structural work required. The presence of Asbestos makes this building more problematic when seeking to undertake repair works to maintain the integrity of the building. The Architects have estimated the costs at some £60,000. This includes roof repairs and scaffolding (£13,000), electricity supply and security (£11,000), roof, floor and stair strengthening works (£25,150), plus preliminaries (£5,000) and architects/surveyor fees (£5,500). No estimate for fire protection works has been included. There would also be annual ongoing maintenance, insurance and service costs.

Financial Implications

6. Local Agents had previously advised in 2018 that once completed the flats would have a rental value in the order of £40,200 per annum and if sold on long leases a value of £520,000 as detailed below:
 - a. Flat 1. 1 bedroom first floor flat with separate kitchen. £550 per calendar month (value £85,000).

- b. Flat 2. 1 bedroom first floor flat with a good sized open plan living area and a study room. £575 per calendar month (value £90,000).
 - c. Flat 3. 1 bedroom second floor flat with separate kitchen. £550 per calendar month (value £85,000).
 - d. Flat 4. 1 bedroom second floor flat with separate kitchen. Larger accommodation than Flat 3. £575 per calendar month (value £90,000).
 - e. Flat 5. 1 bedroom third floor flat with separate kitchen/diner. £550 per calendar month (value £85,000).
 - f. Flat 6. 1 bedroom third floor flat with separate kitchen/diner. £550 per calendar month (value £85,000).
7. In July 2008 rentals were estimated at £40,200 p.a., with annual borrowing costs amounted to £38,229 p.a. (based on a repayment period of 40 years and an interest rate of 2.55%). This was expected to provide a net annual surplus of some £1,971 p.a.
 8. As at 12 August 2019, assuming rentals remain the same, annual borrowing costs on £846,000 are estimated at £37,732 p.a. (based on a repayment period of 40 years and an interest rate of 1.96% - maturity rate on 12 August 2019). This is expected to provide a net annual surplus of £2,468 p.a.
 9. If borrowing by an Annuity loan over a period of 40 years the surplus increases to £9,535 p.a. and if over 50 years the surplus would be an estimated £13,242 p.a.
 10. There would be future rent reviews that could enhance the surplus given that the borrowing costs would be fixed and likewise there will have been Capital appreciation of the flats, and higher rental rates too. The Council would also benefit from a small amount of Council Tax, and of course the added housing provision itself – desperately needed.
 11. It would not be viable to undertake the work and then sell the flats. Likewise once the work is undertaken the value of the property would be reflected in the Council's balance sheet at the market value – which would be less than the amount of Capital expended. This in itself does not impact on the Council tax payer.
 12. One alternative option that was raised at Cabinet previously was the option of selling the property at auction and investing the proceeds elsewhere. The advice received from auctioneers, Clive Emson, was that the guide price should be in the region of £80,000 to £90,000 with a reserve of £80,000. As such the benefits of continued ownership of the whole building are considered to outweigh the potential short term benefit of a sale.
 13. Given the historically low interest rates there is a period of opportunity to achieve a useful transformation of the building given the particularly high conversion costs associated with a grade 2 listed building.
 14. It is currently envisaged that the properties would be leased to the Council's Housing company as the Council could not rent them out itself with implications.

Climate Change Implications

15. The Council is seeking to provide sustainable accommodation, albeit compromises are currently inevitable given the Grade 2 listed building status.

Risk Management Implications

16. There are risks that there could be additional expenditure, beyond the works identified and beyond the contingency established.
17. The Council is looking to undertake this work to provide additional much needed accommodation. It is not envisaged that there will be any problems in renting the properties once completed. However the Capital values may well fluctuate in the coming months given Brexit and future economic uncertainties.
18. Delays could be experienced given the Grade 2 listed building status and the conservation requirements.

Timetable of Next Steps

Action	Key milestone	Due date (provisional)	Responsible
Works contract completed	Instruct Legal to complete works contract	After Cabinet approval	Estates Manager /Legal Services
Conversion works	Start	4-6 weeks after contract completed	Mackellar Schwerdt/Contractor

Wards Affected

Castle

Implications

Relevant project tools applied? Yes/~~No~~

Have you checked this report for plain English and readability? Yes/~~No~~

Climate change implications considered? Yes/~~No~~

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

Additional Information

Cabinet reports 3 April 2017 and 2 July 2018.

Part 2 Report - 2 September 2019

Officer to Contact

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