

BARNSELY METROPOLITAN BOROUGH COUNCIL

This matter is a Key Decision within the Council's definition and has not been included in the relevant Forward Plan.

REPORT OF THE EXECUTIVE DIRECTOR PLACE

Berneslai Homes – Purchase, Conversion and Refurbishment of Former Council Offices, Berneslai Close by Berneslai Homes Ltd

1. Purpose of Report

- 1.1 To seek approval for Berneslai Homes to implement the purchase, conversion and refurbishment of Berneslai Close in line with the agreed capital programme approved by Cabinet (Cab.9.1.2019/11 refers).

2. Recommendations

It is recommended that Cabinet approves that:

- 2.1 **Berneslai Homes Ltd is to proceed to procure and deliver the conversion and refurbishment of the retained building at Berneslai Close;**
- 2.2 **Relevant authorisation for the monitoring and authorisation of specific project decisions are delegated to Berneslai Homes Senior Management Team, in line with the Council's approved Standing Orders;**
- 2.3 **The 9 market rented units are held within Berneslai Homes Ltd ('The Company') and let at market rent.**

3. Introduction

- 3.1 Berneslai Homes has, for several years, successfully delivered a programme of individual projects converting former estate shops, community buildings and commercial properties across the borough into useable residential accommodation. Often the former use is redundant but the buildings structures are sound providing an economic opportunity to deliver new homes.
- 3.2 This project is set in the context with the proposal by McCarthy and Stone (McC & S) to develop on the adjoining site to build 60 leasehold apartments for older people and the existing BMBC development of 22 units of social rented accommodation for older people at Churchfields Close (facing Barnsley College).
- 3.3 McCarthy and Stone have purchased the whole site and buildings. Demolition of the more recent 1940's extension to the office buildings is underway (Oct 2019) and will create the development site for the leasehold apartments to be built by McC.& S.
- 3.4 This leaves what was the original entrance to the former Victorian hospital building. Although this is not a listed building, it does have architectural merit and is in the conservation area. The separation of the building from the 1940's extensions and the new buildings to be constructed by McC.& S will enhance the overall appearance of the group of buildings, when seen together with the adjacent park and historic church.
- 3.5 Taking all three development elements together McCarthy & Stone, Berneslai Close and Churchfields Close social rent (BMBC), the area will have the feel of a retirement village set in and around the park, in a very prominent location close to the centre of Barnsley's municipal central area.

3.6 The development will be complimentary to the town centre redevelopment currently underway. The residents who will occupy this and the adjoining developments will have easy access to all facilities, the market and main shopping area.

4. Proposal and Justification

4.1 In summary, the proposed project involves:

- The demolition of the adjoining building, and preparation of the land for development, the sealing of exposed landings and stairwell to complete the envelope of the building to be retained. This work will be undertaken by McCarthy and Stone (McC&S) prior to the purchase and the commencement of the Berneslai Homes element of the project;
- The purchase from the Council, a building formerly used as office accommodation and associated parking spaces and incidental land;
- The building is to be acquired directly by Berneslai Homes Ltd and will be held as assets of The Company;
- The refurbishment and conversion of the building to provide nine self-contained high standard apartments to be let at a market rent level;
- The ongoing management of the property, maintenance and repair of the building will be the responsibility of Berneslai Homes Ltd; and
- The day to day management of the residents and the use of the property will be undertaken by the Berneslai Homes.

4.2 It is proposed that Berneslai Homes be authorised to commission and deliver the project in line with current Standing Orders;

4.3 The proposals are in line with the priorities within the Council's Housing Strategy to make the best use of buildings and to satisfy housing need in the Borough.

Market Rented Units - Berneslai Homes Ltd

4.4 This proposal relates to holding 9 dwellings in Berneslai Homes Ltd, to be held for market rent purposes. The Articles of Association of The Company was changed in 2018, (Cab.17.10.2018/7 refers) to allow The Company to hold such assets for that specific purpose. The recommendation at 2.3 refers.

4.5 The rationale for this approach is that a new tenure type is introduced to the current housing offer that is provided by the Council and partners, of high quality, market rental units, for which there is demand for.

4.6 By providing the market rented product via Berneslai Homes, the Council can have confidence in the quality of the management and maintenance services principles that are already established in respect of the management of the Council's housing stock by Berneslai Homes.

4.7 Furthermore, the inclusion of a market rent product via Berneslai Homes also enables the use of Assured Shorthold Tenancies which allows for independent rent setting outside of Right to Buy legislation, which promotes sustainability in respect of maintaining housing stock levels.

4.8 Other local authorities and housing associations are already using their housing companies to hold stock for sale/rent outside of HRA arrangements. Some examples of this approach are Yorkshire Housing, who has actively developed tri-tenure properties across Barnsley

over the last 5 years, delivering affordable rent, market rent and market sale homes on sites in West and Central (Monk Bretton) Barnsley and Derby Homes, who own and manage stock for private rent on behalf of Derby City Council.

- 4.9 Berneslai Homes already manage private rented stock on behalf of private landlords across the borough and this proposal represents a commercial opportunity for The Company to generate additional income for and on behalf of the Council.
- 4.10 The profit from the market rentals from this proposal and any subsequent capital receipts upon disposal generated from these 9 properties would increase The Company's reserves and balances. It is proposed that these specific balances are separately identified and ringfenced for consideration against the joint emerging priorities of both the Council and Berneslai Homes, in line with the Council's approved Reserves and Capital Investment strategies respectively.

5. Current Position

- 5.1 McCarthy & Stone have made a successful Planning Application for all elements of the development, including the change of use and refurbishment of the retained building, to provide nine apartments. The final amended application was approved in June 2019.
- 5.2 McC & Stone completed the purchase of the site and building in April 2019, commissioned the asbestos removal and commenced the demolition in August 2019. They have also commissioned, topographical, drainage and utility service surveys and quotations for the whole site.
- 5.3 For about a year, Berneslai Homes have held regular meetings with senior officers of McCarthy & Stone, their technical consultants and NPS (our consultants). The purpose of these meetings has been to optimise the approach and ensure that the two building work together, have complimentary access to utility services and designs are complimentary where appropriate.
- 5.4 Berneslai Homes have commissioned NPS to provide technical advice, design and cost estimation services to maximise the value potential and cost effectiveness of the internal layout. They have also supported Berneslai Homes in discussions with McC & S.
- 5.5 A purchase price of £190,000 has been agreed which is more than supported by a professional valuation and Berneslai Homes have also commissioned a valuation of the building based on the completed development. As per the contractual agreement with McC & Stone, the Council is due to receive 70% of this receipt (c.£130k) with the remaining 30% being retained by McC & Stone.
- 5.6 Where possible, Berneslai Homes have de-risked the development costs by consulting specialists such as lift design consultants, acoustic transmission specialists, door entry equipment suppliers, fire officer etc.

6. Consideration of Alternative Approaches

- 6.1 The Council had previously marketed the whole of the Berneslai Close office complex when the building became surplus to requirements several years ago and received very little interest. McCarthy and Stone were the first organisation to show serious interest in the building and willingness to commit resources to the regeneration of the site. As such, they have provided a catalyst for the redevelopment of the area. However, they have no desire to take the conversion of the retained building forward and have been seeking a partner to work with them to own and redevelop the building sympathetically.
- 6.2 It is very much in the Council's and Berneslai Homes' interest that the Council should be an active partner in the redevelopment of the area, to ensure that the new development is complimentary to the adjacent Council stock and other public interests in the area.

- 6.3 McCarthy & Stone could seek an alternative partner to refurbish the retained building. This would limit the Council's ability to control the future use of the building and opportunity to engage in the partnership working.
- 6.4 On balance, the option proposed offers the greater balance of benefits over cost and the value created by the Council in developing quality housing in its own right and for the community it serves should not be under estimated.
- 6.5 There are also significant social and qualitative benefits derived from "beacon projects" of this type over and above the financial and physical structure.

7. Implications for Local People / Service Users

- 7.1 Berneslai Homes' approach to estate and community improvements is geared towards responding to issues and opportunities raised by residents, the Council and Berneslai Homes officers and members. Historically, many of the buildings identified have been within or on the periphery of estates.
- 7.2 The focus is to improve living conditions for residents and make the housing environment more attractive to new customers and the wider community.
- 7.3 The purchase and refurbishment of the former Council offices at Berneslai Close offers a very specific and relatively unique opportunity to broaden the housing offer in Barnsley.
- 7.4 The renovation of the empty building will benefit the wider community and improve the visual amenity of the area.

8. Financial Implications

- 8.1 Consultations have taken place with representatives of the Service Director – Finance (S151 Officer).

Capital Expenditure & Funding

- 8.2 The estimated cost of this scheme totals £1.269M and is detailed in the table below:

	£M
Acquisition & Stamp Duty	0.197
Works	0.985
Fees	0.067
Specialist Services/Utilities	0.020
Total Estimated Cost	1.269

- 8.3 This scheme was included in the Housing Growth Strategy approved in principle by Cabinet (Cab.9.1.2019/11 refers) which has also been recommended to, and therefore formally approved by Full Council on the 7th February 2019. The amount set aside for this project totaled £0.998M.
- 8.4 The increase in estimated costs totalling £0.271M from the £0.998M originally set aside, to the revised estimated cost of £1.269M, is included and considered within the proposed Housing Growth Investment programme which forms part of the 2020/21 Housing Revenue Account Budget, approved by Members and due to be formally approved by Cabinet in January 2020.
- 8.5 It is anticipated that the acquisition will be completed in the 2019/20 financial year with the remaining costs in respect of works etc. expected to be incurred in 2020/21.

- 8.6 The proposed funding of the capital expenditure is the use of Berneslai Homes Surplus, identified again, as part of the 2020/21 Housing Revenue Account Budget papers as outlined above.
- 8.7 It should be noted that the initial capital expenditure and relevant funding resides within Berneslai Homes in its entirety and that no transactions are to be included in the Council's account in respect of this.

Capital Receipts

- 8.8 The Council entered into a contract with McCarthy & Stone to purchase the land, demolish the element of Berneslai Close that was surplus to requirements, make the retained element structurally and externally sound, and facilitate the sale of this to a third party developer, with the agreed share of any receipt being split 70:30 in the Council's favour.
- 8.9 An agreement was negotiated between the Council and McCarthy & Stone for the purchase price of the land which was netted down by the cost of demolition of the surplus to requirements element of Berneslai Close, which equates to an approximate capital receipt of £0.117M that is due to the Council.
- 8.10 Berneslai Homes were the successful third party developer with an agreed acquisition price of £0.190M, of which the Council will receive £0.133M in terms of a capital receipt, bringing the total to £0.250M, including the land element above.

Revenue Implications

- 8.11 The 9 units that will be made available for private rental tenancies at market rents will be held in Berneslai Homes where the properties will be held as assets of The Company.
- 8.12 The 9 properties are expected to generate rental income and service charge income in the region of £0.053M p.a. This income will contribute towards the ongoing repairs and maintenance requirement and management of the 9 properties which, on an average basis is estimated to total £0.030M p.a. which is, therefore, expected to generate a surplus for The Company of £0.023M p.a. (before tax), which will be separately ringfenced for consideration in line with the Council's Capital Investment Strategy and Reserves Strategy, as explained in paragraph 4.10.
- 8.13 It should be noted that the expected Council Tax and New Homes Bonus generated from this proposal has already been considered in the Council's Medium Term Financial Strategy.

Accounting & Taxation

- 8.14 Berneslai Homes have sought advice from BDO LLP regarding the accounting & tax implications of the proposed development. In summary, the key issues are as follows:-
- As the properties are being rented out at a market rent, the assets will be classified as an investment property and it will need to be revalued each year, with any change in the value being posted to the profit and loss account.
 - Corporation tax will be payable on any profit made from renting out the dwellings with the current rate being 17%.
 - As VAT is not charged on the rental of dwellings (it is an exempt supply), Berneslai Homes will be unable to reclaim the VAT that is expended on, for example, materials, sub-contractors and professional fees. Therefore, there will be a cost of unrecoverable VAT on both the refurbishment of the building and the ongoing management & maintenance. Some of the refurbishment works will qualify for a reduced rate of VAT at 5%.

- The most significant element of unrecoverable VAT will be incurred on the refurbishment of the properties. There is an option to refurbish the properties within Berneslai Homes and subsequently transfer them to a subsidiary company on completion. In this scenario, VAT on the refurbishment can thus be reclaimed. However, this option has been discounted on the basis of the burden of setting up and operating the subsidiary outweighs the benefit.

8.15 Berneslai Homes have received legal advice on the scheme which confirms that the market renting of the dwellings by Berneslai Homes does not constitute “state aid”.

8.16 The financial implications are summarised in the attached Appendix A.

9. Employee Implications

9.1 The works will be undertaken using resources identified and approved as part of the development proposal and contained within Berneslai Homes Investment and Regeneration Team.

9.2 The ongoing Management of tenancies and building delivered by our Private Landlord Services team / asset management function. Some additional pressures may materialise on the Berneslai Homes Finance Team in relation to the VAT position of the project and its ongoing management and maintenance.

10. Communications Implications

10.1 Berneslai Homes will communicate regularly with the residents, and officers affected by the proposed works directly using social media, Email and progress events held locally.

11. Consultations

11.1 Consultation has taken place at a local level engaging with residents, Housing Management Staff, community groups and local members as part of the Planning Application process. Further consultation will take place as part of the pre contract and development process with all stakeholders.

12. Risk Management Issues

Risk Detail	Probability and Impact	Mitigation
Failure to secure the purchase of the buildings. The owner may accept a higher offer should one be made prior to our completion of purchase.	Prob – Medium Risk – High	A none binding option to purchase has been agreed with the owner.
Failure to secure a works cost submission within the defined budget cost.	Prob –Med Impact – Med	Significant work has been undertaken to develop a cost model which is robust and accurate. The scheme will not proceed if this cannot be achieved and or the variance significant.
Failure to control cost of Delivery	Prob – Low Impact - High	A fixed price will be agreed with Construction Services and this should significantly limit option to vary costs. Prompt and close scrutiny of variations or suggestions of additional work or material will be carried out. There will be no option to vary without authority of the client function built into

Risk Detail	Probability and Impact	Mitigation
		process.
Reputation Risk of failure to deliver a “good” project	Prob – Low Impact - High	Berneslai Homes has an experienced team which has successfully delivered over 10 significant house construction / development projects in the last few years. Many with significantly higher value than this. These have been recognized in terms of quality standards and delivery method by external bodies. The deliverer method to be used is tried and tested by the team.

13. **BMBC Strategic Alignment**

- 13.1 New Housing Development directly addresses two of the Councils Corporate Priorities:
- Creating a strong and vibrant economy
 - Building Strong and Resilient Communities
- It will also improve and broaden the housing offer for the community both locally and across the borough.
- 13.2 The development of the scheme by Berneslai Homes near the heart of Barnsley will assist with the generation of community confidence in the area and be a clear indication of the Council’s commitment to invest in the central area of the town.
- 13.3 The proposal will bring a currently empty and unused build back into productive use.
- 13.4 The full project business case has been considered by the Council’s Capital Oversight Board. The project has the support of the relevant senior officers who make up the Board.

14. **List of Appendices**

- 14.1 Appendix A - Financial Implications

15. **Glossary**

- 15.1 NPS – Norfolk Property Services
 BMBC – Barnsley Metropolitan Council
 CDM – Construction Design and Management

Report author: Stephen Davis
 Director of Assets Regeneration and Construction
 Berneslai Homes

Date: 31 Oct 2019