



CABINET REPORT

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| Report Title | Purchase and redevelopment of Riverside House for affordable rented housing |
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AGENDA STATUS: PUBLIC

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| Expected date of decision: | 20 May 2020 |
| Key Decision: | Yes |
| Within Policy: | Yes |
| Policy Document: | No |
| Directorate: | Housing and Wellbeing |
| Accountable Cabinet Member: | Councillor Stephen Hibbert |
| Ward(s) | Rushmills |

1. Purpose

- 1.1 The purpose of this report is to ask Cabinet to approve the purchase and redevelopment of Riverside House in order to increase the supply of affordable rented housing and help reduce the use and cost of temporary accommodation.

2. Recommendations

- 2.1 It is **recommended** that Cabinet:
- (a) Approves the purchase and redevelopment of Riverside House, funded through the Housing Revenue Account at a total cost set out in Exempt Appendix A to this report, in order to provide a total of 60 apartments (16 one-bedroom and 44 two-bedroom) that will be let to eligible households on the Housing Register;

- (b) Approves the use of the Housing Revenue Account Capital Programme to complete the purchase and redevelopment of Riverside House;
- (c) Delegates to the Director of Housing and Wellbeing, in consultation with the Chief Finance Officer, the Borough Secretary, Cabinet Member for Finance and the Cabinet Member for Housing and Wellbeing – the authority, on being satisfied with the results of the due diligence exercise undertaken by NPH on the Council’s behalf, to purchase and redevelop Riverside House as affordable rented housing.
- (d) Delegates to the Director of Housing and Wellbeing, in consultation with the Cabinet Member for Housing and Wellbeing and the Chief Finance Officer, the authority to determine the rent levels and services charges for the new homes in Riverside House; and
- (e) Delegates to the Director of Housing and Wellbeing, in consultation with the Cabinet Member for Housing and Wellbeing and Northampton Partnership Homes, the authority to develop and approve a Local Lettings Policy that determines how the homes in Riverside House are allocated.

3. Issues and Choices

3.1 Report background

3.1.1 Riverside House (see photo below) is a detached, five-storey office building comprising two rectangular wings and a central core. It is situated in Bedford Road, less than a mile from Northampton’s town centre.



3.1.2 Overall, the building is approximately 57,105 square feet (5,307 square metres) in size and is offered for sale with 127 parking spaces. The ground floor of the building is currently leased to, and used by, a renal dialysis company.

- 3.1.3 Barwood Capital, the owner of Riverside House, has obtained planning consent to convert the four upper floors of the building into 60 apartments (16 x one-bedroom and 44 x two bedroom).
- 3.1.4 On behalf of the Council, and in order to help increase the supply of affordable rented housing in the borough and reduce the use and cost of temporary accommodation, Northampton Partnership Homes (NPH) has been negotiating with Barwood Capital with a view to the Council purchasing Riverside House.
- 3.1.5 Through NPH, the Council has negotiated the cost of the scheme, appointed an external legal team to undertake legal due diligence and, subject to Cabinet approval, agreed Heads of Terms with Barwood Capital.
- 3.1.6 If approval is given, NPH will conclude the negotiations and recommend that the Council proceeds with the exchange of contracts. It will also develop the technical design and specification to enable it to procure a main contractor to undertake the conversion works to the property
- 3.1.7 It is anticipated that, if contracts are exchanged in July 2020, the redevelopment of Riverside House will be able to commence in December 2020 and will take approximately 15 months to complete. This programme is subject to any ongoing impact from Covid-19 in relation to elongated programmes (to enable contractors to manage social distancing) and lead in times for materials.

3.2 Issues

Housing Revenue Account

- 3.2.1 It is proposed that the purchase and redevelopment of Riverside House is funded through the Housing Revenue Account (HRA) and that the new homes will be owned and managed within the HRA.
- 3.2.2 This will afford the Council the opportunity to subsidise the acquisition and redevelopment, and minimise the amount of borrowing required, by investing Right to Buy receipts or securing a grant from Homes England.
- 3.2.3 In common with other applicants, new tenants will be provided with Introductory Tenancies for the first year and, as long as they comply with their tenancy conditions, their tenancies will then be converted into secure tenancies.
- 3.2.4 It is proposed that the homes will be let at affordable rents (up to 80% of the market rent) but 'capped' at Local Housing Allowance (LHA) rates.

Purchase and management of the freehold

- 3.2.5 It is proposed that the Council acquires the freehold of Riverside House.
- 3.2.6 This is important because it will provide NPH (as the managing agent) with full control over the management and security of Riverside House, and it will avoid any liability for the payment of ground rent and freeholder service charges.
- 3.2.7 On completion of the purchase, the Council will be the landlord of Renal Services (which leases the ground floor of Riverside House) and will receive, from Renal Services, rent for the space occupied by the dialysis unit and a proportion of the overall service charges relating to estate services such as the cleaning of communal areas and window cleaning.

- 3.2.8 On completion of the conversion works, the Council will also become the landlord of 60 council tenants who will pay rent for their homes and a proportion of the overall service charges relating to estate services such as the cleaning of communal areas and window cleaning.

Planning matters

- 3.2.9 After more than 40 years of almost continuous use as office accommodation, Riverside House has struggled to attract commercial tenants in recent years and its owners have considered other options for its use:

- In 2014, planning consent was given for a change of use of the ground floor of Riverside House from offices (Use Class B1) to a renal dialysis medical centre (Use Class D1). This resulted in the ground floor being leased to Renal Services from 2014 for an initial period of 10 years.
- Several residential options were considered, with a range in density and tenure. The planning consent that is relevant to the Council's proposed purchase and redevelopment of Riverside House is the Prior Notification of Change of Use from Offices (Use Class B1a) to Residential comprising 60 no units (Use Class C3)

- 3.2.10 Riverside House is for sale with the benefit of 127 parking spaces. A large adjacent piece of land at the rear of the site – which is not included in the sale of Riverside House and includes land owned by Northampton General Hospital – has outline planning permission for student accommodation and a reserved matters application has been submitted for this.

Design and construction

- 3.2.11 It is proposed that, on completion of the purchase of Riverside House, the redevelopment of Riverside House will be undertaken by NPH, on behalf of the Council, as the Council's Development Agent.

- 3.2.12 NPH has an in-house team of quantity surveyors, building surveyors and project managers, and a supply chain for design and construction. It will appoint a design team to develop the technical design for the building, including any additional reports (such as fire safety and mechanical and engineering) that are required. These will address key issues, including:

- The drainage and water supply / pressure which often present challenges in new build developments, conversion schemes and brownfield sites; and
- Fire safety, to include the installation of a fire sprinkler system and appropriate compartmentalisation between floors.

- 3.2.13 Although the internal configuration of Riverside House will change considerably, the external appearance of the building will remain unchanged.

- 3.2.14 The scheme has 127 parking spaces, of which 90 will be designated for the tenants in the apartments and the remainder will be designated for the Renal Unit on the ground floor. This is equivalent to 1.5 spaces per apartment, which is a lot more than other council-owned town centre apartment schemes.

- 3.2.15 After appointing a main contractor to undertake the works, NPH will manage the construction contract, oversee the works and manage the cost, programme and quality. Before and during the works, NPH will maintain regular dialogue with Renal Services in order to minimise any disruption to the dialysis unit.
- 3.2.16 An 18-month construction period has been allowed for. Although the programme is subject to any ongoing impact from Covid-19 in relation to elongated programmes (to enable contractors to manage social distancing) and lead in times for materials, the programme is prudent and will help minimise any disruption to the dialysis unit. It will also allow for some out of hours working, subject to the agreement of the Council's Planning Service.
- 3.2.17 Throughout the construction, NPH will monitor the programme and the quality of work before making staged payments to the value of the works completed.
- 3.2.18 On completion of the development, the Council will have the benefit of a 12-months defect period and, during this period, regular site visits will be carried out jointly by NPH and the contractor (to deal with any defects as they arise) and the Council will hold a 2.5% retention of the final contract sum until the defect period is complete.
- 3.2.19 The works will be covered by a 10-year NHBC (or similar) warranty. Certain products may have longer warranties which the Council can also benefit from should the need arise.
- 3.2.20 At the end of the defect period, NPH's Maintenance Team will take on the responsibility for all repairs and maintenance at Riverside House.

Local Lettings Policy

- 3.2.21 It is proposed that Riverside House is let as permanent accommodation as part of a wider initiative to maximise the supply of affordable housing and reduce the use and cost of temporary accommodation.
- 3.2.22 Riverside House has a useful mixture of one and two-bedroom apartments and is in a good location due to its proximity to local services, employment and public transport. To help establish a mixed and sustainable community at Riverside House, it is proposed that a Local Lettings Policy is introduced to determine the way in which the homes in Riverside House are allocated.
- 3.2.23 Modelled on other housing schemes – such as Centenary House – the Local Lettings Policy will aim to strike the right balance between existing council tenants, homeless households and other applicants on the Housing Register.
- 3.2.24 As it is likely that only one third of the 60 apartments in Riverside House will be let to homeless households, the Council and NPH will ensure that, where reasonable and practicable, homeless households living in temporary accommodation are offered the tenancies of homes that are vacated by the existing council tenants who move into Riverside House.

3.3 Choices (Options)

Option 1 (recommended)

- 3.3.1 Cabinet can choose to approve the purchase and redevelopment of Riverside House. This option is recommended because Riverside House offers the Council and NPH an excellent opportunity to increase Northampton's supply of affordable rented accommodation – in a sustainable location and within a relatively short timescale – and help to reduce, directly and indirectly, the use and cost of temporary accommodation.

Option 2 (not recommended)

- 3.3.2 Cabinet can choose to do nothing. This option is not recommended because there is an urgent need to increase the supply of affordable rented housing and reduce the use and cost of temporary accommodation

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 The purchase and redevelopment of Riverside House as affordable rented housing for households on the Housing Register will help the Council to meet its policy objectives of maximising the supply of affordable housing and reducing, directly and indirectly, the use and cost of temporary accommodation.

- 4.1.2 It supports the three strategic priorities in the Corporate Plan 2019 –2021:

- A stronger economy;
- Resilient Communities; and
- Exceptional services to be proud of.

4.2 Resources and Risk

- 4.2.1 As reported in Exempt Appendix A, the financial viability of the purchase and redevelopment of Riverside House has been appraised by NPH and reviewed by the Council's Finance Team, using the ALMO Appraisal Model and based on current assumptions, taking into account the following:

- The total scheme costs (detailed in Exempt Appendix A);
- A 30% subsidy provided by the use of Right to Buy receipts. Alternatively, the Council could use its Registered Provider status to bid for Homes England funding to support the Beaumont House scheme;
- Interest on borrowing;
- Management and maintenance costs; and
- Affordable rents (up to 80% of the market rent, based on an independent valuation) but 'capped' at Local Housing Allowance (LHA) rates.

- 4.2.2 The appraisal results of the purchase and conversion of 60 units with continuation of the Renal facility show that the Riverside House scheme has a Net Present Value (NPV) of £469k over 30 years, an Internal Rate of Return of 4.44% and a payback period of 17 years.
- 4.2.3 It is proposed that the scheme costs are funded through two sources: firstly, the use of Right to Buy receipts or grant funding from Homes England and, secondly, the £25m extra borrowing capacity that Cabinet approved (for new council homes) in June 2019.
- 4.2.4 The acquisition and development costs are included in the Exempt Appendix A.

4.3 Legal

- 4.3.1 The Council has power pursuant to Section 111 of the Local Government Act 1972 to do anything (whether or not involving expenditure, borrowing or lending of money or acquisition or disposal of any property or rights which is calculated to facilitate or is conducive or incidental to the discharge of its functions.
- 4.3.2 It is noted from paragraph 3.2.11 to paragraph 3.2.20 above that NPH will undertake the redevelopment of Riverside House in so doing the Council must satisfy itself that NPH have undertaken all necessary steps with its chosen contractors, through the contractual process to mitigate the level of exposure and/or risk the Council may be subject to as a consequence of the Coronavirus pandemic, (particularly around the issue of force majeure), and that all appropriate steps have been taken as part of the contractual process to limit so far as is possible the impact of same on the redevelopment of Riverside House.
- 4.3.3 Legal Services have been advised that pursuant to a letter provided to the Council, (addressed to NPH dated 15th April 2020 from the valuers instructed by NPH) that the letter confirms that the valuers have agreed that the report provided to NPH (see Appendix B) can be relied upon by the Council for the purposes of acquisition only and that that the Council as a third party accepts the report in its presented form and is subject to the terms and conditions as set out in the Scope of Works letter agreed previously between NPH and the valuers. It is therefore important to note that the liability with respect to the Council in relation to the valuation report has been both qualified and is also subject to a liability cap in the event that the Council wish at a future date to pursue a claim against the valuers with respect to the valuation provided.
- 4.3.4 It is noted with respect to the valuation report (see Appendix B) that the valuation conducted was a Desktop Valuation completed on the 17th March 2020, just before the government lockdown which began on the 23rd March 2020. A Desktop Valuation is performed without a physical inspection and is based on consideration of publicly available documentation on the assumption that the property is in good condition. Allied to the recent government guidance issued and referred to at paragraph 4.3.6 below an assessment of the impact of Covid 19 pandemic on the valuation of Riverside House and the effect on government funding should form part of the due diligence exercise to be undertaken.

- 4.3.5 As part of its role in this project, NPH has instructed and funded an external legal firm to support the project's legal requirements. A letter of reliance has been provided to the Council confirming that the Council as a third party can rely on the advice provided by them as part of this project, subject to the external legal firm's terms and conditions. For the Council this means that in the event but in advance of same the position for the Council remains as follows. As a third party, the Council will not be in a position to pursue a claim against the external legal firm in the event of any erroneous or negligent professional advice received by NPH in respect of this transaction, which would or could, impact the Council in the future. This is because NPH will be the instructing client, and only NPH would be able to make such a claim if such circumstances occurred.
- 4.3.6 Consideration of any impact that the Covid-19 pandemic may have on government funding and the valuation of Riverside House should form part of the due diligence exercise to be undertaken.
- 4.3.7 The Government has recently issued guidance on the impact of the Coronavirus pandemic on local authority decision making and the guidance suggests that local authorities should consider any decision to be made (which is likely to have a significant impact on its community) from the perspective of whether the decision to be made can still be considered to be the proper utilisation of available Council resources in light of the pandemic. A consideration of this issue should form part of the due diligence exercise referred to at paragraph 2.1 (c) above, and the issue referred back to Cabinet for determination if deemed necessary.

4.4 Equality and Health

- 4.4.1 The action proposed in this report will help to improve the housing conditions and life chances of people with protected characteristics, including people with disabilities and families with children. They will therefore have a positive impact on Equality and Diversity.
- 4.4.2 Maximising the supply of new homes is part of the Council's commitment to improving communities and our town as a place to live.
- 4.4.3 When developing the Local Lettings Policy, the Council will have due regard to its Public Sector Duty and will continue to work to tackle discrimination and inequality and help to create a fairer society.

4.5 Consultees (Internal and External)

- 4.5.1 The Senior Management Teams of the Council and NPH have worked collaboratively on the proposed redevelopment of Riverside House.
- 4.5.2 Consultation on the proposed redevelopment of Riverside House was carried out in relation to the owner's application for planning consent.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 The action proposed in this report will help meet 5 of the priorities in the Council's Corporate Plan 2019 - 2021:

- More homes, better homes
- Shaping place and driving growth
- Creating a thriving and vibrant town
- Spending your money wisely
- Putting the customer first

4.7 Environmental Implications (including climate change issues)

4.7.1 Although the external appearance of Riverside House is to remain unchanged, NPH will be replacing the windows with windows that are more thermally efficient and have a thermal break; a continuous barrier between the inside and outside window frames that prevent conductive thermal energy loss.

4.7.2 Although parking spaces are available in the proposed scheme, the town centre location is likely to reduce the need for car use.

4.7.3 Secure bicycle storage is to be included in the proposed scheme.

4.7.4 NPH will work with the developer to produce a 'new home' pack which will include energy saving tips for new residents.

4.8 Other Implications

4.8.1 There are no other implications.

5. Background Papers

Corporate Plan 2019 - 2021

6. Appendices

Appendix A: Exempt Information (including acquisition & development costs)
Appendix B: Exempt Riverside House Red Book Valuation Report

7. Next Steps

7.1 The following table provides an indicative summary of the next steps if Cabinet approves the purchase and redevelopment of Riverside House:

| DATE | ACTIVITY |
|----------------------------------|--|
| June – July 2020 | Exchange of contracts and completion of freehold acquisition |
| June – July 2020 | Design Team appointed |
| September – November 2020 | Tender and contract award for main contractor |
| December 2020 | Main contractor starts on site |
| February 2022 | Practical completion |
| March – April 2022 | Phased occupation |
| February 2023 | Defects period complete |

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