

## **Report to the Cabinet**

**Report reference: C-054-2012/13**  
**Date of meeting: 4 February 2013**



**Portfolio: Housing**

**Subject: Marden Close and Faversham Hall, Chigwell Row – Future Use**

**Responsible Officer: Alan Hall (01992 564004)**

**Democratic Services Officer: Gary Woodhall (01992 564470)**

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### **Recommendations/Decisions Required:**

- (1) That, in principle, and subject to the consent of the freeholder (Trust for London) under the terms of the existing lease, the Council undertakes the conversion of the 20 vacant bedsits at Marden Close, Chigwell Row into 10 one-bedroomed flats itself;**
- (2) That the development be designed and project-managed by East Thames Housing Group, through its Development Agency Agreement with the Council, using East Thames' competitively tendered rates;**
- (3) That the resultant receipt of a New Homes Bonus by the General Fund of around £67,000 over a six-year period be noted;**
- (4) That the new Council Housebuilding Cabinet Committee be authorised to oversee the delivery of the scheme, in accordance with its Terms of Reference, and in particular to:**
  - (a) consider the Development and Financial Appraisals;**
  - (b) approve the submission of a detailed planning application and approve the scheme being undertaken, subject to the estimated works costs being acceptable to the Cabinet Committee;**
  - (c) approve the proposed procurement methodology of the works contractor;**
  - (d) award the works contract for the conversion scheme, following the receipt of competitive tenders; and**
  - (e) agree the capital budget requirement for the Housing Capital Programme;**
- (5) That, if considered appropriate by the Cabinet Committee, Contract Standing Orders be waived to allow the use of East Thames Group's Framework Agreement for Works, to reduce the cost and time involved with the process of procuring the works contractor;**
- (6) That social rents continue to be charged for the converted properties after completion of the works;**
- (7) That, subject to the final estimated costs and the views of the Housing Scrutiny Panel, appropriate capital budget be made within the Housing Capital Programme for 2013/14 and 2014/15, funded from the HRA's Housing Improvements and Service Enhancements Budget (supplemented if necessary from the HRA's Major Repairs Reserve), with authority for some or all of the 2014/15 budget provision to be brought forward to**

**2013/14 if necessary, to avoid any unnecessary delay in the commencement of the conversion scheme;**

**(8) That Chigwell Parish Council be offered a lease for the ground floor of Faversham Hall, Chigwell Row, at a peppercorn rent for an initial period of 10 years, to let to the local community, on the following key terms (in addition to the District Council's standard lease conditions):**

- (a) The inclusion of a break clause after 5 years, exercisable by either party;**
- (b) The existing fixtures, fittings and furniture in the Hall to be included as part of the lease, with fixtures, fittings and furniture of a similar standard and condition returned to the District Council at the end of the lease;**
- (c) The Parish Council to be responsible for all the running costs related solely to the hall and for undertaking all internal repairs to the hall;**
- (d) External repairs, improvements and decorations, together with the arrangement of buildings insurance, to be undertaken by the District Council;**
- (e) The costs of buildings insurance, external repairs to (and decoration of) the building (subject to survey), and any running costs attributable to both the Hall and the flat above be shared between the District Council and Parish Council, based on the floor area of the ground and first floors, with the District Council reimbursed by the Parish Council through a service charge;**
- (f) Each party to meet their own legal costs and the cost of a pre-lease building survey to be shared equally between the parties; and**
- (g) The playing of music in the hall after 9.00pm to be prohibited;**

**(9) That, if necessary, the Housing Portfolio Holder be authorised to determine the District Council's approach to any key issues relating to the lease; and**

**(10) That, if the Parish Council does not wish to accept a lease on the above terms, the conversion of the ground floor of Faversham Hall by the District Council into two self-contained flats be pursued and that the Council Housebuilding Cabinet Committee be authorised to oversee the delivery of the conversion scheme, in the same way as for Marden Close set out in (4) above.**

#### **Executive Summary:**

The Cabinet previously agreed, in 2009, to work with a housing association to undertake a conversion scheme for the 20 vacant bedsits at Marden Close, Chigwell Row into 10 self contained flats. However, due to the freeholder of the land, Trust for London ("the Trust") not being prepared to agree an extension of the lease beyond the currently remaining 45 years, and other changed circumstances in the intervening period, it is now proposed, in principle, that the Council undertakes the conversion scheme itself, with East Thames Group undertaking the design and project management under the terms of its Development Agent contract with the Council.

It is proposed that the delivery of the conversion scheme be overseen by the new Council Housebuilding Cabinet Committee, and that the capital costs be funded from the HRA's Housing Improvements and Service Enhancements Budget.

The report also proposes that Chigwell Parish Council be offered a lease for the ground floor of Faversham Hall, Marden Close (which is currently hardly used), at a peppercorn rent for an initial period of 10 years, to let to the local community.

## **Reasons for Proposed Decision:**

Since the 20 bedsits are currently vacant and Faversham Hall is hardly used, a decision needs to be made on the future use of these two sites. The recommended course of action appears to be the best approach, under all the circumstances.

## **Other Options for Action:**

(a) Not to convert the bedsits and to let them to single (non elderly) people – however, such a high concentration of, mainly young, single people in this semi-rural location is not considered appropriate and, in any event, the properties would still need to be improved to bring them up to a lettable standard.

(b) Offer to surrender the lease to Trust for London, perhaps for a premium. However, Trust for London would not be prepared to pay a premium even close to the net present value of the remaining lease, and no affordable rented housing would be provided to accommodate applicants on the Council's Housing Register.

(c) Seek to assign the lease to a third party, perhaps for a premium. However, the Council's Preferred Housing Association Partners have all confirmed that they would not be prepared to take on the lease for its remaining length, so it is unlikely that any affordable rented housing would be provided by a third party. For the same reason, it is unlikely that any developer would be interested, since re-development would be unviable.

(d) Seek to purchase the freehold of the site from the Trust. However, the Trust is not willing to seek the freehold, since it wishes to safeguard the development potential and a potential access to its adjacent land.

(e) Do not authorise the Cabinet Committee to oversee the delivery of the conversion scheme, with all issues and approvals considered by the Cabinet itself, or the Housing Portfolio Holder.

(f) Fund the conversion costs from capital receipts, or from the Council Housebuilding Budget.

(g) Do not offer a lease of the ground floor of Faversham Hall to Chigwell Parish Council, and either continue to manage hall bookings by the District Council (perhaps with an associated marketing exercise) or consider further the possibility of converting the ground floor into two self contained flats.

(h) Lease the ground floor of Faversham Hall to Chigwell Parish Council either on different terms and/or for a different period.

(i) Leave the properties vacant, and board them up, until the expiry of the lease. However, this would not make the best use of the land/properties and would forego the potential rental income from a conversion scheme.

## **Report:**

1. In November 1962, the former Chigwell Urban District Council (UDC) leased an area of land at Marden Close, Chigwell Row from the City Parochial Foundation (now called Trust for London ("the Trust")), for a period of 99 years from June 1959, for a rent of £160 per annum (although no rent has been charged for many years). As the successor authority, Epping Forest DC has taken over this lease, which expires in June 2058.

2. The Trust is an independent charitable foundation established in 1891, which aims to "enable and empower the poor of London to tackle poverty and its root causes, and to ensure that

(its) funds reach those most in need". The Trust achieves this aim by funding charitable work and making grants and funding special initiatives.

3. The lease between the Trust and the Council includes the following provisions relevant to this report:

- (a) the Council is responsible for all repairs;
- (b) the Council cannot erect any new building on the land, without consent; and
- (c) the Council cannot carry out any structural alterations without consent.

4. The former Chigwell UDC built 20 bedsits on the land for occupation by older people, with a car park at the front of the development. The bedsits have a combined living room and bedroom and the Council previously provided a visiting scheme management (warden) service and emergency alarm system for many years. Under the terms of the lease with the Trust, the Council receives all of the rental income from the properties. A site plan is attached as an Appendix.

5. In recent years, the bedsits provided poor quality accommodation for older people, and were very difficult to let; indeed, most lettings were to housing applicants from outside the District in lower priority bands of the Council's Housing Allocations Scheme. However, structurally, the buildings are sound and their external appearance is not unattractive. Following a decision by the Cabinet in September 2009 (see below), all of the bedsits are now vacant.

#### Previous Consideration by the Cabinet - Marden Close

6. In September 2009, the Cabinet considered the future of Marden Close, bearing in mind the poor quality of the accommodation, the difficulty in letting the properties, the need for affordable housing and the restrictions of the lease. The Cabinet agreed that, in principle, a refurbishment scheme should be undertaken to convert the existing bedsits into self-contained accommodation; a feasibility study had established that 10 one-bedroom flats could be provided. Due to the relatively low levels of need for sheltered housing in the area and the high demand for affordable rented general needs housing, the Cabinet agreed that the refurbished flats should be let to non-elderly housing applicants.

7. The Cabinet was advised that discussions had been held with the Trust about the future of the buildings and that the Council, at that time, wanted a housing association to convert the buildings to provide decent, self contained accommodation for housing applicants in housing need. Although the Trust was understanding and co-operative, it was concerned to safeguard its position and its long-term interest in the land. In particular, the Trust wanted to safeguard the future development potential of adjacent land in its ownership; although currently in the Green Belt, the Trust's view is that it may be suitable for development at the expiry of the lease in 2058. Furthermore, the Trust wanted to minimise the opportunity for occupants to purchase any of the converted properties, or to enfranchise (to collectively buy the freehold interest of the building(s) with some or all of their co-lessees). Despite these concerns, the Trust had agreed in principle to the bedsits being converted into one bedroom flats for general needs housing applicants.

8. Therefore, the Cabinet agreed in principle to select a housing association which would undertake the conversion works, become the new landlord and receive all of the rental income. The housing association would apply for capital funding from the Homes and Communities Agency (HCA) to help meet the cost of the works and would pay the Council an appropriate capital receipt for the assignment of the lease, based on a cash flow valuation. The converted properties would be let to applicants on the Council's Housing Register. Simultaneously, the Trust would enter into a lease with the selected housing association, on similar terms to the current lease but for a longer term, with a provision allowing permission for the 20 bedsits to be converted into 10 self-contained one bedroom flats.

## Previous Consideration by the Cabinet - Faversham Hall

9. Adjacent to Marden Close, the Council owns Faversham Hall – comprising a communal hall for use by the former older residents of Marden Close, neighbouring Faversham Close and others living in the locality. However, due to the dwindling number of older residents, the Hall is hardly used. It also provides a laundry, which was mainly for the use of the Marden Close residents, who had insufficient space in their bedsit kitchens. Above the Hall is a flat, which was previously occupied by the former Scheme Manager for Marden Close, but is currently vacant. The site plan attached as the Appendix shows the location of Faversham Hall in relation to Marden Close.

10. In view of the Hall's low usage, the Council's architect had previously established that, subject to planning permission, the Hall could possibly be converted to provide two additional one bedroom flats, which could be incorporated within the refurbishment scheme, with a long lease being provided to the selected housing association and the former Scheme Manager's flat remaining in the Council's ownership.

11. However, discussions with members of Chigwell Parish Council had raised the possibility of, instead of the ground floor hall being converted into flats, it being leased to the Parish Council, at a peppercorn rent, to let the hall to community groups.

12. The Cabinet therefore agreed in principle that Faversham Hall be leased to the Parish Council for letting to local community groups, on agreed terms, but that the premium for the lease be based on the negotiated value agreed by the Housing and (the then) Legal & Estates Portfolio Holders, and not a peppercorn rent. Moreover, the Cabinet agreed that the lease's value should have regard to the capital receipt the Council would receive from the housing association selected to develop Marden Close, if the Hall was to be leased to the housing association to convert into two flats. It was further agreed that, if Chigwell Parish Council did not wish to lease Faversham Hall on the District Council's terms, the Hall would be leased to the selected housing association to undertake the conversion.

## The Current Position

13. Despite the Trust's previous agreement in principle to the proposed way forward, it has continued to be concerned about the effect the Council's proposals would have on the future development potential of its adjacent land. As a result, despite lengthy negotiations, the Trust has been unwilling to agree to the provision of a new lease to a housing association for a longer period than the current lease with the Council. Informal discussions with the Council's Preferred Housing Association Partners have established that none would be willing to undertake a conversion scheme with a lease for less than 50 years. In the meantime, the HCA has significantly reduced the amount of funding provided to housing associations and is no longer prepared to fund refurbishment schemes.

14. More significantly, since the time the Cabinet last considered the issue, the Government now encourages local authorities to provide new housing itself and, as a result the Council has agreed to embark on its new Council Housebuilding Programme and has appointed East Thames Group to act as its Development Agent.

15. Since the Trust is not prepared to extend the lease period beyond 2058, the Director of Housing has undertaken lengthy discussions with the Trust on other options for both Marden Close and Faversham Hall. However, the Trust has not felt able to agree to any alternative approaches, again due to the resultant effects on the future development potential of its adjacent land.

## The Proposed Way Forward

16. A way forward needs to be agreed for the future of Marden Close, since the buildings are now all vacant; not only is the Council not receiving any income from the accommodation, it is also not meeting the housing needs of any of the 3,900 housing applicants on the Council's Housing Register seeking one-bedroomed accommodation in the District. Similarly, the future of Faversham

Hall needs to be decided, since the Hall is hardly being used and the flat above is vacant, pending a decision.

### *Marden Close*

17. Since the option of undertaking a conversion scheme by a housing association is no longer viable, and now that the Council is developing accommodation for itself, it appears that the best way forward would be for the Council to undertake the proposed conversion scheme itself.

18. Although it would be preferable to have a longer lease for Marden Close, in order to obtain a greater financial benefit to the Council over the long-term, there is still over 45 years remaining on the lease. Conversion costs have not yet been properly evaluated, but assuming a cost of between £600,000 - £800,000 (including fees) and the fact that rents for existing 1 bedroom flats in Chigwell Row will be around £80 per week from April 2013, the payback period for the scheme costs would be between 15–19 years, leaving a further 25-30 years of rental income (profit, less management and maintenance costs) to be received by the Council before the expiry of the lease. Therefore, such an approach would be in accordance with one of the key drivers of the Council's Capital Strategy, which is to prioritise the use of capital resources to generate revenue income. Moreover, it is possible that a further lease could be entered into with the Trust on expiry of the current lease, especially if the Trust's adjacent land is still in the Green Belt and still cannot be developed.

19. Furthermore, since all the properties are currently vacant, the Council would receive the New Homes Bonus (NHB) on the resultant 10 converted flats, which would amount to around £67,200 received by the General Fund over the 6-year NHB period. This reduces the payback period for the Scheme by around 2 years, to between 13-17 years.

20. Under the terms of the lease, consent would still be required from the Trust to carry out the required structural alterations and to erect any new ancillary buildings on the site. However, since this would not increase the lease period, it is not anticipated that the Trust would object. The views of the Trust on the proposal are currently awaited and an oral update will be provided at the meeting on the current position.

21. It is therefore proposed that, in principle, the Council undertakes the conversion of the 20 vacant bedsits into 10 one-bedroomed flats itself and that the development be project-managed by East Thames Housing Group, through the Development Agency Agreement, using East Thames' competitively tendered rates, which are:

- |                                       |                        |
|---------------------------------------|------------------------|
| • Development and Financial Appraisal | £1,375                 |
| • Stage 1 – Pre-Planning Stage        | 2.2% of the works cost |
| • Stage 2 – Post-Planning Stage       | 6.3% of the works cost |

22. It is proposed that East Thames produces a detailed Development and Financial Appraisals for the conversion scheme, based on the Council's previous scheme concept, and reports to the new Council Housebuilding Cabinet Committee. In accordance with the Cabinet Committee's Terms of Reference, it is proposed that the Cabinet Committee oversees the delivery of the conversion scheme and, in particular, be authorised to:

- Consider the Development and Financial Appraisals;
- Approve the submission of a detailed planning application and approve the scheme being undertaken, subject to the estimated works costs being acceptable;
- Approve the proposed procurement methodology of the works contractor (one option would be to use East Thames' Framework Agreement for works, which would reduce the cost and time of a full works contractor procurement process);
- Award the works contract for the conversion scheme, following the receipt of competitive tenders; and
- Agree the capital budget requirement for the Housing Capital Programme.

23. It is not proposed that the conversion scheme be funded from the Council Housebuilding Programme, although there is currently no other capital budget provision made for the conversion scheme. However, at its meeting on 28 January 2013, the Housing Scrutiny Panel is due to consider a report and recommendation from the Director of Housing that part of the HRA's Housing Improvements and Service Enhancements Budget from April 2013 be allocated for major capital housing projects. It is considered likely that the proposed allocation for 2013/14 and 2014/15 should be sufficient to fund the conversion scheme, although this will become clearer once the detailed financial appraisal has been undertaken. In any event, the required budget can be supplemented from capital resources held within the HRA's Major Repairs Reserve, if necessary. It may also be necessary to bring forward some of the capital budget provision within the Housing Improvements and Service Enhancements Budget from 2014/15 to 2013/14, to avoid any unnecessary delay in commencing the scheme.

24. The Housing Scrutiny Panel will be reporting on its recommended use of the Housing Improvements and Service Enhancements Budget to the Cabinet at its meeting in April 2013, although an oral report on its recommendations on the proposed major capital housing projects funding will be provided at this meeting of the Cabinet.

25. Since the conversion scheme will be much more financially viable than a new-build scheme, and will not require any additional subsidy, it is suggested that social rents continue to be charged for the converted properties, and not the higher affordable rents that the Council will charge for new properties built under its Housebuilding Programme. The affordable rent for a one-bedroom flat in Chigwell Row from April 2013 would be around £153.30 per week

#### *Faversham Hall*

26. Following informal discussions with representatives of Chigwell Parish Council, the Housing Portfolio Holder is of the view that the best future use of Faversham Hall would be to lease the hall on the ground floor to Chigwell Parish Council, at a peppercorn rent for a ten year period, enabling the Parish Council to actively market and manage the use of the hall for the benefit of the local community. The lease would not include the first floor flat, which would be retained by the District Council.

27. The Parish Council would be responsible for all the running costs related solely to the hall and for undertaking internal repairs. Although external repairs, improvements and decorations - together with the arrangement of buildings insurance - would be undertaken by the District Council, it is proposed that the associated costs (and any running costs attributable to both the hall and the first floor flat) be shared between the District Council and Parish Council based on the floor area of the ground and first floor, with the District Council reimbursed by the Parish Council through a service charge.

28. The Parish Council has been consulted on the proposed terms and has confirmed that, in principle, it wishes to lease the hall at a peppercorn rent for ten years, with the inclusion of a break clause after 5 years. It has also asked for an option to renew the lease after ten years; however, it is suggested that the District Council should not commit itself to the use of Faversham Hall for more than 10 years. Clearly, both parties will be able to consider whether or not they wish to enter into a further lease at the time the lease expires.

29. The Parish Council has also asked that a survey be carried out, detailing any required works, prior to commencement of the lease - which is considered prudent and it is proposed that the cost of the survey be shared between the parties. It is also proposed that each party meets their own legal costs.

30. However, if in the event the Parish Council does not accept a lease on the proposed terms, it is suggested that the District Council pursues the conversion of the ground floor of Faversham Hall into two self-contained flats and that the Council Housebuilding Cabinet Committee be authorised to oversee the delivery of the conversion scheme.

### **Resource Implications:**

Conversion costs and rental income from the converted flats need to be assessed as part of the development and financial appraisals. However, the current budget cost is between £600,000-£800,000 and the estimated rental income is £41,600 per annum – both within the Housing Revenue Account. A New Homes Bonus of around £67,200 would be received by the General Fund.

It is proposed that the capital costs be funded from the HRA's Housing Improvements and Service Enhancements Budget, with any shortfall supplemented from the HRA's Major Repairs Reserve.

### **Legal and Governance Implications:**

Housing Act 1985.

Delivery of the conversion scheme would be overseen by the new Council Housebuilding Cabinet Committee.

### **Safer, Cleaner and Greener Implications:**

The proposed conversion scheme would result in improved, safer and more energy efficient accommodation.

### **Consultation Undertaken:**

Both Chigwell Parish Council and the Ward Member have been consulted on the proposal and a draft version of this report. Their comments have been included at the end of the main report above.

### **Background Papers:**

None.

### **Impact Assessments:**

#### Risk Management

The main identified risks are the usual ones associated with any capital project, including:

(a) The actual costs of the conversion works being higher than the estimated costs assessed by the Financial Appraisal, due to unforeseen matters

(b) The works contractor going administration, resulting in delays and additional costs, or a contractual dispute arising with the contractor

#### Equality and Diversity

*Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?* No

*Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?* N/A



