

## SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

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**REPORT TO:** Leader and Cabinet 14 December 2006  
**AUTHORS:** Executive Director/ Head of Housing Strategic Services

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### **SHEPRETH: 74-76 FROG END**

#### **Purpose**

1. To consider the outcome of an options appraisal carried out in respect of two Council owned properties at 74-76 Frog End, Shepreth.

#### **Executive Summary**

2. A pair of semi detached three bedroom houses at 74-76 Frog End require both internal refurbishment and major structural and site clearance works that will cost in the region of £100,000 each to be brought up to the Decent Homes Standard. This is not considered financially viable unless both units are re-designated for shared ownership
3. In view of the anticipated costs of refurbishment a wider options appraisal has been carried out. In addition to refurbishment by the Council the following options were taken into consideration:
  - a) acquisition for refurbishment by a partner Registered Social Landlord (RSL)
  - b) sale on the open market
  - c) sale for general redevelopment purposes
  - d) disposal to an RSL partner to redevelop the site for affordable housing
4. Expressions of interest in the site have been sought from the Council's RSL development partners and responses indicating a level of interest in both refurbishment and redevelopment for affordable housing have been received. Some indicative schemes have been suggested ranging from a minimum of 4 to a maximum of 6 units. A number of unit types and tenure scenarios have been proposed.
5. As part of the options appraisal the needs and preferences of the tenants of the existing properties as well as the views of the Parish Council and Local Member were sought in order that these could be fully taken into account.

#### **Background**

6. These two properties are a pair of semi detached three bedroom houses that require both internal refurbishment and major structural and site clearance works. It is estimated that it would cost in the region of £100,000 for each property to be brought up to the DHS.
7. The estimated costs of the refurbishment of the above properties has been based on the following:
  - An independent qualified structural engineers report
  - Advice sought from specialist contractors on the costs of remedial structural works based on the structural engineers report

- An assessment of the other nature and costs of other elements of the property that need to be improved/refurbished in order to meet the Decent Homes Standard (DHS)
  - Existing and previous contract prices for works of a similar nature carried out on other properties in the district
  - Knowledge and experience of suitably qualified staff within the Council's Property Services Team
8. However, actual costs cannot be identified unless/until tenders are received in respect of the structural and refurbishment works to these specific which would only be the case if the preferred option should be for their refurbishment and retention by the Council, whether for rented or shared ownership units.
  9. Whilst it is possible that a slightly lower cost can be achieved through a competitive tendering process it should be stressed that any refurbishment cost in excess of £50,000 for any single property would necessitate a wider options appraisal. At or above this level of expenditure refurbishment is not considered to be a cost effective or an affordable option to the Council - unless an element of cross subsidy can be achieved through designation of units as shared ownership for example.
  10. Both properties are currently vacant, as the tenants have been relocated to alternative accommodation with an option to return to one of the properties if they are refurbished as rented units or to a new property if the site were to be redeveloped.
  11. The properties occupy a large plot which has potential for redevelopment that could increase the supply of homes in the village. Further new build homes will achieve higher standards eg in terms of energy efficiency and amenities than refurbished older Council properties. A site plan and photographs are attached as **Appendix A** to this report for reference purposes.

### **Considerations**

12. The full refurbishment programme for the Council's traditionally built housing stock is ongoing but costs have been reduced significantly from previous years due to the specification being brought in line with the DHS which is effectively a lower standard than that adopted in previous years.
13. The average cost of a full refurbishment is now around £25-£30,000 per unit compared to £40-£50,000 per unit 2 years ago. This is considered to provide value for money relative to the costs of providing a new affordable home which in terms of grant requirements is in the region of £35,000 to £60,000 for a rented unit and £10-£25,000 for a shared ownership home.
14. The estimated cost of refurbishment of the Frog End properties as rented units at £100,000 per unit is therefore considered not to offer best value for money and other options have, therefore, been investigated as part of an options appraisal for this site.

## Options

15. The following options have been explored as part of the options appraisal all of which would enable the Council to meet the DHS and contribute to corporate objectives and priorities:
- a) Refurbishment of the existing properties
16. In view of the estimated cost of the refurbishment this it is not considered to be an economically viable option for the Council unless the units were re-designated as shared ownership units in order that the costs involved could be recovered eg assuming a valuation of at least £200,000 for each refurbished property and sale of 50% initial shares the refurbishment costs could be fully recovered.
17. Expressions of interest in the refurbishment option have been invited from our RSL partners and 2 have indicated that 2 units of rented accommodation could be achieved if the properties were transferred at nil cost. A capital receipt could only be realised if either one or both of the units were to be re-designated as shared ownership units. In this scenario a capital receipt of between £40,000 and £80,000 could potentially be realised.
- b) Sale on the open market as 2 individual units
18. This option would enable the Council to realise a capital receipt but in order to avoid the capital receipts pooling requirements they would have to be sold to a developer/individual who intends to carry out the necessary repairs and then offer for sale to prospective purchasers would occupy as their principal or only home.
19. The tenants of the existing properties would have to be permanently relocated either by being granted a permanent tenancy of the property they have relocated to or another suitable Council property through the Council's Lettings Policy.
- c) Sale on the open market for general redevelopment purposes
20. This option would enable the Council to realise a capital receipt which would not be subject to capital receipts pooling requirements. However, such monies would need to be ring fenced for housing purposes.
21. This option would also enable some affordable housing to be provided to meet current and future housing needs. Under the Council's Local Plan (and the emerging LDF) 50% of any additional housing provided on the site should be affordable given the level of housing need in Shepreth as demonstrated by the most recent village housing needs survey and Housing Register statistics. Further the existing 2 units of affordable housing should be compensated for within any new scheme as part of the planning obligation for affordable housing. The table below illustrates the potential planning requirements:

Total No of Units	No of Affordable Units	No of Open Market Units
2	2	
3	2	1
4	3	1
5	3	2
6	4	2
7	4	3
8	4	4

22. The needs of the former tenants of the existing properties could be taken into account in any scheme design in the event that they express a wish to return to a new property. Alternatively they could be permanently relocated either by being granted a secure tenancy of the property they have relocated to or another suitable Council property through the Council's Lettings Policy.
23. As can be seen from the table above the site will prove to be relatively unattractive to private developers unless higher numbers of units can be achieved. This will be reflected in both the level of interest from private developers and also the land value.
24. A higher density scheme is not likely to be supported locally particularly given the existing character of this part of the village and the potential impact on both street scene and traffic flows.
  - d) Sale on the open market for redevelopment as an affordable housing scheme
25. The advantages of this option are that it could enable an increase in the supply of affordable housing within the village. Also, depending on which RSL is selected and the nature of the scheme proposed, the Council could realise a (small) capital receipt.
26. The needs and preferences of the tenants of the existing properties could be taken into account in any scheme design in the event that they express a wish to return to a new property. Alternatively they can be permanently relocated either by being granted a secure tenancy of the property they have relocated to or another suitable Council property through the Council's Lettings Policy.
27. Further, both the size and number of units to be provided could be influenced by the Council and could reflect identified housing needs and other local requirements/issues. For example there would be less pressure on an RSL to maximise number of units on the site in the same way as a private developer who is motivated by profit. That said the density and nature of any proposed scheme would need to accord with planning policy and would still need to be financially viable from an RSL perspective.
28. Expressions of interest in the site have been sought from the Council's RSL development partners and 5 responses have been received. Some indicative schemes have been suggested ranging from a minimum of 4 to a maximum of 6 units. A number of unit types and tenure scenarios have also been proposed.
29. A summary of the options and their respective advantages and disadvantages is set out in the table attached as **Appendix B** to this report.
30. At a meeting held on 8<sup>th</sup> November having considered the available options and taken fully into account locally expressed views on the options following a local consultation process the Housing Portfolio Holder agreed to recommend to the Executive that the retention and refurbishment of the existing units for shared ownership should be the preferred option. This was on the basis that this option had the most local support, was financially viable (as potentially all costs could be recovered with scope for future capital receipts from sale of further shares) and would retain 2 units of affordable housing to contribute towards meeting local housing needs.

## Implications

### Financial

31. The estimated cost of the refurbishment option is £200,000. Only if these were re-designated as shared ownership units could this prove a potentially financially viable option.
32. The sale of the units on the open market could generate a capital receipt but the amount receivable will be dependent on the number of open market sales that could be achieved. Our independent Valuer has indicated that the site would have an unrestricted open market valuation of between £300k and £400k depending on the number and size of units built on the site. However, the site valuation for affordable housing purposes is around £60k. The actual value of the site with the associated planning obligations for affordable housing is likely to be much closer to the £60k than the £300 to £400k valuation.
33. If the existing properties were sold on the open market our Valuer has estimated that they would achieve around £90-£100k each. However, unless the properties are sold to an individual or developer for onward sale once refurbished to a purchaser who intends to occupy as their principal or only home then any monies received could be subject to capital receipts pooling requirements. In 2006/07 75% of the full obligation of 75% of net receipts could be caught by these rules if the properties were not sold to a qualifying purchaser.

### Legal

34. The General Housing Consents 2005 – Section 32 of the Housing Act 2005 enables the Council to dispose of vacant properties held for housing purposes at full open market value to:
  - any individual(s) who intends to use it as his only or principal home or,
  - where substantial works of repair, improvement or conversion are required to any individual(s) who intends to carry out necessary works and then dispose of the property to a person(s) who intend to occupy it as their principal or only home.
35. The General Housing Consents 2005 – Section 25 Local Government Act 1988 covers disposal of properties to a Registered Social Landlord (RSL) at less than best consideration for refurbishment purposes provided it remains as affordable housing accommodation once works are completed.
36. The General Housing Consents 2005: Section 25 of the Local Government Act 1988 for the Disposal of Land to Registered Social Landlords 2005 enables local authorities to provide financial assistance or any gratuitous benefit to RSL's including disposing of land for development as housing accommodation. This general consent is subject to the following conditions:
  - a) that any housing accommodation on the land when the disposal is completed is vacant and will be demolished after the disposal without being used again as housing accommodation and,
  - b) the disposal by the local authority is by transfer of the leasehold, assignment of a lease with an unexpired term of 99 years or more and
  - c) that the development of housing accommodation on the land will be normally completed not later than 3 years after the disposal and,
  - d) that any housing accommodation to be provided will be let on a periodic tenancy or a shared ownership lease or on a lease for the elderly or hostel or will be occupied mainly or wholly by persons who, on account of mental

illness or disability, are receiving supervision or guidance from a local social services authority and,

- e) the local authority is not entitled to manage or maintain any housing accommodation to be provided on the land and,
- f) any right reserved for the local authority to nominate tenants for housing accommodation on the land shall not, in respect of vacancies which arise after the initial letting of the accommodation, exceed 75% of vacancies (to exclude those arising by virtue of internal transfers).

37. Also it should be noted that the aggregate value of the financial assistance or gratuitous benefits provided by a local authority in any given year under this consent shall not exceed £10m.

38.	Staffing	None.
	Risk Management	The Council has set a target of 2006 to meet the DHS in respect of its housing stock and, in any event, needs to ensure that this national target of 2010 is met in line with the stock retention strategy signed off by GO-East in 2005. A financially viable solution to the investment needs of the properties at 74-76 Frog End, Shepreth, therefore, needs to be identified in order to help achieve these local and national targets.
	Equal Opportunities	None.

### Consultations

39. A local consultation exercise was carried out as part of the options appraisal process with views having been expressly invited from the Local Member and Parish Council as well as the affected tenants. Representations were also received from the Frog End Residents Association (FERA) and a petition also submitted to the Parish Council and this was included for information on the agenda for the last meeting of Full Council.

40. A summary of the outcome of local consultations together with the views of FERA are as set out in the table below.

Respondents	Option 1 Refurbishment	Option 2 Sale on open market for refurbishment	Option 3 Sale for development purposes	Option 4 Affordable Housing Scheme
Local Member	Support			
Parish Council	Support			
Frog End Residents Association	Support	Support		
Tenants	Both tenants would like to return to Frog End, Shepreth if they are to be refurbished as rented homes.	One tenant is happy to be offered their temporary accommodation on a permanent basis and the other would be willing to be found suitable alternative accommodation if refurbishment as rented homes is not the preferred option.		

## Effect on Annual Priorities and Corporate Objectives

41.	Affordable Homes	Refurbishment and redevelopment options would enable retention of or increase in supply of affordable housing to meet local housing needs.
	Customer Service	Not Applicable.
	Northstowe and other growth areas	Not Applicable.
	Quality, Accessible Services	The Council is committed to ensuring that high quality housing services are provided to its tenants and to meeting the Decent Homes Standard (DHS). The current structural condition of this pair of semi-detached properties means that they will not meet the Decent Homes standard without considerable investment. Both refurbishment and redevelopment options could enable much needed affordable housing to be made available to help meet current and future housing needs.
	Village Life	
	Sustainability	
	Partnership	The Council has investigated with its partner Registered Social Landlord (RSLs) available options for both the retention of the existing units and also the redevelopment of the site.

### Recommendation

42. Cabinet is recommended that retention and refurbishment of the existing units for shared ownership be the preferred option for the pair of semi-detached properties at 74-76 Frog End, Shepreth.

**Background Papers:** the following background papers were used in the preparation of this report:

None.

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