



WORTHING BOROUGH
COUNCIL

Worthing Joint Strategic Sub-Committee
13 June 2023

Key Decision [Yes/No]

Ward(s) Affected: Central & Heene
Cabinet Portfolio: Citizen Services

Outline Business Case for acquisition of properties at Shelley Road and Heene Road

Report by the Director for Place

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Summary

1. Purpose

- 1.1. The report follows the publication of the Adur and Worthing Housing Strategy for 2020-2023, 'Delivering Pathways to Affordable Homes' document and subsequent Delivery Plans where plans for a housing development programme were set out. The report outlines the increasing demand for emergency and temporary accommodation (EA/TA) in Worthing and the Council's commitment to owning its own stock of EA/TA.
- 1.2. This report sets out the business case to support the acquisition of the properties at 23, Shelley Road and 145, Heene Road Worthing which; subject to the approval of the recommendations contained within JSSC report entitled '*Update on the Worthing Integrated Care Centre Project*', and on condition of exchange of the agreement for lease with WMG; are to be purchased from the Worthing Medical Group (WMG) to help facilitate their move to the Worthing integrated Care Centre (WICC).
- 1.3. This report reviews the potential options available to the Council on acquisition of the properties, identifies the preferred options and outlines the budget required to investigate the preferred options in

more detail.

- 1.4. Following agreement on the preferred options, approval is sought to progress with outline plans for the redevelopment of 23, Shelley Road to provide emergency and temporary accommodation for eligible households in need, and for further additional work to be undertaken to examine the options for retention, redevelopment or disposal of 145, Heene Road.

2. Recommendations

- 2.1. To note the options available to the Council for the future use of the properties at Shelley and Heene Road following their acquisition.
- 2.2. To approve a budget of £30,000 to complete options appraisals for both properties, to involve outline design and survey work.
- 2.3. To delegate authority to the Director for Housing and Communities in consultation with the Cabinet Member for Citizen Services to agree the preferred option for each site.
- 2.4. To approve a budget of £137,000 to take the scheme at 23, Shelley Road to planning application stage should the preferred option be for redevelopment.
- 2.5. To note that a budget of £65,000 will be required to take a scheme at 145 Heene Road to planning application stage should the preferred option for redevelopment be demonstrated on production of a business plan.
- 2.6. To note that a further report will be produced for approval at Worthing Sub-Committee which will detail the development proposals and the budget required to complete both projects.

3.0 Context

- 3.1 It is proposed that the properties at 23 Shelley Road and 145, Heene Road in Worthing are to be acquired by Worthing Borough Council from Worthing Medical Group (WMG) once the Worthing Integrated Care Centre (WICC) accommodation is completed and they have relocated to the new premises. Approval to the acquisitions is sought in the report entitled '*Update on the Worthing Integrated Care Centre Project*' currently

under consideration by Worthing JSC Sub-Committee at the meeting on 13th June 2023.

- 3.2 Completion of the WICC is scheduled for early 2024, and it is anticipated that they will vacate the buildings allowing the sale of the properties to the Council to be completed at the point that they take up their tenancy at the WICC.
- 3.3 The properties and their sites have been assessed and both properties have redevelopment potential. The initial review has concluded that there is a strong business case for the Shelley Road property to be redeveloped for housing. The Heene Road property's redevelopment options are less clear cut, and further consideration and work needs to be undertaken at this stage to strengthen the business case.
- 3.4 The proposal for Shelley Road is to re-develop the site to provide temporary accommodation and the policy context to support this is set out below. The Heene Road property is similarly being looked at for temporary accommodation.
- 3.5 Chapter 3 of the Housing Strategy outlines the local need for affordable housing, in the context of increasing prices and rents. Based on demographic projections, there is a need for 653 additional affordable dwellings (of all tenures) per annum across the region.
- 3.6 Priority 3 of the Housing Strategy demonstrates the Council's commitment to the delivery of affordable housing, including a commitment to deliver 250 homes directly by Adur & Worthing Councils. This commitment is reiterated in 'Delivering Pathways to Affordable Homes' which was adopted in March 2021.
- 3.7 Adur & Worthing's Temporary Accommodation Strategy was adopted in 2017 and focuses on the placement and procurement of accommodation. There is recognition in the Housing Strategy that the Temporary Accommodation Strategy should be reviewed and updated with extra emphasis on developing our own accommodation for these purposes.
- 3.8 Since April 2021, placement of households in emergency accommodation (EA) and temporary accommodation (TA) has increased by 35%, from 215 to 329. Currently the Council has 200 rooms secured on a long lease, with 137 placements spot-booked (the most expensive type of accommodation). Most recent projections have put the number of units

needed by March 2025 at 459. Without securing our own stock of EA/TA (whether owned or leased), the additional requirement will need to be accommodated through spot-booked accommodation, potentially outside the area.

- 3.9 In addition, the cost of providing EA and TA accommodation continues to rise. Net average annual cost per placement is £9,150, a year on year increase of 13%. Consequently, considerable savings are possible with the Council owning its own stock of EA/TA.
- 3.10 The business case for acquisition of the properties is based on (a) demonstrating the viability of a self-contained EA/TA scheme at Shelley Road and (b) the opportunity to sell the property at Heene Road to recoup the acquisition cost; however, it is recognised that the priorities for each site would be to (a) develop a Housing Hub at Shelley Road and (b) deliver self-contained EA/TA at Heene Road and these will be the options we will look to pursue and demonstrate their feasibility.

4 Shelley Road - Overview

4.1 The headline options for Shelley Road on purchasing are:

- 1) Retain the building as a medical / office building
- 2) Redevelop for self contained emergency / temporary accommodation
- 3) Redevelop to provide a 'Housing Hub' and single room accommodation
- 4) Dispose of the building

While the retention and reletting of the buildings at 23 Shelley Road would be possible, the buildings have been extended and modified over the years to provide the accommodation required by the surgery and they do not currently meet the modern standards which would be expected by a medical or office user. The Council are active in the office market in Worthing and it is considered that the likelihood of being able to refurbish and relet these premises at a rent that is likely to recover the Council's cost is unlikely in the current market.

4.2 Secondly, with regards to Option 4, the Council's Asset Management Plan and Housing Strategy make clear the priority for reuse of buildings to deliver housing to meet the Council's housing requirement. While the building could be sold on the open market following its acquisition, this

would mean the loss of the valuable opportunity to provide temporary accommodation.

4.3 As such Option 1 and Option 4 have been discounted as they either would place an unacceptable financial burden on the Council, or would miss a clear opportunity for meeting one of the Council's core priorities around providing needed accommodation in Worthing.

4.4 As such, options 2 and 3 are progressed for further consideration.

4.5 Planning considerations

4.6 The surgery buildings comprise two large Victorian villas which have frontages onto Shelley Road and Gratwicke Road. The buildings have been extended and modified a great deal and show signs of structural movement. Experience on other developments in Adur and Worthing development programme to convert Victorian properties has shown that costs increase significantly once work is underway due to the unforeseen problems with the structure. Consequently, they are often expensive to develop and it is difficult to produce accommodation to modern accessibility standards. The preference would therefore be for the demolition and wholesale redevelopment of the site.

4.7 The scope for demolition of the buildings and replacement with new blocks has been discussed with planners. Due to the semi-detached nature of the Gratwicke Road property and its proximity to a conservation area, the planners do not support demolition. However, they have agreed that a 'hybrid' scheme involving the conversion of Gratwicke Road and demolition of the Shelley Road property may be acceptable. Design options have been produced by local architects ECE based on this advice.

4.8 Option 2 - Self contained temporary accommodation

4.9 Plans have been produced for 14 self contained homes comprising 9 x 1 person bedsits and 5 x1 bedroom 2 person flats. These would meet the required minimum nationally described space standards.

4.10 The homes would be managed by the Council's Housing Needs Management team, as Emergency/Temporary Accommodation and would help meet the urgent need for temporary accommodation for small homeless households.

- 4.11 Development costs are estimated at £4.91m (including contingencies). The Development Management Team would bid for funding from Homes England to cover approximately 19% of the development costs, with the remainder funded by Worthing Borough Council's General Fund as a spend to save initiative resulting in average annual savings of approximately £100,000 over the appraisal period.

4.12 Option 3 - Housing Hub and single room accommodation

- 4.13 Plans for an alternative scheme for a 'housing hub' to provide a multi agency facility for single homeless people have also been drawn up. This would include a day centre facility on the ground floor together with clinical and interview rooms, washing facilities and meals. The upper floors would provide self contained accommodation for single homeless people which would consist of around 13 single rooms.
- 4.14 There is a particular need to bring together this provision under one roof to replace facilities such as St Clare's Community Hub on Marine Place which is currently run by the agency Turning Tides and does not meet current requirements.
- 4.15 This would be a multi agency provision and collaboration is needed to engage with potential partners and fully assess the management and funding options needed to make it work. The team have met with Turning Tides and CGL as potential managers of this facility to develop design options and identify the spaces and amenities that would be needed in such a facility.
- 4.16 A scheme that delivers 13 single rooms in addition to the Housing Hub, is unlikely to have as strong a commercial case as the option outline above for 14 self contained homes, however, there are significant social benefits in terms of the care and support that could be provided for the town's homeless community that would be derived from the scheme. While a number of these benefits are "non-cashable", the impact on the wider health and social care system is likely to be significant as these hubs can provide significant support to the homeless community.

4.17 Preferred Scheme - Shelley Road

- 4.18 Option 2, the self contained TA scheme would be more straightforward to deliver, fund and manage. Homes England funding would be available to support the scheme and it would be managed under an established

arrangement. This is therefore the option which has been appraised and is accompanied by a business plan to support the property acquisition.

4.19 Option 3, the housing hub option would rely on a small number of residential units to provide an element of cross subsidy for the non housing element. This is likely to leave a funding gap and further discussions with agencies on the commitment they could give on rental and capital contributions are required, together with research on other sources of capital grant, in order to establish whether this option could be delivered. Due to the need and the potential for this site to meet it considering its location, ownership and space available, Option 3 would be preferred but more work is needed to work through the current unknowns.

4.20 A valuation report to consider the values arising from the alternative use of the building has been obtained. This confirms that there is little demand for office use in the area. While a medical user could pay a higher rent, this is a very limited market. The valuation report concludes that the best use of the site is for residential redevelopment and the site value based on this assumption is confirmed as £800,000.

4.21 The price of £1,180,000 agreed with WMG exceeds this open market valuation. However, in this instance a more suitable valuation exercise has been undertaken that reflects the NHS Code of Estates Practice which assess the value of the property based on the current rent paid by the medical group according to the NHS Code of Estates Practice.

4.22 Risk assessment - Shelley Road

4.23 The following key risks of delivering an EA/TA scheme at Shelley Road have been identified, along with mitigation measures:

Risk	Mitigation
Planning permission withheld	Early consultation with planning officers has taken place and further detailed input will be sought prior to further development of the plans and submission of the planning application.
Unforeseen site conditions result in increased costs affecting viability	Full survey information to be obtained prior to acquisition. Partial stripping out of retained property to be carried out prior to tender.

Legal restrictions constrain development	A report on title has been obtained which identifies some issues. However, it is anticipated that these can be allowed for in the design and, where needed, title indemnity insurance will be obtained.
Costs increase due to inflation/ materials shortages	A contingency of 30% has been allowed for in the development costs
Funding from Homes England is not forthcoming where expected.	Homes England have funded similar EA/TA schemes in the Borough and appreciate the urgent need. Early discussions with them will take place to ensure the project is supported and that funding is likely to be available.

4.24 Conclusion & Next Steps - Shelley Road

- 4.25 The significant benefits of the housing hub option (Option 3) are recognised, and further exploration of this option is to be undertaken to see whether this could be made viable.
- 4.26 Survey work to complete the options appraisal is to be carried out, to include measured and structural surveys together with further design work, provision of cost advice and more detailed consultation with planning officers. The cost of this is estimated at £20,000 and approval of a budget to facilitate this is requested in Recommendation 2.2.
- 4.27 A report setting out the preferred option is to be produced for approval by the Director of Communities in consultation with the lead cabinet member, prior to a planning application being made.
- 4.28 A budget of £137,000 is requested to ensure that the site surveys and design work needed to prepare the planning application is undertaken (see Recommendation 2.4). It should be noted that this budget will be required whether we are able to offer facilities within a housing hub, or solely self-contained EA/TA. This is broken down as follows:

Design & planning fees:	£40,000
Legal fees:	£10,000
Surveys:	£30,000
Project management:	£35,000
Employers agent and cost advice:	£22,000

Total

£137,000

4.29 The following draft programme has been prepared demonstrating the path and timeline through delivery.

- Survey and appraisal work: Summer 2023
- Approval to proceed with planning application by Director of Communities: Autumn 2023
- Submission of planning application: Winter 2023
- Planning Approval: Spring 2024
- Completion of purchase: Spring 2024
- JSC Report to secure budget to scheme delivery: Spring 2024
- Contractor procurement: Summer 2024
- Start on site: Autumn 2024
- Scheme completion: Winter 2025

5.0 Overview - 145 Heene Road

5.1 There are three main options available for the property at 145 Heene Road:

1. Retain the building as a medical / office building
2. Redevelop for self contained emergency / temporary accommodation
3. Dispose of the building

5.2 The property at Heene Road is in a primarily residential area, is more distant from the town centre, and is semi-detached with a residential property adjoining it. The building itself has undergone significant additions and extensions over the years with a large two-storey rear outrigger and a single storey flat roofed extension to the rear.

5.3 For the same reasons as set out in section 4.2 above, Option 1, the retention of the building in its existing use or its change of use to office, is at present not considered likely to be economically viable given the properties location and its inability to meet modern standards and requirements.

5.4 Given the Council's priority of delivering emergency and temporary accommodation within Worthing the preferred option is to investigate further the potential for delivering new homes at this location (Option 2).

An initial architectural review has indicated that 4 -5 units could be delivered through the refurbishment and remodelling of the property.

- 5.5 Some risks have been identified in that as a semi-detached property there is increased scope for the works to have an unacceptable impact on the neighbours caused by the building works, and its intensive occupation by numerous households could be an issue. Since it is an Edwardian property, its cost effective conversion into a modern standard of accommodation sufficient to meet current accessibility and insulation standards could prove challenging.
- 5.6 An independent report by Avison Young (dated November 2022) has put the market value of the Heene Road site at £507,000. Should retention and redevelopment of the property not be considered feasible, then disposal (Option 3) would be a viable option considering the market value of the property is within £10k of the price agreed with WMG, and it is on this basis that the outline business case for acquisition is made.
- 5.7 However, even though the case for acquisition is made on the basis of selling the property, retention and redevelopment would be preferable; this is reinforced by the Council's Asset Management Plan that prioritises reuse of buildings to deliver housing to meet the Council's housing requirement. While the building could be sold on the open market following its acquisition, this would mean the loss of the valuable opportunity to provide temporary accommodation and due to the substantial savings presented by the Council owning its own EATA, would prove less beneficial to the Council financially.
- 5.8 Ultimately, more work is needed to evaluate the three options before the preferred is identified. Its development potential will be considered further, and a budget of £10,000 has been recommended to facilitate this. This will cover the cost associated with basic design and survey work and the development of a business case to demonstrate the viability of an EA/TA scheme.
- 5.9 Should retention and redevelopment be the preferred option, it is anticipated that a planning application to redevelop Heene Road into temporary accommodation would require a budget of around £65,000, broken down as follows:

Design & planning fees:	£15,000
Professional fees inc asbestos:	£20,000

Surveys:	£10,000
Project management:	£10,000
Employers agent and cost advice:	£10,000
 Total	 £65,000

However this would only be sought once the feasibility work has completed, a preferred option has been agreed and a business case has been developed.

6.0 Engagement and Communication

- 6.1 This approach has been developed through engagement with Cabinet members, the Council's Housing Management Team and Affordable Homes Delivery Group.
- 6.2 Housing Management in particular has been integral to ensuring that the proposals meet the needs of their customer base and enable efficient, effective management.
- 6.3 The Council's Planning Team have also been consulted who support the principle of the scheme and have provided comments on the issues which will need addressing within a planning application.
- 6.4 As development proposals progress, the team will engage with local people through face-to-face and online consultation exercises and statutory planning obligations.

7.0 Financial Implications - Shelley Road

- 7.1 The Council has an unallocated budget of £7.566m for the provision of temporary and emergency accommodation funded through borrowing which is released on the presentation of a business case. The WICC report elsewhere on the agenda recommends release of the funding for the land acquisition from the Strategic Property Investment Fund to purchase the two properties in Shelley Road and Heene Road.
- 7.2 To demonstrate the principle of the viability of the self-contained EA/TA scheme for Shelley Road, a financial assessment has been carried out by the finance team based on early cost estimates.

- 7.3 It is expected that the scheme will attract funding from Homes England at £60,000 per unit which would provide a total of £840,000 towards the cost of the scheme reducing the Council's need to borrow.
- 7.4 Overall the scheme is expected currently to cost £4.91m which is broken down as follows:

	£
Purchase	1,180,000
SDLT	48,500
Works	2,160,000
Fees	540,000
Allowance for optimism bias @ 30%	759,900
Allowance for interest	220,000
Proposed Initial Cost	4,908,400

Given the high level of inflation in the building industry and the relatively early stage in the project, an optimism bias of 30% has been included. This will be reduced down as the estimates are refined and there is more certainty about the level of costs.

- 7.5 The proposed investment in Shelley Road is expected to generate savings in the cost of temporary accommodation in the first full year of operation as follows:

	New build £	Bed and Breakfast £
<u>Year 1</u>		
Annual costs		
Debt charges		
Interest	139,730	
Principal repayment	40,140	
Total borrowing cost	179,870	0
Maintenance	29,710	
Annual buildings insurance	7,430	
Cyclical maintenance	0	
Staff management costs	20,570	
Bed and Breakfast charges		250,460
Total costs	237,580	250,460
Less: Potential rental income	-92,830	-92,830
Allowance for rental voids	4,640	

Council Tax Void Allowance	980	
Net annual income	150,370	157,630

Net initial annual saving 7,260

However the level of saving is predicated on a successful bid to Homes England for funding at a level of £60,000 per unit delivered (£840,000 in total) and the outcome of any procurement exercise.

- 7.6 In the longer term, it is expected that the proposed development will continue to save the Council resources, with a more favourable net present value over the next 50 years.

	Net annual cost (first operational year)	Net cost / income(-) over 50 years	NPV over 50 Years
Purchase for Temporary Accommodation	150,360	7,696,820	-2,355,642
Current B&B arrangements	157,630	12,813,930	-6,126,096
Annual saving / cost (-)	7,270		
Average annual saving over appraisal period		102,342	
% revenue saving	5%	40%	
Internal Rate of return	1.716%		

8.0 Legal Implications

- 8.1 Under Section 111 of the Local Government Act 1972, the Council has the power to do anything that is calculated to facilitate, or which is conducive or incidental to the discharge of any of their functions.
- 8.2 s1 of the Localism Act 2011 empowers the Council to do anything an individual can do apart from that which is specifically prohibited by pre-existing legislation
- 8.3 7.3 Section 3(1) of the Local Government Act 1999 (LGA 1999) contains a general duty on a best value authority to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

- 8.4 s1 Local Government (Contracts) Act 1997 confers power on the Council to enter into a contract for the provision of making available assets or services for the purposes of, or in connection with, the discharge of the function by the Council.
- 8.5 When entering into a public contract, the authority is required to comply with the procurement procedures, found in the Councils' Contract Standing Orders found at Part 4 of the Councils' constitution. Where the Contract involves an above threshold contract for works or services, the Council should additionally have regard to the Public Contract Regulations 2015.
- 8.6 If the Council applies for and receives an amount of grant funding, it must ensure that the project officers are aware of, and comply with, the grant funding terms and conditions.

Background Papers

- Adur & Worthing Councils Housing Strategy 2020-2023
- Delivering Pathways to Affordable Homes (March 2021)
- Pathways to Affordable Homes - Delivery Plans (March 2022)

Sustainability and Risk Assessment

1. Economic

This proposal will lead to the creation of emergency housing available to eligible local households at what is considered 'affordable' levels (no more than 80% of market rent or no more than the 90% of 2011 Local Housing Allowance; whichever is lower). This helps ensure that the individuals in need do not have to worry about being able to afford the cost of the accommodation. During this time the Council's 'Opening Doors' programme will support residents into permanent accommodation.

2. Social

2.1 Social Value

The proposals will provide temporary homes which are purpose built and local - reducing the need to put households into substandard, small or cramped accommodation, or rehouse them outside the area.

2.2 Equality Issues

Worthing Borough Council has a responsibility under the Homelessness Reduction Act 2017 to provide interim accommodation to eligible households with the criteria for eligibility set and agreed by the Council.

2.3 Community Safety Issues (Section 17)

Delivery of purpose-built accommodation in small clusters removes the need for eligible families or individuals to be housed in hostels where the Council has less ability to influence or address criminal or antisocial behaviour.

2.4 Human Rights Issues

Matter considered and no issue identified.

3. Environmental

Homes will be designed to be well insulated and gas-free, thereby allowing present and future consumption of renewable electricity. Care will be taken to

design homes to minimise consumption of water, minimise run-off to sewers, address overheating risks and promote sustainable transportation measures.

4. Governance

The proposals in this report are in line with the Councils' Housing Strategy and Platform for Places document.