

Cabinet

15th May 2012

Report of the Cabinet Member for Corporate Services

The Oliver House Elderly Persons Home Site

Summary

1. This report seeks member's decision as to the future use of the former Elderly Persons Home (EPH) at Oliver House, which is becoming available as part of the EPH review. This site is a valuable high profile city centre property, both in terms of its financial value and strategic value, with potential for both sale and alternative use of the site.

Background

2. Oliver House is a former 45 bed EPH, which closed on 31st March 2012. A site plan is attached at Annex 1. An additional area of land occupied by garaging is also identified. This comes under the HRA, but could be included as part of the uses being considered.
3. The closure of Oliver House has come about as a result of the EPH review, which identified that the current homes did not provide modern residential facilities for older people. Members have approved the provision of new facilities at Fordlands, the former Lowfields School site and Haxby Hall and the closure and disposal of Oliver House as part of phase 1 of the programme of development.
4. It is important to note that the financial business case that underpins the EPH review assumes that we will use the capital receipt from Oliver House to finance the new facilities that are being developed and any proposal regarding the use of the site needs to be able to deliver either a capital receipt of £450k or a revenue stream that would enable CYC to borrow £450k and pay back the loan. This revenue stream would need to be at least £41k pa.
5. If the property were to be disposed of without either a capital receipt or an ongoing revenue stream then an alternative source of capital or revenue would need to be identified to deliver the EPH review.

6. The site is both financially valuable and strategically important, lying as it does within the city walls, in a largely residential area, sitting in close proximity to the Priority St Centre with its concentration of voluntary and community sector provision and with existing use as a C2 property (Residential Institutions. Hospitals, Nursing Homes, Residential Schools and Training Centres. Use for the provision of residential accommodation and care to people in need of care).
7. Strong interest in the property has been received from various quarters, with a range of options for future use and ownership which are presented here for decision.

Localism Act

8. The Localism Act creates a duty for all Councils to maintain a list assets which are of value to the community. The introduction of the assets of community value provisions was delayed when the Bill became law as the government had not released detailed guidance on how to establish schemes for identifying those assets and how to set up mechanisms to allow expressions of interest.
9. It is however possible that the Oliver House site, will fall within the scope of this legislation. The Localism Act does not create a right to buy assets of community value. It does though give a window for community groups to express an interest in making such a purchase. Once the appropriate moratorium period has expired the landowner is free to dispose of the asset as they think fit.

Options to Sell or Retain

10. CYC have an option to sell the property or to retain the property and lease it out in order to earn rental income. Selling the property would guarantee this aspect of the capital funding of the EPH review programme however property values at this time are relatively low due to the economic downturn and it is likely that we would not get as much for the site as we would if we wait for the economy to pick up.
11. The property is currently valued at between £450k and £475k. If it were to be packaged with the adjoining garages it would be worth substantially more (in the region of £700-750k). The site has not been put on the open market but an offer has been received for the property from York St John University (YSJU) details of which are included in confidential Annex 3. They intend to use the site for student accommodation from September 2012 and would require an immediate decision. If this is not forthcoming they would withdraw the offer. They

are also interested in a 5 year lease on the property, the details of which are set out later in the report.

12. York CVS are also interested in purchasing the site. Early indications are that for some of the partners could secure sufficient funding through a mortgage. There are also specialist voluntary sector property owners who take on buildings in this way.
13. York CVS have also expressed a desire for a community asset transfer, however the need to dispose of this asset to support the funding of the EPH review means that if this option is chosen prudential borrowing of £450k will be required and ongoing revenue funding of £41k will need to be identified to repay this.
14. Other prospective purchasers may be interested in the site if we decide to sell.
15. If we decide to retain the property we could lease the property to earn rental income. It is estimated that a commercial rent for the property could be in the region of £50k pa which would be adequate to meet the requirements of the EPH review. We could decide to sell the site at a later date and use the capital receipt to repay the existing borrowing, though this would be constrained by the length of any lease we enter into.

Potential Future Uses

16. Consultation has been undertaken with a range of internal and external stakeholders including York CVS, YSJU, Corporate Finance, Housing, and Adult Provision and Modernisation. The following options for future use of the site have emerged.

17. Health and Social Care Hub

A number of Voluntary Sector organisations in York are interested in developing a voluntary sector hub in the centre of York, focussed on improving access to support for older and disabled people. This would involve co-locating a number of organisations who are keen to work collaboratively together. These organisations, led by York Independent Living Network, which is a user led organisation, are currently formulating a business plan. Attached at Annex 2 is their outline proposal and at Annex 3 their financial proposal. If this were successful this would support the important role of the voluntary and community sector in providing early intervention and prevention support which will complement health and social services. This is in line with the national

and local Personalisation Agenda and with the continuing transformation of services within the Council to offer more choice and control to residents in need of social care support, and to support more people through community based resources. It will enable better co-ordination across the voluntary sector, provide an environment to encourage innovation together and simplify the points of contact for residents to seek the help they need. The proposal sets out potential future use of Oliver House to provide

- Renal Unit - The York Hospital Trust also have a requirement to relocate the renal unit, and part of this requirement are individual rooms. This might be accommodated as part of this proposal.
- Autism Hub - A CYC capital bid for the setting up of an autism hub has recently been successful and suitable premises are currently being sought.
- Community Sector Office provision and meeting space – Due to the expiry of the commercial lease on existing offices at Holgate Villas a number of health and social care organisations will need to relocate.
- A comprehensive information service and practical health and social care resources for the public
- Interview rooms for one-to-one advice and counselling work
- A community cafe with supported employment placements
- Assessment facilities for people requiring adaptation equipment

18. Student Accommodation

YSJU are interested in using the existing building for student accommodation in the short/medium term (for up to 5 years). This is part of the residential accommodation strategy for the University as their student population will be growing by 1500/2000 over the next few years. YSJU are currently working on the development of a number of brownfield sites for accommodation, but need an incremental approach to this strategy to manage the risk, due to potential fluctuation in student numbers.

Therefore for this September 250 additional student beds will be needed and Oliver House is a potential part of the solution. The building would need to be refurbished to meet their requirements. The extent of the refurbishment will have an impact on the viability of any scheme and any rental which could be paid. All the refurbishment will be funded by YSJU but in order to undertake the necessary works in time for September deadline YSJU require a positive decision on the 15th May 2012. If this decision date cannot be achieved YSJU will withdraw their offer.

19. Affordable Housing

The site is an ideal location for affordable housing and adjacent to the Prospect House council flats. These are very popular and an extension of affordable housing to the Oliver House site and the garage court would contribute towards meeting the shortage of affordable homes in York.

Within the overall 'affordable housing' description there are many options in house type, mix, tenure and ownership/management. These range from the council funding, building and managing new homes using resources from the Housing Revenue Account, to private sector institutional investment funding.

Several housing associations have funding secured from the Homes and Communities Agency to deliver 770 homes between 2011-2105 on unspecified sites across the Leeds City Region. The site could accommodate houses or apartments or a mix of both. A higher density would be achieved from a flatted scheme, but a high density of houses would be possible too as the site is in an area of terraced streets.

A viability appraisal and feasibility study would be needed to test the housing options, especially as the use of this site by CYC would have the impact of a reduced or even nil capital receipt for the site. However, any reduced capital receipt would be considered in the wider context of savings and benefits that meeting affordable housing needs will bring.

20. Funding would also need to be found for any development which may have an influence on the mix/type of accommodation provided on the site. An exercise to look at institutional investment in housing developments has not yet commenced.

Evaluation of Options

21. Option 1 – Health and Social Care Hub

The property will be let to a Voluntary Sector Management Group for a term of 20-25 years at a commercial rent with a 5 yearly review of the rent to cover the cost of the prudential borrowing in lieu of a capital receipt. The groups who would use the site currently pay sufficient rent to meet the costs but would need to secure some investment funding to convert the building for their use. This could come from borrowing or grant funding.

Advantages:

- a. Satisfy an identified need for a voluntary sector social care facility in the city centre
- b. Improve provision for vulnerable people needing social care services
- c. Enable the relocation of organisations currently leasing space in Holgate Villas and elsewhere, where the future availability of the accommodation may be uncertain.
- d. Potential to offer accommodation for an autism hub and renal unit.
- e. CYC would retain long term ownership of the site and could still sell the property in the future if the scheme did not come to fruition or was not viable in the longer term.
- f. Allow York CVS time to explore potential purchase options

Disadvantages:

- a. The business case has yet to be finalised, therefore there is a risk that the project may not be delivered.
- b. There will be a delay in receiving rental income whilst the property is refurbished and grants are applied for. CVS are indicating that a full rent may not be forthcoming for at least 6 months and may take as long as 18 months. This could be accommodated within the financial model for the EPH review as long as rental income was in place by 2014/15.
- c. It is likely that planning permission will be needed for change of use consent
- d. Risk of the scheme becoming unviable in future years
- e. A separate scheme for the garaging site will be required.

22. Option 2 – Student Accommodation

The property would be let to YSJU for a term of 5 years, with the option to break at the end of the 3rd year. YSJU have indicated that they would be able to meet the required level of rental income with the proviso of a 6 months rent free period to fund the refurbishment.

Advantages:

- a. Provide much needed student accommodation
- b. Planning consent is not required for change of use to student accommodation.
- c. Opportunity for the property to be included in a broader review of Council assets, which will involve the review of the whole of the Council's asset portfolio.
- d. Will allow the property to be disposed in three to five years time, when it anticipated that market conditions will have improved.

Disadvantages:

- a. Short term solution – would meet the funding requirements of the EPH review for 5 years but the future capital receipt would still need to be allocated to the EPH review.
- b. Possible resistance from local residents.
- c. In the short term, it could preclude the redevelopment of the garaging unless this site is redeveloped separately.

23. Option 3 – Affordable Housing

Advantages:

- a. Satisfy an identified need for more affordable homes in the city.
- b. Enable redevelopment of the whole site including garaging.
- c. Compatible with neighbouring land uses.

Disadvantages

- a. Possible reduced capital receipt for the property
- b. Timescale uncertain

24. Option 4 – Sale

Advantages:

- a. Capital receipt obtained to contribute to the funding of the new EPHs.

- b. Can be achieved in a relatively short timescale. Enquiries have already been received from prospective developers for what is a prime city centre development site.

Disadvantages:

- a. Selling the property now may not maximise the capital receipt compared to waiting until market conditions improve.
- b. Loss of opportunity to deliver important Council Plan objectives

Consultation

- 25. This report has been written in consultation with York CVS, YSJU, Corporate Finance, Housing, Adult Provision and Modernisation, and the Member for Corporate Services. In the time available it has not been possible to undertake any consultation about future use of the site with local residents.

Council Plan

- 26. The four options will contribute to the Council Plan in the following ways.
 - Option 1 – Build strong communities and protect vulnerable people.
 - Option 2 – Build strong communities.
 - Option 3 – Build strong communities and protect the environment.
 - Option 4 – This would depend upon the future use of the site.

Implications

- 27. **Finance** - A capital receipt of £450k is assumed in the business case of the EPH review, providing part of the funding required. The capital receipt is projected to be realised in 2014/15. If this asset is disposed of for £450k, the EPH business case requires prudential borrowing in the longer term of £12.14m at a revenue cost of £1.093m pa.

If Oliver House was not disposed of and there was no capital receipt to contribute to the EPH business case prudential, this would increase the borrowing in the long term to £12.59m and a revenue cost of £1.132m pa, an increase of £41k pa. If the property were leased to either YSJU or a Voluntary Sector Management Group then they would pay all the costs associated with refurbishing/adapting the premises and CYC would receive a rent. This income stream would be used to cover the increased revenue cost of the EPH review.

If Oliver House was subject to a community asset transfer, then CYC would need to identify alternative capital or revenue funding to fund the EPH review. This would also be the case if the capital receipts were sold for less than the estimated £450k.

Legal - When selling land or granting a lease for more than seven years the Council is generally obliged to secure the best consideration reasonably obtainable unless the Secretary of State has approved a disposal at a lower value (which may be by way of specific or general consent). The Council would normally demonstrate compliance with these rules by marketing the land and disposing of it to the highest bidder. "Best consideration" can though be demonstrated through appropriate professional valuation advice and the Secretary of State has produced guidance in respect of such valuations.

If Option 1 is chosen it would therefore be lawful to grant a lease for 20 to 25 years to a Voluntary Sector Management Group at a commercial rent subject to the rent level being confirmed by a valuer as representing best consideration.

Disposals by way of a lease for less than seven years are not governed by the same rules. The Council must though bear in mind its fiduciary obligations to tax payers and its obligation to make reasonable decisions. The Council must also take note of the state aid rules. It is assumed that the suggested lease to YSJU described in option 2 would be at a market rent and this would deal with those points.

Option 3 could give rise to both best consideration and state aid issues. These would need to be considered as any such proposal was being developed but a general consent from the Secretary of State would almost certainly deal with any best consideration issues and there are exemptions which can be used to ensure that any state aid is lawful.

Option 4 of a straightforward sale would presumably follow a marketing exercise and this would deal with both best consideration and state aid issues.

Property - All implications are included in this report

Human Resources - None

Risk Management

27. The risks associated with the recommendation are outlined in paragraphs 18-24 of the options section.

Recommendations

28. Approve the granting of a 20 year lease to a Voluntary Sector Management Group, at a commercial rental to be confirmed through a formal valuation, and to be reviewed every 5 years. This would cover the cost of prudential borrowing in lieu of a capital receipt, with a subsequent review of selling the property. The lease will be on full repairing and insuring terms. It will also be contracted out of the security of tenure provisions of the Landlord and Tenant Act.

29. Reason: This option will achieve the income stream required to cover the increased revenue cost of the EPH review, and contribute to the priorities set out in the Council plan whilst retaining the asset in the long term.

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Report
Approved



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Ward Affected:
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All

For further information please contact the author of the report

Background Papers: File no. E00639/B01 held in Asset and Property Management.

Annexes:

Annex 1 - A plan showing the location of the site.

Annex 2 – Outline proposals for the Health and Social Care Hub

Confidential Annex 3 – Financial Proposals from YSJU and York CVS