

**Executive**

**16 March 2017**

**Report of the Corporate Director of Health, Housing and Adult Social Care (Portfolio of the Executive Member for Housing and Safer Neighbourhoods)**

**Update on the re-provision of the Ordnance Lane temporary homeless accommodation**

**Summary**

- 1 This report sets out an alternative proposal to replace the Ordnance Lane temporary homeless accommodation following the demise of the construction contractor for the already agreed scheme. It proposes the purchase of an alternative facility on James St which will generate a larger number of hostel units, enable additional rationalisation of temporary homeless housing provision, enable the creation of additional general needs housing provision and be more cost effective.
2. In October 2016 the contractor appointed to build a new temporary homeless accommodation hostel at Ordnance Lane entered into administration. Work had not commenced on site and the project was at the stage of revising designs that had been submitted for planning approval. Since then officers have been working directly with the architect on a design that will meet the needs of the homelessness service and achieve planning permission.
3. In December 2016 an opportunity arose to negotiate with a private developer for the purchase of a former office building on James Street that was being converted to 60 flats. Following an assessment of the relative costs of replacement at Ordnance Lane when compared to the acquisition of a new site negotiations were initiated and agreement has been reached subject to contract and Council approval for the purchase of the building with the intention to convert it to an estimated 56 flats for temporary homelessness accommodation plus reception and office areas as a permanent replacement for the Ordnance Lane scheme.

4. This report includes a confidential financial annex due to the commercial sensitivity of the information and the urgency of the approval sought in the recommendations.
5. At the time the report was placed on the forward plan it was to update the Executive on the re-provision of temporary homeless accommodation at Ordnance Lane following the contractor entering administration. During the intervening period an opportunity arose to begin discussions on the possibility of acquiring James House as an alternative to re-developing the Ordnance Lane site. The report then evolved to into one that would require a confidential annex and at that point a request was made for this due to the urgency and time critical nature of the negotiations and any subsequent approval to purchase James House. Deferring the report to a later Executive has not been feasible because the proposed purchase of James House (subject to contract) has been agreed on the basis of an approval from the council by the end of March. To meet this timetable a decision will need to be made at the 30<sup>th</sup> March meeting of full Council.
6. As with any land deal, the detailed financial information of the proposed purchase of James House must remain confidential. The purchase of James House will be a commercial acquisition and although terms have been agreed with the vendor, the value of the sale and the budget for the subsequent development work to convert it are both commercially sensitive.
7. The main body of the report therefore includes the overall capital cost of the proposals but not the separate values of the purchase price and the projected cost of the refurbishment. To reveal those in a public report at this time will put at risk the acquisition by revealing the offer and making it vulnerable to another party putting in a higher bid. Similarly, if Council approves the purchase of James House then revealing the approved budget for the conversion works may encourage bidders to inflate their bids during the tender process.

## **Recommendations**

8. Executive is asked to:
  - i. Recommend to council a revised overall budget of £10.5m from the Housing Revenue Account for the purchase (subject to contract) and conversion of James House as a permanent replacement for the council's current temporary homeless accommodation at Ordnance Lane.
  - ii. Subject recommendation (i) above, on the completion of the construction works at James House to agree to the disposal of 92 Holgate Road at market value to the highest bidder with the proceeds used towards the costs of the James House purchase and conversion
  - iii. Write off abortive costs relating to the Ordnance Lane scheme of £420k to the Housing Revenue Account funded from the HRA Investment Reserve.

### **Reason:**

- i. To enable the re-provision of the council's temporary homeless accommodation at Ordnance Lane, Holgate Road, Crombie House and Acomb Road to a single service based at James House.
- ii. In order to account for the abortive costs incurred on the project to date.

## **Background**

9. In December 2014 Cabinet agreed to:
  - (i) The demolition of the existing Ordnance Lane hostel to be replaced with a new modular build hostel, with the remainder of the site to be used for new council housing.
  - (ii) The commencement of the proposed procurement for the replacement of Ordnance Lane Hostel.

Reason:

(i) To replace existing poor quality temporary homeless accommodation that is no longer fit for purpose with a high quality new build hostel, and much needed new council housing.

(ii) To allow a new modular build hostel to be built that will minimise the disruption to the provision of temporary homeless services.

10. Cabinet also approved a £3.56m budget from the HRA Investment Reserve for the demolition and replacement of the existing Ordnance Lane hostel and in June 2015 Executive approved a further £3.6m of funding from the HRA Investment Fund to be used to build up to 24 new general needs council flats on the Ordnance Lane site. A key priority at the time was for the development to be of modular or off-site construction in order to minimise the length of time that residents and staff would have to be decanted from Ordnance Lane during the building of the new hostel.
11. The Ordnance Lane redevelopment was tendered in April 2015 and three bids were received. The bid from Bay Construct was the only one within the approved budget for building a 39 unit hostel and 18 two bedroom general needs flats. The approved budget was subsequently reduced to £6.1m to take account of the lower number of general needs flats.
12. Bay Construct was appointed as the contractor for the project in November 2015 with responsibility to work up the design of the new hostel and general needs housing and to obtain the planning consent for this. Until the point at which a planning consent was obtained, Bay Construct worked under a 'letter of intent' from the council rather than a formal JCT Design and Build Contract. This is common practice as the Letter of Intent gives assurance for both sides in the agreement and limits costs and liabilities for each party.
13. A planning application was submitted in April 2016 but the design of both the homeless hostel and general needs housing needed significant changes after concerns were raised by the client team and Development Management. A revised - and anticipated to be final - set of design drawings were not received prior to notification on 31<sup>st</sup> August 2016 of Bay Construct's intention to enter into Administration which was confirmed on 3<sup>rd</sup> October 2016. A total of

£420k of costs on the project must now be written off to the HRA Investment Reserve. Most of this - £309k – comprised fees paid to Bay Construct for the work they undertook during this period.

14. In response to these events officers began work with the architect (previously employed directly by Bay Construct) to finalise a design and gain planning consent with a view to then re-tendering for a new contractor to deliver the development.
15. In December 2016 a Feasibility Cost Estimate based on the emerging revised designs estimated that a re-tender of the Ordnance Lane development is likely to cost significantly more than the original tender price from Bay Construct. The estimated revised costs are included in Confidential Annex 2 and are principally due to a combination of build cost inflation, revised larger floor areas for the hostel flats and design changes to the external walkways.
16. This combination of factors has led to increases in the costs to deliver a scheme on Ordnance Lane. Design changes to address operational uses in a sensitive setting close to a conservation area, an initial bid that was in all probability too low to be deliverable and inflationary increase have meant that building a new temporary homeless accommodation at Ordnance Lane will not be possible within the approved budget. Alternative options have therefore been developed and they are set out below.

### **Options**

17. Members are asked to consider three options:
  1. The purchase of James House for the re-provision of the temporary homeless accommodation currently provided at Ordnance Lane. This is the recommended option.
  2. To continue with proposals for the re-provision of temporary homeless accommodation on the Ordnance Lane site.
  3. To seek alternative sites/buildings for the re-provision of the temporary homeless accommodation currently based at Ordnance Lane.

## **Analysis**

### **Option 1: the purchase of James House as an alternative to the redevelopment of Ordnance Lane**

18. This option is to purchase James House on James Street and to convert the building to an estimated 56 flats plus office/reception accommodation as a permanent replacement for the current facility at Ordnance Lane.
19. The current service provision comprises 31 units at Ordnance Lane, plus accommodation for a further 21 households at dispersed hostel accommodation at Holgate Road, Crombie House and to the rear of Howe Hill hostel. The service also uses housing from the council's general housing stock and from time to time bed and breakfast emergency accommodation. The service would be rationalised and consolidated into James House and the properties above thereby released for sale, conversion or redevelopment.
20. James House on James Street was built in 1990 and was used as offices for the Land Registry. It is built of traditional brick and tile roof construction and comprises two rectangular shaped buildings that provide two and three storey accommodation with the two wings linked at first and second floor level. There are 69 car parking spaces and minimal landscaping. A site plan is included at Annex 1.
21. The building was purchased by the current owners in September 2016 and planning consent has been granted for a change of use from offices to 60 one and two bedroom apartments under general permitted development rights.
22. In December 2016 following contact by officers the developer confirmed they would be interested in selling all the finished flats or the unfinished conversion to the council.
23. Conversion of the building started in December 2016 and to date has comprised the removal of internal office walls, false ceilings and floor coverings. Work has also started on installing the frames for stud partition walls for the flats.
24. Following a site visit in January it was clear that the best option is to purchase the partially converted building, draw up the design changes that will be needed, gain planning consent and then tender

for the conversion works. This will give the council control over the design, construction quality and cost.

25. Following an independent valuation of James House negotiations with the owner that have concluded with an agreement to purchase the partially converted building (subject to contract and Member approval). Details of the valuation and purchase price are in Confidential Annex 2 of this report.
26. In considering whether James House offers a better alternative to building a new homeless hostel on the existing site at Ordnance Lane two fundamental questions have been taken into account:
  1. Whether James House will deliver at least an appropriate standard of new hostel accommodation to that proposed at Ordnance Lane.
  2. Whether the purchase of James House can be shown to represent good value for money and is viable to deliver within the HRA Investment Fund or other budgets and including the impact of this option and the alternatives on the release of land and property assets.
27. James House offers a rare and timely opportunity to deliver accommodation that will be superior to that which could be provided at Ordnance Lane. The reasons for this are:
28. Design: The building conversion will be enable a 'traditional' design with flats accessed from internal corridors rather than external walkways and with sufficient space for staff and reception accommodation. A single access point will enable good security for residents and staff. There is a lift in the building already and ample outdoor space for car parking, refuse and bicycle stores and space also to create a safe landscaped play area for the children of families who will be housed temporarily.
29. Location: The building is in an excellent accessible location that is within walking and cycling distance to the city centre and the local retail facilities on Foss Islands Road. It is also close to frequent bus routes and is therefore accessible to and from all areas of the city.
30. Increased number of flats: The increase in the number of flats for temporary homeless accommodation (from 38 currently envisaged

at Ordnance Lane to an estimated 56 at James House) is another advantage. By consolidating accommodation into a single building the service will be more efficient both in terms of cost and service delivery. It will also free up land and property assets for sale/redevelopment.

31. Speed of delivery: The conversion of James House is expected to be completed 8 months sooner than Ordnance Lane. Planning consent will be needed for the change of use to temporary accommodation but this should be more than compensated for by a shorter period of building works. The majority of construction work will be inside the buildings and therefore not at risk of delay due to poor weather. Completing James House more quickly than a re-development of Ordnance Lane is important because it will minimise the length of time that residents and staff have to remain using the Ordnance Lane accommodation which is in very poor condition and where emergency repair costs are increasing year by year. Indicative timescales for both sites (from April 2017) are shown in Table 1 below.

<b>Table 1: Comparative timescales for delivery of new temporary homeless accommodation at James House and Ordnance Lane</b>		
	James House	Ordnance Lane
Design, planning consent and procurement of contractor	4 months	6 months
Conversion/construction	8 months	14 months
Completion	12 months (April 2018)	20 months (December 2018)

32. The purchase of James House also represents good value for money. The cost comparison is set out in Confidential Annex 2.
33. Market testing: The opportunity to purchase James House has been, by definition, a time limited one. Conversion of the building started in December and as each week and month passes more of the conversion works are completed against which there has been an additional cost of acquisition. Understandably the developer would not put on hold the conversion while the council tested the market to see if there were other office conversions or sites currently available. Nor would they agree to a sale 'subject to planning consent' for a hostel use since they already have consent in place for conversion to residential flats.



34. The council must be satisfied that the purchase represents value for money and that there are not alternative buildings or sites currently available that would be equally suitable for the temporary homeless accommodation.
35. A desktop check of commercial and residential property for sale that would meet the essential requirements for the hostel in terms of availability, size, accessible location, proximity to other services, bus routes and cost was undertaken by the external consultants who completed the valuation of James House for the council. They concluded that no suitable properties are currently on the market. Although there are several office-to-residential conversions and bed and breakfast hotels marketed none are suitable for the delivery of the temporary accommodation needed to replace Ordnance Lane.
36. A call for sites to test the market for any emerging opportunities was not undertaken. To do so would simply have delayed the negotiations with the developer for James House and, in all likelihood, led to this opportunity being lost.
37. The value for money analysis of the James House purchase has therefore been primarily through benchmarking costs against the revised estimates of re-provision at Ordnance Lane and the benefit of releasing valuable housing land assets including Ordnance Lane. There are also the clear benefits that James House will bring in terms of speed of delivery, better design and the consolidation of service provision into a single building.
38. Potential for grant funding: Initial 'in principle' discussions have taken place with the Homes and Communities Agency (HCA) regarding the potential for grant funding to support the acquisition and conversion of James House. Although the availability of grant funding cannot be guaranteed – and should not therefore be dependent on supporting this proposal – the initial discussions with the HCA have been positive and are continuing.
39. Release of other assets: The purchase of and conversion of James House will release Ordnance Lane and other sites/buildings currently used for temporary homelessness accommodation.
40. It is a recommendation of this paper that Members agree to the disposal at market value of 92 Holgate Road with the proceeds used towards the cost of the James House purchase and

conversion. The rationale for this is that 92 Holgate Road is a property (5 bedroom house and a basement flat) with a high market value. The other properties that will be released through the development of James House are of lower market value and/or unsuitable for other uses. Table 2 below shows current and anticipated future uses of these subject to necessary Member approval and funding (where needed). The options for the future use of the Ordnance Lane site will be appraised for redevelopment or sale and brought to the Executive in due course for further discussion.

Asset	Current use	Anticipated future use
Ordnance Lane	31 units homeless accommodation	Explore potential redevelopment/sale options.
Crombie House, Viking road	7 units of homeless accommodation	Redevelopment of site for new council housing
92 Holgate Road	7 units for homeless accommodation	Open market disposal with proceeds invested in James House project
Howe Hill, Acomb	6 x 2 bedroom flats used for homeless accommodation	Conversion to general needs council housing or supported housing scheme

41. Oakhaven temporary use: Under the proposals for building a new homeless hostel at Ordnance Lane planning consent was obtained for the temporary use of the former sheltered housing scheme at Oakhaven, Acomb Road to decant staff and residents during the construction period. The cost of essential alterations to Oakhaven to make it suitable for this temporary use are £80,000 and these works have been on hold due to the uncertainty of the Ordnance Lane timetable and latterly the James House proposals. If the purchase of James House is approved there will be no need to decant residents and staff from Ordnance Lane until it is complete thereby saving on the cost of alterations to Oakhaven and delayed re-development of the site.
  
42. Future Proofing: James House is in a predominantly industrial/commercial location but with nearby residential development at Catherine Court and Elvington Terrace. Over the coming years it may be that further residential development in this area will take place given its close proximity to the city centre,

shops and services thereby making it an attractive area for housing. In this respect James House is considered a good long term investment even if the need for this level of temporary homeless accommodation were to reduce.

43. James House already has planning consent for conversion to residential C3 use. The proposed hostel use will require a new planning consent. However, if planning permission was refused the fall back option will be to develop James House as general needs flats either for sale or rent. This too will represent good value for money as a long term investment in much needed affordable housing.

**Option 2: To continue with proposals for the re-provision of temporary homeless accommodation on the Ordnance Lane site**

44. This option will continue to work up a revised design for the re-provision of temporary homeless accommodation at Ordnance Lane. If a deliverable scheme of around 38 flats is achievable, it will enable the current dispersed homeless accommodation at Crombie House to be released. It would not, however, mean that dispersed homeless accommodation at 92 Holgate Road and at Howe Hill could be released. Nor, will it release the Ordnance Lane site for re-development.
45. As highlighted in the background information in this report the re-provision of temporary homeless accommodation at Ordnance Lane is urgent and challenging. The timetable has been delayed considerably due to the appointed contractor entering administration and also by the difficulties that remain in designing accommodation that meets planning requirements and service needs without significant compromises.
46. It is still anticipated that a scheme can be designed to re-provide the accommodation at Ordnance Lane but it is also certain that when tendered it will cost considerably more than the previously. These costs are set out in Confidential Annex 2. For the reasons highlighted in Option 1 the opportunity to provide the homeless accommodation at James House will bring considerable benefits over re-provision at Ordnance Lane.

**Option 3: To seek alternative sites/buildings for the re-provision of the temporary homeless accommodation currently based at Ordnance Lane.**

47. The replacement of the homeless accommodation at Ordnance Lane is an urgent priority. The current accommodation is not fit for purpose in terms of design and is in a very poor and worsening physical condition. The delays in bringing forward the re-provision have inevitably exacerbated an already unsatisfactory situation.
48. Although there remains a possibility that another site or building could become available as an alternative to Ordnance Lane this is considered unlikely and, more importantly, impossible to estimate in terms of timing. A desktop search for current alternatives to James House has not yielded any other suitable buildings or opportunities. If the James House purchase does not proceed then officers would market test again for other opportunities but it is not felt that this could be an open-ended search given the urgent need to re-provide the homeless accommodation at Ordnance Lane.
49. On the basis of this analysis it is recommended that the James House option delivers the greatest benefits and represents the best value.

**Consultation**

50. Extensive consultation was undertaken with managers of the council's homelessness service on the design of the new scheme proposed for the Ordnance Lane site. Managers and staff have been consulted on the proposal to re-provide the service at James House. Feedback has been universally positive, with James House being viewed as delivering significantly better designed accommodation for both staff and residents and also reducing reliance on dispersed accommodation across several sites.

**Council Plan**

51. The proposals re-provide the temporary homeless accommodation currently based at Ordnance Lane will meet a number of the council's corporate priorities 2015-19 including the following:
  - Ensuring vulnerable people are safe and feel safe.
  - Use of all council services to protect children and adults from abuse and exploitation.

- Supporting everyone to achieve their full potential.
- Making support services available to those who need them.
- Ensuring all York's residents live and thrive in a city which allows them to contribute fully to their communities and neighbourhoods.
- Residents can access affordable homes while the greenbelt and unique character of the city is protected.

## Implications

52. **Financial** - In 2013 Members agreed to the creation of an investment reserve totalling £20m to support new house building across the city. This can be increased by the use of Homes and Communities Agency grant funding, right to buy receipts, general capital receipts and affordable housing commuted sums to provide a larger sum to support the building programme.
53. To date £14.7m of the investment reserve has been allocated towards the cost of new build schemes including those completed at Le Tour Way, Lindsey House, Pottery Lane and Hewley Avenue. It is also part funding the extension of Glen Lodge and includes £5.6m of the current approved budget of £6.1m for Ordnance Lane.
54. Abortive costs: The abortive costs from the Ordnance Lane scheme are £420k primarily relating to the payments to Bay Construct prior to entering administration. It is recommended that these costs are written off to the Housing Revenue Account with the funding coming from the HRA investment reserve. After this charge the value remaining on the investment reserve is £10,461k
55. Funds available for James House Scheme: There remain a number of HRA funding sources available that could fund the assumed £10.5m revised scheme. These sources are highlighted in Table 3 below.

Table 3. HRA funding available for James House acquisition and development	
	£0'000
Investment Reserve (incl Ord Lane Budget)	10,461
Housing Capital Receipts	6,491
Commutated Sums	730
Values of Released sites from relocation of Hostel	4,100
<b>Potential Funding Available*</b>	<b>21,682</b>

\*excludes Right to Buy capital receipts that can only be utilised to fund additional social housing units.

56. There may also be opportunities to utilise Homes and Communities Agency funding to support individual schemes and it is anticipated that a bid for grant funding towards the cost of James House will be made.
57. There are other potential commitments set against the HRA investment reserve for example Marjorie Waite Court, residual costs of Phase 1 projects and match funding for an HCA supported shared ownership scheme. These therefore need to be taken into account when determining the optimal financing levels.
58. It is recommended that the actual funding profile for the scheme be determined by the Deputy Chief Executive / Director of Customer and Corporate Services once the final scheme is developed. This will be reported through to Members as part of the regular capital monitoring cycle.
59. **Human Resources (HR)** - none
60. **Equalities** – A new homeless hostel will significantly improve the quality of accommodation for vulnerable households who are homeless and improve security for residents and staff. Good quality, secure and warm accommodation will improve the health and well-being of homeless households while their needs are assessed and before moving on to permanent accommodation.
61. The current accommodation at Ordnance Lane is not Disability Discrimination Act (DDA) compliant and due to the restrictive nature of the old buildings they can not be brought up to this standard. The James Street proposals will ensure people with a disability could also be supported with lift access to upper floors and the several ground floor flats being designed for wheelchair accessibility.
62. **Legal** - The Council owes various duties to homeless people under Part VII of the Housing Act 1996. In certain circumstances these include a duty to provide “suitable” accommodation which must, where practicable, be in the Council’s area.
63. The Council has ample powers to purchase land to enable it to comply with its homelessness duties. When purchasing land there

are no specific statutory requirements to the price which should be paid. The Council's Contract Procedure Rules also specifically exclude straightforward purchases of land where no other services are to be provided as part of the transaction. Members do though have a fiduciary responsibility towards council tax payers and must make decisions in accordance with normal public law principles. The report sets out the steps that have been taken to ensure that a fair price is being paid for the land.

64. **Crime and Disorder** - The existing hostel accommodation has numerous access/ingress points with poor natural surveillance and is therefore a challenge to manage especially in respect of maintaining security. A new purposely designed hostel would improve the ability to successfully manage the service and reduce the risk of crime and disorder. The police architectural liaison officer will be consulted during the design of the James House scheme with a view to achieving Secure by Design accreditation.
65. **Information Technology (IT)** none.
66. **Property:** These are all included in the body of the report.
67. **Other:** There are no further implications

### **Risk Management**

68. The purchase of James House falls through. – It is the intention to conclude the sale in early April so if this were to fall through it would have little impact on pursuing the alternative to work up the revised Ordnance Lane designs for planning consent subject to Member approval for a revised budget to deliver the scheme.
69. Planning consent is not granted for the change of use at James House from Class C3 Residential (for which planning permission already exists) to temporary/hostel accommodation use. In this case James House would be built out as residential flats and a decision made on whether these are sold, rented etc.
70. The costs of conversion works at James House are higher than the approved budget. This is considered unlikely because almost all the works will be inside the building, surveys show the structural integrity of the building is good and that in a competitive tender we will expect prices to be driven down.

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**Report  
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**Wards Affected:** Hull Road and Fishergate

**All**  *tick*

**For further information please contact the author of the report**

**Background Papers:**

- The replacement of Ordnance Lane homeless hostel. Cabinet 16<sup>th</sup> December 2014
- New council housing report and approval for development at Ordnance Lane. Executive 25<sup>th</sup> June 2015
- Capital Programme – Monitor 2 2015/16. . Executive 26<sup>th</sup> November 2015

**Annexes**

- Annex 1 - James House site plan
- Confidential Annex 2 - Comparative Financial appraisal of James House and Ordnance Lane proposals