

**SURREY COUNTY COUNCIL**

**CABINET**

**DATE: 27 FEBRUARY 2018**

**REPORT OF: MR TIM OLIVER, CABINET MEMBER FOR PROPERTY & BUSINESS SERVICES.**

**LEAD OFFICER: JOHN STEBBINGS, CHIEF PROPERTY OFFICER**

**SUBJECT: REFURBISHMENT OF HOUSES**



#### **SUMMARY OF ISSUE:**

This report considers and makes recommendations for the refurbishment of nine residential properties to either increase rental income and bring the property up to modern day standards or increase the capital valuation in preparation of disposal of the asset in the market.

#### **RECOMMENDATIONS:**

It is recommended that the Cabinet approves the business case for an initial investment in nine residential properties in order to bring the property up to modern day standards or increase the capital valuation in preparation of disposal of the asset in the market.

#### **REASON FOR RECOMMENDATIONS:**

Property Services recommends a programme of refurbishment with a view to leasing out five properties in order to generate an income stream for the Council and undertake works to a further four properties in readiness of disposal to increase capital values.

#### **BACKGROUND:**

#### **AIMS & OBJECTIVES**

1. Property Services recommend investing a sum of money to secure either a long term income stream or to add to the capital value of Surrey County Council's residential portfolio in readiness of disposal to generate a capital receipt. This will be achieved by refurbishing nine properties which are currently in an uninhabitable condition or a dated and worn condition unsuitable for letting and complete remedial work to a further Grade II Listed derelict property to prevent further deterioration.

2. The investment will:
- Significantly reduce the amount of revenue spend required over the next few years in managing the properties and dealing with expensive responsive or planned repairs as the buildings continue to deteriorate.
  - For the rental properties: Ensure they are fit for rental and improve the marketability of the properties, helping to ensure that they attract good quality tenants and minimise void periods. Increased net rental income is higher than the costs of refurbishment.
  - For the properties to be disposed of: Enhance the capital values of the properties in readiness for disposal in the short or long term. The increased capital receipt is higher than the cost of the planned works.

### **OPTIONS CONSIDERED**

3. In respect of the properties four options have been considered:

4. Refurbish and Let the properties

The investment to refurbish five of the properties in readiness to re-let will generate a net return after costs of 7.7%. The payback for the whole project is 7.4 years (after property costs and voids but excluding finance). Freehold values are also expected to be enhanced by a further amount.

However, the net income generated from the re-letting the remaining four houses will not be sufficient to generate a positive return on investment, but their onward sale will.

5. Dispose of the properties

In the cases of four properties, the business case to invest money for the purposes of generating a long term revenue stream does not exist. However, there is a good business case to invest to enhance the capital value in preparation of disposal of these properties, with a good return on the investment.

Improving the properties will also potentially broaden the number of interested parties in purchasing the property once the works have completed.

6. Let the properties on condition that the tenant undertakes the work

The revenue income stream would be reduced to reflect the risk and investment made by the tenant. The risk to the Council of this approach is that the works are not delivered to a good standard, nor in a timely manner or in accordance with the specification. There would be a loss of control over the refurbishments and to mitigate the risk this option would require careful on-going management by Property Services to ensure compliance. Furthermore, we risk that the tenant occupies a non-compliant property during works or that the finished works are of such poor quality that there is a risk to life or the safety of the building and may lead to prosecution. Non-compliance might require repossessing premises and having to start over again. The works at these sites are so extensive that a professionally qualified building surveyor is required to deliver the scheme. The final point to note is that the properties are currently uninhabitable and owing to their current condition we could not allow a tenant to occupy these units until they have been made safe and compliant with the law.

#### 7. Do nothing

If left vacant, the properties will deteriorate and be an ongoing revenue liability to the Council. Vacant properties are vulnerable to vandalism and squatters and reflect badly on the Council. In addition to the ongoing revenue liability the opportunity cost will be lost.

### **SCOPE OF WORK**

8. Excluding one property, each house will be fully refurbished to a modern and good homes standard appropriate to the property. Although the degree and amount of refurbishment required within each property will vary slightly, the type of work required includes; new bathroom, new kitchen, new carpets, plastering, redecoration, new windows, roof repairs, new doors, new boilers, gutters, electrical and gas safety certificates and insulation and the removal of dilapidated outbuildings in order to facilitate their letting and generate income to the Council. The standard of the refurbishment will be of a quality to reflect the need to:
  - Reduce revenue maintenance over time.
  - Ensure longevity of the building.
  - Strike a balance between cost and return on investment.
  
9. Excluding those properties identified for disposal, all properties will be let unfurnished, but there may be a necessity to provide and fit white goods in the kitchen.
  
10. In the case of those properties with a Listed status, the proposed schemes have been put together in consultation with the Design & Conservation Officer at the respective local authorities.

### **FINANCIAL MODEL:**

#### 11. Property to Rent

At present, none of the properties are capable of being let in the market. The only alternative is to dispose of the property. There is a good business case to undertake works of refurbishment and improvement in order to generate a long term income to the Council by letting the property. It is proposed that investment will generate a net return of 7.7% after all costs have been deducted.

The investment will also increase capital values by a further amount. The payback period is 7.4 years.

#### 12. Properties to Sell

The investment in four properties will enhance the estimated capital receipt on disposal by circa 30%, after deduction of all costs.

## **DELIVERABLES**

13. The main outputs from the project can be summarised as follows:

- An improved income stream from the letting of properties.
- Enhance the capital value of the portfolio.
- Reduced management costs attributed to holding deteriorating and vacant properties.
- Transfer of other revenue liabilities such as utilities and Council Tax to tenants.
- Surrey residents will see that the County Council is actively managing its portfolio and reducing the number of vacant properties it holds.
- Ensuring that vacant homes in Surrey become occupied.

## **CONSULTATION:**

14. The local County Councillor Member for the Divisions within which each of the properties are located have all been notified of the proposed schemes. There is no service link with this project and therefore there has been no need to consult with other service departments.

15. District and Borough Councils have also been consulted. In the case of those properties with a Listed status, the Design & Conservation Officer at the respective local authorities has provided guidance on the proposed schemes.

## **RISK MANAGEMENT AND IMPLICATIONS:**

### 16. Refurbishment Costs

The valuer and building surveyor will regularly review the scope to ensure that each project will deliver the outputs. Should the costs exceed the budget the business case will be revisited. At least three quotes will be sought for each scheme prior to proceeding with the project.

### 17. Rents

The rents are subject to negotiation with prospective tenants and the prevailing market. We aim to provide valuations with a maximum 10% margin of error.

### 18. Void Costs

The analysis allows for void periods, void costs, annual maintenance costs and replacement costs. These are estimates only and any increase in costs will have a negative impact on the return on investment unless rents also increase.

### **Financial and Value for Money Implications**

19. The costs of borrowing has been assumed over a period of 20 years and will provide a net return of 7.7% upon letting of five properties and enhance net capital receipts by an estimated 30%.

### **Section 151 Officer Commentary**

20. The Section 151 Officer confirms that this is a request to increase the existing capital programme has been supported by Investment Panel. The schemes to increase rental income are self-funding as the income is higher than the costs including the cost of repaying the capital. The schemes to enhance capital receipts will result in an estimated increased value. Therefore the Section 151 Officer supports the proposal.

### **Legal Implications – Monitoring Officer**

21. Under section 123 Local Government Act 1972, the Council may not dispose of land for a consideration less than the best that can reasonably be obtained. The proposed investment should assist the Council to meet this duty.
22. Further, Regulations under the Energy Act 2011 mean that any residential property let for occupation as from 1 April 2018 must meet a minimum energy performance standard. The Council will be unable legally to let any residential property without a Certificate from an independent assessor that the energy performance of the property is at least an “E”. The government proposes to increase the minimum energy performance level over time.

### **Equalities and Diversity**

23. There is no impact or issues arising, as a result of the Council completing the works.

### **WHAT HAPPENS NEXT:**

24. If approved Property Services will complete surveys, finalise the design and detailed scope of work including plans, obtain any relevant consents from the local planning authority and eventually tender the work. Procurement will be involved in the appointment of the consultant and contractor. Property Services will endeavour to reduce costs where possible. Given the margins involved, the Estates Surveyor and Building Surveyor will regularly review the scope to ensure that each project will deliver the outputs
25. The project will be approached on a phased approach, with a view to commencing work on site in early 2018 and completing in late 2018/early 2019.

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**Consulted:**

Mrs Helyn Clack, Local Member.  
Mr Naz Islam, Local Member.  
Mr Will Forster, Local Member.  
Mr John Beckett, Local Member.  
Dr Peter Szanto, Local Member.  
Mr Matt Furniss, Local Member.  
Mr Jonathan Essex, Local Member.  
District and Borough Councils

**Annexes:**

N/A

**Sources/background papers:**

N/A

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