

APPENDIX 3

Methodology and Process for Repurposing of Commercial Estate Assets for Residential Use

Background

This paper sets out the methodology and process to be used for the repurposing of the Council's commercial estate where it is agreed the properties can provide best overall returns to the Council going forwards as residential conversions. The intention is to provide for a simple approach for an efficient process to deliver revenue returns to the Council, securing a timely refurbishment of the property with appropriate governance and decision making in place.

Methodology

The intention is to ensure maximum revenue flow to B&NES as efficiently as possible and, avoiding the transfer of the asset, the need for related loans minimised and no fixed charges as follows:

Conversion Costs

Apart from a small initial feasibility cost met by the Council's Commercial Estate revenue budget under a purchase order, these will be met by Aequus and funded by a commercial loan from the Council (asset backed on the basis we would be enhancing the Council asset). Any specified Council standards or suppliers can be included as part of the conversion specification. Aequus will be responsible for securing necessary consents for all such conversions. It is anticipated that provided this is from approved capital loan resources, the loan for the conversion costs can be approved within existing Officer Delegated arrangements (S151 Officer).

Lease Arrangements

The Council will grant Aequus an appropriate short term business lease based upon all actual rent received being payable to the Council less agreed costs – these are limited to:

- Letting Agent Fees (currently around 7.5% of rental)
- Aequus management fee (currently at 10% of rental)
- Aequus loan repayments to the Council (EU Ref Rate +1%)
- Actual maintenance cost and service charges incurred (see other cost below)

Aequus will then manage the portfolio of properties to provide private residential rentals on an Assured Shorthold Tenancy basis to maximise rental returns and ensure they are maintained to a suitable standard.

As business leases are made to Aequus, the right to buy will not apply. No asset transfer will take place to Aequus – the properties remain wholly on the Council balance sheet and Aequus will have no legal interest in the property beyond the short-term commercial lease.

In the even the short-term lease is not rolled over by the Council then any balance remaining on the commercial loan to cover conversions costs will be written off by the Council (the Council retains an enhanced asset though).

It is anticipated that the granting of the relevant commercial lease can be made within existing officer delegated authority by the CPO (Corporate Property Officer).

Other Costs

All such costs including service charges, property insurance and maintenance will be a direct pass through to the Council.

Process

The process for repurposing of an existing commercial estate asset for future residential use is set out in three stages below:

Stage 1 – Identification and Proposal

- A current or future void commercial estate property which is unlikely to be suitable for the future commercial estate (wholly or in part) will be identified to Aequus by the CPO.
- Aequus will identify a potential option(s) for the future residential use of the property which will be agreed by the Property Board.
- The Council will then issue an initial purchase order (PO) to Aequus to produce an outline feasibility study for the property which will confirm or otherwise the potential future use identified and act as a gateway decision point.
- Subject to approval of the feasibility study by the Property Board, Aequus will progress all surveys, consents and specifications required to convert the property into the agreed residential. The cost of which will be funded by the commercial loan.
- Aequus will then prepare a simple Business Case proposal setting out the capital conversion specification, costs, and the likely revenue returns. Supporting detail will be provided as appropriate.
- This will be submitted to the S151 Officer and CPO

Stage 2 – Evaluation and Approval

- The Business Case will be considered by the S151 Officer considering the conversion cost for the Commercial Loan and the revenue returns being provided by the proposal, noting the asset remains wholly in the ownership of the Council.
- Subject to the above approval the Council will provide a Commercial Loan for the total conversion costs (including the initial survey, consents and specification) to Aequus.
- The CPO will also confirm that a Business Lease will be issued to Aequus prior to the conversion works, in accordance with the Methodology.

Stage 3 – Implementation and Monitoring

- Upon receipt of the commercial lease, Aequus will deliver the conversion works in accordance with the approved specification.

- Aequus will secure suitable private Assured Shorthold Tenancies for the properties and operate these in accordance with the methodology. AST's should not extend beyond the period of the agreed Business Leases (as extended by agreement).
- Aequus will provide regular reports to the Client Board as to progress with conversions, details of AST's in place, voids, maintenance, and portfolio financial returns. This reporting should also include regular tenant feedback obtained via the appointed letting agent.
- In the event a business lease is not renewed for any reason at the Council's discretion then any balance outstanding on the Commercial Loan will be written off by the Council.

This methodology and process may be varied with the agreement of both parties.