

Executive Decision Report

Goscote House

Decision to be taken by: Assistant City Mayor – Education
and Housing

Decision to be taken on: 22 March 2021

Lead director: Chris Burgin

Useful information

- Ward(s) affected: Wycliffe
- Report authors: Richard Sword
- Author contact details: 0116 454 1628
- Report version number: 1.3

1. Summary

A previous executive decision report was presented in April 2018. This briefing paper provides an update to the executive on the current status of the Goscote House project, and in consideration of the results of a number of specialist surveys the following additional options have been considered as part of this briefing paper:

- Demolition,
- Refurbishment,
- Replacement like for like,
- Replacement with a six storey block,
- Sell the site for re-development.

The report also considers the revenue and capital implications of each option and in this regards highlights some comparative bench marks.

Goscote House still requires redevelopment, and a decision on which option will be taken forward will be deferred.

Selecting this option will reduce down the overall net loss of Council Housing, provide good quality homes in a sought after area, improve the climate and anti poverty credentials of the building and minimise the ongoing additional revenue burden to the budget.

2. Recommendations

That Goscote House should be demolished and a decision on the future use of the site deferred.

That £1,952k is added to the Housing Revenue Account Capital Programme as an immediate start, to be funded from Housing Revenue Account reserves.

3. Main report

3.1 2018 executive report and decision

The previous executive decision in April 2018 detailed two options, with associated costs originally estimated as follows:

- Refurbishment/reconfiguration, which would cost in excess of £6m,
- Demolition, which would cost approximately £3m

The report concluded with the recommendation that Goscote House should be decommissioned and demolished, with the site being put forward for redevelopment by the council. This was mainly because the long-term structural integrity of the concrete frame could not be guaranteed for longer than 5 years.

A decision was taken on 16th April 2018 to proceed with demolition. Since the executive decision was sanctioned, the capital team have been instructed to take forward the project into demolition. As part of this process, the following surveys have been undertaken:

- Full structural survey, which identified additional issues
- Market consultation with demolition
- Engagement with the Health and Safety Executive (HSE)
- Engagement with adjacent building and owners
- Full M&E survey
- Procurement and investigation of site set up
- Review of preliminaries cost, due to additional HSE requirement
- Ground Investigation surveys
- Utility consultation
- Clear costs and decant strategy with adjacent tenants
- Creation of risk register, which identifies risks, costs and associated mitigation measures

The above surveys have identified significant risks, and additional specialist input is required which has increased the original estimated costs substantially. The original estimated cost of the demolition was circa £3m. The surveys also identified that Goscote House could be retained for 30 years, and on that basis the following options have been considered:

- Demolition,
- Refurbishment,
- Replacement like for like,
- Replacement with a six storey block,
- Replacement with a four storey block,

4.0 Demolition of Goscote House:

The updated demolition costs are as follows:

| Item | Cost |
|------------------------------------|-------------------|
| Contract Sum | £3,082,808 |
| Design & Contractors Contingency | £417,952 |
| Inflation | £101,284 |
| Proposed Contract Sum | £3,602,044 |
| | |
| Fees & Surveys | £621,945 |
| Client Direct Costs | £100,000 |
| Client Contingency | £108,061 |
| Identified Risk Register and costs | £520,000 |
| Overall project cost | £4,952,050 |

The above costs are **£1,952,050** above the executive decision. The costs have increased as the original costs did not include key items such as fees and surveys for example.

5.0 Refurbishment of existing Goscote House:

Whilst the surveys have identified additional costs in relation to the proposed demolition of the tower, they have also increased the costs of refurbishment which was considered as part of the original executive decision, which are as follows:

| Item | Cost |
|-----------------------------|--------------------|
| Refurbishment | £15,390,000 |
| Professional/Design Fee | £1,539,000 |
| Surveys | £769,500 |
| Client Contingency | £1,000,000 |
| Costed Risk Register | £2,654,775 |
| Overall project cost | £21,353,275 |

The above costs are **£14,853,275** above the original proposed refurbishment cost. To consider this option holistically, we have undertaken the following financial analysis around projected revenue income based on the building's current configuration which is as follows:

| Property type | No. of Units | Weekly Rent (Per Unit) | Annual Rent (All Units) |
|-----------------------------------|--------------|------------------------|-------------------------|
| Bedsit | 73 | £54.46 | £206,730.16 |
| One Bedroom Flat | 38 | £62.42 | £118,598.00 |
| Two Bedroom Flat | 19 | £71.49 | £67,915.50 |
| Four Bedroom Flat | 4 | £89.02 | £17,804.00 |
| Total Annual Rental Income | | | £411,047.66 |

The rental income potential of Goscote House is relatively low in comparison to the capital investment and would leave a net financing cost to be met by the Housing Revenue Account. For example, assuming £22m refurb cost, with a life of 30 years, the Minimum Revenue Provision (voluntary, but prudent) would be £730k p.a. and if applied an interest of 2.5% would be £550k p.a. at least initially would mean a £1.3m debt financing costs p.a. The rental income would be £400k p.a. So the annual revenue gap would be circa £900k, plus operating and maintenance costs, so say £1m p.a. The interest would decrease gradually over time and rents might be expected to gradually increase.

6.0 Replacement on a like for like basis:

Replacement of Goscote on a like for like basis has been considered in light of the refurbishment costs. The cost of this option is as follows:

| Item | Cost |
|-----------------------------|--------------------|
| Construction | £14,890,000 |
| Demolition | £3,602,000 |
| Professional/Design Fee | £2,219,040 |
| Surveys | £924,600 |
| Client Contingency | £500,000 |
| Costed Risk Register | £2,653,654 |
| Overall project cost | £24,789,294 |

The rental income is relatively low when compared to the investment required to deliver a new block and is calculated as follows:

| Property type | No. of Units | Weekly Rent (Per Unit) | Annual Rent (All Units) |
|-----------------------------------|--------------|------------------------|-------------------------|
| Bedsit | 73 | £54.46 | £206,730.16 |
| One Bedroom Flat | 38 | £62.42 | £118,598.00 |
| Two Bedroom Flat | 19 | £71.49 | £67,915.50 |
| Four Bedroom Flat | 4 | £89.02 | £17,804.00 |
| Total Annual Rental Income | | | £411,047.66 |

Consideration maybe given to increasing or change the unit configuration, however, for the purposes of modelling this option has been worked on a like for like basis. The rental income potential of Goscote House is relatively low in comparison to the capital investment and would leave a net financing cost to be met by the Housing Revenue Account. Excluding the demolition costs (for which provision exists within the capital programme and reserves) assuming £20m replacement cost, with a life of 50 years, the Minimum Revenue Provision (voluntary, but prudent) would be £400k p.a. and if applied an interest of 2.5% would be £500k p.a. at least initially would mean a £0.9m debt financing costs p.a. The rental income would be £400k p.a. So the annual revenue gap would be circa £500k, plus operating and maintenance costs, so say £600k p.a. **Please note:** The interest would decrease gradually over time and rents might be expected to gradually increase.

It should be noted that for the relatively small additional capital investment of £3.5m, a brand new block could be built, to the specifications required and with a much longer life expectancy than refurbishing the existing block. As a result of the extended life expectancy, the annual cost to the HRA is lower.

7.0 Replacement with a six storey block:

As the replacement of the tower was £24.7m, an option was put forward to consider demolition and replacement with a six-storey block. The cost of this option is as follows:

| Item | Cost |
|-----------------------------|--------------------|
| Construction | £3,890,000 |
| Demolition | £3,602,000 |
| Professional/Design Fee | £899,040 |
| Surveys | £374,600 |
| Client Contingency | £500,000 |
| Costed Risk Register | £876,564 |
| Overall project cost | £10,142,204 |

The rental income is very low when compared to other options and is calculated as follows:

| Property type | No. of Units | Weekly Rent (Per Unit) | Annual Rent (All Units) |
|-----------------------------------|--------------|------------------------|-------------------------|
| One Bedroom Flat | 36 | £66.66 | £119,988.00 |
| Total Annual Rental Income | | | £119,988.00 |

Given the constrained nature of the site, a 6 or 4 storey block could be a potential alternative. The rental income potential of a 6 storey block is relatively low in comparison to the capital investment and would leave a net financing cost to be met by the Housing Revenue Account. Excluding the demolition costs (for which provision exists within the HRA capital programme and reserves) assuming £5.1m construction cost, with a life of 50 years, the Minimum Revenue Provision (voluntary, but prudent) would be £102k p.a. and if applied an interest of 2.5% would be £128k p.a. at least initially would mean a £230k debt financing costs p.a. The rental income would be £120k p.a. So the annual revenue gap would be circa £110k, plus operating and maintenance costs, so say £160k p.a. **Please note:** The interest would decrease gradually over time and rents might be expected to gradually increase.

8.0 Summary of Financial Options :

In consideration of the development options considered within this report, which in summary are as follows:

| Option | Capital Cost | Annual Rent Income |
|---|--------------|--------------------|
| Refurbishment | £21,353,275 | £403,096.00 |
| Replacement like for like | £24,789,294 | £403,096.00 |
| Redevelopment for a 6 storey 36 flat unit | £10,142,204 | £119,988.00 |

It should be noted that the cheapest option for complete redevelopment is

replacement with a six-storey block of 36 flats at £10.1m, returning a low rental income of £119,988.

9.0 Financial Calculations:

Please note that whilst we have undertaken financial modelling of each option, the actual on-going costs would depend on the actual capital costs and the actual rental income and operating costs, together with the detail of accounting for the debt repayment and the actual interest rate charged by the General Fund to the HRA. In the short term at least, the interest costs could potentially be lower. However, we couldn't assume this remains the case for beyond perhaps 3 years or so, as HRA capital spend increases and the Council's cash balances may decrease taking into account this and other factors.

10.0 Other Considerations

10.1 Site

Goscote House sits on a small piece of land and the footprint of the building is only 335 sq.m. The building is closely confined by St Peters Health Centre to the South, a Sure Start building to the north and two-storey housing to the east and west. All the surrounding buildings post-date the construction of Goscote House by 20 to 30 years. The site has very limited development capacity other than for a replacement residential block of flats.

10.2 Council Housing Demand

There are currently 6,342 on the Housing Register and waiting times for the centre area which includes the Wycliffe Ward in which Goscote House resides have higher wait times than all other areas of the City for 1 and 2 bed accommodation. This evidence would support either the development of the existing building or the replacement of it with Council Housing.

10.3 Consultation

In order to fully explore all options within this report an exercise has been undertaken with active Registered providers in Leicester. This included a total of 8 active larger Registered Providers including Sage, Nottingham Community, Paragon Asra, Riverside, Clarion, Midland Heart, Waterloo & East Midlands.

This was primarily to determine any appetite for ownership of the existing building in conjunction with the development option in order to try to retain the building.

Feedback from the Registered providers has confirmed that there is no appetite at all to take on the building and develop it. This was the case even with the offer of a nominal £1 purchase cost plus a dowry from LCC towards the buildings development.

Comments received back included, 'Tower blocks not fitting with the strategic way forward for their organisation', 'unable to make the business case for investment viable', 'significant concerns over the ability to effectively Housing manage such a

unit', 'concerns over the requirement on the size of the sinking fund that would be required in law to cover the building and a 30 year period'.

11.0 Overall Summary:

When considering the age of Goscote House, and the constrained nature of the site, refurbishment, replacement or redevelopment will always be a substantial investment. However, due to the nature of these options the authority would not be eligible to use right to buy receipts, whereas using an equivalent amount of funding elsewhere would enable RTB receipts to be drawn down for 30% of the cost.

Currently funding to deliver any of the options considered does not exist within the existing capital programme or policy provision. Therefore, on that basis existing housing revenue account borrowing would have to increase or existing capital investment plans reprioritised. All options deliver a relatively low rental income relative to the capital costs, which given the nature of the borrowing options this would mean all options would create an operating deficit of between of £1m and £450k per annum. With the options to develop the existing building or replace it like for like creating the most financial revenue pressure on the Housing Revenue account.

When considering that the capital investment required to deliver these options is between £24m or £21m or £10m, alongside the fact that if we were to purchase properties from the market we could use right to buy receipts for 30% of the cost there are considerably better value investments available in the market, which will deliver more units and revenue return for the authority and not create an operating deficit. For example, we have considered below two potential alternatives to demonstrate this point:

Option 1: Purchase 164 Properties:

The estimated annual rental income if we were to purchase 164 two and three bedroom properties from the open market based on a 75/25% split utilising additional funds from RTB receipts (30%) to increase the overall quantity purchased.

| Property type | No. of Units | Weekly Rent (Per Unit) | Annual Rent (All Units) |
|-----------------------------------|--------------|------------------------|-------------------------|
| 2 Bedroom | 123 | £103.91 | £639,047.00 |
| 3 Bedroom | 41 | 128.54 | £263,507.00 |
| Total Annual Rental Income | | | £902,554.00 |

Option 2: Purchase 160 properties:

The estimated annual rental income if we were to build 160 new two and three bedroom properties based again on a 75/25% split utilising additional funds from RTB receipts (30%) to increase the overall quantity built.

| Property type | No. of Units | Weekly Rent (Per Unit) | Annual Rent (All Units) |
|---------------|--------------|------------------------|-------------------------|
| 2 Bedroom | 120 | £103.91 | £623,460.00 |
| 3 Bedroom | 40 | 128.54 | £257,080.00 |

Total Annual Rental Income**£880,540.00**

In conclusion the level of capital investment required to deliver the redevelopment of Goscote House is disproportionate when considering the number of units and annual rent return to the authority and the operational difficulty this will create versus other available options. However, Goscote House still requires redevelopment, and therefore the most appropriate option is to demolish the existing structure and due to the limited nature and size of the land, the least cost option and also the least financial burden on the HRA revenue account is to build a new six storey low rise residential accommodation unit on the site that will reduce down the overall net loss of Council Housing and provide good quality homes in a sought after area.

12. Financial, legal and other implications

12.1 Financial implications

£3m was added to the HRA capital programme in the years 2018/19 and 2019/20. This report identifies the need for this to increase by £1,952k, being financed from reserves which have been earmarked for this purpose. The financial implications associated with any proposed developments on the cleared site will be considered at the time.

Stuart McAvoy – Principal Accountant.

12.2 Legal implications

12.2.1. In the event that the Council proposes to proceed with the option for replacing Goscote House with a low rise development, this will require the Council to both obtain planning permission for the proposed development, and to ensure that it complies with its Contract Procedure Rules in the event that the Council is required to procure a contractor to carry out the redevelopment. In addition, Legal Services are currently providing advice on the legal issues relating to the demolition of Goscote House.

John McIvor, Principal Lawyer, ext. 37-1409

12.3. Climate change implications

Housing is one of the largest sources of carbon emissions in Leicester, responsible for 33% of emissions. Following the city council's declaration of a Climate Emergency in 2019, and its aim to achieve carbon neutrality, addressing the emissions from housing is vital to the council's efforts to reduce carbon emissions. This is particularly important through the council's own construction and demolition projects where it has the greatest level of control.

New buildings should be constructed to a high standard of energy efficiency, and incorporate renewable energy sources where possible, with projects aiming to achieve carbon neutral development or as close as possible to this. Maintenance and

refurbishment works, including replacement of systems or equipment, should also seek to improve energy efficiency wherever possible. This will reduce energy use and therefore bills, delivering further benefits. Sustainability should also be a key consideration in demolition, where a target should be set to recycle as much construction waste as possible, and in procurement where low carbon and sustainable materials and equipment should be utilised.

Major projects will also need to meet Climate Change policy CS2 in the Leicester City Core Strategy planning document, which requires best practice in terms of minimising energy demand for heating, ventilation and lighting, achieving a high level of fabric efficiency, and the use of low carbon or renewable sources of energy.

Aidan Davis, Sustainability Officer, Ext 37 2284

12.4 Equalities implications

Under the Equality Act 2010, public authorities have a Public Sector Equality Duty (PSED) which means that, in carrying out their functions, they have a statutory duty to pay due regard to the need to eliminate unlawful discrimination, harassment and victimisation, to advance equality of opportunity between people who share a protected characteristic and those who don't and to foster good relations between people who share a protected characteristic and those who don't.

Protected Characteristics under the Equality Act 2010 are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, sexual orientation.

The proposal recommends replacing the existing block with a new six storey low rise residential accommodation unit on the site. It is important to ensure that inclusive design principles are adhered to.

This is likely to have positive impacts in terms of the aim of the PSED to advance equality of opportunity and will work toward reducing the waiting list on the Housing Register. Providing suitable housing where peoples' needs are met in a community setting there is also potential to better foster good relations between those who share a protected characteristic and those who do not.

If the development of a detailed proposal for a replacement six to eight storey low rise block goes ahead, it would be prudent to commence an Equality Impact Assessment as part of the development in order to effectively assess the impact on protected characteristic groups and take steps to reduce or remove any disproportionate impacts where they are identified.

This should include findings from consultation and/or engagement with relevant groups/ individuals as appropriate, in order to fully understand the potential impacts. The Equality Impact Assessments should also be used to maximise positive impacts by making sure that the aims of the PSED are actively considered in the development of proposals and the final decision.

Equalities Officer Surinder Singh Tel 37 4148

13. Background information and other papers:

None

14. Is this a private report (If so, please indicated the reasons and state why it is not in the public interest to be dealt with publicly)?

No

15. Is this a “key decision”?

Yes

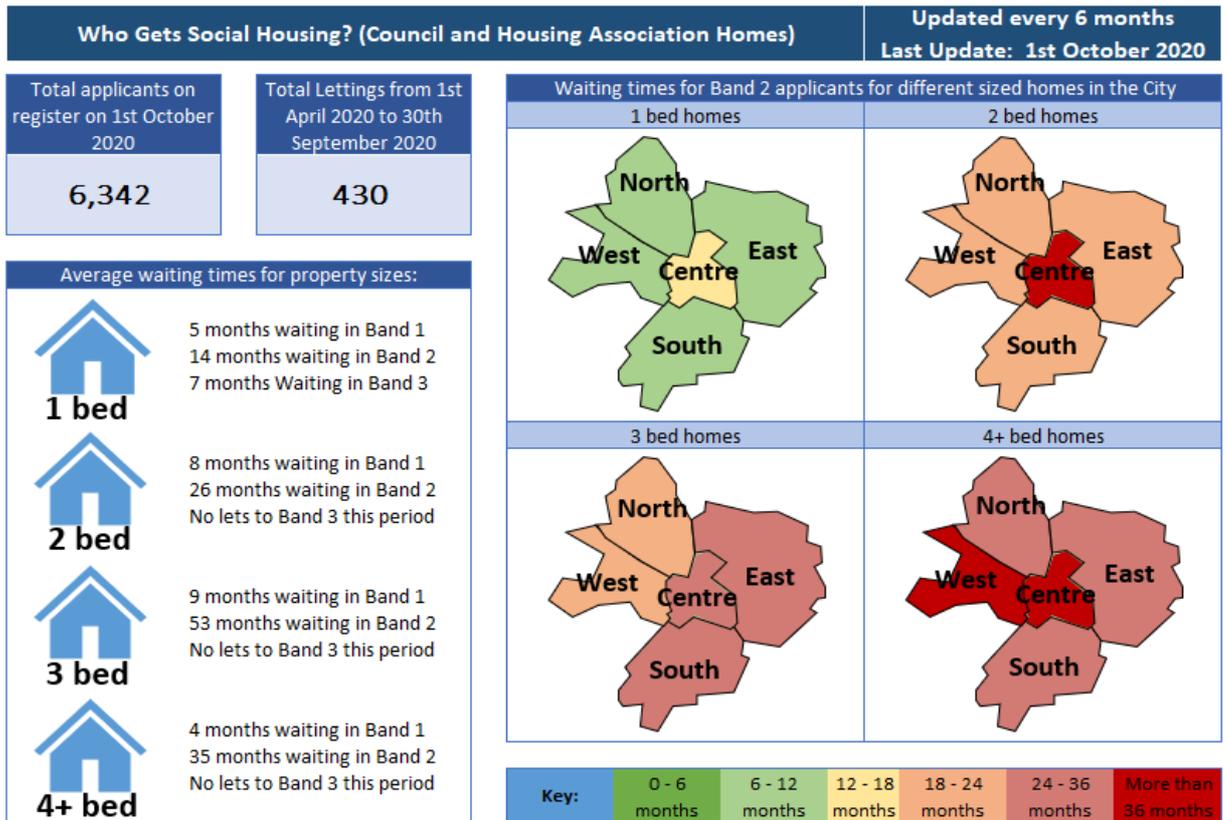
16 If a key decision please explain reason

Expenditure in excess of £0.5m

Appendix 1 – Site Location plan



Appendix 2 – Social Housing Demand



For further information visit our website at www.leicester.gov.uk/housingapplications