



Council Cabinet
10 March 2021

ITEM 14

Report sponsor: Rachel North- Strategic
Director of Communities and Place
Report author: Louise Brown- Housing
Development and HRA Team Leader

Padley Centre Relocation

Purpose

- 1.1 Approval was granted at the July 2020 Council Cabinet, to acquire the Padley Centre as part of the Becketwell Regeneration area site assembly. The July 2020 Cabinet Report envisaged that a further report would be brought to Cabinet detailing the proposals for re-provisioning of the Padley Centre and the services provided by the Padley Group.
- 1.2 This report seeks approval to the relocation and expansion of housing provision for those at risk of homelessness, homeless or recovering from homelessness by supporting the Padley Group's relocation to alternative premises including the relocation of their community facility and warehouse.
- 1.3 In order to support the relocation of Padley Group and the associated site assembly required for the Becketwell Regeneration area, this report seeks approval for the Council to acquire a building owned by Metropolitan Thames Valley (MTVH) and leased by the Padley Group on Becket Street, along with an associated warehouse owned by the Padley Group, also on Becket Street.
- 1.4 This report sets out the rationale for the property acquisitions and the financial support that will be given to the Padley Group and Derby Homes Limited (DH) to support these acquisitions and re-provisioning.

Recommendations

- 2.1 To approve a capital grant to the Padley Group to fund the acquisition of a replacement community hub and warehouse premises and associated costs.
- 2.2 To approve the grant by the Council of a secured loan to the Padley Group.

- 2.3 To delegate authority to the Strategic Director of Communities and Place, following consultation with the Strategic Director of Corporate Resources and the Cabinet Member for Adults, Health and Housing and achievement of any necessary Gateway approvals, to:
1. enter into all necessary agreements required to secure the acquisition of the properties at Becket Street at a price supported by formal (RICS approved) valuations;
 2. enter into all necessary grant, loan and associated agreements with the Padley Group as detailed in 2.1 and 2.2 above; and
 3. to sell to Derby Homes Ltd any suitable HRA properties that could be used for the programme at Existing Use Value Social Housing (EUVSH).
- 2.4 To approve the changes to the capital programme as required.

Reasons

- 3.1 The acquisitions of the Padley Group and MTVH interests on Becket Street and relocation of the Padley Group to alternative premises will support the land assembly required for the Becketwell Performance Venue.
- 3.2 The relocation provides an opportunity for the Padley Group to align their operating model with the Council's Homelessness and Rough Sleeping Strategy 2020-25 adopted in March 2020.

Supporting information

- 4.1 In meeting the needs of those brought in from the streets during the pandemic, the emergence of new entrants to homelessness and rough sleeping, and the anticipated impact on homelessness demand due to the economic consequences of the pandemic, additional supported accommodation is required to meet the housing and support needs of some of the most vulnerable people within the City.
- 4.2 As a result of the opportunity presented by the regeneration of Becketwell , officers from both the Council and Derby Homes have engaged with the Padley Group, to discuss their vision for the future and are now supporting them to align their operating model to meet the current identified needs within the City. In order to align their operating model, it is proposed that the Padley Group move away from their current provision of providing accommodation within a direct access hostel setting to offer dispersed accommodation with attached floating support. This new offer also provides for the relocation of the Padley Group's community and warehouse facilities.
- 4.3 In order to facilitate delivery of the Padley Group's new delivery model and site assembly in Becketwell, it is proposed that the Council acquires the properties owned by the Padley Group and MTVH on Becket Street and gives financial support to the Padley Group, through grant funding and a secured loan, to facilitate the acquisition of alternative community and warehousing facilities.
- 4.4 Under its current operating model the Padley Group operates a homeless hostel on the first floor of Systems House, known locally as Padley House, on Becket Street. The ground floor of Padley House operates as a day centre for homeless and

vulnerable citizens within Derby and the upper floor as accommodation. The Padley Group occupies Padley House under a lease and freehold ownership is held by MTVH. The Padley Group have freehold ownership of a warehouse located to the rear of Padley House that is used as a storage facility.

- 4.5 Officers have been engaged in dialogue with the Trustees of the Padley Group and officers from MTVH to secure their properties on Becket Street.
- 4.6 Formal RICS valuations have been undertaken by the Council, the Padley Group and MTVH for the freehold and leasehold interests detailed at 4.4 and purchase prices negotiated based on those valuations.
- 4.7 The Padley Group has a number of pre-conditions to the Council's acquisition of the properties on Becket Street. Therefore, to secure these interests but allow for time to meet those conditions, an option agreement has been negotiated. The option term is for up to 12 months from the date it is entered into and can be extended by up to 3 months. It is conditional on meeting triggers detailed below:
 1. provision of suitable alternative residential accommodation: units of housing for a minimum of 12 persons by December 31st 2021, to permit the uninterrupted provision of the housing service following vacation of the existing premises for the Padley Group with a further minimum of housing for a further 6 persons by May 2022;
 2. provision of a suitable alternative community and warehouse facility; and
 3. provision of assurance relating to the on-going financial arrangements between the Council and Derby Homes which protects (as far as reasonably possible) the Padley Group's sustainability in line with its charitable status and objectives.

Until the conditions, excluding the provision of the further units, have been satisfied the Padley Group will not complete the option agreement and the Council will not take ownership of their interests.

- 4.8 An option agreement has also been negotiated with MTVH. Their internal requirements stipulate that once their option agreement has been entered into with the Council, if it has not been exercised within a 6 months period then an updated valuation will be undertaken, The price paid will be no less than the initial valuation and will be based on the same derived income assumptions as applied to the first valuation. A contingency has been allowed for this and is included in the financial section below.
- 4.9 It is proposed that the Council will enter into the option agreements with the Padley Group and MTVH in April 2021.
- 4.10 In relation to the community and warehouse facilities a property has been identified that has potential to be suitable for the Padley Group to relocate to ("Relocation Property"). The Relocation Property was not on the open market, but discussions have been held with the owners and they are interested in selling their freehold ownership. Any offer is subject to the current owners securing suitable alternative accommodation to move to. The risk of such alternative accommodation not being

secured within the necessary time scales will be mitigated by working with the vendors to identify temporary accommodation.

- 4.11 It is proposed to agree heads of terms with the owners of the Relocation Property and then exchange contracts with a deferred completion date to suit our timings.
- 4.12 Surveying and scoping works are currently being undertaken in relation to reconfiguration of the Relocation Property.
- 4.13 The Padley Group's sale of its interests in the Becket Street properties is conditional on its operations being able to move into new premises, with no gap in service provision. It therefore necessary to secure the Relocation Property in suitable time to allow the building to be ready for occupation at the point of disposal of the Becket Street properties. The Padley Group do not have the capital to fund the acquisition of the Relocation Property and associated reconfiguration works; the Council has therefore agreed to provide grant funding to the Padley Group to meet a proportion of those costs. The remainder of the costs will be funded by a loan from the Council to the Padley Group. This loan will be secured against the Padley Group's freehold ownership of the Relocation Property and will be repaid by the Padley Group following receipt of the sale proceeds arising from the disposal of the Padley Group's interests in the properties on Becket Street.
- 4.14 The Padley Group currently provide supported housing exempt accommodation (SEA) at their homeless hostel on Becket Street. To align their model with the Homelessness and Rough Sleeping Strategy 2020 to 2025, the Padley Group have agreed to transition from providing hostel accommodation to dispersed residential accommodation.
- 4.15 The residential accommodation will be purchased and owned by Derby Homes Ltd.
- 4.16 It is proposed for Derby Homes Ltd to purchase suitable properties from the open market and from the current HRA owned stock.

Current Project Timeline

- 4.17 A summary of the current project timeline is detailed below;

Event	Date
Enter into option agreements with MTVH and the Padley Group	29/04/2021
Acquire first phase of dispersed accommodation for a minimum of 12 units and complete any necessary works	31/12/2021
The Padley Group to purchase and complete works to the Relocation Property	31/12/2021
Secure legal completion and vacant possession of MTVH and the Padley Group interests	31/01/2022
Acquire remaining dispersed accommodation and complete any necessary works	30/05/2022

4.18 A summary of the key risks can be found at 10.3

Stakeholder engagement

5.1 Officers have engaged in dialogue with the Padley Group and MTVH.

Other options

6.1 The Council could determine to do nothing, but this would impact the Becketwell Performance Venue project. To do nothing is not an option. The council has committed to negotiate with the Padley Group to secure the acquisition of the Becket St properties under the terms of an Exclusivity Agreement entered into between the Council and SJS in July 2020 to deliver the redevelopment of Becketwell.

6.2 The Council could choose to exercise compulsory purchase powers, however, this will take longer and will impact on delivery and cost of the Becketwell Performance Venue Project. Officers have therefore determined that the better option is to engage and reach a negotiated solution with the Padley Group. By taking this approach the Council is also able to help the Padley Group's transition to a revised operating model that supports the overarching strategy.

Financial and value for money issues

7.1 Cabinet, in July 2020, approved a budget for professional fees to progress this scheme which currently sits on the Regeneration capital programme. Budget was included in the Housing General Fund capital programme for 2021/22 approved by Council on 24 February 2021, giving a total capital budget for the scheme, subject to this further report to Cabinet on the detailed re-provisioning proposals.

7.2 Cabinet is asked to approve that the fees budget currently on the Regeneration capital programme is transferred to the Housing General Fund capital programme and the total gross capital budget is then re-profiled to match the expected gross spend profile. With the exception of the fees budget, Gateway approval will be required before any commitments can be made against this budget.

7.3 The loan to the Padley Group will be made following the Padley Group's acquisition of the Relocation Property; the loan will be secured by a first charge against the Relocation Property. It will then be repaid from the proceeds they will be due from the Council on disposal of their freehold and leasehold interests on Becket Street.

7.4 There may be some minor revenue costs that fall to the Council relating to the vacant Padley Centre building before the redevelopment of the site commences, which will be absorbed by the housing general fund revenue budget.

7.5 To ensure value for money the acquisition of all properties are supported by RICS red book valuations.

- 7.6 The Council will cover the reasonable associated costs for any professional advice the Padley Group and MTVH require to undertake the relocation.
- 7.7 As explained in paragraphs 4.15 – 4.19, the residential accommodation will be purchased and owned by Derby Homes Ltd, with no costs falling to the Council. Stock purchased from the HRA will be at Existing Use Social Housing Value (EU V SH).
- 7.8 If this scheme does not proceed then the abortive costs will include the professional fees incurred to that point by the Council, the Padley Group and MTVH including any deposits. There is no revenue budget provision for this scheme and potential abortive costs. Any such abortive costs would have to be addressed as part of in-year revenue budget monitoring and in the first instance from within Communities and Place Directorate.

Legal implications

- 8.1 Securing the Padley Group and MTVH properties will be subject to the Council's standard due diligence. Geldards LLP have been engaged to act for the Council in relation to the acquisition.
- 8.2 The grant to the Padley Group will be made on the Council's standard conditions of grant. Due consideration has been given as to whether the grant amounts to a subsidy governed by the UK's international commitments on subsidy control. Although the aid is given by a public authority, the Padley Group is not considered to be an "enterprise" as it is not acting commercially in putting goods or services on a market; furthermore the aid will not affect trade with another country. The aid does not therefore meet the test of being a subsidy and is permitted.
- 8.3 The loan to the Padley Group will be made on the Council's standard secured term loan facility agreement. Interest will not be charged on the loan; however, for the reasons set out in paragraph 8.2 above, this is not considered to be a subsidy and is therefore permitted. The loan will be not be capable of being drawn down until the Padley Group has acquired the Relocation Property, allowing the loan to be secured by way of a first charge against that property. Again, Geldards LLP have been instructed to act for the Council in relation to the drafting and negotiation of the finance documentation.

Climate implications

- 9.1 All of the 18 dispersed units will undergo general improvements to improve their energy efficiency.

Other significant implications

- 10.1 Relocating the Padley Group to new premises contributes to the expansion of homelessness services within the City.
- 10.2 Securing the Padley Group and MTVH properties and relocating the Padley Group to new premises contributes to the land assembly required for the Becketwell Performance Venue development.

10.3 The key risks are outlined below;

Risk description	Effect	Mitigation
Failure to agree and secure replacement accommodation within the correct location and within the timescales.	Purchase and legal completion required for the community and warehouse relocations before the Padley Group will complete the option agreement and give vacant possession. There will be a delay impacting on the BPV project and potential abortive costs.	Management of the Padley Group's requirements for relocation properties and regular Senior Officer engagement with Padley Trustees.
If the current owners of the proposed Relocation Property do not find alternative accommodation, they will not move out from their current premise	This will delay the Padley Group relocating and will delay the BPV project.	Offer temporary premises to the current owners of the proposed relocation community and warehouse facility. Defer reprovision of the community facility until a further alternative property is identified and secured.
The MTVH revaluation required 6 months after the first could be lower	The Council are paying more than the property is re-valued at.	Any difference, if any, is expected to be minimal and would be a commercial risk.
The length of time that the Council will be required to hold land and buildings which have been acquired is longer than forecast.	There would be a potentially higher holding cost than forecast which could create a budget pressure.	In establishing the revenue costs a prudent case has been forecast and it is anticipated this can be contained within the Housing General Fund revenue budget.
Project costs rise	Capital overspend or costs exceeds forecast	Closely monitor all elements of the project A contingency is provided within Table 1
The Padley Group decide not to proceed with the disposal of their assets.	Loss of additional units of accommodation to meet the needs of those at risk of homelessness, homeless or recovering from homelessness The land assembly required for the BPV project would be incomplete. Potential abortive costs – funding replacement property and fees.	Senior Officers have been engaged with the Padley Group. The option agreement will allow for the sale to proceed once signed by both parties. The July 2020 Cabinet approval gave officers authority to commence Compulsory Purchase Orders where necessary.

MTVHT decide not to proceed with the disposal of their asset.	The homelessness provision cannot be delivered in an improved way to align with the city's strategy	Senior officers have been engaged with MTVHT
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This report has been approved by the following people:

Role	Name	Date of sign-off
Legal	Emily Feenan	16-02-2021
Finance	Amanda Fletcher/ Carolyn Wright	22-02-2021
Service Director(s)	David Fletcher	19-02-2021
Strategic Director(s)	Rachel North	18-02-2021
	Simon Riley	18-02-2021
Other(s)	Maria Murphy/ David Enticott	16-02-2021
Other(s)	Ian Fullagar	18-02-2021