



DERBY CITY COUNCIL

COUNCIL CABINET
21 April 2009

Report of the Corporate Director of
Corporate and Adult Social Services

ITEM 22

FUTURE OPTIONS FOR SHELTON LOCK PARK HOMES SITE

SUMMARY

- 1.1 The Shelton Lock Park Homes site accommodates 38 Park Homes plots and is currently managed by Derby Homes on behalf of the Council.
- 1.2 In recent years the site has operated at a financial loss which is projected to increase unless a significantly altered approach is adopted in relation to the management of the site. It would be inappropriate for these rising losses to be subsidised by the Housing Revenue Account, HRA, in future years.
- 1.3 A consultant has been jointly employed by Derby Homes and the Council to consider alternative approaches to the management and ownership of the site in order to ensure that future financial losses are not incurred.
- 1.4 The resulting 'Park Homes Futures Study' produced by Humberts Leisure has identified 4 alternative approaches;
 - Derby Homes continue to manage the site on behalf of the Council but on a more commercial basis
 - The site be leased to an operating company on a long-term basis
 - The site be leased to the Residents' Association
 - The freehold interest of the site be sold.
- 1.5 Derby Homes Board has considered the consultant's report and resolved to recommend to Council Cabinet that the site be leased to an operating company on a long-term basis. The Humberts Leisure 'Park Homes Futures Study' formed the basis of the report to Derby Homes Board and is attached to this report as Appendix 2.
- 1.6 Following the Board decision, the residents of the park have met with their local Ward Members to express their opposition to this proposal. The majority of the residents have indicated a willingness to work with the Council in terms of accepting the new practices that would be necessary, to enable the site to be managed by Derby Homes on a non loss making basis.
- 1.7 This report considers the Derby Homes Board recommendation, together with the other options identified within the Consultant's report and the recent oral undertakings given by the majority of residents to their Ward Members.

RECOMMENDATION

- 2.1 To continue to manage the site through Derby Homes but to introduce the commercial practices summarised in paragraph 4.15.
- 2.2 To authorise the Corporate Director of Corporate and Adult Services in consultation with the Cabinet Member for Housing and Public Protection, to secure the development of additional pitches and the purchase and re-sale of existing Park Homes and pitches as they become available.
- 2.3 To require a subsequent report to be brought back to Cabinet to review whether such practices have been successfully introduced and to consider such progress against the opportunities for a long leasehold or freehold disposal.

REASON FOR RECOMMENDATION

- 3.1 To enable the Council to determine whether it is practical for the site to operate with a balanced budget whilst in public management.
- 3.2 To enable the Council to realise the full commercial potential of the Park Homes site.
- 3.3 To enable the Council to review whether it had proved possible to implement sufficient commercial practices to prevent the Park from operating at a loss and to then re-consider the 1st, 2nd and 4th options referred to in paragraph 1.4.

SUPPORTING INFORMATION

- 4.1 The Shelton Lock Mobile Home Park accommodates 38 homes which are laid out in a grid fashion serviced by tarmac roadways. The site contains an amenity block providing toilets, bathrooms and a laundrette and there is also a compound which contains bulk Liquid Propane Gas cylinders above ground. The site also accommodates 4 large parking areas that are significantly under utilised and a substantial grassed amenity space.
- 4.2 A fire risk assessment was undertaken by Bond and Bryant in Oct 2006. This report flagged up a number of issues. A number of the required actions are still outstanding and will need to be progressed if the site is to be retained under the management of Derby Homes or the Council.
- 4.3 In recent years the site has operated at a financial loss which is projected to increase unless a significantly altered approach is adopted in relation to the management of the site. It would be inappropriate for these rising losses to be subsidised by the Housing Revenue Account, HRA, in future years.
- 4.4 A consultant was employed by Derby Homes and the Council to consider alternative approaches to the management and ownership of the site in order to ensure that future financial losses were not incurred. The resulting Park Homes Futures Study identified 4 options. These were considered by the Derby Homes Board on 27

November 2008. The Board resolved to recommend to Council Cabinet that the Park Homes site be let on a long-lease to a Management Company.

- 4.5 Following the Board decision, the residents of the park met with their local Ward Members to express their opposition to this proposal. The majority of the residents have indicated a willingness to work with the Council in terms of accepting the new practises that would be necessary, to enable the site to be managed by Derby Homes on a non loss making basis. The Ward Members have expressed a common view, that given the wishes of the residents and their general willingness to accept new practices, the Council should continue to manage the site.
- 4.6 A Water Services Infrastructure report was produced by Michael D Bayley in January 2009 following a number of leaks at the site. The report concluded that the mains water supply within the site may be in poor condition and that further repair works would be likely to be required in order to maintain a sound supply. It recommended that further checks for leakages be conducted and these are currently ongoing. The report estimated that if a requirement was identified for the complete replacement of the existing pipe work it would cost approximately £105,000.
- 4.7 There are three pitch fee bands on the Park relating to small, medium and large pitches. With one exception, all the residents have agreed to a fixed April review date in relation to fee charges. The Council is currently taking Court action in relation to the one outstanding resident in an attempt to secure the adoption of an annual review.
- 4.8 The study conducted by Humberts Leisure, attached to this report as Appendix 2, considers these charges to be approximately 50% of the industry norm. Government legislation will not enable the Council to increase these fees significantly above the rate of inflation in order to 'catch up' with the industry norm. If however, Members are minded to retain the management of the Park, it is considered, subject to the ongoing legal action, that these rates could be increased annually in line with the Retail Price Index, RPI.
- 4.9 The pitch fees at the site have historically included water and sewerage charges. Whilst there is some ambiguity within the wording of the new Written Statement and site Handbook, as to whether these could be charged separately, discussions between residents and the Ward Members indicate that the majority of residents would be prepared to pay separately for water and drainage. The separation of charges could have a significant effect upon the future financial viability of the site as it would provide the Council with protection against future increases in charges which may be significantly higher than the rate of inflation.
- 4.10 The Council currently receives a 10% commission charge for every unit that is sold on the site. The consultant's report considers that this income could be significantly increased if the site owner, whether this be the Council or a private company, were to become involved in the purchase and re-sale of plots and/or units. The report considers that if the site owner were to purchase units as they became available surpluses could be achieved either through the refurbishment and sale of some of the better units and the demolition of units in poorer condition and their replacement with new units. Paragraphs 6.1 and 9.1.3 of the attached Humberts Leisure report provide more detailed of anticipated surpluses that could be generated through the purchase and resale of units.

- 4.11 The purchase of plots, as they become available, has a second important benefit to the financial viability of the site. As stated earlier, the current pitch fees are approximately 50% of the industry norm. The Council has no way of increasing these when the units are currently sold on and indeed existing residents are more likely to achieve a higher sale price when selling their home because of the unusually low level of charges. The report considers that if the Council were to purchase units/plots as they became available, it would then be able to charge a higher fee in line with the industry norm when these units/plots were re-sold. In this way the Council would incrementally increase the fee level across the site to a more sustainable level. Clearly the Council would draw this to the attention of both existing residents and new purchasers, but the Consultant's report considers two tier charging to be a common practise.
- 4.12 It is considered that the site offers opportunity for further development which would provide capital receipts to assist both with infrastructure works currently required on the site and with increasing longer term revenue streams. The site currently has 4 car-parking areas which are underused. It is considered that some of these areas could be developed for additional Park Home plots.
- 4.13 It may also be possible to demolish the existing amenity block and bulk gas system to enable the development of further plots. It is apparently now unusual for residential parks to provide toilet/washing and launderette facilities when the vast majority of units now have a bathroom or showerroom. Clearly, before the Council committed to the demolition of these facilities, it would need to discuss with each resident what level of use they currently made of the facilities and what alternatives were available to them. Similarly in relation to the gas supply, the Council would need to establish whether the individual appliances owned on the site were conducive to a mains rather than bulk storage supply. If a small number of appliances were not conducive, it may be prove cost effective for the Council to purchase new appliances to enable the amenity block and bulk gas storage area to be removed.
- 4.14 The removal of the amenity block would lead to a reduction in water, electricity and maintenance costs for the Council. The installation of mains gas to all the units should lead to a saving on gas bills for residents. To ensure that the best use of the site is achieved through the possible redevelopment of the parking areas, amenity block and gas storage compound, it would be beneficial to employ a design specialist familiar with Park Home requirements.
- 4.15 If Members are minded to retain both the management and ownership of the site, with a view to it being managed on a more commercial basis, the proposed actions to be undertaken by the Council and Derby Homes are summarised below:
- Implement an annual review of fee charges for all Park Homes
 - Endeavour to separate water and sewage charges from the fee charges
 - Commission a design expert to provide a 'mini master plan' indicating the further development potential of the site
 - to undertake the development of additional pitches as recommended through the 'mini master plan' exercise
 - to undertake the demolition of the amenity block and gas storage site, if appropriate, and to provide residents with additional individual facilities if necessary.

- to undertake those outstanding actions required by the Bond and Bryant 2006 Fire Risk assessment.
- To bring a subsequent report to Cabinet advising on the Council's success or otherwise in implementing the measures listed above and which considers the continued management of the site against the options for its long-lease or disposal.

OTHER OPTIONS CONSIDERED

- 5.1 The Humberts Leisure report recommends that the site be either;
- Sold as a freehold disposal at a time when the market for such a sale has improved
 - Disposed off under a long-term lease arrangement to an established Management company.
- 5.2 The Humberts Leisure report considers that the management of the site will always remain a distraction from other core management functions taking up a disproportionate amount of resources for Derby Homes in relation to the number of homes that are being managed.
- 5.3 The report considers that the freehold disposal of the Park to a specialist organisation would be likely to achieve a Capital receipt in the order of £650,000 in the current market. The report does stress however that this is an estimation and that the Council should undertake a formal valuation if it were to pursue this option. It suggests that if Members were minded to make a freehold disposal that the Council should do this when the market for Park Homes has improved, suggesting that a higher receipt would then be obtained.
- 5.4 The Humberts Leisure report considers that the long lease of the Park to an Operating Company would be likely to generate an initial income of approximately £15,000 per annum. It suggests that if the lease arrangements were reviewed every five years, that this level may well increase above the rate of inflation to reflect the Company's success in raising pitch fees and/or developing additional pitches.
- 5.5 A third option, not recommended by the consultant, is that the leasehold interest of the site could be offered to the residents' association. The report, however, suggests that where this arrangement has been adopted elsewhere, it can result in the Park effectively being managed by a 'clique' who may not manage the site for the benefit of all.

For more information contact:	Ian Fullagar Tel 255185
Background papers:	Bond and Bryant Fire Risk Assessment 2006.
List of appendices:	Appendix 1; Implications Appendix 2; Park Homes Futures Study by Humberts Leisure December 2008.

IMPLICATIONS

Financial

- 1.1 Regulations have come into effect from 1 October 2006 in which there is a presumption that pitch fees will not increase or decrease by more than RPI since the last review date unless this would be unreasonable having regard to;
 - expenditure by the Council since the last review date on improvements that benefit the residents and which they were consulted upon and did not object to.
 - any decrease in amenity of the site since the last review date
 - the effect of any enactment that has come into force since the last review.
- 1.2 The 'mini master planning' works and any consequent demolition and provision of new pitches will require an up front investment. The Humberts Leisure report estimates the cost of the demolition of the toilet block to be approximately £10,000. It also estimates the necessary infrastructure cost of each new pitch to be £15,000 and the purchase of a new twin unit Park home to be £45,000. Decent second hand Park Homes are estimated to cost around £10,000.
- 1.3 In relation to the acquisition of existing Park Homes, recent asking prices by vendors have ranged from £40,000 to £80,000. Refurbishment costs are likely to vary considerably from perhaps £2,000 in the case of modern well maintained homes, to £45,000 where it is more appropriate to replace the existing unit with a new twin Park Home.
- 1.4 The required initial capital investment will therefore depend on the number of new pitches proposed by the 'mini master planning' exercise and the number of existing plots available to purchase. These costs could if necessary be met through Prudential borrowing although this could cause pressure on existing revenue budgets. It is therefore considered at this stage, that it would be more expedient to fund these works through existing Council resources available for affordable housing and low cost home ownership developments. This investment would be made on an invest to save basis with the Council recouping this expenditure when any newly developed pitches or purchased and refurbished Park Homes were sold.

Legal

2. Further legal research on the terms and conditions of the agreements will need to be considered and reviewed in accordance with the Mobile Homes Act 1983 and any subsequent guidance.

Personnel

3. None directly arising from this report.

Equalities impact

4. None directly arising from this report.

Corporate priorities

- 5.1 The proposal promotes the Council's objectives of **making us proud of our neighbourhoods, leading Derby towards a better environment and giving you excellent services and value for money.**