

Report to: Strategic Management Board – 18th October 2004
 North East Area Committee – 16th November 2004
 Executive Board – 30th November 2004
 Housing Scrutiny Committee – 3rd December
 HRA Advisory Board - 22nd December

ESTATES SHOPS STRATEGY

<p>Report of: Finance & Asset Management Business Manager</p> <p>Report Author: Rachel Tregidga, Asset Manager, F&AM Tel no. 01865 252137 Email: rtregidga@oxford.gov.uk</p> <p>Lead Member Responsible: Councillor Turner</p> <p>Overview and Scrutiny Committee Responsibility: Housing Scrutiny Committee</p> <p>Key Decision: Yes</p>	<p>WARDS AFFECTED Blackbird Leys / Littlemore Rosehill & Iffley Cowley Churchill Barton & Sandhill Headington & Northway Wolvercote</p>
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SUMMARY AND RECOMMENDATIONS

This report outlines the current position of the Estates Shops and a proposed forward strategy.

The report has no additional staffing implications as any additional workload is expected to be absorbed by existing staff. However, there could be further pressure on both Estates Management and Legal Services.

The recommendations in this report support the council’s vision of creating local prosperity and maintaining financial stability.

The Executive Board is **ASKED** to support the following recommendations:

1. Approve the actions already taken to:
 - 1.1 Pursue a more systematic and rigorous rent arrears policy.
 - 1.2 Initiate an initial “level rent” policy to bring all units on a parade to one standard rent level.
2. Let any vacant shops on the open market.
3. Use the rent levels obtained to set the benchmark for rent reviews and lease renewals for other units in the parade, and increase grant

allocations for community uses accordingly.

- 4. Commission a “Stock Condition Survey” to quantify the cost of the outstanding repairs. This project will not require project approval as it is below the minor project approval threshold.**
- 5. Commission a shopping needs survey and seek approval for any rationalisation or change of units for specific units / parades. It is anticipated that this survey will not exceed the threshold required for project approval. A further report will be submitted to EB for project approval if estimates show this not to be the case.**
- 6. Consider rationalising management control of all aspects of the budget into one business unit, to be determined on the completion of the review of HRA ‘non-dwelling’ assets.**

BACKGROUND

1. Oxford City Council own 75 shop units, constructed in the 1950’s and 60’s which are currently occupied by 67 tenants with one vacant unit. The gross rental income currently generated by the shops is approximately £448,000 per annum. A schedule of units and types of trades are attached as Appendix One. Appendix Two shows the location of the shopping parades and their proximity.
2. The Housing Revenue Account Management Board (HRAMB), recognised that the housing estates shops were being managed diversely throughout different business units of the council, and asked that a group be formed to review the estates shops and their management.
3. A group¹ was formed from the Business Units involved –

Ownership:	HRA / Housing
Lease Management:	Finance & Asset Management – Estates Management
Income Budget Management:	Housing
Cost Budget Management:	Neighbourhood Renewal
Repairs & Maintenance:	Neighbourhood Renewal & Built Environment (advice) with OBS as suppliers / contractors
Debt Management:	Income & Collections
Finance:	Finance & Asset Management – Finance

4. The group’s Terms of Reference were to:
 - 4.1 Resolve management issues and formalise SLA’s
 - 4.2 Recommend a Leasing Strategy for approval
 - 4.3 Look at long term viability / strategy for individual estates shops parades

¹ Rachel Tregidga, John Kulasek, Peter Chilton, Simon Price, Roger Elkins, Aiden Gibbons, Geoff Corps, Dave Higgins.

5. The group has met a number of times over the past three months and at this stages wishes to submit the leasing strategy (4.2) which will lead to initial work on long term viability / strategy for individual parades (4.3). A separate review of all of the HRA's 'non-housing assets' is currently underway, and overall management responsibility (4.1) will be resolved following this process.

ISSUES TO BE CONSIDERED

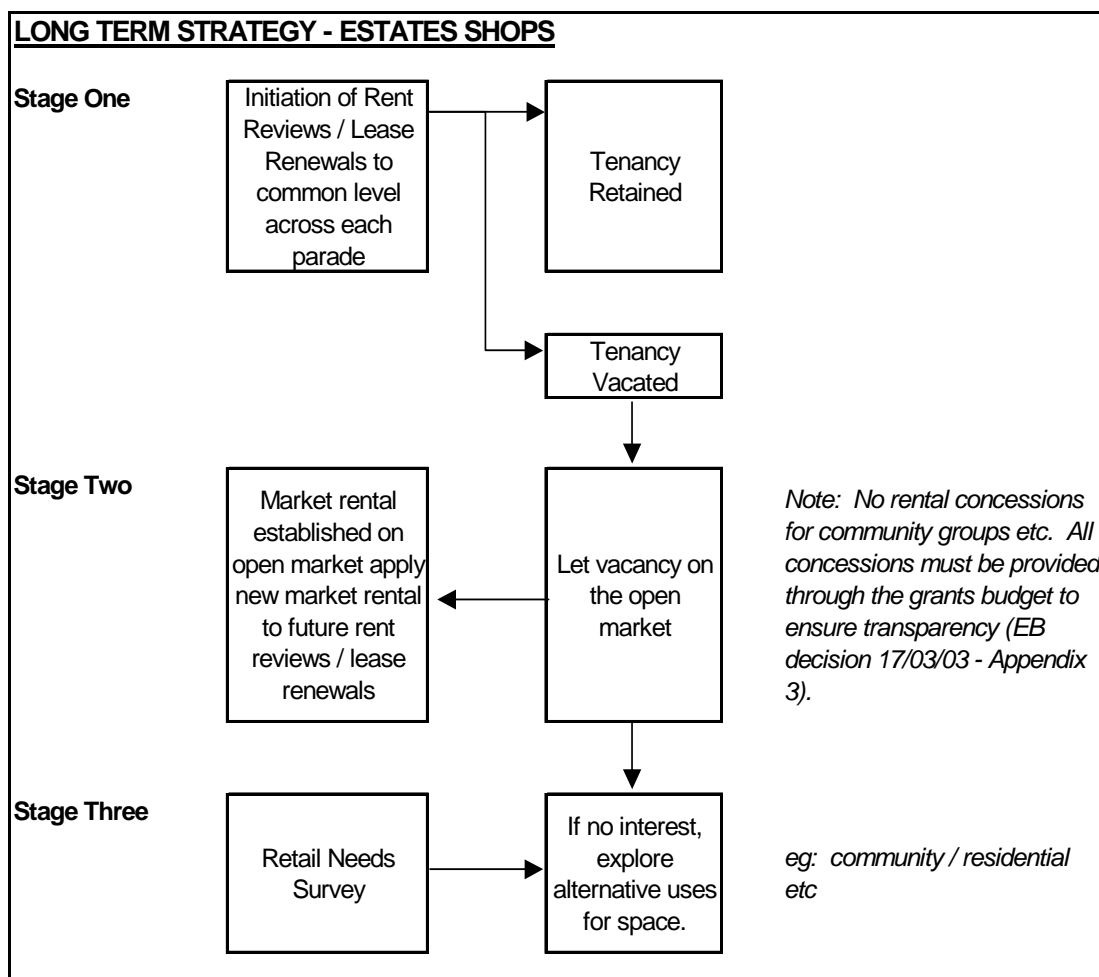
6. Originally conceived as a primary shopping source for each estate, the growth in both superstores and car ownership, have resulted in a substantial decline in the demand for local shopping, and further local competition has contributed to the lower patronage of estates shops.
7. Although there is only one vacant unit at present, demand for any vacant shops is low and the such demand there is, generally comes from take-away and other none retail A1 users. The current planning department advice is that they are unwilling to consider allowing consent for change of use resulting in less than 50% of any parade being used for A1 retail users, further restricting demand.
8. Most of the shop units form the ground floor, above which are maisonettes (some of which have been sold under Right to Buy provisions), and as such there are ongoing repair responsibility disputes. In addition, in previous years, insufficient attention has been made towards repairs so a backlog of outstanding maintenance issues exists.
9. As a result of previous under staffing within the Estates Department there were 42 rent reviews and 10 lease renewals that had not been initiated at the time the group met in April, but have now all been initiated.
10. There are 5 tenants with considerable rent arrears.
11. The current average rent per shop unit of £5,300 p.a. is approximately 30-50% lower than the comparative privately owned shops within the City.

ACTIONS UNDERTAKEN TO DATE

12. In line with a previous EB decision (05/01/04) regarding the council's debt collection policy, the Estates Management team are taking a more rigorous stance with tenants with substantial arrears. For those tenants who are incapable of reducing their arrears to nil within 12 months, Legal are being instructed to initiate possession proceedings. To date 5 possession proceedings are in process.
13. Legal have now also been instructed to serve appropriate notices on all outstanding lease renewals and rent reviews. Rent review notices have been served on the assumption that the Council will bring rents to a consistent level across each parade. There is at this stage no attempt to increase the rents up to a full commercial level.

LONG TERM STRATEGY

14. Shown first is a diagrammatic representation of the commentary following:



Stage One

14.1 As a result of the initiation of the rent reviews and lease renewals, it is anticipated there will be vacancies from the initial negotiations process. Whilst numbers are difficult to quantify, the current “level playing field” approach should not result in a significant increase from the current level of vacancies.

Stage Two

14.2 Those units which do become vacant will be let on the “open market” and provide direct market evidence to be used on the future rent reviews and renewals.

14.3 All future rent increases will be based upon the appropriate level of rent for the locality based on standard valuation approaches. No rental allowance should be made for specific users or community occupiers, and in the latter case, appropriate increases in grants allocated. It should be noted that whilst income generated by the Estates Shops is

HRA income, any grants are provided from the General Fund (see Appendix 3 – EB decision 17/03/03).

Stage Three

- 14.4 If it becomes difficult to re-let the property, then alternative uses for the space will need to be explored. Examples could be use of space for community facilities (housing centres / one stop shops / IT hubs / resource centres), offices, or, in appropriate cases, conversion to residential accommodation.
- 14.5 To assist in consideration of a longer term strategy where a process of consolidation of the parades (assuming current retail trends continue) might be required it is suggested that a shopping needs survey be undertaken to ascertain the long term demand for local shopping. It is proposed that Strategy & Review will undertake this process. The survey would then provide a framework for a decision as to whether individual units or indeed a whole parade should be removed from retail use as rationalisation within the retail sector continues.

REACTIONS

15. It is expected that the following reactions will occur:
 - 15.1 Retailers will complain that they cannot afford a rent increase – even though a considerable number have not been re-assessed for over 5 years.
 - 15.2 There will be some increase in vacancy rates where retailers do not agree to rent increases or possession is obtained for non payment of rent.
 - 15.3 The grant budget will need to be increased to cover for rent increases on the community units as the parade rents increase – resulting in an immediate increase of £2,000 p.a. on the 5 shops currently occupied / proposed for such uses.

EFFECTS OF IMMEDIATE ACTIONS

16. Upon implementation of all the reviews and renewals gross rental income could increase by up to £40,000 per annum.
17. The Council will promote a more equitable and defensible rental stance.
18. Some of the increased revenue generated will need to be spent on additional repairs, as tenants will demand that the Council fully meets it's repairing responsibilities. It is suggested that a "Stock Condition Survey" is commissioned to quantify the cost of the outstanding repairs. Initial costs are estimated to be in the region of £5,000, and it is suggested that this is funded through the additional income expected to be achieved through the implementation of this policy.

RECOMMENDATIONS

19. Approve the actions already taken to:
 - 19.1 Pursue a more systematic and rigorous rent arrears policy.
 - 19.2 Initiate an initial “level rent” policy to bring all units on a parade to one standard rent level.
20. Let any vacant shops on the open market.
21. Use the rent levels achieved to set the benchmark for rent reviews and lease renewals for other units in the parade, and where required to, increase grant allocations for community uses accordingly.
22. Commission a “Stock Condition Survey” to quantify the cost of the outstanding repairs. This project will not require project approval as it is below the minor project approval threshold.
23. Commission a shopping needs survey and seek approval for any rationalisation or change of units for specific units / parades. It is anticipated that this survey will not exceed the threshold required for project approval. A further report will be submitted to EB for project approval if estimates show this not to be the case.
24. Consider rationalising management control of all aspects of the budget into one business unit, to be determined on the completion of the review of HRA ‘non-dwelling’ assets.

THIS REPORT HAS BEEN SEEN AND APPROVED BY:

Portfolio Holder, Housing and Economic Development – Ed Turner
Councillor Val Smith

Financial & Asset Management – John Kulasek (Estates Management),
Dave Higgins (Finance)

Neighbourhood Renewal – Roger Elkins

Housing – Simon Price, Graham Stratford, Karen Ravenhill

OBS – Geoff Corps

Legal & Democratic Services – Lindsay Cane

Appendices:

1. Schedule of Tenancies and Uses
2. Map showing location of shopping parades
3. a) Copy of EB Report 17/03/03
b) EB Decision (Page 19-5 and 19-6)
c) Council Decision (Page M4 and M5)