

3. BECKENHAM HOUSING DEVELOPMENT

RR 9514

Officer responsible Property Manager	Author Property Projects Manager, Angus Smith
Corporate Plan Output: Capital Outputs 8.7.28	

The purpose of this report is to present the structure of the contractual and financial arrangements negotiated with the Beckenham Baptist Church; details of the documents we propose to record this arrangement and seek the Council's approval to formally enter into it through execution of the documentation.

BACKGROUND

The opportunity to enter into a relationship with the Beckenham Baptist Church was first presented to the Housing Working Party in February 1998. The Beckenham Baptist Church has a block of land in Beckenham on which it wishes to develop and manage affordable shelter housing and it approached the Council to explore partnership opportunities.

Throughout 1998 negotiations have been conducted with the Beckenham Baptist Church with continual involvement of the Housing Working Party.

These negotiations have been centred on two aspects, the design of the complex and the structure of the relationships.

The September 1998 meeting of the Council resolved:

- *“That the design consultancy for the Beckenham development go to selected tender.*
- *That the Housing Development Fund Cashflow be increased to \$900,000 for the Beckenham Baptist Church development.”*

CURRENT STATUS

Design

The design consultancy was tendered to three preferred providers in November 1998. Submissions have subsequently been received and reviewed with the appointment of James Lunday from Common Ground.

Structure of Relationships

Following comprehensive negotiations from August 1998 we have finally reached a stage where the representatives of both the Council and the Church

has agreed on the format for establishment of the agreement and has established a set of documentation to suitably record these arrangements.

The Church has a very similar structure and process for seeking approval to formally enter into this arrangement and is likewise endeavouring to progress it through its March round of meetings.

STRUCTURE OF RELATIONSHIPS

The Church has a site in Beckenham bounded by Colombo and Percival Streets from which it wishes to provide an area of approximately 1800m² for the development of housing for the marginalised members of the community with the support of the Council.

The proposal is for the Church to provide the land to the Council under a lease at a peppercorn rental. The Council shall construct upon this land a maximum of 12 housing units within a prescribed budget. The Church shall additionally contribute a budgeted sum towards chattels and site works.

Upon practical completion a Trust, to be established by the Church, shall be appointed to manage “the community housing facility”.

The Trust (manager) shall be responsible for all of the day to day operational aspects associated with the complex ie tenanting, collection of rental, payment of operating expenses, provision of services, repairs and maintenance, administration, accounting etc.

Ownership in the complex shall be based upon the parties’ respective contributions eg the Church’s contributions - chattels and land and the Council’s contribution - buildings. Risks and rewards of the venture shall be shared on a proportionate basis established on the capital value of the parties’ respective inputs.

FINANCIAL ASPECTS

For preliminary purposes the estimated value of inputs has been established as follows:

Initial Capital Investment	\$	%	%
Buildings	900,000	74.26	
Land	152,000	12.54	
Chattels	160,000	13.20	25.74
Total	1,212,000	100.00	

*note all figures GST inclusive.

A preliminary budget has been developed with the Church representatives to establish project feasibility. This is tabled below. It provides a positive

return and therefore meets Council objectives that such projects shall not be rate funded.

	\$
Gross Revenue 12 units @ \$90 Per week	56,160
First Priority – Expenses	
Management Fee (capped @ 7% of Gross Revenue)	3,931
Vacancy	2,808
Rates	5,805
Insurance	2,000
R & M (including ground maintenance)	8,000
Depreciation – Chattels	12,000
Depreciation – Buildings	9,000
Total Expenses	43,545
Net Income	12,615

The documentation establishes the following priority calls on revenue derived from the project.

First Priority	Operating expenses ie management fee, rates, insurance, repairs and maintenance etc.
Second Priority	Nominal return to the Council 1.5% on capital investment.
Third Priority	Nominal return to the Trust 1.5% on capital investment.
Fourth Priority	Social contribution for provision of social services to residents capped at 15% of gross revenue.
Fifth Priority	Distribution of remaining surpluses to the respective parties (Trust and Council) based upon their proportionate ownership.

The financial arrangements have been discussed with the Principal Accountant, John Mackey, to confirm that they are compatible with the Council's current procedures and processes. He has raised an issue as to whether the proposed structure constitutes a LATE. At the time of preparing this report that issue is still being debated.

It is however important to note that depreciation on the buildings will be treated in its purest accounting sense as a non-cash item. That is there will be no physical cashflow from the revenue (as an operating expense) to be set aside for future replacement. The rationale for this is twofold, its inclusion as a cash item would jeopardise the viability of the project, and primarily a fund for replacement is quite likely unnecessary as the arrangements provide for buyouts of the respective parties' ownership or joint sale upon winding up and in practicality this represents the most likely outcome. There is only a slim chance given the length of the agreement that a continuation of it will be

renegotiated upon expiry and if so new terms and conditions can obviously be negotiated that factor in all relevant issues such as this.

DOCUMENTS

The documents to record the issues outlined above are:

Heads of Agreement

This is a brief document establishing the obligations of the parties, mechanisms for financial contribution, along with the normal agreement provisions relating to assignment and disputes.

Memorandum of Lease

This is a lease from the Church to the Council for the land, the primary aspects of which are:

Land Area:	1800m ² approximately
Address:	7-11 Percival Street, Beckenham
Term:	50 years
Commencement Date:	Practical completion of housing units
Annual Rent:	\$1 if demanded
Permitted Use:	For the construction and provision of community housing of those marginalised in the community, including those with emotional and physical disabilities
Rent Reviews:	Nil
Rights of Renewal:	Nil

Property Management Agreement

This agreement runs coterminous with the lease of the land. It provides for the appointment of the manager (the Trust), establishes their duties, the financial arrangements, requirements for accounting and record keeping, general provisions in respect of insurance, health and safety, assignment, dispute resolution etc and mechanisms for winding up and / or expiry.

CONCLUSION

The project is financially viable. The structure of the relationships represent a co-operative and supportive arrangement with a private sector organisation that meets the objectives of both parties in respect of social housing.

The documentation has been developed with the input of both parties' solicitors, in the Council's instance, Buddle Findlay, and has undergone the scrutiny of considerable negotiation.

- Recommendation:**
1. That the Council formally approve entering into the partnership arrangements with the Beckenham Baptist Church as generally outlined in this report and endorse execution of the documents under seal by the Council as required by time.
 2. That the plans and specifications along with the pre-tender budget and documentation, currently being

developed by Common Ground be brought back to the Projects and Property Committee before tendering.

3. That the Property Manager be delegated authority in conjunction with the Director of Finance (in view of the concerns expressed that this may constitute a LATE), if considered satisfactory, to undertake the steps necessary to achieve this, with the exception of recommendation 2 above.