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## Report of the Director of Environment and Neighbourhoods

### Scrutiny Board (Environment and Neighbourhoods)

Date: 13 October 2008

Subject: Miscellaneous Properties

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<b>Electoral Wards Affected:</b> Various	<b>Specific Implications For:</b> Equality and Diversity <input type="checkbox"/> Community Cohesion <input type="checkbox"/> Narrowing the Gap <input type="checkbox"/>
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Eligible for Call In

Not Eligible for Call In  
(Details contained in the report)

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## EXECUTIVE SUMMARY

1. The purpose of the report is to provide information to Scrutiny Board on the miscellaneous properties owned by the Council, but not managed by the ALMOs. All of the properties are vested with Environment and Neighbourhoods. The report also discusses proposals for the future management of this housing stock.
2. There are currently 344 miscellaneous properties in the ownership of the Council, which are not managed by the ALMOs. All of these properties were previously leased to Housing Associations (HAs), who managed the properties on behalf of the Council. In some instances the HAs set up sub leasing arrangements with other housing providers.
3. The majority of the leases have expired, but legally 'hold over' meaning the leaseholder continues to manage the properties and the terms of the lease are still applicable. Of the expired leases, 143\* are currently being renegotiated. Additionally, Leeds Federated Housing Association (LFHA) are currently in the process of returning 35 vacant properties to the Council.

*\*Please note that the figures in this report are subject to change as leases expire.*

## **1.0 Purpose Of This Report**

- 1.1 The purpose of the report is to inform Scrutiny Board on the miscellaneous properties owned by the Council, but not managed by the ALMOs. All of the properties are vested with Environment and Neighbourhoods. The report also discusses proposals for the future management of the housing stock.

## **2.0 Background Information**

- 2.1 Approximately fifteen years ago an assessment was undertaken on the miscellaneous properties owned by Leeds City Council (LCC) and managed by the Housing Department. The properties were classified as 'miscellaneous' as they were predominantly back to back houses, which were sporadically located across the city, and did not form part of the traditional council housing estates.
- 2.2 The assessment confirmed that the properties were in an extremely poor state of repair due to a lack of investment and were expensive to refurbish. Due to their state they were in very low demand and difficult to let. The properties were located in hard to let areas where there are high levels of social deprivation and unemployment
- 2.3 On this basis, some properties were declared surplus to requirements and disposed of, whilst the others were leased to Housing Associations (HAs) on long term leases on a peppercorn rent. The main reason for this was that HAs were able to access Social Housing Grant from the Housing Corporation to invest in the properties. The Council was not eligible for this funding. The HAs undertook the investment the properties required to make them habitable in return for the £1 per annum rent.
- 2.4 In February 2003, six Arms Length Management Organisations (ALMOs) took over the management of the Council's housing stock. These miscellaneous properties were not transferred to the ALMOs to manage, as they were under lease/ license at the time. The majority of properties are not in charge on the orchard system, and are not included in the Decency costings or the ALMO Business Plans.
- 2.5 The Strategic Landlord Division, in conjunction with Housing Finance and Legal Services undertook an assessment of miscellaneous properties, to establish the current position with regards to the leases. It has now been established that there are approximately 344 miscellaneous properties, vested with Environment and Neighbourhoods.
- 2.6 Prior to the Strategic Landlord taking over this area of work, records of the miscellaneous properties were incomplete or out of date. The approach that has been taken by the Strategic Landlord Division to deal with miscellaneous properties is as follows:
- The original miscellaneous property database (created by Environmental Health) has been cleansed, and identifies 344 miscellaneous properties. All of 344 properties are vested with Environment and Neighbourhoods but do not form part of the ALMO portfolios
  - This database identifies which leases have expired and which are current
  - Strategic Landlord has identified which organisations the properties are leased to

- Discussions have taken place between Strategic Landlord, Housing Finance, Legal Services, Supporting People, Leeds Federated Housing Association (LFHA) and other agents managing the properties

### **3.0 Main Issues**

3.1 Of these 344 identified properties, 297 have lease agreements with external housing providers providing a variety of accommodation for varying needs i.e. supported housing for vulnerable tenants, students and general needs social housing. Historically, two different arrangements have been negotiated with respect to the leases.

- Direct Lease Arrangements

The first arrangement sees larger housing providers (i.e. LFHA, the Ridings Housing Association and Unipol) leasing properties directly from the Council.

- Indirect Lease Arrangements

The second arrangement sees a lease agreement to one of the larger organisations (predominantly LFHA), who then sub lease the properties to smaller managing agents (i.e. Canopy, LATCH and GIPSIL etc). The managing agents let the properties and undertake property improvement. It is believed that this second arrangement was originally set up for funding purposes.

3.2 It has been agreed that this sub leasing arrangement is no longer required, and LFHA have terminated their involvement with these arrangements. All the housing providers who were on sub leasing agreements are now negotiating direct leases with LCC.

### 3.3 Supporting Housing for Vulnerable People

3.4 Of the miscellaneous portfolio, there are currently 57 properties which are being leased to organisations providing services under the Council's Supporting People programme (i.e. LATCH, St Anne's and Leeds Housing Concern). The Supporting People team have confirmed that a decision to bring these properties back into Council management would have a serious effect on the Supporting People Programme and could potentially jeopardise the future of these smaller organisations, who provide valuable services. Additionally, Canopy have 22 properties where they support vulnerable people on training initiatives to refurbish the properties, and then support them to take on the tenancy of the property once refurbished (although Canopy have recently opted out of the Supporting People programme).

3.5 Executive Board agreed Less Than Best reports in September 2007, that LCC enter into direct lease agreements with Canopy and LATCH. Since that time, Legal Services have been in discussions with LATCH and Canopy to draw together a master lease, which will be the template for all other leases. Once the master lease has been agreed, an additional report is to be sent to Executive Board in December 2008 to gain agreement for the remaining leases to GIPSIL, St Anne's and Leeds Housing Concern to be signed.

3.6 Student Housing (via Unipol)

3.7 There are approximately 131 properties being used by Unipol as student homes. Unipol have targeted the properties they lease from LCC to mature students with families, and have provided much needed investment in properties which had historically received significant underinvestment.

3.8 Of these 131 properties, 54 are part of the Shay Street scheme, which was agreed by Executive Board in March 2007. The scheme involves Unipol continuing to lease the maisonettes, this time on a 21 year lease via Connect Housing Association, in order for them to invest Housing Corporation funding in the properties.

3.9 Of the remainder of the leases 27 are current, with the majority of these leases expiring in 2012. There are 50 leases which have expired, but legally 'hold over' meaning the leaseholder continues to manage the properties and the terms of the lease are still applicable. A decision needs to be made about the future of these properties, and whether the Council still wishes to support Unipol on Less Than Best peppercorn leases (£1 per annum). Initial discussions have been held with Development Department, Legal Services and Housing Finance as to how to approach the issue of these leases. A meeting needs to be set up with Unipol to establish the principles of reviewing the leases. It is probable that the Council will seek a market rent for these properties.

3.10 Returned Properties

3.11 There are approximately 22 units that were returned to the Council from the leaseholders. Recently, 7 have been brought back into charge, to be managed by the ALMO, 1 property was demolished, 2 are scheduled for demolition under the Regional Housing Board programme and 1 is scheduled to be sold. The remainder of the properties are currently vacant.

3.12 Re'new have been assessing these properties for their suitability for a 'Homebuy scheme'. The financial modeling for this scheme should be completed by October 2008 and submitted to Asset Management Group.

3.13 Additionally, LFHA have been discussing with the Council returning their vacant leased miscellaneous properties. There are 34 of these properties, which were leased out as general social housing. The majority of these properties are in extremely poor state of repair, and LFHA have provided little investment to these properties in the last 5 years. When returned, these properties will be the responsibility of the Council. These properties have not been part of any Decency programming.

3.14 Strategic Landlord have been working in conjunction with Housing Finance to come up with a solution to these properties. As they are returned, Housing Finance have provided revenue cost codes in order for them to be sheeted and secured. Additionally, Major Repairs Allowance (MRA) funding has been identified over the next 3 years, which will allow these properties to be brought up to a habitable and 'Decent' standard, for them to be managed by the ALMOs. Strategic Landlord are currently compiling a Design and Cost report for the funding, and liaising with the ALMOs about the management of this process.

## **4 Implications For Council Policy And Governance**

- 4.1 Housing Finance confirmed that under Department of Communities and Local Government (DCLG) regulations, LCC should be aware of the void records, tenant information and rent restructuring for the miscellaneous properties. This did not happen under the previous lease arrangements, and LCC could have been penalised.
- 4.2 To resolve this it is proposed that the miscellaneous properties become part of the ALMO portfolio's/ management agreements, although the day-to-day management and maintenance will be the leaseholder's responsibility. Finance have confirmed that the properties will need to be entered onto the Orchard system, and the agents should be contracted to provide tenant and void information for LCC records. The ALMO's should also be notified of Decency works.
- 4.3 Finance will need to be informed as soon as 21 year plus leases are negotiated, so that they are removed from the HRA.

## **5 Legal And Resource Implications**

### **5.1 Housing Revenue Account Implications**

- 5.2 Discussions have been held with Environment and Neighbourhood's Finance Section regarding these miscellaneous properties and the impact they have on the Housing Revenue Account (HRA). LCC pay in the region of £1000 per property to the DCLG in housing subsidy, for them to re-distribute around the country. The approximate £1000 housing subsidy per property applies to the 344 miscellaneous properties (therefore £344,000 per annum approximately, is paid by LCC to the DCLG for the miscellaneous properties). As the majority of properties are on peppercorn rents, there is insufficient income to offset the housing subsidy (as with other LCC properties).
- 5.3 Finance have confirmed that if the properties are leased out for more than 21 years, then they are excluded from the £1000 housing subsidy repayment. The properties will also be excluded from any rent restructuring requirements.
- 5.4 It would seem preferable that all future lease agreements, are set at a minimum of 21 years, to be exempt from housing subsidy. This not only has beneficial effects on the HRA, but will also provide security for smaller agents and allows them to confidently apply for funding to refurbish the properties. Given this situation, a standardised 25 year lease is being negotiated on all the leases.

### **5.5 Rent restructuring**

HRA properties which have been leased to an RSL or other managing agent for 21 years or less are subject to rent restructuring. As these properties are within the HRA, then the rents to tenants ought to be so calculated. Additionally, LCC are required to keep detailed records on occupancy and voids and include these properties within the decency programme. Measures are currently being put in place to manage this information, once the leases have been signed.

## 5.6 Annual Rental Income

Development Department have been instructed to undertake property evaluations, and re-assess the annual rental charge for the properties. If organisations are not in the financial position to pay the revised rates, then 'Less Than Best' approvals have been considered at Executive Board.

## 6.0 **Conclusions**

6.1 The work regarding the miscellaneous properties is on-going. Housing Finance, the ALMOs and SL are working together to identify funding to bring the returned properties up to the Decent Homes Standard, to be managed by the ALMOs.

6.2 The leases for the Supported Housing properties are being completed by Legal Services.

6.3 Discussions will be held with Unipol about renegotiating new leases on a market rent.

## 7.0 **RECOMMENDATION**

7.1 Scrutiny Board is requested to note the contents of this report.

### Background papers

None.