

**Report of:** Council Housing Growth Team

**Report to:** Director of Resources & Housing

**Date:** 9<sup>th</sup> April 2019

**Subject:** Council Housing Growth Programme - Property Buybacks

Are specific electoral Wards affected? If relevant, name(s) of Ward(s): Alwoodley; Pudsey.	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number:  Appendix A to this report has been marked as exempt under Access to Information Procedure Rules 10.4 (3) on the basis that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) which, if disclosed to the public, would, or would be likely to prejudice the commercial interests of that person or of the Council. The information is exempt if and for so long as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information. In this case the report author considers that it is in the public interest to maintain the exemption	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

## Summary of main issues

1. The Council Housing Growth Programme has set itself a challenging target to deliver a minimum of 300 new council homes a year going forward on an ongoing basis as part of our direct contribution to an overall affordable housing target of 1,230 homes p.a. across the city from 2019.
2. This will be achieved predominantly via a substantial new build programme, but will also be complemented by a smaller programme of property acquisitions – with an initial focus on former council properties bought under the right to buy regime, including those to which the statutory right of first refusal regime applies.
3. The programme is now ready to progress two further purchases, details of which are included in confidential Appendix A due their commercial sensitivity.

## 4. Recommendations

The Director of Resources and Housing is requested to:

1. Authorise the required expenditure to enable the programme to progress the property acquisitions detailed in Confidential Appendix A. These acquisitions to be funded from existing Council Housing Growth Programme unallocated budget, made up of a combination of Housing Revenue Account (HRA) and Right to Buy receipts.
2. Notes that a report will be submitted to Executive Board in June 2019 to secure Authority to Spend approval for the overarching 3 year property acquisitions programme.
3. Notes that a report is being submitted in parallel to the Director of City Development to request approval to acquire these assets for Housing & Resources so that they can be returned to Council Housing Stock.

## **1. Purpose of this report**

- 1.1 The purpose of this report is to seek Authority to Spend from the Director of Resources and Housing to enable two property buybacks to be progressed by the Council Housing Growth Programme.

## **2. Background Information**

- 2.1 A capital injection of £90.9m was approved into the Council Housing Growth Programme by Full Council in February 2019, £22.5m of this will support the property acquisitions / buyback programme, circa 150 properties over a 3 year period. Authority to Spend for the 3 year programme will be sought from June Executive Board.
- 2.2 The total funding for the Council Housing Growth Programme currently stands at £203.6m of which £53.6m is spent to date. The unallocated element of the phase 1 programme is £7.2m and some of this unallocated budget will be used to purchase these properties.

## **3. Main Issues**

- 3.1 The Right of First Refusal obligations are part of the Right to Buy (RtB) legislation and were established by The Housing (Right of First Refusal) (England) Regulations 2005, which came into force in August 2005. The regulations require that any home owner who is selling a property bought from the Council under Right to Buy within the previous ten years must offer it to the Council before putting it on the open market.
- 3.2 In addition to homes offered to the council under the Right of First Refusal obligations, the council also receives voluntary offers to purchase former RTB properties, to which the regulations don't apply – for example where the property was bought from the council more than 10 years ago.
- 3.3 Each potential opportunity is assessed by the council on its own merits, against both council housing growth objectives and also in the context of wider strategic council needs.
- 3.4 The council housing growth programme evaluation assesses whether the property is one which the council would wish to see back in housing stock and includes consideration of the following factors:-

### **a) Housing Management priorities**

- Whether the property is located in an area of housing need- where council housing stock is low and demand for council housing is high.
- Whether the property is of a type and size which is in demand and will be easily let.
- The property will normally be a former council property within an area of council housing, or within a regeneration area in the City.

### **b) Value for Money**

The programme will consider whether a property represents a viable investment (in terms of how long it will take to repay the associated borrowing based on assumed income generation/savings) and value for money (VfM). The VfM assessment takes into account the market valuation, and any required repairs/improvements to bring the property up to a lettable standard. This part of the assessment also includes consideration of potential rent levels (estimated based on other similar social housing in the area), and whether any right to buy discount would be repayable.

### **c) Exceptional Circumstances**

In some exceptional circumstances a property may be considered (subject to various conditions being met) if the owner makes the request due to for example, financial hardship (potential homeless case) or medical grounds.

- 3.5 Since the programme began in November 2018, around 60 notifications have been received from home owners in relation to potentially repurchasing their homes. Having applied the above principles a small number of offers have been made and accepted. This report seeks approval for the spend to progress two further acquisitions.

### **Costs**

- 3.6 Properties to which the Right of First Refusal Regulations apply must be offered back to the Council at full market value. As such the programme have undertaken market valuations of each of these properties and has also commissioned an assessment of the repair & refurbishment costs.
- 3.7 In circumstances where a former tenant who exercised their right to buy subsequently sells their property within 5 years of the Right to Buy sale completion date, they are liable to repay a proportion of the Right to Buy discount they received as determined under the Housing Act 1985 (this applies whether or not they sell it back to the authority). Where this is applicable, this amount will be deducted from the purchase price.
- 3.8 The total combined costs of these acquisitions, including the market valuations, repair estimates and any repayable discounts are detailed in confidential Appendix A due to commercial sensitivity.

### **Funding**

- 3.9 The costs associated with reacquiring these properties will be met from the council's capital funding allocated to the Council Housing Growth Programme. Refurbishment works to bring the properties to lettable standard will also be funded from the programme budget.
- 3.10 The acquisition costs associated with buying back the properties detailed in confidential Appendix A will be funded from existing unallocated budget within the programme- which comprises HRA funding and right to buy receipts.
- 3.11 A capital injection of £90.9m was approved into the Council Housing Growth Programme by Full Council in February 2019, £22.5m of this will support the property

acquisitions / buyback programme, circa 150 properties over a 3 year period. Following this capital injection, Authority to Spend for the 3 year programme will be sought from June Executive Board.

## **4. Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 The Executive Member for Communities has been consulted and is supportive of the Programme.
- 4.1.2 As part of the established process for this programme The Council Housing Growth Programme has engaged housing management, housing finance, land and property, and other internal stakeholders in relation to these potential acquisitions.
- 4.1.3 Regular updates on progress across the whole programme will be provided to the Council Housing Growth Programme Board.
- 4.1.4 Local Ward Members will be updated on any acquisitions in their ward areas, as they progress.

### **4.2 Equality and Diversity/ Cohesion and Integration**

- 4.2.1 Having conducted an initial Equality and Diversity screening, the programme have concluded that a full assessment is not required. The screening form is attached at Appendix B to this report.

### **4.3 Council Policies and City Priorities**

- 4.3.1 The development of new council housing will address priorities within the City Priority Plan to provide additional affordable housing and support housing growth. The development will contribute to the delivery of one of the Council's Breakthrough Projects, 'Housing Growth and High Standards'.
- 4.3.2 Housing has been identified as one of the Best City priorities and this programme will directly support the following priorities:
  - Housing of the right quality, type, tenure and affordability in the right places;
  - Minimising homelessness through a greater focus on prevention;
- 4.3.3 The programme will also directly contribute to the achievement of a number of the key performance indicators the council will use to measure success including:
  - Growth in new homes in Leeds;
  - Number of affordable homes delivered;

### **4.4 Resources and Value for Money**

- 4.4.1 The meeting of Full Council on the 27<sup>th</sup> February approved an injection of £90.9m into the council house growth programme agreeing the current cash flow and funding as set out in the table below :-

Total CHGP as at Full Council 27th Feb 2019	TOTAL £000's	TO MARCH 2018 £000's	FORECAST			
			2018/19	2019/20	2020/21	2021/22
			£000's	£000's	£000's	£000's
CHGP Phase 1	76,387.7	45839.3	8,275.9	19,294.4	2,978.1	0.0
CHGP Extra Care to Phase 2	30,000.0	592.2	0.0	0.0	4,407.8	25,000.0
CHGP Ful Council Phase 2	97,192.5	0	0.0	21,481.3	41,589.2	34122.0
TOTALS	203580.2	46431.5	8,275.9	40,775.7	48,975.1	59,122.0
Total overall Funding (As per latest Capital Programme)	TOTAL £000's	TO MARCH 2018 £000's	FORECAST			
			2018/19	2019/20	2020/21	2021/22
			£000's	£000's	£000's	£000's
HRA resources	32,191.90	27933.7	2,540.1	1,401.8	316.30	
HRA revenue contributions	1179.6	1179.6	0.0	0.0	0.00	
Section 106	6,793.90	2748.8	0.0	3882.6	162.5	
Government Grant HCA	12,555.30	4160.3	86.7	0.0	5,308.30	3000
RTB receipts	53,103.40	10409.1	5,065.9	11,172.1	10,539.60	15916.7
Departmental Borrowing	97,756.10		583.2	24,319.2	32,648.40	40205.3
Total Funding	203580.2	46431.5	8,275.90	40,775.70	48,975.10	59,122.00
<b>Balance / Shortfall =</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

4.4.2 The properties the programme proposes to repurchase have been individually assessed using an annuity model to confirm they are financially viable. A property is deemed a viable investment if the repayment period for the interest and capital is 30 years or less. A 30 years repayment period allows the authority to meet its obligation Under Section 24(1) of the 1985 Act "In the context of setting rents, an important consideration will be to set rents at a level which will enable the Council to meet its 30-year HRA business plan requirements". The model highlights the financial loss the council could incur if the property is sold under RtB after the 15 year when the cost floor protection ends but ensures that the capital receipt is sufficient to repay any outstanding debt.

4.4.3 In terms of Revenue Effects, the cost of servicing the debt incurred purchasing a property may be higher than the initial rental return so the properties could initially be a net cost to the service. However as rental incomes increase year on year they will start to exceed the annual borrowing cost and produce a positive return. The initial refurbishment and repairs costs will also be capitalised.

## 4.5 Legal Implications, Access to Information and Call In

4.5.1 This is a Significant Operational Decision and as such is not eligible for call in.

4.5.2 Appendix A to this report has been marked as exempt under Access to Information Procedure Rules 10.4 (3) on the basis that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) which, if disclosed to the public, would, or would be likely to prejudice the commercial interests of that person or of the Council. The information is exempt if and for so long as in all the circumstances of the case, the public

interest in maintaining the exemption outweighs the public interest in disclosing the information. In this case the report author considers that it is in the public interest to maintain the exemption.

## **4.6 Risk Management**

- 4.6.1 The overarching Council Housing Growth Programme is being delivered using the council's agreed project management methodology and a programme risk log will be maintained and risks managed, monitored and escalated through the governance process as necessary.
- 4.6.2 Delivery of the proposals set out in this report will contribute to mitigating one of the council's corporate risks around failure to meet additional housing supply targets and the consequent lack of homes for people in Leeds.
- 4.6.3 The financial viability assessments undertaken in relation to these acquisitions have included consideration of the potential financial risk to the council should there be a further right to buy in future, factoring in applicable cost floor (the lower of the market value and the purchase/ build costs of the property). There is a risk that in the initial 15 years following acquisition the council could make a loss if there was a downturn in the market and the tenant exercised their right to buy at a point where the market value was lower than the amount the council paid for the property.
- 4.6.4 However rents will be set at such a level as to help mitigate this risk as far as possible within the constraints of the legislation, and to help ensure the council will achieve an acceptable payback period.
- 4.6.5 The viability modelling is based on certain assumptions about the housing market and future movements in house prices/ rents, which may not prove to be accurate. Should rents or housing prices fall, or not rise in line with our assumptions, the payback period could be longer than predicted.

## **5. Conclusions**

- 5.1 The properties detailed in Confidential Appendix A have been individually assessed and confirmed as being of a type, size and in such locations that repurchasing them will contribute to meeting locally defined social housing needs.
- 5.2 The associated costs have been assessed by finance and the programme have secured confirmation that they represent viable investments, and value for money.

## **6. Recommendations**

The Director of Resources and Housing is requested to:

- 1. Authorise the required expenditure to enable the programme to progress the property acquisitions detailed in Confidential Appendix A. These acquisitions to be funded from existing Council Housing Growth Programme unallocated budget, made up of a combination of Housing Revenue Account (HRA) and Right to Buy receipts.

2. Notes that a report will be submitted to Executive Board in June 2019 to secure Authority to Spend approval for the overarching 3 year property acquisitions programme.
3. Notes that a report is being submitted in parallel to the Director of City Development to request approval to acquire these assets for Housing & Resources so that they can be returned to Council Housing Stock.

#### **4. Background Documents**

None.