



Report of: Director of Resources and Housing
Report to: Executive Board
Date: 18th March 2020
Subject: Council Housing Growth Programme – Off the Shelf New Build Property Acquisitions

Are specific electoral wards affected? If yes, name(s) of ward(s): Killingbeck & Seacroft	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Has consultation been carried out?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Will the decision be open for call-in?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: 10.4 (3) Appendix number: A	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Summary

1. Main issues

- This report sets out proposals for increasing the delivery of affordable housing across the city through the Council Housing Growth Programme (“CHGP”), by working with a range of partners to purchase off the shelf, new build properties.
- This will support the Council’s target of delivering 1,500 new council homes in the next five years, in line with Best Council Plan targets to increase the number of new affordable homes and to support sustainable and inclusive growth.
- The report sets out recommendations and requests approval for an initial programme of c150 off the shelf property acquisitions over the next 3 years, and Authority to Spend for a total investment of £30 million.
- This initiative will assist the Council in committing some of its unspent Right to Buy Receipts which otherwise would be at risk of being returned to Government in the current and next financial year, with that investment at risk of being lost to the city.
- As well as requesting approval for the overall programme, the report also provides details of, and requests Authority to Purchase and Authority to Spend in relation to, the first batch of properties which have been identified for purchase. Details are included in **Confidential Appendix A** due to their commercial sensitivity.

2. Best Council Plan Implications (click [here](#) for the latest version of the Best Council Plan)

- Housing has been identified as one of the Best City priorities and this programme will directly support the following priorities:
 - a. Housing of the right quality, type, tenure and affordability in the right places;
 - b. Minimising homelessness through a greater focus on prevention; and
 - c. Tackling fuel poverty
- 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:
 - a. Growth in new homes in Leeds;
 - b. Number of affordable homes delivered;
 - c. Improved energy and thermal efficiency performance of houses; and
 - d. Number of households in fuel poverty

3. Resource Implications

- The meeting of Full Council on the 26th February 2020 approved a further capital injection of £116m into the Council Housing Growth Programme, taking the overall funding injected and available for the Council House Growth Programme to £337.1m.
- £30m of this is set aside to support a new, off the shelf property acquisitions programme, which will purchase c150 new build properties over the next 2-3 years.
- The funding for each batch of purchases will comprise a blend of HRA borrowing and either Homes England Grant subsidy or retained Right to Buy Receipts. The most appropriate funding for each opportunity will be determined on a case by case basis.
- The first batch will be funded using Right to Buy Receipts and it is likely that this will also be the case for subsequent batches in at least the short term, to enable the authority to mitigate the amounts at risk of hand back to central government in the current and next financial year.
- Once more of the Council's new build schemes commence construction, the Council will be able to fully apply its retained Right to Buy Receipts towards those new homes, and the Council would look to alternative sources of funding for any further off the shelf purchases beyond that point, if applicable.
- The table at 4.4.2 shows a summary of the current capital funding and cash flow position for the Council Housing Growth Programme overall, the total authority to spend to date and the £30m provision being asked for within this report.

Recommendations

Executive Board is asked to:

- a) Approve the establishment of a new programme of off the shelf, new build property acquisitions, with an initial target of purchasing 150 homes from a range of partners over the next 3 years, and approve the proposed investment of £30m.

- b) Grant authority to complete on the purchases, and Authority to Spend, in relation to the first batch of 21 acquisitions in Killingbeck and Seacroft ward. A breakdown of these costs and the terms of the acquisitions are detailed in **Confidential Appendix A** for commercial reasons.
- c) Delegate decisions to acquire future batches of properties, and to authorise any variations to the terms of the acquisition in relation to the initial batch, to the Director of City Development.
- d) Support the use of retained right to buy receipts and/ or any funding bids required to optimise the funding mix for each batch of acquisitions and delegate decisions about the specific funding mix for each batch of properties, and Authority to Spend for the same, to the Director of Resources and Housing.

1. Purpose of this report

- 1.1 This report sets out proposals for increasing the delivery of affordable housing through the CHGP across the city, by working with a range of partners to purchase off the shelf, new build properties.
- 1.2 This will support the Council's target of delivering 1,500 new homes in the next five years in line with Best Council Plan targets to increase the number of new affordable homes and to support sustainable and inclusive growth.

2. Background information

- 2.1 In November 2018 Executive Board was advised that the cap on Council borrowing to deliver new homes through the Housing Revenue Account (HRA) had been lifted. This meant that the Council, along with other local authorities, could borrow for additional housebuilding in accordance with the Prudential Code. The Council was therefore in a position to borrow to build its future generations of Council homes at a scale and pace which would not have previously been possible.
- 2.2 That report confirmed the Council's aspiration to deliver 300 new Council homes per year going forward, and advised of the progress that had been made since October 2018, to quickly mobilise a substantial work programme of new build housing.
- 2.3 In December 2018, Executive Board were updated on council proposals for seven new Extra Care housing schemes for older people with care and support needs, to be delivered in two packages: one package of four schemes which would be designed, built, owned and operated through a consortium of external partners and a second package of three schemes which are to be directly owned and managed by the Council.
- 2.4 In June 2019, a further progress update to Executive Board set out a summary of the council's pipeline, which at that point stood at around 800 new homes.
- 2.5 In July 2019, Executive Board approved a budget of £22.5m to facilitate a new property acquisitions/buyback programme – to deliver 150-200 existing properties (including former council houses) into council stock.

3. Main issues

- 3.1 Leeds remains a successful and thriving city and continues to be amongst the top performing authorities in respect of its growth strategy and ability to meet the challenging targets for housing growth set out in its Local Plan; namely 51,952 new homes by 2033, which is equivalent to 3,247 new homes per annum. Of this, 1,230 should be affordable homes. Whilst current delivery shows that we continue to meet the overall target with delivery of 3,430 homes in 2018/19 only 433 of those were new affordable homes.
- 3.2 As reported to Executive Board in June 2019, the CHGP has already made significant progress in developing a large scale programme of council housing, and now has over 750 new homes in the pipeline, including our three extra care schemes, at various stages of design, planning and delivery.
- 3.3 The Council is also continually working to identify further sites for inclusion in the new build programme, both in council ownership and in private ownership. The programme has made good progress since late 2018, but availability of sufficient land remains a key programme risk.
- 3.4 The property acquisitions/buyback programme is also making good progress, with 55 offers having been accepted and 42 acquisitions already complete. Over half of these have already been refurbished and re-let.
- 3.5 However, the scale of housing need is great and, even though the programme is progressing well, and will start to hand over new homes at pace over the next couple of years, there is an inevitable lead time with new build. In the intervening period there are opportunities to secure some early wins through the acquisition of new build and off the shelf properties on development sites across the city.
- 3.6 It is important to note that where the Council acquires new build properties from a developer via this project, these will be in addition to the affordable housing provision already required by planning for the site, and will also ensure that these targeted acquisitions do not undermine our other programmes to promote regeneration and tenure diversification.
- 3.7 As the Council's substantial development programme gains more attention in the city and amongst developers, and through continued partnership working across the Council Housing and Regeneration services, we are forging new relationships and identifying new opportunities to deliver affordable housing for the city. Future opportunities could include a range of tenures including shared ownership and outright sale, as well as affordable rent.
- 3.8 This initiative provides a further opportunity for the Council Housing Growth Programme to support the Council's best city aspirations and to deliver regeneration objectives and much needed affordable housing, including in areas where there may be no land available for new build. The current opportunity detailed in **Confidential Appendix A** is to buy 21 properties from Stata Homes Limited for affordable rent to council tenants.

4. Corporate considerations

4.1 Consultation and engagement

- 4.1.1 Local ward members representing Killingbeck and Seacroft have been consulted in relation to the proposed acquisition of the first batch of properties in their ward. The members support these proposals, which will help to address the demand for affordable family housing in the ward.
- 4.1.2 For future potential opportunities, the programme will follow the Council Housing Growth Member Engagement Strategy, and will ensure that elected members are effectively engaged, consulted and informed throughout the life cycle of proposals.
- 4.1.3 Proposals will be considered in the context of housing supply and demand in conjunction with the Council's Housing Management Team to ensure they meet locally defined needs in terms of tenure and units types/sizes.

4.2 Equality and diversity / cohesion and integration

- 4.2.1 An Equality, Diversity, Cohesion and Integration (EDCI) screening has been completed to evaluate the potential impact of this new programme and the first opportunity set out in **Confidential Appendix A**, in terms of equality, diversity, cohesion and integration.
- 4.2.2 It is considered that the proposals have only a positive impact in terms of EDCI in that they will contribute to delivering an increase in supply of genuinely affordable homes to meet current and predicted localised gaps in affordable housing provision across the city's neighbourhoods. A copy of the EDCI screening document is attached for reference at **Appendix B**.

4.3 Council Policies and the Best Council Plan

- 4.3.1 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; and
 - Tackling fuel poverty
- 4.3.2 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;
 - Improved energy and thermal efficiency performance of houses; and
 - Number of households in fuel poverty

Climate Emergency

- 4.3.3 The Council has in previous reports to Executive Board set out how the adoption of the Leeds Standard and specification for its own council housing new build programme enables us to support the climate emergency agenda through its focus on cutting carbon, improving air quality and tackling fuel poverty, and central to this is the well-being of tenants.
- 4.3.4 Whilst these proposed off the shelf purchases will not all be built to the Leeds Standard, the Council will, in considering potential schemes of this kind, assess the

energy performance of the dwellings and the general performance and specification of the homes to ensure that it only works with, and invests in, new homes that are comparable or exceed the Energy Performance standards we set for our own stock.

4.4 Resources, procurement and value for money

4.4.1 The total funding for the Council Housing Growth Programme currently stands at £337.1m of which £65.6m is spent to date. The table below details the injections into the programme, the authority to spend (ATS) to date and the £30m ATS required for approval within this report.

4.4.2 Capital Funding and Cashflow

Council House Growth Programme Injections as at Full Council Feb 26th 2020	TOTAL £000's	TO MARCH 2019 £000's	FORECAST			
			2019/20	2020/21	2021/22	2022 & On
			£000's	£000's	£000's	£000's
NEWBUILD DEVELOPMENTS & EXTRA CARE PROVISION	241281.6	37087.2	9377.8	47303.4	49435.7	98077.5
RECYCLING EMPTIES, REPURCHASE & OFF THE SHELF DEV	87431.4	11431.4	2500.0	24500.0	24500.0	24500.0
REGISTER PROVIDER GRANTS PROGRAMME	8422.0	6912.6	980.4	529.0	0.0	0.0
TOTALS	337135.0	55431.2	12858.2	72332.4	73935.7	122577.5
Total Authority to spend to date 26th Feb 2020	TOTAL £000's	TO MARCH 2019 £000's	FORECAST			
			2019/20	2020/21	2021/22	2022 & On
			£000's	£000's	£000's	£000's
NEWBUILD DEVELOPMENTS & EXTRA CARE PROVISION	47822.6	37087.2	5957.8	4777.6		
RECYCLING EMPTIES, REPURCHASE & OFF THE SHELF DEV	36431.4	11431.4	2500.0	7500.0	7500.0	7500.0
REGISTER PROVIDER GRANTS PROGRAMME	8422.0	6912.6	980.4	529.0		
TOTALS	92676.0	55431.2	9438.2	12806.6	7500.0	7500.0
Total Authority to spend required as part of this report 18th March 2020	TOTAL £000's	TO MARCH 2019 £000's	FORECAST			
			2019/20	2020/21	2021/22	2022 & On
			£000's	£000's	£000's	£000's
NEWBUILD & EXTRA CARE PROVISION	0.0					
RECYCLING EMPTIES, REPURCHASE & OFF THE SHELF DEV	30000.0	0.0	0.0	10000.0	10000.0	10000.0
REGISTER PROVIDER GRANTS PROGRAMME	0.0					
TOTALS	30000.0	0.0	0.0	10000.0	10000.0	10000.0
Total overall Funding CHGP Programme (As at 26th Feb 2020)	TOTAL £000's	TO MARCH 2019 £000's	FORECAST			
			2019/20	2020/21	2021/22	2022 & On
			£000's	£000's	£000's	£000's
HRA RESOURCES	32370.0	30191.4	1,861.1	307.8	9.7	0.00
HRA REVENUE CONTRIBUTIONS	1001.5	1001.5	0.0	0.0	0.0	0.00
SECTION 106	6793.9	2864.3	827.1	3,102.5	0.0	0
GOVERNMENT GRANT HCA	12555.2	4294.7	0.0	3,333.0	3,000.0	1,927.50
RTB RECEIPTS	93169.9	15749.5	3,880.8	18,278.0	19,066.6	36,195.00
DEPARTMENTAL BORROWING	191244.6	1329.8	6,289.3	47,311.1	51,859.4	84,455.00
TOTAL CONFIRMED FUNDING	337135.1	55431.2	12858.3	72332.4	73935.7	122577.5
Total Balance awaiting Authority to spend	214,459	0	3,420	49,526	56,436	105,078

- 4.4.3 Each batch of acquisitions will be funded via a combination of either Right to Buy (RtB) receipts or Homes England (HE) grant plus HRA borrowing. The Council will determine the optimum funding mix for each batch of properties subject to confirmation of what grant rates are available from Homes England at that time, and whether the Council has retained Right to Buy receipts available which cannot be utilised towards its new build programme and which would therefore otherwise be at risk.
- 4.4.4 The initial batches are likely to be funded using RtB receipts which otherwise are at risk of being returned to Central Government, in the current and next financial year. Beyond this period, the council intends to maximise the use of its retained Right to Buy receipts towards its own new build programme.
- 4.4.5 The government consulted upon a Social Housing green paper in 2018, which set out a number of proposals around potential changes to the rules which govern the use of right to buy receipts. A white paper is anticipated later this year. Should the government implement any/all of the proposals set out in that paper, which included an extension of the period within which RTB receipts must be used from 3 to 5 years, an increase in the amount of RTB receipts which could be applied towards scheme costs from 30% to 50%, and the ability to blend them with other funding streams, this would also lead to a review of this strategy.
- 4.4.6 Rents will be set in accordance with the rent setting approach approved by Executive Board in June 2019, subject to viability.
- 4.4.7 Acquisitions from developers will fall outside the procurement regulations as the Council will be buying an “off the shelf” product and not specifying anything other than things that are covered in the developer’s general specification and any corresponding planning and building regulation approvals. These acquisitions will therefore be considered on their merits as property transaction that sits outside the procurement rules, with appropriate advice being sought from City Development and Legal Services in regard to proposed property values and acquisition terms and contract requirements.
- 4.4.8 The purchase prices of the Strata houses has been agreed, having been assessed by City Development Land and Property Officers as not exceeding the market value of similar houses in the vicinity.
- 4.4.9 The programme has assessed these proposals to confirm whether the purchases represent 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 likely rental income from the property.
- 4.4.10 The viability test reviews assesses each property individually using an annuity model. A property is deemed a viable investment if the repayment period for the interest and capital is 30 years or less. A 30 year repayment period allows the authority to meet its obligation under Section 24(1) of the 1985 Act which states that “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 were to be sold via RtB after the 15 year period of cost floor protection

ends, but ensures that the capital receipt would be sufficient to repay any outstanding debt at that time.

- 4.4.11 Based on the assumed rents, and funding 30% of the acquisition costs using Right to Buy Receipts, the acquisitions are financially viable within the standard 30 year payback period.

Revenue Effects

- 4.4.12 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.

4.5 Legal implications, access to information, and call-in

- 4.5.1 This report is a key decision and is subject to call in as a report to Executive Board.
- 4.5.2 The Council is authorised to acquire housing under section 17 (1) (b) of the Housing Act 1985 which states “a local housing authority may for the purposes of this Part acquire houses, or buildings which may be made suitable as houses, together with any land occupied with the houses or buildings. Section 17 (3) of the Housing Act 1985 states that land may be acquired by a local housing authority for the purposes of this Part by agreement, or they may be authorised by the Secretary of State to acquire it compulsorily. As the proposed acquisitions will be by way of agreement no specific authorisation from the Secretary of State is required.
- 4.5.3 **Appendix A** to this report has been marked as exempt under Access to Information Procedure Rules 10.4 (3). The information contained in the Appendix relates to the financial or business affairs of a particular person, and of the Council. This information is not publicly available from the statutory registers of information kept in relation to certain companies and charities. It is considered that since this information was obtained through one to one negotiations for the purchase of the land/property referred to then it is not in the public interest to disclose this information at this point in time. Also the release of such information would or would be likely to prejudice the Council’s commercial interests in relation to and undermine its attempts to acquire by agreement similar properties in the locality in that owners of other similar properties would be aware about the nature and level of consideration which may prove acceptable to the Council. It is considered that whilst there may be a public interest in disclosure, much of this information will be available from the Land Registry following completion of the purchase and consequently the public interest in maintaining the exemption outweighs the public interest in disclosing this information at this point in time. It is therefore considered that this element of the report should be treated as exempt under rule 10.4.(3) of the Access to Information Procedure Rules.

4.6 Risk management

- 4.6.1 The Council Housing Growth Programme is delivered using the Council’s agreed project management methodology.

- 4.6.2 Delivery of the proposals set out in this report will contribute to mitigating one of the Council's corporate risks around the failure to meet additional housing supply targets and the consequent lack of homes for people in Leeds.
- 4.6.3 An initial risk assessment for the off the shelf acquisitions programme has identified the following risks, which are being managed at programme level and are not corporate risks at present:
- 4.6.3.1 **Property specification and climate emergency** – the Programme team will carefully assess the specification of any homes to be purchased to ensure that they support the Council's activities to address the climate emergency and even decline to purchase, or seek to improve homes after acquisition, to ensure that achieve energy efficiency standards comparable with those being delivered in line with the Leeds Standard through the Council Housing Growth Programme.
- 4.6.3.2 **Property values or acquisition terms** – the Programme team will take advice from colleagues in City Development and Legal Services to confirm that any proposed purchase prices agreed with developers are not in excess of the current market values of similar houses in the vicinity. Likewise, Legal Services colleagues will provide support to ensure that acceptable contract terms can be secured for the purchase of properties.

5. Conclusions

- 5.1.1 Removal of the HRA borrowing cap in October 2018 has enabled the Council to commence delivery of a significant ongoing programme of much needed new housing in the city, with an aspiration to deliver c.300 new Council homes per year on an ongoing basis, with a target of delivering 1,500 new homes over the next five years.
- 5.1.2 Regular reports to Executive Board since then have shown the significant progress being made in further developing the new build council programme with over 750 out of the 1,500 homes now in progress,
- 5.1.3 Whilst these new homes will make a significant contribution to the shortfall in truly affordable accommodation in Leeds, there are further opportunities for the Council to increase the provision of affordable housing through the acquisition of a number of new build, off the shelf properties.
- 5.1.4 This proposal enables the council to take advantages of the continued growth in new homes across Leeds and to secure around 150 further affordable homes to meet the continuing demand for affordable housing as part of the Council Housing Growth Programme.

6. Recommendations

Executive Board is asked to:

- a) Approve the establishment of a new programme of off the shelf, new build property acquisitions, with an initial target of purchasing 150 homes from a range of partners over the next 3 years, and approve the proposed investment of £30m.
- b) Grant authority to complete on the purchases, and Authority to Spend, in relation to the first batch of 21 acquisitions in Killingbeck and Seacroft ward. A

breakdown of these costs and the terms of the acquisitions are detailed in **Confidential Appendix A** for commercial reasons.

- c) Delegate decisions to acquire future batches of properties, and to authorise any variations to the terms of the acquisition in relation to the initial batch, to the Director of City Development.
- d) Support the use of retained right to buy receipts and/ or any funding bids required to optimise the funding mix for each batch of acquisitions and delegate decisions about the specific funding mix for each batch of properties, and Authority to Spend for the same, to the Director of Resources and Housing.

7. Background documents¹

7.1 None.

¹ The background documents listed in this section are available to download from the council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.