Leeds CITY COUNCIL

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Council Housing Growth Programme – Property Buybacks

Date: 31st August 2021

Report of: Council Housing Growth Team / Property Acquisitions Programme

Report to: Director of City Development

Will the decision be open for call in? ☐Yes ☒No

Does the report contain confidential or exempt information? ☒Yes ☐No

What is this report about? (Including how it contributes to the city's and council's ambitions)

- The Council Housing Growth Programme is currently working to deliver a minimum of 300 new council homes each year 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.
- This is being achieved predominantly via a substantial new build programme, but is also complemented by a property acquisitions programme – with a focus on re-purchasing former council properties bought under the right to buy regime, including those to which the statutory right of first refusal regime applies.
- The purpose of this report is to obtain Authority to Purchase and Authority to Spend from the Director of City Development to enable additional property buybacks to be progressed by the Council Housing Growth Programme. Details of the properties to be purchased and details of the costs associated with these are set out in Confidential Appendix A due their commercial sensitivity.
- Housing is one of the Best City priorities as set out in the Best Council Plan and this programme will directly support the priorities described in the **What impact will this proposal have** section below.

Recommendations

The Director of City Development is requested to:

a) Grant Approval to Purchase the properties detailed in the confidential Appendix A at market value as determined by Land & Property to be returned to Council housing stock.

b) Authorise the required expenditure to enable the programme to progress the property acquisitions detailed in Confidential Appendix A. These property acquisitions will be funded from the Council Housing Growth Programme budget, via a combination of Housing Revenue Account (HRA) borrowing and Right to Buy receipts.

c) Note that Executive Board granted Authority to Spend for the programme on 24th July 2019.

d) Note that written approval was provided by the Chief Officer (Housing) of Communities, Housing & Environment (delegated to the Head of Housing & Homelessness) on the 13th August 2021 to accept the properties back into the housing Stock for use as Council housing.

What impact will this proposal have?

Wards affected and property street name		
Morley South - Dean Hall Close		
Morley North - Whitehall Grove		
Killingbeck & Seacroft - Pigeon Cote Close		
Have ward members been consulted?	☒Yes	☐No

1 The purchase of these properties will help achieve our aim to deliver 300 new council homes each year.

2 These new council homes will directly contribute to the Best Council priorities as set out in the Best Council plan, ie:
- Housing of the right quality, type, tenure and affordability in the right places
- Minimising homelessness through a greater focus on prevention

3 The programme will also directly contribute to ensuring that "everyone in Leeds Live(s) in good quality, affordable homes, in clean and well cared for places" which is one of the target outcomes set out in the Best Council Plan.

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:
- 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.

5 Value for Money (VfM) - 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 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.

6 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.

What consultation and engagement has taken place?

9 The Executive Member for Communities was consulted on the Property Acquisitions project on 16th August 2021 and is supportive of the programme.

10 As part of the established process for this programme the Council Housing Growth Programme engaged with Housing Management, Housing Finance, Land & Property, Housing Leeds Voids Service and other internal stakeholders prior to making an offer of purchase for these potential acquisitions. All feedback was in support of the proposal.

11 Regular updates on progress across the whole programme are provided to the Council Housing Growth Programme Board.

12 Local Ward Members are updated on any acquisitions in their ward areas, as they progress.

What are the resource implications?

13 Full Council approved an injection of £90.9m into the Council Housing Growth Programme on 27th February 2019.

14 £22.5m of this was set aside to support a 2-3 year property acquisitions / buyback programme, which will deliver c150-200 properties back into council stock.

15 Executive Board granted approval to spend for the programme on 24th July 2019.

16 As at 31st August 2021, c£12,242,631 of the £22.5m funding has been spent, leaving c£10,257,369 available to fund further property acquisitions.

17 All properties considered for potential repurchase are individually assessed using an annuity model to confirm whether 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 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.

18 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.

What are the legal implications?

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

20 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.

21 The programme may consider properties offered under the Right of First Refusal obligations which forms 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.

What are the key risks and how are they being managed?

22 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.

23 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.

24 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 the 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 acquisitions 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. However rent 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.

25 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.

Does this proposal support the council's 3 Key Pillars?

☐Inclusive Growth ☒Health and Wellbeing ☒Climate Emergency

26 As part of the technical inspection of each potential acquisition the council determines whether, as part of refurbishing the property, additional measures can and should be implemented (above lettable standard) to improve the energy performance (SAP rating) of the properties. This would be with a view to making the properties more energy efficient and less expensive to heat, positively contributing to fuel poverty and reducing carbon output.

Options, timescales and measuring success

a) What other options were considered?

27 Alternative methods of acquiring property have been considered and are being utilised alongside these 'buyback' purchases eg buying new build properties from developers, building additional new schemes.

b) How will success be measured?

28 The number of properties delivered annually will be measured against our aim to deliver 300 properties per year.

29 Where possible we will obtain a 'before' and 'after' Energy Performance Certificate in order for us to analyse the benefits of any energy improvement measures undertaken during the property refurbishment.

30 The final cost of each acquisition will be scrutinised to ensure we deliver good value for money.

c) What is the timetable for implementation?

31 The properties are currently progressing through the conveyancing process and, subject to approval, will be back under LCC ownership on average within three months.

32 Following this there will be an average 30 day period where the Voids service will undertake refurbishment works to the property before the property is handed to Housing Management for letting.

Appendices

33 Appendix A: Confidential appendix containing information regarding the purchases proposed in this report.

34 Appendix B: Equality, Diversity, Cohesion and Integration Screening

Background papers

35 None