

Use of Affordable Housing Commuted Sums to support property acquisitions in the Council Housing Growth Programme

Date: 24th May 2023

Report of: Head of Regeneration

Report to: Chief Officer Asset Management & Regeneration

Will the decision be open for call in? Yes No

Does the report contain confidential or exempt information? Yes No

Brief summary

This report seeks the use of Affordable Housing Commuted Sums from the Council's pooled budget to support the acquisition of 68 properties as part of the Council Housing Growth Programme up to the end of financial year 2023/24.

Recommendations

- a) The Chief Officer Asset Management & Regeneration is asked to approve the use of up to £3.3m Affordable Housing Commuted Sums to enable the acquisition of 68 properties through the Council Housing Growth Programme by the end of 2023/24.

What is this report about?

- 1 This report seeks the use of Affordable Housing Commuted Sums from the Council's pooled budget to support the acquisition of 68 properties as part of the Council Housing Growth Programme up to the end of financial year 2023/24.

What impact will this proposal have?

- 2 There is a need to develop good quality, sustainable, affordable housing across the city and the Council Housing Growth Programme is contributing to the Leeds Affordable Housing Growth Partnership Action Plan 2022-25 which sets out an affordable housing pipeline that targets delivery of c.750 new affordable homes per annum over that period.
- 3 This is being achieved predominantly via a substantial new build programme but is also complemented by a property acquisitions programme – with a focus on providing additional affordable family homes through acquisition of new build family properties from a range of partners, 1 bedroom accommodation specifically for rough sleepers/homeless and re-purchasing former council properties previously sold under the right to buy regime, including those to which the statutory right of first refusal for the Council on re-sales regime applies.
- 4 Right to Buy (RtB) receipts have previously supported this programme. However, Government policy now restricts the number of acquisitions the Council can undertake using RtB receipts as a proportion of New Build properties started on site in the same financial year. A policy change took effect from April 2022, so that the number of acquisitions that can be funded using RtB receipts is capped at 50% of new build starts on site within the Council's programme, having previously been unlimited. The first 20 acquisitions in-year in the programme do not however count towards this cap.
- 5 This policy change created a particular challenge for the Council in 2022/23. The cap and ability to apply RtB receipts to acquisitions is now very sensitive to progress on new build starts. In 2022/23 it had been anticipated that the new build programme would provide for 116 starts on site of new affordable homes and accordingly 49 acquisitions had been approved through delegated decisions, well within the cap. Although 28 of the new build homes across two sites started construction during 2022/23, a larger scheme of 88 homes did not commence as scheduled, due to delays in securing planning approval and the impacts of cost inflation impacting on viability across the construction industry.
- 6 Based on this reduced number of 28 programmed starts on site in-year, applying the policy allowance for the first 20 only 4 further acquisitions could be funded through RtB receipts, for a total of 24 of the 49 homes that were previously approved for acquisition in 2022/23, in locations across the city.
- 7 RtB receipts have been used to support the acquisition of the 24 highest value properties within the 49 approved purchases, to maximise their use in line with the new cap restrictions. It is now proposed that Commuted Sums are drawn on to fund the acquisition of the remaining 25 properties acquired in 2022/23, with the remaining costs being met through HRA borrowing. It is proposed that Commuted Sums are applied at an average funding rate of 40% of the total acquisition costs, which include the purchase, refurbishment & stamp duty. The average Commuted Sums contribution would be c.£50,000 per property, based on an average acquisition cost of £125,000.
- 8 Further programmed acquisitions in 2023/24 will face a similar constraint through the cap related to starts on site and to ensure continued progress on this method of increasing our

affordable housing supply, it is proposed to make Commuted Sums available at the same funding rate for a further 43 properties, resulting in a request for a total of £3.3m Commuted Sums to support the purchase of 68 properties by the end of 2023/24.

- 9 The acquisition of these properties will directly contribute towards achieving the target of securing delivery of c.750 new affordable homes per annum in the city over the next 3 years. It will support the purchase of 68 properties to be brought into use as affordable housing by the end of 2023/2024.
- 10 The programme will consider whether each potential property acquisition represents a viable investment (in terms of length of time to repay the associated borrowing based on assumed income through rent generation/savings). A value for money assessment will consider 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.

How does this proposal impact the three pillars of the Best City Ambition?

Health and Wellbeing

Inclusive Growth

Zero Carbon

- 11 The proposed use of Commuted Sums directly aligns with Leeds Inclusive Growth Strategy (LIGS) ambitions, particularly in ‘supporting places and communities to respond to economic change’ by seeking to deliver more homes and improving housing and quality of place in locations of change to tackle poverty and support growth. The programme will also support the LIGS ambition of promoting a ‘21st Century Infrastructure’ including delivering housing of the right quality, type and range in the right places.
- 12 The programme will directly support the priorities set out in the Leeds Health and Wellbeing Strategy by delivering houses that are affordable, warm, secure and support independent living, helping to promote Leeds as an ‘age friendly city’ with environment, transport and housing which promotes independence and social inclusion.
- 13 The programme also supports the priorities set out in the Leeds Climate Emergency by tackling fuel poverty and creating vibrant places where residents have close access to services and amenities.
- 14 Acquisition of these new council homes will also directly contribute to delivering the Leeds Best City Ambition pillars of Health & Wellbeing and Zero Carbon by:
 - Providing housing of the right quality, type, tenure and affordability in the right places.
 - Minimising homelessness through a greater focus on prevention.
 - Addressing the challenges of housing quality and affordability, tackling fuel poverty and creating vibrant places where residents have close access to services and amenities.
- 15 The programme will also directly contribute to ensuring that “everyone can have a home which supports good health, wellbeing and educational outcomes” which is key focus under the Health and Wellbeing pillar of the Best City Ambition.

What consultation and engagement has taken place?

Wards affected:

Have ward members been consulted?

Yes

No

- 16 This decision was advertised as a Key Decision on the Forward Plan from 30th March 2023.
- 17 This proposal has been shared and supported through the Council's Affordable Housing Delivery Board.
- 18 The Executive Member for Infrastructure and Climate was consulted in March 2023 and is supportive.

What are the resource implications?

- 19 Financial support from the Council is requested from the pooled Affordable Housing Commuted Sums budget which is confirmed as legal and appropriate for this scheme.
- 20 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 40 years or less. A 40-year repayment period allows the authority to meet its obligation under Section 24(1) of the 1985 Act. 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.
- 21 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 key risks and how are they being managed?

- 22 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.

What are the legal implications?

- 23 As it is proposed to use commuted sums to fund the delivery of new affordable housing by Leeds City Council, there are no Subsidy Control implications.
- 24 The terms of affordable housing commuted sums source S106 agreements will be checked to ensure that there are no restrictions or limits on the use of the commuted sums for the proposed purchases.
- 25 This report is classified as a Key Decision and is subject to Call In.

Options, timescales and measuring success

What other options were considered?

26 Alternative funding options are already being utilised including the injection of £90.9m into the Council Housing Growth Programme approved by Full Council on 27th February 2019 and RtB receipts. However, due to the cap on the use of RtB receipts against new build starts on site, this option limits delivery.

27 If commuted sums were not available, the acquisitions programme would be restricted to the new 50% RtB cap of the number of LCC new build starts on site plus an exemption of 20 purchases. As such, if available, commuted sums will directly contribute to unlocking the acquisition of more homes which will provide new affordable council homes.

How will success be measured?

28 Critical success factors will include the acquisition of 68 properties to deliver much needed affordable housing as part of the Council Housing Growth Acquisitions Programme.

What is the timetable and who will be responsible for implementation?

29 It is envisaged that 68 properties will be delivered by the end of 2023/24.

Appendices

- None

Background papers

- None