

Council Housing Growth Programme: Property Acquisitions request for Right of First Refusal / Buyback Budget Cap Increase

Date: 12th September 2024

Report of: Head of Council Housing Growth Programme

Report to: Chief Officer of Asset Management and Regeneration

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?

- To request an increase of the Right of First Refusal (ROFR) / Buyback budget cap per property to make a greater contribution in delivering additional affordable housing.
- It also sets out proposals for assessing and processing purchases that exceed the agreed budget cap.

Recommendations

The Chief Officer of Asset Management and Regeneration is recommended to:

- a) Approve an increase to the ROFR / Buyback budget cap from £175,000 to £240,000 from 16th September 2024 until 31st March 2026.
- b) Agree to the approach set out in this report when assessing acquisitions that exceed the £240,000 budget cap.

Why is the proposal being put forward?

- 1 Executive Board originally agreed funding to support a property acquisitions / buyback programme in July 2019 with an estimated target of acquiring and improving between 150-200 homes and an original budget of £145,000 to meet the costs of purchase and refurbishment of each property, agreeing that future increases to the budget could be delegated to officers.
- 2 Executive Board were informed in September 2022, that the cap had increased to £175,000 in March 2022 as a result of an increase in property and refurbishment costs and has remained at that level to date. The budget covers the property purchase price (market valuation) and void repair minus any repayable Right to Buy discount if the property is being sold within the first five years of ownership.
- 3 The programme has been working within the £175,000 cap; however, more and more properties exceed the current cap due to market conditions and the size of properties required, and are being rejected even though they remain financially viable well within the 40-year payback limit.

- 4 Following receipt of a letter from the Deputy Prime Minister and Secretary of State for Housing, Communities & Local Government in July 2024, local authorities are now being encouraged to make best use of funding flexibilities to maximise Right to Buy replacements. The new Government's approach on housing delivery has temporarily removed the caps on percentage of replacements delivered as acquisitions (which was previously 50%) and the percentage cost of a replacement home that can be funded using Right to Buy receipts (which was also previously 50%). These flexibilities remain in place until March 2026 and will be reviewed at that point.
- 5 Since March 2022, the programme has rejected over 150 possible acquisitions where the combined market value and refurbishment costs were over the current budget cap of £175,000 with many more predicted. The table below illustrates the rejected properties by bedroom size / percentage. The majority of properties were houses but included a small number of flats and a bungalow.

Sizes of properties rejected due to being over budget	
1 bed	1.7%
2 bed	32%
3 bed	58%
4 bed	3.3%
5 bed	5%
Source: CHGT Acquisitions Tracker	

- 6 Housing survey data shows that there is a continued high demand for 2 & 3 family homes, and more frequent demand for larger family homes. Currently, 49% of customers of the Leeds Homes register are seeking family homes', between 2 – 5 bed properties as shown below:

2 Bed	3 Bed	4 Bed	5 Bed
6941	4679	1163	155

**The average wait time for customers seeking family houses are:

- 2 bed house – 2.5 years (133 weeks)
- 3 bed house - 3 years (166 weeks)
- 4 bed house - 3+ years (188 weeks)

**Availability/turnaround is lower on larger family houses (based on last 12 months of advertising):

- 2 bed houses - 394 advertised, 18% of properties available last year (2131 in total)
- 3 bed houses – 254, 12%
- 4 bed houses– 29, 1%
- 5 bed houses – allocated 4 which 2 were advertised

**Current LCC stock level on family houses:

- 2 bed houses equate to 22% of the total LLC stock (52,867)
- 3 bed houses - 25%
- 4 bed houses – 3%
- 5 bed houses – 0.19% (101)

** The data excludes other 2 & 3 bed property types such as bungalows and apartments.

- 7 Land Registry data shows that since the previous cap increase in March 2022, property prices in Leeds have increased by 7.23% and the average cost of void repairs has

increased by 18%. The average house price in Leeds over the last months is £261,000 [Rightmove] and in May 2024 was £241,328 [Office for National Statistics].

- 8 **Over budget cases** – to ensure there is an agreed decision making and approval / governance process that enables over budget cases to be assessed and processed consistently and promptly. It is proposed that any **over budget properties** are dealt with as follows:
- a) Assess any ‘special’ circumstances around the purchase. This may include factors such as the property already being adapted for wheelchair users, priority demand in particular areas, or the property being larger than usual, e.g. 5 bedrooms.
 - b) If there were special circumstances viability would then be considered. If any borrowed portion of the purchase was repayable within the 40-year cap, further consultation with stakeholder teams shall be undertaken with a view to gaining additional justification for the purchase.
 - c) The case would then be put forward for Chief Officer approval, clearly stating the circumstances, reasons for purchase and additional consultation carried out. Whilst the acquisition would be approved in accordance with the Director of City Development’s scheme of delegations, confirmation of support for the acquisition will be required from the Chief Housing Officer.
 - d) Any properties valued over £240,000 which are not subject to special circumstances but are repayable within 40 years would be rejected.

What impact will this proposal have?

- 9 Ward members have previously been briefed around the acquisitions programme and are consulted when any properties are identified for purchase within their ward area.
- 10 It is predicted that the new budget cap proposal will support increased success rate and facilitate much wider housing choice / options across wards at pace. It shall contribute towards an increase in the number of affordable homes and support sustainable and inclusive growth.
- 11 The budget cap increase shall make the best use of Government flexibilities to maximise Right to Buy replacements, combining higher level of Right to Buy receipts with possible Section 106 contributions. The same acquisition principles will continue to apply including the Value for Money assessment (see para. 14), and properties will continue to be acquired at market value.
- 12 These new council homes will directly contribute to the Council Best City Ambition by supporting of the 3 pillars and key priorities by:
- Providing housing of the right quality, type, tenure and affordability in the right places.
 - Minimising homelessness through a greater focus on prevention.
 - Tackling fuel poverty; and
 - Ensuring that everyone in Leeds live(s) in good quality, affordable homes, in clean and well cared for places
- 13 The property acquisitions shall specifically contribute to the achievement of a number of key performance indicators the Council will use to measure success, including:
- Growth of available homes in Leeds

- Number of affordable homes delivered
 - Improved energy and thermal efficiency performance of homes; and
 - Number of households in poverty
- 14 Value for Money (VfM) - the programme will continue to 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, any required repairs / improvements to bring the property up to the Leeds Homes Letting Standard and longer-term investment needs. This part of the assessment also includes consideration of potential rent levels (estimated based on other similar social housing in the area and not market rents), and whether any right to buy discount would be repayable.

Wards affected: All

Have ward members been consulted? Yes No

What consultation and engagement has taken place?

- 15 The Executive Member for Housing was briefed on the ROFR / Buyback programme 12th September 2024 and is supportive of the budget cap increase proposals.
- 16 Local Ward Members are updated on any acquisitions in their ward areas, as they progress.
- 17 The Chief Officer, Housing confirmed support of the proposals on 24th July 2024.
- 18 As part of the established process for this programme the Council Housing Growth (CHG) Programme engage with Housing Management, Housing Finance, Legal services and Land & Property. The most recent communications were in July 2024.
- 19 Regular updates on progress across the whole programme are provided to the Affordable Housing Delivery Board; last update provided 26th July 2024.

What are the resource implications?

- 20 The Executive Board report of 24th July 2019 (section 6.1(d)) contains provision to review the property purchase cap in line with future fluctuations in housing prices and for any amendments to be authorised to the Director of Resources and Housing. Since the approval was granted, delegations for CHG programme activities were added into the Director of City Development's scheme as of the 1st April 2021 which includes delegation to amend budget caps to the Chief Officer of Asset Management and Regeneration.
- 21 As at 27th August 2024 over £15m is available to fund ROFR / Off The Shelf acquisitions. Additional funding has been identified from within the current CHG programme and budget re-alignment is currently subject to separate approval.
- 22 An established & experienced acquisitions team shall lead & deliver the programme. Additional support has been identified from within the CHG team to support increased acquisitions delivery.
- 23 The acquisitions team shall be supported by critical delivery colleagues in Land & Property (valuations / rents), Legal services (conveyancing) and finance (funding mix / viability).

- 24 Acquisition projections from September 2024 to March 2026 have been shared with partners on the critical delivery path:
- Property valuations shall be undertaken by Land & Property, however, should they be unable to support this service a locally procured estate agent shall be used.
 - The Council's legal services have confirmed they are able to support delivery using in-house resource.
 - A dedicated void contractor has been appointed under an established framework to undertake voids repair work to the Leeds Homes Letting standard and Council requirements. Additional contractor capacity options include the use of the Council's Internal Service Providers / Property Management and Leeds Building Services (LBS).

What are the legal implications?

- 25 This is a Publishable Administrative Decision and as such is not eligible for call in.
- 26 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?

- 27 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.
- 28 Failure to increase the budget cap per property shall significantly restrict acquisition opportunities and choice, resulting in lower delivery of much needed additional homes over the next 18 months. A focussed property strategy shall be employed to maximise sourcing and securing acquisitions using current funding flexibilities.
- 29 Increase in property prices and refurbishment costs may result in properties of certain types in certain locations exceeding the approved budget cap – see process as set out in section 22 above, over budget cases.
- 30 Lack of adequate resources to support successful delivery of the acquisitions – see sections 20 - 22.
- 31 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.
- 32 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.

- 33 The programme is highly likely to lose homes if they are not progressed within regulations, therefore, it is critical that decision contributors receive all the required information, review and respond to confirm support or reject within the agreed timescales. In addition, all DDN approvals to be signed off at relevant Property Panel or by exception if risk of losing acquisition.
- 34 A new process has been agreed between parties and implemented to mitigate the risk of losing homes due to failing to meet regulatory deadlines.

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

Inclusive Growth Health and Wellbeing Climate Emergency

- 35 As part of the acquisition assessment, the Council considers the scale and type of housing need; how proposals can contribute towards supporting the Councils Best Council Ambition (refer to sections 10 above).
- 36 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 the Leeds letting 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?

Keeping the budget at the existing level would lead to more considered purchases being declined and leading to the risk of failing to deliver the target number of homes. It shall also fail to take full advantage of the Governments flexibilities to maximise Right to Buy replacements. It shall also lead to additional levels and requirements as part of decisions and approvals process for over budget cap cases.

b) How will success be measured?

1. Delivery of a projected 180 properties over the next 18 month shall contribute to the Council Housing Growth's overall target.
2. Success of the increased budget will be measured by analysing how many properties are purchased with combined acquisition costs between £175,000 and £240,000 (or against further increases to the budget cap).
3. Success and achievements shall also be measured against its contribution in supporting relevant Best Council Ambition.

c) What is the timetable for implementation?

The increased budget cap shall be implemented on all cases from 16th September 2024 and shall be further reviewed on / before 31st March 2026. Based on remaining budget and predicted number of properties that shall be acquired, it is estimate that available and approved funding shall continue to support the programme for 18 - 20 months.

Appendices: None

Background papers: None