



Report of the Director of Environment and Neighbourhoods

Executive Board

Date: April 1st 2009

Subject: Lease at Less Than Best Consideration – Agreement to lease 28 miscellaneous properties to GIPSIL and Leeds Housing Concern (LHC) on a 25 year lease agreement

Electoral Wards Affected:

Gipton and Harehills

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In
(Details contained in the report)

EXECUTIVE SUMMARY

1. The purpose of the report is to seek approval to grant a long lease at a peppercorn rent (less than best consideration) for 28 Leeds City Council owned miscellaneous properties, to GIPSIL and Leeds Housing Concern (LHC) who are supported housing organisations. The proposed scheme will ensure the capital investment in the miscellaneous properties to bring the properties up to the Decent Homes Standard and contribute to regeneration in the areas. On completion of the scheme the houses will be let as affordable housing to vulnerable tenants in line with the Council's Housing Strategy. GIPSIL and LHC will be responsible for full maintenance and repair of the properties throughout the term of the lease.
2. The GIPSIL properties were originally part of the East North East Home Leeds (ENEH) management portfolio, whereas the LHC properties were originally leased to Leeds Federated Housing Association (LFHA), who then set up a sub leasing arrangement with LHC (the properties are occupied by LHC tenants). LFHA no longer want to be involved in shortlife stock, so the proposal is for LHC to lease the properties directly from the Council.
3. The Council's policy for disposals of land at less than best consideration requires that Executive Board approval is necessary where the proposed value to be foregone on disposal exceeds £100,000. 'Best consideration' means the highest price which could

reasonably be obtainable, which is usually that which could have been achieved if the land or property had been advertised on the open market without restrictions as to use etc, which may be imposed by the Council as vendor.

4. If the properties were to be marketed for sale on the open market then the Council's Development Department has estimated that the total value would be in the region of £2,600,000. However this approach would not be supported by Environment and Neighbourhoods, as it would result in the properties no longer being available as rented social housing. Disposal of the properties on the open market would go against the aims and objectives set out in the Affordable Housing Strategy.
5. The total current rent due to the Council on the 28 properties when occupied amounts to approximately £1500 per week or £72,000 per annum. Over the 25 years proposed for the lease to GIPSIL and LHC, the potential rent loss to the Council would be in the order of £1,800,000 assuming annual increases in line with those at present.
7. It is proposed that the properties are set up on a long term lease for 25 years. This is primarily because a lease over 25 years means that the Council is not liable to pay housing subsidy to Central Government for the properties. The housing subsidy equates to approx £1000 per annum per property. In this instance the Council could save approximately £28,000 per annum or £700,000 for the 28 properties over 25 years.
8. Taking into account loss of rent, the housing subsidy savings, and the capital investment by GIPSIL and LATCH the Less Than Best subsidy figure for the GIPSIL/ LHC scheme equates to £751,000 over the 25 year period or £30,400 per annum for the 28 properties.
9. By leasing these properties to GIPSIL and LHC the Council will be ensuring that they are retained as social housing. If the properties were to be retained by the Council, then the only alternative, with no funding available for renovation to the decency standard, would be to dispose of the properties via the open market at auction. It is more than probable that the properties would be bought by private landlords, which would increase the instability in the area. By leasing the properties to GIPSIL and LHC the properties remain social rented and contribute to the stability of the area.
10. Environment and Neighbourhoods and Legal and Democratic Services are liaising regarding the specific legal consents required to grant the lease.
11. Previously the Council has granted leases on similar properties to other supported housing agents i.e. Canopy (Executive Board approval granted September 2007) and LATCH (Executive Board approval granted July 2007). Similar terms are therefore requested for these organisations and properties.

1.0 Purpose Of This Report

- 1.1 The purpose of this report is to seek the support from the Executive Board to grant a long lease at less than best consideration for the 28 Leeds City Council owned miscellaneous properties to GIPSIL and LHC, for the purpose of refurbishing and improving the buildings for accommodation for vulnerable tenants. On completion, the properties will be managed by GIPSIL and LHC.

2.0 Background Information

2.1 Leeds Housing Concern (LHC) – 16 properties

- 2.2 LHC was founded in the 1970's, and is a registered charity which was established to provide housing and support for single homeless people. LHC currently accommodates over 250 service users in group homes, small hostels and self-contained units, as well as providing day centre facilities and floating community support.

- 2.3 Services are provided for people struggling to cope with a broad range of issues including mental health, learning difficulties, drug / substance misuse, domestic violence and offending. LHC are in receipt of Supporting People funding to carry out their objectives.

- 2.3 The 16 properties LHC are proposing to lease are miscellaneous properties which were subject to a peppercorn lease agreement between the Council and Leeds Federated Housing Association (LFHA) for the last 10 years. LHC via a sub leasing arrangement with LFHA, have managed and maintained the properties for the period of the lease. These properties are shown in appendix 1.

- 2.5 The lease agreement between LFHA and the Council has now ended, and LFHA no longer wish to manage shortlife stock. As these properties were not part of the ALMO portfolio and have not been included in Decency costings, it is proposed that LHC continue to manage the properties. This will be formalised by 25 year leases, and LHC will be responsible for the undertaking and funding of all the Decency works at a cost of £221,000. This equates to £13,800 per property

2.6 GIPSIL properties

- 2.7 GIPSIL is a community-based project which has been providing furnished supported tenancies to young people on the Gipton estate since 1993. GIPSIL currently have flats for young single people, houses for single parent families, a new supported housing scheme for up to six care leavers who need help in tenancies, and an education worker who helps young people get into college, training and employment. GIPSIL are seeking to employ a specialist drugs worker in the near future.

- 2.8 GIPSIL provide support to young people and families on a range of issues which affect their day-to-day lives. If they are unable to provide specialist help, they ensure contact is made with organisations who can assist. GIPSIL are in receipt of Supporting People funding to carry out their objectives.

- 2.9 The 12 properties, formerly managed by ENEhl, that GIPSIL are requesting long leases from the Council are also shown in appendix 1.

- 2.10 Decent Homes work has not been provided for within the ALMO Business Plan or in the Decent Homes funding allocation from Department for Communities and Local Government (DCLG).
- 2.11 GIPSIL are proposing to spend £128,000 on the 12 props which equates to £10,650 per property. This level of investment could not be provided by the ALMO.

3.0 Main Issues

- 3.1 All of the 28 properties are currently occupied by GIPSIL and LHC tenants.
- 3.2 The GIPSIL properties are traditional council properties, whereas the majority of the LHC properties are miscellaneous acquisitions located within blocks of back to back or through terrace streets rather than purpose built Council housing (hence the slightly higher refurbishment costs). All of the properties require substantial renovation work over and above the work required to meet the Decent Homes Standard. The ALMO Business Plans had little provision for the high costs associated with bring these types of properties up to the Decent Homes standards.
- 3.3 In order for GIPSIL and LHC to successfully bring the properties back into use they would require the properties on a long lease at a peppercorn rent. Previously the Council has granted leases on similar properties to other supported housing agents i.e. Canopy (Executive Board approval granted September 2007) and LATCH (Executive Board approval granted July 2007). Similar terms are therefore requested for these organisations and properties.
- 3.4 All 28 properties will be renovated and made habitable, and brought up to Decent Homes Standard by GIPSIL and LHC. The properties will be inspected by officers within Environment and Neighbourhoods to ensure the works are completed to a satisfactory standard. GIPSIL and LHC will be fully responsible for all repairs and maintenance for the length of the 25 year lease.
- 3.5 If, at the end of the lease period, GIPSIL and LHC decide to return the properties to the Council rather than apply for a lease extension, then the lease specifies that properties would be returned in a habitable condition and up to the Decent Homes Standard.
- 3.6 Environment and Neighbourhoods Decision Panel and Asset Management Group have all previously supported the proposal to lease miscellaneous properties to supported housing organizations. However Executive Board approval is now required to grant the leases at less than best consideration.
- 3.7 It is proposed that the properties are set up on a long term lease for 25 years. This is primarily because a lease over 25 years means that the Council is not liable to pay negative housing subsidy to Central Government for the properties. The negative subsidy equates to approx £1000 per annum per property. In this instance the Council could save approximately £700,000 for the 28 properties over 25 years.
- 3.8 On this basis a 25 year lease, between the Council and GIPSIL and LHC, is sought. The leases will include a break clause and review at regular periods. This will allow either the Council or GIPSIL or LHC to break the lease. Both GIPSIL and LHC have confirmed that they will adopt an open book approach throughout the Decency works and period of the lease. Should GIPSIL or LHC evidence that they are making surpluses, after the completion of the works, then the Council will be able to instigate a rent review.

- 3.9 The total current rent due to the Council on the 28 properties when occupied amounts to approximately £1,500 per week or £72,000 per annum (calculated over a 48 week rent period). Over the 25 years proposed for the lease to GIPSIL and LHC, the potential rent loss to the Council would be in the order of £1,800,000 assuming annual increases in line with those at present. Therefore Executive Board is requested to approve the principle of disposal at less than best consideration, subject to approval by the Director of Development having regard to the costs of refurbishment, subsequent maintenance, management and other outgoings.
- 3.10 The business plan drawn up by GIPSIL and LHC provides for the rental stream to cover future management and repair costs. Both GIPSIL and LHC are not for profit organisations and do not seeking to generate surpluses from this project.
- 3.11 If the 28 properties were to be marketed without restrictions, but allowing for the cost of necessary improvements, it is estimated that the open market leased value would be in the region of £2,590,000 over 25 years. However, the Environment and Neighbourhoods Department would never seek to rent these properties at market rents.
- 3.12 On the basis of the market valuation, Executive Board is requested to approve the principle of disposal at less than best consideration at a peppercorn rent.
- 3.13 Alternatives for the Properties should the scheme not proceed
- 3.14 All the 28 properties must be brought up to the Decent Homes standard. The ALMO Business Plans do not include the Decency works, renovation costs or future refurbishment liabilities associated with these properties. Should these properties be retained by the Council, capital funds are not available to undertake the renovation works.
- 3.15 If the properties were to be retained by the Council, then the only alternative, with no funding available for refurbishment and Decency works, would be to dispose of the properties via the open market at auction. It is more than probable that the properties would be bought by private landlords, which would increase the instability in the area. This is not an option that is supported by Ward Members. By leasing the properties to GIPSIL and LHC the properties remain in the social rented sector, retain the stability within the area and provide homes for potentially excluded individuals/families. The ALMOs strongly support the proposal for GIPSIL and LHC to lease and manage the properties as they will provide a valuable service to vulnerable tenants.

4.0 Implications For Council Policy And Governance

- 4.1 The Affordable Housing Plan was agreed by the Executive Board in November 2006. The GIPSIL and LHC proposal is in line with its objectives. The Plan will rely upon use of the Council's powers to dispose of sufficient assets at less than best consideration to maximise the level of investment in affordable housing in Leeds.
- 4.2 The Council's policy for disposals of assets at less than best consideration requires that Executive Board approval is necessary where the proposed value to be foregone on disposal exceeds £100,000. 'Best consideration' means the highest price which could reasonably be obtainable, which is usually that which could have been achieved if the land or property had been advertised on the open market without restrictions as to use etc, which may be imposed by the Council as vendor.

Executive Board approval is requested to the principle of disposal at less than best consideration.

5.0 Legal And Resource Implications

- 5.1 Environment and Neighbourhoods and Legal and Democratic Services are liaising regarding the specific legal consents required to grant the lease.
- 5.2 The market value of the properties was estimated at around £2,600,000 by the Development Department on an open market basis as required by the relevant statutory regulations. Such figures would be achievable if the Council adopted the usual approach of selling the properties at auction, however that path is not recommended due to its potential adverse impact on the Council's regeneration proposals and community cohesion in the areas.
- 5.3 The open market leased value would be in the region of £2,590,000 over 25 years, however this approach would not be supported as the properties would be lost to the social rented sector, going against the objectives of the Affordable Housing Plan.
- 5.4 By leasing the properties out for 25 years, Environment and Neighbourhoods will save approximately £700,000 in negative housing subsidy. However, the rental loss to the ALMOs will be approximately £1,800,000 assuming annual increases in line with those at present.
- 5.5 GIPSIL will be spending £128,000 in capital monies on their 12 leased properties. LHC will be spending £221,000 in capital monies on their 16 leased properties.
- 5.6 Therefore, taking into account loss of rent, the ALMO capital assistance and the housing subsidy savings, the Less Than Best subsidy figure for the GIPSIL/ LHC scheme equates to £751,000 over the 25 year period or £30,040 per annum for the 23 properties.

6.0 Conclusions

- 6.1 If the properties were to be sold without restrictions, but allowing for the cost of necessary improvements it is estimated that the open market value would be in the region of £2,600,000.
- 6.2 However, in consideration of the benefits to be brought by the scheme proposed by GIPSIL and LHC, it is recommended that the Council's policy for disposals of land at Less Than Best consideration be utilised, and a 25 year lease at a peppercorn rent be drawn up between Leeds City Council and GIPSIL and LHC, with regular break clauses and the option for a rent review as standard.
- 6.3 The benefits of the scheme are:
- The properties would be brought up to the Decent Homes Standard and remain as social rented properties for vulnerable tenants
 - GIPSIL and LHC would continue to build on the good property maintenance/ improvement work
 - GIPSIL and LATCH would remain viable as organisations and would continue to contribute to the LCC Housing Strategy, Supporting People Strategy, Homelessness Strategy, Empty Property and Crime Reduction Strategy

7.0 Recommendations

- 7.1 That members note the contents of this report
- 7.2 Executive Board is requested to approve the lease of the 28 properties listed in appendix 1 to GIPSIL and Leeds Housing Concern, at a peppercorn rent for a 25 year period at Less Than Best consideration.
- 7.3 That formal negotiations commence to complete the leasing arrangements with Legal and Democratic Services, Development Department and GIPSIL and Leeds Housing Concern.

Background Papers

Executive Board - Lease at Less Than Best Consideration – Agreement to lease 12 miscellaneous properties to LATCH on a 25 year lease agreement - July 2007

Executive Board - Lease at Less Than Best Consideration – Agreement to lease 23 miscellaneous properties to Canopy on a 25 year lease agreement - 11th September 2007

Scrutiny Board - Miscellaneous Properties - 13 October 2008

Scrutiny Board - Miscellaneous Properties - 16 March 2009