

## CABINET

19 March 2013

This report is submitted under Agenda Item (9). The Chair will be asked to decide if it can be considered at the meeting under the provisions of Section 100B(4)(b) of the Local Government Act 1972 as a matter of urgency in order to progress the street purchase programme, particularly in relation to the imminence of the Welfare Reform programme.

<b>Title:</b> Council Programme for the Acquisition of Private Market Housing	
<b>Report of the Cabinet Members for Housing and Finance</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> All	<b>Key Decision:</b> Yes
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<b>Accountable Divisional Director:</b> Ken Jones, Divisional Director of Housing Strategy	
<b>Accountable Director:</b> Darren Henaghan, Corporate Director of Housing and Environment	
<b>Summary</b>	
<p>The purpose of this report is to update Cabinet Members on the programme to acquire housing from private market sources.</p> <p>On 24 July 2012, as part of the Housing Investment report, Cabinet agreed to establish a £2.5m budget to fund a programme of buying existing street properties for the Council's Housing Revenue Account (HRA). This report sets out that this budget be used over a two year period to:</p> <ul style="list-style-type: none"><li>- purchase private market homes in the Borough</li><li>- focus on houses which had formerly been in Council ownership that are in poor condition and are causing or are likely to cause blight in a neighbourhood</li><li>- consider ways to extend choice to tenants of the Council in terms of options for moves to homes out of the Borough.</li></ul> <p>The objective is to use the available budget within the HRA and explore other options to provide a further supply of social rented / Council homes during the period before the steady stream of new Council housing and the homes being developed by Barking &amp; Dagenham Reside becomes ready to let. An allied objective is to extend choice for local tenants seeking a transfer to alternative accommodation, particularly as a result in the upcoming changes to the benefit system.</p>	

This programme does need to be put in perspective, that is of a Council new build housing investment programme of over £130m over 10 years and the Barking & Dagenham Reside build programme in excess of £70m. Moreover, discussions with the Greater London Assembly have indicated that they would be prepared to accept bids for grant under the Affordable Housing Programme 2011/15 in relation to market homes acquired by the Council, the likely grant level would be £24,000 per property. This grant will not be available for purchases outside London.

## **Recommendations**

The Cabinet is asked to:

1. Pursue the purchase of appropriate private market homes within the Borough within the programme of £2.5m
2. Agree to explore the options in 4.2 – 4.5 and note that a package of potential purchase or development opportunities in the selected area will be presented to a future Cabinet meeting for consideration.
3. Delegate authority to the Corporate Director of Housing and Environment in consultation with the Divisional Director of Finance, the Head of Legal and Democratic Services and the Cabinet Member for Housing and on advice from the Council's Property Advisory Group to agree to terms and enter into all necessary legal documentation for purchasing properties under recommendations 1 above.

## **Reasons**

To contribute to the Council's objectives of:

- assisting with the estate renewal decant process
- meeting housing need
- extending housing choice

## **1. Background**

- 1.1 On 24 July 2012, as part of the Housing Investment Report, Cabinet agreed to establish a £2.5m budget to fund a programme of buying existing street properties for the Council's Housing Revenue Account (HRA). The acquisition of street properties will contribute towards meeting local housing needs; this is particularly important in the period before the supply of new build Council homes comes on stream. Such acquisitions also provide an extension of choice for local tenants seeking a transfer to alternative accommodation.
- 1.2 The programme focuses on purchasing houses which have fallen into poor condition and causing an eyesore in the local area. Alongside the successful Eyesore Garden campaign and the scheme under development to licence private sector landlords these purchases are designed to tackle blight and help to maintain pride in the Borough.

- 1.3 Whilst house prices in Barking and Dagenham are low in relation to London, they are still much higher than other areas outside the South East.
- 1.4 The Council has, for many years, been participating in the London wide Seaside and Country Homes scheme. This scheme enables tenants and housing applicants across London to bid for properties which had been developed by the old GLC (Greater London Councils) outside of London. This has proven to be an extremely popular scheme for residents of Barking and Dagenham. Indeed, the Council has achieved the greatest number of moves of all London boroughs for the last two years, in this period 33 Council tenants from Barking & Dagenham have been rehoused under the scheme and currently there are another 68 tenants on the waiting list. However, the number of lettings is limited to the voids which become available and are shared across London boroughs on the basis of numbers of applicants and suitability. Unfortunately, the Council cannot purchase additional nominations.

## **2. Current position**

- 2.1 Currently five properties in Barking and Dagenham have been identified, for purchase from the Street Purchase Programme. It should also be noted that the Greater London Assembly has indicated that it would be prepared to consider giving Affordable Housing Grant to the Council for such acquisitions, provided that the properties are in London. This grant is likely to be £24,000 per property, with the condition that the purchase is within the Greater London Area.
- 2.2 The estimated financial commitment on the identified properties referred to in the above paragraph is £550,000.

## **3. Proposed next steps**

- 3.1 There is a clear desire from Members to provide an extension of choice for local Tenants. This has become particularly important as the impact of the Government's forthcoming Welfare Reform Programme has become more apparent for our tenants.
- 3.2 Many of the larger Housing Associations who have stock across large geographic areas have been able to offer their tenants the choice to move to areas of the country where housing costs are lower. This will mean that the housing element of Universal Credit for example, will be less significant and therefore more affordable.
- 3.3 Within Barking and Dagenham, we have responded to this challenge with one of the Country's most significant new affordable housing building programmes. This programme will see a significant supply of new socially rented homes.
- 3.4 Nevertheless, these homes will not be adequate to meet all local housing needs, and following the lead of Housing Associations the Borough could explore opportunities to source stock outside London, where housing costs are lower, and therefore provide greater choice for our tenants.
- 3.5 There are many lessons to be learnt when selecting an area for this type of development. Many Housing Associations have disposed of their remote stock as providing a quality landlord service to one or two properties in a remote location is

expensive and inconsistent. Therefore one area should be selected where sufficient properties could be assembled to justify a good quality estate management service, either provided directly by Barking and Dagenham or in partnership with a local housing provider.

3.6 East Anglia is perceived by many people in the Borough to have physical, social historical and in many cases family links with Essex and East London it would be sensible to focus on East Anglia and in particular its coastal towns.

3.7 The following criteria will be used to select the area for development:-

- The location should have good transport links to Barking and Dagenham, by either road or rail, and be approximately two hours travelling time from the Borough. This is particularly important to maintain family ties and allow quality estate management.
- Good quality schools, recreation facilities, care and health facilities must be available.
- There must be good job opportunities within the local area and access to them by local public transport.

3.8 Most importantly the area must provide a more affordable housing opportunity than Barking and Dagenham. This is particularly important for those tenants who will be affected by the proposed caps on benefit levels to be imposed by Government, as part of their programme of welfare reforms. Nevertheless, taking this opportunity should not benefit the tenant unfairly, so consideration will also be given to other schemes such as how the Council tax benefit is administered in the Borough. Therefore the following criteria will apply:-

- The properties to be built or purchased must not be more than two thirds of the cost of similar properties within Barking and Dagenham, after the application of all grants and subsidies
- The properties to be purchased will compliment those available in the Borough, and will be affordable for those adversely affected by the proposed benefit caps
- The stock must be in good condition
- The rental yield, must be at least equal to similar properties in Barking and Dagenham, and
- The cost of providing an effective estate management service should be no greater than that in Barking and Dagenham.

#### **4. Methods of delivering out of London mobility for Council tenants**

4.1 The current methods that are in place are:-

- Seaside and country homes, this scheme as described in this report is popular with Barking & Dagenham tenants, but there is no opportunity to extend the numbers available

- Mutual exchanges
- Limited potential to arrange reciprocal transfers between the Council and other Housing Authorities / Registered Providers

4.2 Further options could be considered and it should be noted that these are not mutually exclusive

4.3 Purchase street properties in the town / area of East Anglia selected from the criteria in 3.

- In this instance it would be essential to demonstrate value for money in terms of both the purchase price and rental income for the Council. A clear reference point is the purchase price of a property must be no more than two thirds of the price of a similar property in Barking & Dagenham. For each property a business case will be produced based on the acquisition price, any other capital cost and projected management and maintenance costs against the rental income stream. In making the assessment account must be taken of securing a return on the investment within a 15 year period from first letting after which the RTB protection for the Council on the purchase price expires. Consideration will need to be given to the rent that can be charged in relation to local Housing Benefit eligible levels.
- If this is pursued consideration must be given to the logistics of management and maintenance of housing some distance from the Borough. For this reason it is proposed that any acquisitions be concentrated on one town and its immediate area. Any purchases of properties outside London will not attract grant, unlike similar purchases within the Borough. The properties would be let in accordance with the Council's standard process, whereby tenants and other housing applicants can bid for properties via the Council MCIL route. The tenant would be offered a secure tenancy on the relevant social rent level of the Local Authority area.

4.4 Negotiations with Housing Associations

- The Council will also examine the following options with appropriate housing associations with void properties out of London on the following terms:-
- That the Council enters into an arrangement to fund the refurbishment of those properties on the basis that the Council nominates to them. An additional surcharge will be placed on the base rent to provide a financial return back to the Council.
- Separate from the above, that the Council secure agreement with an out of London Housing Association(s) to advertise some of their void properties on the Council's More Choice in Lettings (MCIL) system for Barking & Dagenham applicants to bid for. The tenant could also be provided with an incentive payment to support the move.

#### 4.5 Council new build programme out of London

- A number of London boroughs and particularly the City of London Corporation in the past had extensive programmes of building out-of-borough and indeed outside London. This would be an option that could be considered. Clearly there would be a need to collaborate with the host district to achieve planning consent and there would probably be a need to discuss granting some nominations for that Council into the new homes. This has been raised with the GLA and they have made the point that they would not give any grant for affordable homes built / acquired out of London.
- It should also be borne in mind that the London Borough of Barking and Dagenham have significant new build capacity within the Borough, particularly at Barking Riverside.

### 5. **Financial Implications**

Implications provided by: Martin Henwood, Deputy Section 151 Officer

- 5.1 There is a budget amount of £2.5m set aside in the HRA Financial Business Plan, for the purchase of additional street properties and to be included as part of the Council's housing stock. The intention is to let these properties to people on the Council's waiting list, although they may be used for homelessness cases in some instances.
- 5.2 The recommendations are to appraise properties both within the Borough, as well as considering suitable properties out-of-borough. However, there will be key financial differences to bear in mind between the two approaches.
- I) House prices are significantly less for some locations outside of the Borough, but will differ in the expected change in prices. Therefore, the capital appreciation / depreciation will need to be factored in when comparing asset values;
  - II) Rental income will depend on the price and earnings/affordability of the area where the purchase is made, so income return may differ from that of properties within LBB;
  - III) A further differential is likely to be the cost of managing and maintaining the properties.
- 5.3 Each case identified will need to be appraised separately to assess whether it makes economic sense bearing in mind the above and any other relevant factors before acquisitions are approved.

### 6. **Legal Implications**

Implications provided by: Alison Stuart, Principal Solicitor

- 6.1 Section 9 of the Housing Act 1985 provides local authorities with the power to provide housing accommodation. Section 14(1) of the Housing Act 1985 provides

power for local authorities to exercise outside their area the power conferred by Section 9 (provision of housing accommodation) to meet the needs of its area.

- 6.2 The Council's land acquisition and disposal rules require officers to ensure that where the Council is acquiring an interest the consideration paid is supported by a valuation.
- 6.3 In the event that management services for the new properties are to be outsourced, EU procurement regulations and the Council's contract rules will need to be adhered to.

## 7. Other Implications

- 7.1 **Policy Issues** - It should be noted that any acquisition of housing stock outside the Borough would be a policy development. At this stage it is proposed to limit the programme to be within the £2.5m allocated for street purchases in the Housing Investment Programme as agreed by Cabinet.

Whilst this is fairly unfamiliar for the Council, there is significant experience of such developments and out-of-borough / district ownerships elsewhere. LB Newham owned and managed housing estates in Barking and Dagenham, Thurrock and Brentwood for many years. The City of London Corporation has a long history of developing and owning outside the City. It should also be noted that the Council owns and manages a flatted estate in Redbridge (Longbridge Road).

- 7.2 **Risk Management** – in the event that homes outside the Borough were to be acquired there is a potential a risk of a lack of bids from housing applicants for these tenancies. However, there is strong evidence of demand from the applicants for Seaside and Country Homes.
- 7.3 **Contractual Issues** – Should properties be acquired outside the Borough which require management and maintenance issues would have to be transacted by either phone or online. Periodic visits would be made by Housing Services staff to properties.

In relation to repairs and maintenance matters there will be need to procure a local service and to this end discussions are underway with Elevate.

- 7.4 **Staffing Issues** - A cross-departmental project team would be established to ensure an integrated approach to the delivery of the purchasing of out-of-borough street properties to ensure that all legal, financial and property issues have been considered.
- 7.5 **Customer Impact** - There is evidence that strongly suggests that additional choice for residents within the Borough of re-housing opportunities outside London would be popular. Currently the Seaside and Country Homes scheme is extremely popular with residents in Barking and Dagenham. Presently there are 68 tenants on the waiting list to move.

- 7.6 **Safeguarding Children** - Increasing the supply of affordable Council housing by purchase of market properties will contribute to meeting housing needs and improving housing conditions which can contribute to better educational and family outcomes for children living in the home.
- 7.7 **Health Issues** - Approval for the purchasing of properties as proposed within this report contributes to improving housing conditions which in turn contribute to better health outcomes for the tenant.
- 7.8 **Crime and Disorder Issues** - If the properties remain vacant, there may be a danger of attracting vandalism and squatters.
- 7.9 **Property / Asset Issues** - To enable robust and rigorous controls around the purchase process and to ensure that it is carried out in accordance with the Council agreed financial regulations, the Property Advisory Group (PAG) which comprises Cabinet Members for Finance, Housing and Regeneration and senior officers will be key in the process to purchase properties both within and outside the Borough. The following gives an outline of the process to be followed.

An initial assessment for each property will take place, this will include:

- Appraising the local market as to property availability, pricing and general condition/age via email, auction house, estate agents and local press
- Obtaining a formal property valuation from the Council's valuer or if out-of-borough via the Council's framework agreement providing a full property survey in addition to a valuation
- Capital client team to inspect property and specify prices for any refurbishment works
- Finance to produce a business case for the property based on projected rental income, purchase price and anticipated management and maintenance costs to establish value for money. In making the assessment account must be taken of securing a return on the investment within a 15 year period from first letting after which the RTB protection for the Council on the purchase price expires. Should the property be out of London consideration will need to be given to the rent that can be charged in relation to local Housing Benefit eligible levels.
- PAG to approve business cases before proceeding to acquire.
- Corporate Director of Housing and Environment and Divisional Director of Finance to agree purchase under delegate authority.

#### **Background Papers Used in the Preparation of the Report:**

- Cabinet Report and Minute 3, 24 July 2012. Re: "Housing Capital Investment Programme 2012 – 2017"

**List of appendices:** None