

For publication

Housing Acquisitions Policy (H000)

Meeting:	Cabinet
Date:	22 nd October 2019
Cabinet portfolio:	Housing
Report by:	Liz Cook - Assistant Director Housing

For publication

1.0 PURPOSE OF REPORT

- 1.1 To seek Cabinet approval to revise the Strategic Housing Acquisition and Right-of-First refusal policy.

2.0 RECOMMENDATIONS

- 2.1 That Cabinet approve the changes to the Strategic Housing Acquisitions and Right of First Refusal policy.
- 2.2 That the Assistant Director Housing, in consultation with the Cabinet Member for Housing, is given delegated authority to purchase properties that meet the requirements of the Strategic Acquisitions and Right-of-First Refusal policy within the budget agreed in the Housing Capital Programme report that is presented to Council annually.

- 2.3 That the operation of the revised Strategic Acquisitions and Right of First Refusal policy is reviewed after 12 months.
- 2.4 That any properties being considered that do not meet the criteria in the revised policy a report to Finance and Performance Board will be required to secure approval for the spend.

3.0 **BACKGROUND**

- 3.1 Since housing finance reforms in 2012 the Council has been in a position to be able to consider the purchase of properties under the Right-of-First Refusal and on 17th February 2015 the acquisitions policy including the Right-to-Buy (Right of First Refusal) Policy was adopted.

Right-of-First Refusal

- 3.2 The Housing Act 2004 introduced the Right of First Refusal (RFR) that gives Local Authorities the first opportunity to 'buy-back' properties being sold by former tenants who acquired their properties under the Right-To-Buy (RTB). This applies to all sales within ten years of the date of purchase.
- 3.3 When a property is sold under the RTB, a covenant is included on all conveyances requiring that, during the 10 year period from the date of purchase, the vendor of the property serves an offer notice on the Council. The covenant is recorded on the property register held by the Land Registry and also by the Council as land charge, in order that Legal Services will pick this up when a vendor wishes to sell their property.

Strategic Acquisitions

- 3.4 Strategic acquisitions are where housing services will seek to increase its stock through the acquisition of existing stock

rather than new build.

3.5 The Strategic acquisitions policy covers:

- The purchasing of properties from the open market (including former Right-to-Buy properties where the Right of First Refusal has elapsed)
- The purchasing of properties directly from residential developers through s106 agreements
- The purchasing of properties being disposed of by registered providers
- The ability to acquire properties or land for estate management and regeneration/ development purposes

3.6 Since the introduction of the policy in 2015 a budget for acquisitions has been included in the Housing Capital Programme. This has enabled the purchase of 12 houses either through the Right-of-First refusal or as strategic acquisitions (around 3 per annum). The policy has been used to purchase houses rather than flats to meet waiting list demand.

3.7 The strategic acquisitions policy included several financial criteria:

- The maximum price payable for a property will not exceed £90,000 (to increase by inflation each year from 2015)
- The maximum value of the property purchase and works required to bring the property to a lettable standard does not exceed £95,000.

3.8 It has become increasingly difficult to identify and purchase former council houses direct off the market or through the Right-of-First refusal as the rises in their value has increased beyond the current policy criteria. Prices for former council

properties are now advertised online at over £100,000 with many areas such as Newbold with prices now over £160,000.

4.0 **REVISED POLICY AND APPROACH**

- 4.1 The opportunity to acquire properties within the current policy has become very limited as the price of former council house has increased above the current policy's thresholds. As very few former council houses are now available for under £100,000 the policy needs refreshing or alternatively a switch in emphasis to the purchasing of flats.
- 4.2 A number of flats have been offered back to the Council during 2019/20 with values around £60-75,000. As there is sufficient supply of flats to meet waiting list demand none of these have been pursued.
- 4.3 If changes are not made to the approach to acquisitions the Council could miss its target of building or acquiring 100 council properties by 2023.
- 4.4 To ensure that we can acquire houses moving forwards requires a change in approach to determining the cost effectiveness of a potential property rather than a fixed price ceiling. The attached acquisitions calculator and worked examples (**Appendix 1**) has been developed to ensure that the value for money of potential purchases is assessed and considered on an individual property by property basis.
- 4.5 The acquisitions calculator is based around ensuring the property can be purchased without causing a financial loss to the HRA in the future. The key year is year 15 when the 'cost floor' disappears and RTB discounts can reduce the sale value below the purchase and capital investment price.

- 4.6 The calculator uses information on average management and maintenance costs over time to work out the total cost of acquiring the property then subtracting the expected rental income. Provision is made for uplift in costs, house prices and rents over time. The calculator examples in **Appendix 1** use typical social rents though it can be adjusted to charge an affordable rent or be amended to take into account other changes in rent policy. Changes in management costs can also be amended within the calculator.
- 4.7 The calculator uses a conservative 2% increase in house price per annum. A 2% p.a. increase generates a house price rise of 34.6% over the 15 year period. Over the past 15 years house prices have increased by 55.3% in the East Midlands (Nationwide Building Society house price indices data). The use of the lower rate of house price increase is designed to reduce the risk in using the model.
- 4.8 It is possible to adjust the calculator to take into account anticipated costs. Therefore if a property is purchased as a new build then an extended period of no capital investment can be included to reflect that it is unlikely will need to renew any major element of the property such as a kitchen, windows, roof etc will be required.
- 4.9 Using the calculator for each individual property looks at a 'worst case scenario'. If ten properties are purchased it is highly unlikely that all ten would be purchased at year 15. The council currently owns 4,463 houses and sells around 90 per annum under the Right-to-Buy - a rate of 2% per year.
- 4.10 The amended acquisitions policy to incorporate the use of the calculator is attached as **Appendix 2**. The changes made to the policy are underlined.

5.0 **FINANCIAL IMPLICATIONS**

- 5.1 The Housing Capital Programme 2019/20 –approved by cabinet on 26th February 2019 includes a budget of £450,000 for strategic acquisitions. At the current time only one property has been identified within the current policy limit that is suitable for purchase. Due to values exceeding those in the current policy permission to purchase a further three properties was obtained through the SLT officer delegation G275D after consultation with Finance and Performance Board on 30th September 2019. Any unspent monies will be moved to the Housing Revenue Account working balance at year end.
- 5.2 The purchasing of properties under the Strategic Acquisitions Policy is part funded by 141 RTB receipts. As part of the reform of housing finance the Council signed an agreement with Government to deliver new Council homes utilising retained Right-to-Buy receipts. In signing the deal the Council accepted a number of conditions regarding the use of the receipts including that they must be spent within three years. If the receipts are not spent within three years, then they would be returned to Government with punitive interest rates (currently 4.75%) applied. As levels of RTBs have exceeded those forecast in the Housing business plan for several years the amount of RTB receipts are higher than anticipated. A proportion (6.5%) of the RTB receipts can contribute towards the acquisition of existing properties of the market.
- 5.3 The potential to increase the size of the acquisitions programme needs to be developed as part of the housing capital programme 2020/21 onwards. If the programme is expanded the financial considerations need to be amended to ensure that more flexibility and opportunity to acquire properties is available.

6.0 EQUALITIES

6.1 A preliminary equalities impact assessment has been completed and is attached as **Appendix 3**. Purchasing properties under the Housing Acquisition and Right of First refusal Policy will not have a disproportionate impact on any group with a protected characteristic.

7.0 RISK MANAGEMENT

Description of the Risk	Impact	Likelihood	Mitigating Action	Impact	Likelihood
Property acquired requires higher than anticipated cost to bring into stock	M	L	Each property surveyed prior to commitment to purchase being made. Structural surveys requested through Kier as required	L	L
Perception of poor value for money through RFR or acquisition we are purchasing property at a significantly higher price than we sold it this could be perceived negatively.	L	M	Highlight that consideration of purchase will only occur if price is lower than the equivalent new build costs of a replacement property.	L	L

Risk of returning Right-to-Buy 141 receipts to Government	M	M	Implement changes to acquisitions policy to increase RTB receipt spend	L	L
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8.0 RECOMMENDATIONS

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- 8.3 That the operation of the revised Strategic Acquisitions and Right of First Refusal policy is reviewed after 12 months.
- 8.4 That any properties being considered that do not meet the criteria in the revised policy a report to Finance and Performance Board will be required to secure approval for the spend.

9.0 REASONS FOR RECOMMENDATIONS

- 9.1 To ensure the council can deliver on the Council Plan objective to build or acquire a minimum of 100 new council homes

Decision information

Key decision number	896
Wards affected	All
Links to Council Plan priorities	<p>The acquisitions policy directly links to the following priority and objective within the Council Plan</p> <p>Improving quality of life for local people</p> <ul style="list-style-type: none">• Build or acquire a minimum of 100 new council homes

Document information

Report author	Contact number/email
James Crouch	345150
Background documents	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
N/A	
Appendices to the report	
Appendix A	Proposed housing acquisitions calculator
Appendix B	Amended housing acquisitions policy
Appendix C	Equalities impact assessment