

# HIGH PEAK BOROUGH COUNCIL

## Corporate Select Committee

28th June 2021

<b>TITLE:</b>	<b>Purchase of Additional Stock to the HRA</b>
<b>EXECUTIVE COUNCILLOR</b>	<b>Cllr Fiona Sloman – Executive Councillor for Housing &amp; Licensing</b> <b>Cllr Alan Barrow – Executive Councillor for Corporate Services &amp; Finance</b>
<b>CONTACT OFFICERS:</b>	<b>Helen Core – Head of Housing Services</b>
<b>WARDS INVOLVED:</b>	<b>All</b>

### ANNEX A - Proforma for Purchase of Property to HRA

#### 1. Reason for the Report

- 1.1 The purpose of the report is to propose a policy methodology to enable the Council to purchase additional housing stock to the Housing Revenue Account (HRA).
- 1.2 This includes properties previously sold under the Right to Buy, former Council properties advertised on the open market and bespoke purchase of properties for families with complex needs.

#### 2. Recommendations

- 2.1 It is recommended that Members of the Corporate Select Committee recommend for approval:
  - Agreement of the policy methodology
  - Delegated approval of purchasing suitable properties to the Executive Director (Finance & Customer Services), in liaison with the Executive Councillor for Housing & Licensing and Executive Councillor for Corporate Services & Finance, with a maximum net expenditure of £300,000.
  - Prior to formal appointment of the Executive Director (Finance & Customer Services), delegation will be to the Executive Director & Monitoring Officer and Interim Executive Director & S151 Officer

#### 3. Executive Summary

- 3.1 The Council's Corporate Plan 2019-2023 includes a key objective under **AIM 1: Supporting our communities to create a healthier, safer, cleaner High**

**Peak** to provide 'Fit for purpose housing that meets the need of tenants and residents'.

- 3.2 In line with this objective, the Council would like to increase the availability of its social housing stock, providing affordable rental accommodation to those individuals/families that need it. Particularly in recognition of the reduction in stock over recent years as a result of the Right to Buy (RTB) scheme and evident demand for such housing type.
- 3.3 The Council has almost £2.2 million in right to buy receipts, the spend of which is time bound. These funds can be used to fund 40% of the purchase costs of additional housing stock to the HRA.
- 3.4 One option to increase housing stock, but also target specific properties based on housing need, is to outright purchase existing properties.
- 3.5 In recent months, the Council has had the right of first refusal on two ex-RTB properties, whereby the business case for doing so has been assessed and proven viable.
- 3.6 The business case has followed a process involving a number of services including Housing, Assets, Legal and Finance. An Individual Executive Decision report has been approved for each of these potential purchases, which are currently going through the conveyancing process.
- 3.7 Going forward, to avoid any unnecessary delays and in order to be competitive in a fast moving housing market, this reports establishes a policy methodology by which Council Officers will follow when dealing with potential property purchases. It is proposed that this process is then delegated to Officers in liaison with the relevant Executive Councillors, to avoid individual reports having to be presented for each potential purchase.

#### **4. How this Report Links to Corporate Priorities**

- 4.1 As part of the Corporate Plan aim 'Supporting our communities to create a healthier, safer, cleaner High Peak', where one of the key priorities is:
  - Increased supply of affordable housing

In purchasing additional appropriate properties, the Council is adding to its social housing stock.

#### **5. Alternative Options**

- 5.1 There are two options:-
  - **APPROVE (RECOMMENDED)** – to approve the policy methodology and delegated decision making to enable the timely purchase of appropriate additional stock to the HRA
  - **DON'T APPROVE (NOT RECOMMENDED)** – each individual property will need separate reporting and decision making, delaying the process

and making the Council less attractive to vendors, potentially preventing the purchase of appropriate stock

## **6. Implications**

### 6.1 Community Safety - (Crime and Disorder Act 1998)

Not applicable

### 6.2 Workforce

It is unlikely that any additional or specific impact to staff is expected from individual purchases.

### 6.3 Equality and Diversity/Equality Impact Assessment

No specific implications

### 6.4 Financial Considerations

As part of the business case, the financial implications associated with the purchase of the individual property will be considered.

### 6.5 Legal

Legal implications are considered as part of the business case developed for any purchase.

### 6.6 Climate Change

No specific implications, future measures to address climate change issues within properties will be considered as part of the HRA capital program.

### 6.7 Consultation

Relevant ward members for prospective purchases will be consulted as part of the process.

### 6.8 Risk Assessment

A business case pro forma and financial template has developed in consideration of the sale.

**CLAIRE HAZELDENE**

**Interim Executive Director (Finance & Customer Services)**

#### **Web Links and Background Papers**

n/a

#### **Contact details**

Helen Core  
Head of Housing Services

## **6. Introduction & Background**

- 6.1 The Council's Corporate Plan 2019-2023 includes a key objective under **AIM 1: Supporting our communities to create a healthier, safer, cleaner High Peak** to provide 'Fit for purpose housing that meets the need of tenants and residents'.
- 6.2 A key priority being 'increased supply of affordable housing'. Consequently, the Council is progressing a number of projects as part of the accelerated housing delivery programme as part of the approved Local Plan. These will largely result in affordable housing via ownership or shared ownership arrangements.
- 6.3 However, demand for social housing is also very high, with 2,378 applicants currently on the Housing register. High demand, coupled with slower turnover of stock (particularly in light of Covid-19) is leading to long and frustrating wait times.
- 6.4 In addition, the Council is seeing an increase of applications for families specifically requiring four bedroomed properties - of which the Council owns just 72, which seldom become vacant. The Council is also approached by families with complex needs who in some instances require specialist housing which is not readily or easily available at affordable rentals.
- 6.5 Therefore, the Council would also like to increase the availability of its social housing stock, providing affordable rental accommodation to those individuals/families that need it. Particularly in recognition of the reduction in stock over recent years as a result of the Right to Buy (RTB) scheme and evident demand for such housing type.

## **7. Right to Buy Scheme**

- 7.1 Under current legislation, tenants can purchase their Council property at a reduced rate after 3 years under the 'Right to Buy' scheme, the discount being dependant on tenancy length. The financial gain is ringfenced for reinvestment in housing within the Borough, which can be used to fund up to 40% of the costs of additional stock
- 7.2 With rising house prices, this has led to a reduction of stock over the past 5 years as follows:-
- 2016/2017 - 32
  - 2017/2018 - 25
  - 2018/2019 - 21
  - 2019/2020 - 30
  - 2020/2021 - 24

- 7.3 The Council currently has £2,182,452 set aside from Right to Buy (RTB) receipts, which has a deadline on spending as set out in the table below (the deadlines have recently been extended in light of Covid-19):-

<b>Spent By</b>	<b>RTB Receipt (£)</b>	<b>Capital Spend Required (£)</b>
Mar-23	476,691	1,191,728
Mar-24	374,438	936,096
Mar-25	925,857	2,314,643
Mar-26	405,465	1,013,662
<b>TOTAL</b>	<b>2,182,452</b>	<b>5,456,129</b>

- 7.4 The Council has entered into an agreement ('Reinvigorating RTB') with Government to retain additional 1-4-1 capital receipts from the proceeds of RTB sales. These 1-4-1 receipts are ring fenced and must be used for replacement homes and can only make up a maximum of 40% of the total scheme cost. Any receipts not used within five years have to be repaid to Government with interest.
- 7.5 The Council has more recently allocated 1-4-1 RTB receipts to third party housing providers as a contribution towards the provision of affordable housing. However, due to the restrictions in place around usage and timescale, it has been extremely difficult historically to fully utilise these receipts and consequently, repayments have had to be made to Government.
- 7.5 Under the terms of RTB, the Council has the right of first refusal to re-purchase any properties sold under the scheme that are subsequently offered for sale within a 10 year period. If the property is sold on within 5 years of the RTB purchase, part of the discount originally provide on the RTB sale is repayable to the Council – on a sliding scale depending on when the property is sold on.

<b>Discount Repayable if Property Sold Within:</b>	<b>%</b>
First Year	100%
Second Year	80%
Third Year	60%
Fourth Year	40%
Fifth Year	20%

## **8. Purchase of Housing Stock**

- 8.1 One option to increase housing stock, but also target specific properties based on housing need, is to outright purchase existing properties.
- 8.2 As stated, when an individual who has attained their property through the RTB scheme wishes to sell it on (within 10 years of purchase), the Council has the legal right of "first refusal".

- 8.3 In recent months, the Council has had the right of first refusal on two properties, whereby the business case for doing so has been assessed and proven viable. The business case has followed a process involving a number of services including Housing, Assets, Legal and Finance.
- 8.4 Consequently with estimated net costs of purchase (including capital costs required to ensure the property is able to be let and after RTB receipts are applied), annual estimated revenue costs, offset by annual rental receipts, the purchases would make an annual net revenue contribution to the Housing Revenue Account (HRA).
- 8.5 An Individual Executive Decision report has been approved for each of these potential purchases, which are currently going through the conveyancing process.
- 8.6 Other routes to identify properties for potential purchase would be on the open market for sale, identification by staff whilst on site visits and bespoke purchasing for families with complex needs in collaboration with health colleagues.
- 8.7 Going forward, to avoid any unnecessary delays and in order to be competitive in a fast moving housing market, the next section forms a policy methodology by which Council Officers will follow when dealing with potential property purchases. It is proposed that this process is then delegated to Officers in liaison with the relevant Executive Councillors, to avoid individual reports having to be presented for each potential purchase.

## 9. Purchase of Properties – Policy Methodology

- 9.1 In assessing the business case for a potential property purchase a number of factors need to be taken into account involving input from various service areas within the Council.
- 9.2 The table below summaries the checklist of factors that will be considered when assessing the business case for a potential purchase:

SERVICE AREA	PURCHASE OF PROPETIES – POLICY CHECKLIST
<b>HOUSING</b>	<ul style="list-style-type: none"> <li>○ Determine if the property in an area where there is housing demand</li> <li>○ Determine if is it the right kind of property to match demand</li> <li>○ Confirm rent / service charges for that type of property</li> <li>○ Understand occupancy status               <ul style="list-style-type: none"> <li>▪ has property been empty for a long period – liaise with Revenues</li> <li>▪ any enforcement action involvement – liaise with Environmental Health</li> </ul> </li> </ul>
<b>ASSETS</b>	<ul style="list-style-type: none"> <li>○ Confirm purchase price represents market value</li> <li>○ Undertake initial external assessment</li> </ul>

	<ul style="list-style-type: none"> <li>○ Understand property details (year of build, type of property etc)</li> <li>○ Undertake full internal/external assessment/surveys to determine any initial capital expenditure requirements (structural / H&amp;S / cosmetic) / ensure valuation correct</li> </ul>
<b>FINANCE</b>	<ul style="list-style-type: none"> <li>○ Undertaken initial financial business case based on property value / rental income / revenue expenditure</li> <li>○ Update financial business case to include further cost information</li> <li>○ Forecast rental income and revenue expenditure (repairs, Asset Management Plan spend etc) over the 50 years including inflation provision</li> <li>○ Allocate proportion of RTB receipts to purchase price / initial capital expenditure / legal fees</li> <li>○ Calculate any RTB discount repayable from current owner</li> <li>○ Undertake calculation to work out financial benefit/cost to HRA 30 year business plan to determine viability of purchase utilising the property purchase financial template.</li> </ul>
<b>LEGAL</b>	<ul style="list-style-type: none"> <li>○ Liaise with seller solicitors on potential purchase (or engage third party legal support to deal with this on our behalf)</li> <li>○ Establish offer price in liaison with Assets</li> <li>○ Calculate cost of conveyancing / legal fees to incorporate into the business case costings</li> </ul>

- 9.3 If these factors indicate the property is suitable and viable and there is a financial business case (i.e. revenue neutral / contribution to the HRA) then an offer can be made.
- 9.4 Any offer made will be in line with what the Council's Senior Land & Commercial Officer (Chartered Surveyor and RICS qualified valuer) has determined is a reasonable purchase price after surveying the property and taking into account housing market conditions in the area.
- 9.5 In order to record and evidence this decision making and maintain an audit trail, a proforma for each property will be completed, an example of which is at **ANNEX A** of this report. Alongside this proforma, the financial business case template and inspection/survey documentation will be completed by Finance / Assets Officers.
- 9.6 Internal Audit have been consulted and have provided feedback that based on the information contained within this report, the process proposed seems reasonable with the proforma requiring input from all relevant services and the delegated authorisation being in accordance with the Procurement Procedure Rules.
- 9.7 Any decision to go ahead with a property purchase will then require formal sign off from an authorised officer. Therefore, this report recommends:

- Delegated approval of purchasing suitable properties to the Executive Director (Finance & Customer Services), in liaison with the Executive Councillor for Housing & Licensing and Executive Councillor for Corporate Services & Finance, with a maximum net expenditure of £300,000.
- Prior to formal appointment of the Executive Director (Finance & Customer Services), delegation will be to the Executive Director & Monitoring Officer and/or Interim Executive Director & S151 Officer

9.8 It is recommended that this policy is reviewed in 12 months to ensure it is working effectively and to reflect on any purchases that have progressed.

## PROFORMA FOR PURCHASE OF ADDITIONAL PROPERTY TO HRA

<b>Property Address</b>	
<b>Property Size</b>	
<b>Date Sold under RTB:</b>	

## HOUSING

<b>Demand for Property</b> ( <i>area and property type</i> ):	
<b>Likely Rental Income:</b>	£
<b>Currently Tenanted</b>	YES / NO
<b>Other HPBC stock in area:</b>	YES / NO
<b>Any occupancy issues</b> ( <i>long-term empty / enforcement issues etc</i> )	YES / NO
<b>Bespoke Purchase:</b>	YES / NO
<b>Rationale if Bespoke Purchase</b>	

<b>Recommendation of Housing:</b>	<b>PROCEED / DO NOT PROCEED</b>
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## ASSETS

<b>Valuation Range:</b>	£..... to £.....
<b>Property Type / Year of build</b>	

## Projected Capital Cost:

Example of works required	£
Structural works	£
Kitchen	£
Bathroom	£
Internal fixtures / fittings	£
Outdoor Area / garden	£
Boiler / Heating	£
Rewiring	£
Other (i.e. require removal of fixtures/fittings – detail in comments)	£
<b>TOTAL</b>	<b>£</b>

<b>Is Property viable for 50 years:</b>	YES/NO
<b>Confirm survey / inspection documents completed</b>	YES/NO

**Recommendation of Assets:** PROCEED / DO NOT PROCEED

**Assets Comments:**

**Completed by (Officer in Assets):**

**FINANCE (output from Property Purchase financial template)**

	£
Initial Purchase cost	
Projected Capital Costs	
Other Initial Costs to re-let	
Legal Costs (Conveyancing and Stamp Duty)	
<b>TOTAL</b>	
RTB Repayment Discount	
RTB Offset against Purchase cost	
<b>NET Purchase Cost</b>	

**Average Annual Income / Expenditure over 30 Years:**

	£
Rental Income	
Maintenance Costs (R&M)	
Revenue costs associated with Capital spend	
Treasury implications of net purchase cost	
<b>Net Return on Investment</b>	

<b>OVERALL PAYBACK PERIOD</b> ( <i>within 50 year life of asset</i> )	
<b>Recommendation of Finance:</b>	<b>PROCEED / DO NOT PROCEED</b>
<b>Completed By (Officer in Finance):</b>	

**FINAL RECOMMENDATION – PROCEED WITH OFFER OF:**

**£..... UP TO MAXIMUM OF £.....**

**Liaison with Executive Councillor Housing & Licencing / Executive Councillor Corporate Services & Finance** YES / NO .....

**Consulted Ward Members:** YES / NO .....

**Signed:** .....

**Executive Director (Finance & Customer Services)**