

THIS ITEM IS FOR INFORMATION ONLY

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Title of meeting:	Cabinet Member of Housing & Preventing Homelessness
Subject:	Disposal of Council Housing & Replacement of Council Housing
Date of meeting:	7 th December 2020
Report by:	James Hill, Director of Housing, Neighbourhood and Building Services
Wards affected:	None

1. Requested by Cllr Darren Sanders, Cabinet Member for Housing and Preventing Homelessness

2. Purpose - the Cabinet Member has asked for an information report to

- a. Outline how the delegations to dispose of council housing are exercised (including the principles and process), and
- b. An update on the progress of the replacement homes scheme (replacing council housing through acquisition) and the funding model used.

3. Information Requested

A. Disposal of Council Housing

The disposal of council housing properties for other than right to buy reasons is rare. Successive administrations have sought to maintain and increase the level of council housing through housing development (new build) and replacement homes schemes.

The disposal of council housing forms part of the delegations of the Director of Housing, Neighbourhood and Building Services. (Part 2 Section 5B). Specifically the delegation provides the Director of Housing, Neighbourhood and Building Services:

General

2. *To be responsible for the management and development of council assets, included but not limited to lease management, adaptation, acquisition, the direct construction of assets and disposal to third parties.*

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The operational process to exercise the delegation was reviewed in Early 2018 and remains in place.

The decision to dispose is underpinned by the following key evaluation principles:

- Retain - wherever possible stock should be retained
- Demand - is there demand for this type of property
- Costs - the decision must be cost effective
- Alternatives - are there alternative uses for this property that will make it cost effective
- Suitability - is the property of a suitable quality to provide housing

For the disposal decision a feasibility report is prepared by building surveyors within the Building Projects team. Surveys and feasibility condition reports are undertaken where extensive repairs are anticipated either when the properties become vacant or as identified from visits undertaken by the repairs team of occupied properties. The reports outline the issues identified from the survey and provide estimated costs for various options to refurbish the properties.

Maintenance costs are based on the average per unit plus major capital repairs within a 30 year maintenance life cycle plan. Using the costs of refurbishment detailed within the feasibility reports, a financial appraisal is undertaken for each acquired property. The financial appraisal uses a discounted cash flow technique to bring the financial effects over the period assessed to a net present value. An internal rate of return is established to measure and compare the profitability of investment of each option. The payback period is also calculated to establish the time required to recover the return on investment.

The reports for properties are considered by a Directorate Building Management Board. The board is an operational officer group with the purpose of providing the Director with oversight of various strands of building and property related work, this includes for example oversight of acquisitions (buy back schemes), housing developments and projects.

The board consists of senior managers for buildings, housing, neighbourhood, building maintenance, finance and business growth relationship and support to provide the Director with an informed view of the property so that a decision can be recommended to retain or dispose of the property using the evaluation principles.

The following case study highlights the disposal process in relation to the most recent disposal of council housing accommodation.

Recent disposals - Case study

Acquired Stock Background

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Acquired houses are properties that have been acquired by Portsmouth City Council (PCC) for a variety of reasons and let as dwellings for social rent, as opposed to properties that have been specifically built and developed by PCC.

The acquired properties are generally pre-war construction with the majority built prior to 1900. They were not purpose built for Council housing and are situated across the city; they are generally individual properties within a street of privately owned houses. The properties are not usually located within the heart of our usual housing estate areas and are often further than walking distance to our housing offices.

The properties are typically mid-terrace and the layout is generally a two up two down layout that may have had adaptations undertaken. Layout and construction issues include building elements such as kitchens, bathrooms, roofs etc... being at the end of their service life, rising damp, single skin construction of rear additions, steep staircases that do not comply with current building regulations, structural issues including wall tie failure or subsidence and limited access and routes within the property. The properties are likely to require considerable investment to improve them to meet modern living standards.

We have 273 acquired properties across the city predominantly in non-estate locations all are part of the City Council's housing stock and are part of the housing revenue account.

Tenants can exercise right to buy and have the same tenancy rights as any City Council tenant. Response repairs and annual safety checks (where appropriate) are delivered through the repairs support team. The tenants will access the services of the nearest area housing office.

Row Labels	Count of Housing Estate Area
Buckland	144
Landport	56
Leigh Park	1
Somerstown	72
Grand Total	273

Recent Disposals

In July 2020 eight properties were sold via auction. All were part of a batch of ten properties and went through the process described above to evaluate the ongoing capacity for the properties to be used as council housing. Two properties were removed from the auction to deal with land registration or demised premises and boundary queries.

All of the properties disposed of were not Council built and were acquired. Due to the age and construction of the properties, that were predominantly Victorian, they all had numerous building defects. In addition the layout of the properties was not suitable, with some of the

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properties not complying to current building housing standards and therefore not suitable for renting without major alterations to the layouts.

Unlike right to buy the full capital receipt is held by Portsmouth City Council and is available for capital spend and is made available through the annual capital bid process. As part of the budget setting process in Feb/March 2020 HNB entered a capital bid to secure the capital receipt from the sale of the properties to in effect ring fence the capital receipts to be used specifically to replace the sold units.

The overriding principle is to retain assets and whilst this was not possible with these ten properties the capital receipt can be recycled to purchase homes ensuring that the number of homes in our stock increases rather than decreases as a result of this work.

The team that manage the buy back schemes (described below) will oversee the replacement of the properties sold.

At the auction the anticipated return for the eight properties sold was £1,190,000 but the properties achieved a return of £1,680,000.

Taking into account average purchase prices and ensuring that we re-provide units of at least the same number of bedrooms we estimate that we will be able to repurchase at least 11 units to be held in the HRA. A net gain of 3 units. We will ensure that we purchase properties that have the same number of bedrooms, meet housing need, are of suitable condition and are good homes for people to live in.

One further property was sold at auction on the 29th October 2020 and the capital receipt will be used as described above to replace the property. The estimated guide price was £130,000 but it achieved £146,000. The last of the ten properties will be taken to auction in due course.

The recent disposals and evaluation occurred as a consequence of them becoming void and were batched through to auction.

Acquired Stock Condition Survey

The Building Services team are undertaking a full stock condition survey of the remaining acquired properties as part of a wider asset management plan to better understand the condition of the stock and understand the planned maintenance needs of the stock.

The stock condition survey will better enable the building services team to plan for longer term maintenance programmes and for the stock to be evaluated to determine the longer term future rather than waiting for the properties to become void.

B. Replacement Homes Schemes

Background

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Since the end of September 2016 Portsmouth City Council have been financing the repurchase of ex-council flats for re-incorporation into the housing stock. A third of this cost is financed through the Government One-For-One Replacement homes scheme with the remaining balance being funded from the existing Housing Capital programme.

Demand for affordable homes in Portsmouth remains high and the buy back scheme is one way in which social housing stock can be replaced.

The sales agreed are for vacant possession but are subject to negotiation and contract. The purchase prices typically range between £70,000 and £300,000 depending on location and the number of bedrooms.

The buy backs are informed by an understanding of housing need. The Housing Need, Advice and Support services is responsible for the administration of the City Council Housing Register and that forms the basis of the assessment of need. At the current time there remains significant demand for 2+ bedroom properties both on and off island.

The buy backs scheme currently operating occurs as a result of the City Council's leaseholders selling their leasehold interest for the first time and providing the City Council with the right of first refusal to repurchase the property. The buy back scheme also extends to the purchase of properties for sale on the open market which has created a steady flow of properties (see pipeline below).

Acquisition process

When a property has been identified and is of potential interest. The replacement homes team oversee an independent valuation of the property's value, the property is surveyed by the building services team and financial appraisal is completed. The purchase will only proceed if the property meets housing need, is of a standard and quality that can be maintained and is financial viable.

The acquisition of replacement homes is undertaken within the delegation of the Director of Housing, Neighbourhood and Building Services.

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Pipeline

The administration has sought to accelerate the use of the buyback scheme through acquisition of all forms of property. During 2020 the Replacement Homes team have focussed on bringing properties back into the stock through leaseholders as well as working with local estate agents and private property vendors as they present themselves.

This has resulted in a significant increase in the number of properties during 2020/21 being both in the pipeline but also completing as a purchase year to date (please see statistics below).

The team coordinate the entire purchase process from the initial enquiry through to the completion of the sale and the subsequent reconciliation of leasehold service charge and reserve fund accounts as well as the setting up of rent accounts. They liaise with all appropriate stakeholders, throughout the process, such as:

- Leaseholders/freeholders.
- Housing Needs and Advice.
- Leasehold Services.
- Internal and external RICS valuers.
- Planned Maintenance building surveyors.
- Property Managers.
- Estate agents.
- External solicitors.
- PCC Legal Services.
- GIS mapping team and stock database managers.
- Council Tax/Housing Benefit in respect of holistic debt management.
- Voids team/Housing Officers.

The tables below show the activity to date:

REPURCHASES STATUS SUMMARY				
Property Type	completed	in progress	on hold	total
Flat	69	100	1	170
House	5	13	0	18
Maisonette	23	33	1	57
Bungalow	1	1	0	2
Studio Flat	0	4	0	4
Total	98	151	2	251
please note this is the total from start of replacement homes project (2016)				

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EXPENDITURE ON REPURCHASES BY ASSET TYPE & YEAR						
Property Type	2016/17	2017/18	2018/19	2019/20	2020/21	total
Flat	350,000	1,126,000	652,500	2,433,500	3,839,500	8,401,500
House	0	222,500	290,000	522,500	0	1,035,000
Maisonette	293,000	0	115,000	1,717,000	1,039,000	3,164,000
Bungalow	0	0	0	0	160,000	160,000
Studio Flat	0	0	0	0	0	0
Total	643,000	1,348,500	1,057,500	4,673,000	5,038,500	12,760,500

NO OF PROPERTIES REPURCHASED BY ASSET TYPE AND YEAR						
Property Type	2016/17	2017/18	2018/19	2019/20	2020/21	total
Flat	4	10	5	19	31	69
House	0	1	1	3	0	5
Maisonette	2	0	1	13	7	23
Bungalow	0	0	0	0	1	1
Studio Flat	0	0	0	0	0	0
Grand Total	6	11	7	35	39	98

When the properties have completed and are ready for occupation the property is added to the council housing management systems and will be let and managed by the local area housing office. The allocation is made from the City Council's housing register.

Funding Model

In October 2018 the borrowing cap for the HRA was removed enabling the City Council to utilise borrowing for the purposes of housing development and acquisition. In February 2020 the Council committed to a programme of purchasing property to be used for Social Housing. The programme was initially set up to for £100m, it is estimated that the Council could spend £20m each year for the next 5 years purchasing around 500 homes. The funding model used for the acquisition of property is as follows:

The usual funding model is a combination of Right to Buy '141' Capital Receipts with the remaining amount funded from unsupported borrowing. The capital receipts from properties in this report will be used to fund the purchase of other properties within this programme.

Each purchase is subject to independent valuation and financial appraisal that ensures that the rent that can be achieved is enough to meet the cost of borrowing and capital maintenance costs, to ensure that it has a positive effect on the Housing Revenue Account 30 business plan.

Note

The buy backs schemes are separate and distinct from housing development which create new social housing, for example Doyle Avenue and the re-provision of Horatia House and Leamington House.

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Signed by (Director)

Appendices:**Background list of documents: Section 100D of the Local Government Act 1972**

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
Relevant part of the constitution Part 2 Section 5B	https://www.portsmouth.gov.uk/wp-content/uploads/2020/05/2.s5B-Director-of-Housing-Neighbourhoods-and-Building-Services.pdf