

<b>Item No.</b> 19.	<b>Classification:</b> Open	<b>Date:</b> December 2020	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Review of Void Disposal Strategy	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member:</b>		Councillor Leo Pollak, Cabinet Member for Housing	

## **FOREWORD – COUNCILLOR LEO POLLAK, CABINET MEMBER FOR HOUSING**

Southwark’s council house-building programme, and wider housing investment plans covering major works and essential building safety and heat network upgrades, are all set within constrained financial parameters, where rental income, government grants and borrowing envelope are insufficient to . We subsequently have to use existing assets pragmatically, including sometimes taking one step backward to make two or three steps forward.

Where the explicit goal of the new homes programme is to maximise the overall stock of high quality low cost council homes as far as programme viability will allow, it also becomes necessary in a few exceptional circumstances for certain high value void properties to be sold in order to help meet this objective.

This report updates the rules covering the council’s void disposals, by raising the threshold for sales values, explicitly requiring the receipts to be earmarked for new housing investment, for a demonstrable net increase in habitable room space from reinvested sums, including like-for-like replacements. It also provides for any analysis on whether to release the sale value of the property of the immediate neighbourhood mix, to ensure we’re maintaining a healthy mix of incomes and tenures, and opportunities for residents in housing need to stay in their community.

## **RECOMMENDATIONS**

That the cabinet:

1. Notes the continuing requirement to raise capital receipts for the housing investment programme including the delivery of 11,000 new council homes, and the role of void disposals in providing a small proportion of those receipts.
2. Agrees to revise the criteria for disposals in the void disposal strategy from those agreed by cabinet in July 2014, to those set out in paragraph 39 of this report.
3. Notes the sale of council housing will now only be considered where it benefits the overall capital programme and specifically the development of new build, conversions and roof top homes. This will be assessed on a case by case basis.
4. Notes this will help ensure Southwark to be a place where everyone has a

decent home and borough where families can afford to remain and choose to do so.

5. Notes the change in the voids disposal strategy is to address this and ensure that any disposals maximise the overall supply of council homes.
6. Notes that an Empty Homes Action Plan is due in January 2021.

## **BACKGROUND INFORMATION**

7. Following a review of the void disposal strategy in July 2014, cabinet agreed to amend the criteria to that outlined below:
  - Bedsit, 1 & 2 bed, converted street flats above the ground floor, with a view to being able to sell the freehold interest of the house
  - Void properties valued over £500,000\*
  - Listed residential properties
  - Properties deemed uneconomic to repair, following consideration of its value as a long term asset to the council and in parallel with available resources in the annual major voids repair budget
  - Properties with inappropriate layouts eg, where a bathroom is off a bedroom and where changes to the layout are restricted or uneconomic
  - Flats in a house with an already high level of leaseholders, and where sale would potentially allow the disposal of the freehold
  - Prefabricated bungalows

\* Where properties are identified for disposal under the £500,000 value criterion, at least one of the other criteria should also apply.

8. Void disposals numbers were agreed on an ongoing assessment of the resource requirements of the housing investment programme.
9. Cabinet agreed the May 2011 report noting that the strategy also provided for the retention of selected void 3 bed plus properties to meet the need for larger family homes based on individual merit and following review, alongside ground floor properties that meet medical needs or may be suitable for adaptation.
10. It was also agreed that that a monitoring report be provided on a quarterly basis for the then deputy leader and cabinet member for housing.
11. This report seeks to review the current void disposal strategy in light of the commitment to build 11,000 new homes and the general changes in circumstances including the housing market in London and Southwark specifically.

## **KEY ISSUES FOR CONSIDERATION**

12. The council is committed to delivering 11,000 council homes by 2043 as well improving the condition of its housing stock to exceed the minimum decent homes standard through its Quality Housing Investment Programme (QHIP). The purpose of the voids disposal strategy is to generate capital

receipts that can meet these and other capital requirements and minimise the council's long term liability and borrowing need. This report aims to establish a clear link between that strategy and the delivery of the 11,000 council homes commitment.

13. The ten year HIP from 2020/21 has a budget of £1,874,044,791 and expected available resources of £1,768,628,043 including borrowing for new builds and acquisitions and heat network only and therefore there remains a funding gap of £105,416,748 for the other elements of the programme. Further details are contained in the capital monitoring outturn report for Month 4 2020/21.
14. The HIP has traditionally been financed in part by capital receipts over a number of years, including those from void disposals and land disposals (generally from regeneration schemes).
15. Receipts are not generally earmarked to specific schemes or projects and instead contribute to the financing of the whole HIP; however any increase in resources would assist the current funding gap. The disposal of the right voids not only generates a receipt to meet the capital commitments, including the delivery of 11,000 council homes but can also reduce long term liabilities in maintaining buildings that are not economical for the council to maintain.
16. The review of the voids disposal strategy in May 2011 agreed the widening of the disposal categories to include more street properties to help increase receipts as an alternative to selling a larger amount of estate based stock. Street properties generally attain a higher value of receipt than estate based properties. It was acknowledged that this would also result in the sale of more desirable larger family homes. The council is building planning policy compliant new homes with family accommodation which has also included new houses where appropriate. Through enhancements to council builds in the design guide and employers requirements newly built council homes meet a high specification.
17. Over the last three years, the average council void disposal achieved £500,555 (based on 18 sales).
18. It was previously proposed that the annual target for sales of void properties is tailored to the needs of the HIP at any given time. With the commitment to 11,000 homes the driver for the disposals of voids needs to be a different emphasis than just raising capital and more an overall balance of commitments, liabilities and capital receipts.
19. It is therefore proposed that any void disposal put forward under the existing criteria be also assessed against new build delivery using the likely capital receipt. This will compare the cost of maintaining the void in our stock against using the capital receipts for the development of new build homes, conversions, roof top homes with consideration to the neighbourhood tenure mix. This will be signed off by the Director of New Homes as part of the recommendation for disposal.

20. The council's letting stock at the end of 2019/20 stood at 37,241 properties. Of this approximately 3,800 are street properties. The number of properties sold under Right to Buy (RTB) rules was only 87 in 2019/20 and 79 in 2018/19. This is down from the average of around 250 for the previous 5 years. Despite the change in the RTB rules in April 2012, when the maximum RTB discounts for London was raised to £100,000, high house prices in London continue to limit the number of RTB purchases.
21. The properties submitted for disposal are generally in poor condition and are a financial burden on the HRA for their upkeep and maintenance. The street properties referred have inherent long term defects that are not cost effective to maintain. These type of properties often become complex complaints and are prone to becoming legal disrepair claims which are expensive to settle and resource intensive to manage.

### **Review of progress to date**

22. Housing properties becoming void are initially assessed for re-letting. In certain circumstances, they are considered for disposal under the agreed criteria. A property needs to be assessed before a disposal process can start. The strategic director of housing and modernisation approves a recommendation to dispose, once consideration has been given to the various relevant factors including leasehold implications and freeholder repairing obligations. The director of regeneration or the chief executive makes the formal surplus declaration. The disposal process is administered by the head of property for all properties with an estimated disposal value of £750,000 or below. For properties valued above £750,000 cabinet approval is required to proceed with disposal.
23. As noted in paragraphs 18, void sales should now need to take into account the councils wider commitments beyond the capital receipt including the benefit to the overall stock level held by the council and delivery of the key commitments, including 11,000 new council homes. However, these sales should support the delivery of new homes, conversions and roof top homes.
24. Properties will be assessed for new build, conversions and roof top homes, giving consideration to the neighbourhood tenure mix. This will be reviewed on a case by case basis.
25. As can be seen from Table 1, the number of disposals is already very low and have significantly dropped off in 2019/20 with only 4 voids being disposed of. The number of disposals has dropped significantly from previous levels. From 2011/12-2013/14 nearly 5 times as many voids (86) were disposed of creating an income of £27,194,950. There are currently 21 void properties which have been identified for potential disposal at Voids Panels,. 11 of these require discussions with residents to be rehoused to enable the Freehold sale. The others need final approval or a mechanism for the works to be undertaken. The New Homes team have reviewed these and agree that they should be disposed of. At the average disposal figure this could generate an income of over £10m which could deliver around 30 new flats with a lower repair liability.

**Table 1 – Comparison of actual sales**

<b>Actual sales</b>		2017-18	2018-19	2019-2020	Total
	6	£3,780,000			
	8		£3,451,099		
	4			£1,778,000	
<b>Total</b>	<b>18</b>				<b>£9,009,099</b>

26. The average sale value achieved per void property is £500,505 based on the 18 voids, where as from 2011/12-2013/14 before the last voids strategy review it was £316,220, however the numbers now are too low for any meaningful comparison to be made.

**Table 2 – Re-Lets & RTB sales compared to stock<sup>1</sup>**

<b>Year</b>	<b>Council stock</b>	<b>Re-lets</b>	<b>Re-lets as %age of stock</b>	<b>RTB sales</b>	<b>New homes</b>
2016/17	37689	1117	3.0%	278	125
2017/18	37506	1392	3.7%	170	229
2018/19	37534	1266	3.4%	78	33
2019/20	37241	875	2.3%	87	28

27. Previously cabinet recommended the retention of selected void 3 bed plus properties to meet the need for larger family homes based on individual merit. However, as family homes are part of the new homes provision as part of the commitment to 11,000 homes, so although there may be the need to retain these in some locations, largely this need should be met through the building of new council homes including family accommodation.
28. Some larger family homes, alongside properties deemed to be beneficial to retain due to demand for properties with either specific location or property characteristics, are repaired and re-let using the Major Voids budget. This budget is used to repair voids requiring works in excess of £25,000. All properties repaired under this programme are repaired to enhanced Decent Homes standard, with most requiring new bathrooms and kitchens.
29. In 2019/20, 3 properties were refurbished under the Major Voids contract, at an average cost of £47,333.

### **Analysis of sales**

30. The void disposal strategy has been in place since 2009. Table 3 below shows the overall number of referrals, sales and receipts accrued from 2017/18 to the end of 2019/20 financial year.

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<sup>1</sup> LAHS data only

**Table 3 – Referrals, Sales & Receipts per annum**

	2017/18	2018/19	2019/20
No of referrals	12	10	4
No of sales	6	8	4
Total receipts	£3,780,000	£3,452,000	£1,778,000
Average receipt per sale	£630,000	£431,500	£444,500

- Note: properties referred are not necessarily sold in the same financial year, these figures do not include those referrals for Four Squares Estate.

31. A total number of 18 properties have been sold to date since 2017/18, generating a total capital receipt of £9,010,000.

32. Table 3 shows that very few void disposals are currently happening.

33. The vast majority of cases referred for disposal are valued over £500,000 and are deemed uneconomical to repair (85%). There were only 4 properties referred which did not include this as part of the criteria since 2017, 2 of which were for a legal agreement between the council and Ruskin Park House.

34. Table 4 below represents sales since 2017/18 by bedsize.

**Table 4 - Average Values**

Years / Type	Bedrooms					Overall Average sale value
	1	2	3	4	6	
<b>2017-18</b>	<b>£287,750.00</b> (1)	<b>£350,125.00</b> (2)		<b>£930,666.67</b> (3)		<b>£630,000.00</b> (6)
Flat	£287,750.00 (1)	£350,125.00 (2)				£329,333.33 (3)
House				£930,666.67 (3)		£930,666.67 ( )
<b>2018-19</b>	<b>£239,500.00</b> (2)	<b>£306,366.33</b> (3)	<b>£596,500.00</b> (2)		<b>£860,000.00</b> (1)	<b>£431,387.38</b> (8)
Flat	£239,500.00 (2)	£306,366.33 (3)				£279,619.80 (5)
House			£596,500.00 (2)		£860,000.00 (1)	£684,333.33 (3)
<b>2019-20</b>		<b>£391,000.00</b> (2)	<b>£460,000.00</b> (1)	<b>£536,000.00</b> (1)		<b>£444,500.00</b> (4)
Flat		£318,000.00 (1)	£460,000.00 (1)			£389,000.00 (2)
House		£464,000.00 (1)		£536,000.00 (1)		£500,000.00 (2)
<b>Grand Total</b>	<b>£255,583.33</b> (3)	<b>£343,049.86</b> (7)	<b>£551,000.00</b> (3)	<b>£832,000.00</b> (4)	<b>£860,000.00</b> (1)	<b>£500,505.50</b> (18)

35. There is not really the volume of sales to make a comparison of disposal values except to compare then against the general market.
36. The Market Trends Bulletin records average sale values in Southwark at December 2019 as follows:
- 1 beds £312,500
  - 2 bed flats £400,000
  - 2 bed houses £500,000
  - 3 bed houses £644,213
  - 4 beds £832,500
37. As can be seen above average receipts for void sales have been below the market average, however these properties are generally in disrepair.
38. The analysis of sales since 2017/18 to date shows that:
- The values roughly track below average market values, but the properties are generally in disrepair
  - The numbers of disposals are low.

### **The Way forward**

39. Taking this and other factors noted in this report into account it is proposed that the categories included in the disposal criteria be changed from the existing, as agreed by cabinet in 2014 and as laid out below:
- Bedsit, 1 & 2 bed, converted street flats above the ground floor, with a view to being able to sell the freehold interest of the house
  - Void properties valued over £500,000\*
  - Listed residential properties
  - Properties deemed uneconomic to repair, following consideration of its value as a long term asset to the council and in parallel with available resources in the annual major voids repair budget
  - Properties with inappropriate layouts eg, where a bathroom is off a bedroom and where changes to the layout are restricted or uneconomic
  - Flats in a house with an already high level of leaseholders, and where sale would potentially allow the disposal of the freehold
  - Prefabricated bungalows.

\* Where properties are identified for disposal under the £500,000 value criterion, at least one of the other criteria should also apply.

To the following:

- Void properties valued over £600,000\*
- Listed residential properties
- Properties deemed uneconomic to repair, following consideration of its value as a long term asset to the council and in parallel with available resources in the annual major voids repair budget\*\*
- Properties with inappropriate layouts eg, where a bathroom is off a

- bedroom and where changes to the layout are restricted or uneconomic
- Flats in a house with an already high level of leaseholders or Bedsit, 1 & 2 bed, converted street flats above the ground floor and where sale would potentially allow the disposal of the freehold
- Prefabricated bungalows

\* Where properties are identified for disposal under the £600,000 value criterion, at least one of the other criteria should also apply.

\*\* All properties will compare the cost of maintaining the void in our stock against using the capital receipts for the development of new build homes, conversions, roof top homes giving consideration to the neighbourhood tenure mix.

40. It is anticipated that the majority of disposals will continue be of non-estate properties, and that estate properties will only be considered for disposal on an exceptional basis.
41. The number of disposals will be based on the requirements of the HIP and will therefore be subject to monitoring and review.

### **Monitoring**

42. The capital receipts achieved for the HIP are monitored and reported to the regular Housing Investment Board. It is proposed that a monitoring report is to be provided on a quarterly basis for the cabinet Member for Housing and Modernisation.

### **Impact on housing need**

43. The disposal of any property irrespective of size or type will have an impact on the council's ability to meet its housing need in some way. However, in building 11,000 new council homes the council is directly tackling this need and these disposals are only going ahead where it is shown that they can support the delivery of new homes. As of October 2020 there were 13,787 households registered on the council's Homesearch general register. A breakdown by band is as follows:
- Band 1 – 781 (decants, statutory overcrowded, under occupiers, complex social service)
  - Band 2 – 783 (overcrowded and urgent medical, homeless and urgent medical, single young vulnerable, management transfer, care leavers, risk to life)
  - Band 3 – 7,043 (overcrowded by 1 bedroom, accepted homeless, urgent medical, tenant relationship breakdown, insanitary conditions)
  - Band 4 – 5,180 (waiting list non priority; tenants, HA tenants and non-tenants)
  - Other, all bands – 594 (270 & 324) (including wheelchair accessible units and sheltered accommodation).
44. When looking at demand on the basis of bedsize, roughly 72% of registered applicants, across bands 1 to 4 require 1 and 2 bedroom properties, with 28% requiring 3 bed or larger.



45. It is known that waiting times increase based on banding, band 1 being the highest, and bedsize; the higher the band priority, the shorter the wait, but waiting times increase for larger properties. Table 6 below shows average waiting times across the top 3 bands.

**Table 6 – Waiting times in days<sup>2</sup>**

<b>Band</b>	<b>bedsit</b>	<b>1 bed</b>	<b>2 bed</b>	<b>3 bed</b>	<b>4 bed</b>
1	No data	583	1357	1239	2110
2	630	554	774	2011	2876
3	899	1200	1339	2071	1795

### **Policy implications**

46. Additional capital resources generated through the council's voids disposal strategy will contribute to new homes and the improvement of housing stock borough wide thus working towards the wider corporate commitment to build 11,000 new council homes by 2043 and continuing making sure all our housing estates are clean, safe and cared for.

### **Community impact statement**

47. The sale of council housing will now only be considered where it benefits the overall capital programme and particularly the delivery of new homes.
48. This will help ensure Southwark to be a place where everyone has a decent home and borough where families can afford to remain and choose to do so.
49. The average cost of buying a home in Southwark is £616,000 as of summer 2019. Therefore if a third of income was used on the mortgage, an annual income of £108k would be required to afford this. The lower quartile rent for a two bed in Southwark is £2,145 a month, assuming a third of income is used on rent, an annual income of around £77k would be required to afford this. However the median household income in the borough is about £31,000.
50. The change in the voids disposal strategy is to address this and ensure that any disposals maximise the overall supply of council homes.

### **Financial implications**

51. The main change to the voids disposal strategy is to increase the threshold for consideration for disposal from £500,000 to £600,000 and to compare the cost of maintaining the void against the benefit of using the capital receipts to develop new homes. The effect is this change is difficult to

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<sup>2</sup> LBS tenancies only

quantify in financial terms as it dependent on future events that are largely unpredictable, namely the volume of dwellings meeting the disposal criteria. This is particularly so given the impact that the COVID pandemic may have on the local housing market and property values in the short to medium itself. However, in itself the change is unlikely to have a significant impact on the value of capital receipts that will be generated to support the Housing Investment Programme

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Director of Law and Democracy**

52. This report seeks authority for a review of the existing Void Disposal Strategy which has been in place since 2009. The emphasis in the past has been to meet the requirement to raise capital receipts and paragraph 17 of the report mentions that in the past 3 years there have been 18 sales of void properties which have achieved an average sale price of £500,555. The proposed new approach is set out at paragraph 19 and a comparison of the changes is set out at paragraph 39.
53. Paragraph 22 confirms that approval from Cabinet will be necessary in the case of any property where the consideration expected is likely to exceed £750,000.
54. The aspiration set out in the revised strategy is that Southwark becomes a place where everyone has a decent home and a borough where families can afford to remain and choose to do so. Since the emphasis in future will be to maximise the overall supply of homes, this will clearly be for the benefit of all sectors of the community and therefore meet the requirements of the Equality Act 2010.
55. There are no particular legal issues arising from this report and the recommended change in strategy

### **Strategic Director of Finance and Governance (H&M 20/106FC14)**

56. This report seeks cabinet approval to amend the criteria for disposals in the void disposal strategy from those agreed by cabinet in July 2014 to those set out in paragraph 39 of this report. The revised strategy also encompasses a change of emphasis, so that it takes into consideration the need to maintain the overall supply and mix of council housing and the likely future cost of maintaining the property within the council's stock. As outlined in the financial implications section of the report, the financial impact of the changes made are difficult to quantify, but are unlikely to be significant. Capital receipts generated from the disposal of void properties will be used to support the Housing Investment Programme as set out in this report.

## APPENDICES

No.	Title
None	

## AUDIT TRAIL

<b>Cabinet Member</b>	Councillor Leo Pollak, Cabinet Member for Housing	
<b>Lead Officer</b>	Micahel Scorer, Strategic Director of Housing and Modernisation	
<b>Report Author</b>	Richard George, Strategic Programme Homes Manager (New Homes)	
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<b>CONSULTATION WITH OTHER OFFICERS/ DIRECTORATES/ CABINET MEMBER</b>		
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Director of Law and Democracy	Yes	Yes
Strategic Director of Finance and Governance	Yes	Yes
<b>Cabinet Member</b>	Yes	Yes
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