

Item No:	Classification Open	Date: 11 February 2020	Decision Taker: Cabinet Member for Housing
Report title	Buying Ex Right To Buy properties to meet immediate housing need		
Ward(s) or groups affected	All wards		
From	Director of New Homes		

RECOMMENDATIONS

The Cabinet Member for Housing:

1. That the Council approves the purchase of 40 ex-RTB properties for use within the Housing Revenue Account.
2. Delegates authority for further purchases to the Strategic Director of Housing and Modernisation in consultation with the Cabinet Member for Housing.
3. Notes that the Council is waiting for contract information from the GLA for the funding for the purchase of 20 ex-RTB one-bed properties for the housing of homeless households in the borough, through a bid through the Next Steps Accommodation Programme (NSAP). These are in addition to the above delivery.
4. Notes that the process for purchasing the properties will be managed by the MySouthwark Homeowners Service and they will manage the budget and spend.
5. Notes that further Next Steps Accommodation Programme (NSAP) grant may be available to bid for in 2021/22.

BACKGROUND INFORMATION

11,000 council homes

6. In April 2020 the cabinet agreed the strategy “Routes to 11,000: a new council homes strategy for Southwark” which set out how the Council would achieve its ambition to deliver new council homes and included a consideration of buy backs as an option for delivery of the new homes to 2022.
7. The Council Plan adopted in October 2018 commits to deliver at least 2,500 council homes by 2022.

Southwark's Bid: Next Steps Accommodation Programme (NSAP)

8. The Next Steps Accommodation Programme (NSAP) makes available the financial resources needed to support local authorities to ensure that as few individuals as possible return to the streets following time spent in emergency accommodation as a result of the COVID-19 pandemic.
9. A bid under a very tight timescale was made in late August including for purchasing back RTB properties.
10. The bid made clear that none of these were deliverable by the 31st March 2021 timescale for that programme.
11. The Council has provisionally allocated £1,238,400 funding for the purchase of 20 RTB properties, but the funding source has been switched Move-On programme (instead of NSAP) as the Council was unable to guarantee delivery by the 31st March 2021 and the Council awaits contractual information from the GLA.
12. Half of these properties are either being processed by solicitors or have been issues with formal offers. A further 8 properties are in negotiations on the purchase price or with our external valuers.

KEY ISSUES FOR CONSIDERATION

The need for temporary accommodation

13. As at the 2nd December 2020, Southwark Council are accommodating 91 people who formerly slept rough in Southwark and these people are living in first stage temporary accommodation. These people have been accommodated through the Government's "Everybody In" framework.
14. Of these 91 people living in hotels and Nightly Paid temporary accommodation 72 people have No Recourse to Public Funds.
15. As at the 2nd December 2020 the Housing Solutions Service accommodated 706 people at risk of sleeping rough or rough sleeping and homeless since the 20th March 2020, into settled accommodation. All of these people have a personal housing support and needs assessment alongside a medical assessment.

Potential Areas for Buy backs

16. Any property repurchased would contribute to meeting our new homes targets. If required larger properties could be targeted to meet specific rehousing needs. Scenarios where this might apply are:

- Being able to offer to buy back properties of leaseholders who live on the existing top floor properties where we propose to build through the Roof Top Homes project.
- Certain blocks or estates where unforeseen circumstances arise such as Tustin Estate where major works invoices are considered excessive that having a buy back offer for leaseholders would minimise financial hardship.
- Certain large scale regeneration projects where we have not obtained a compulsory purchase order.
- Where it could support leaseholders in high rise blocks who are unable to re-mortgage or sell on the open market due to the onerous ESW1 assessments being demanded by mortgage lenders showing the building is fully fire safety compliant.
- Where through Hidden Homes we have identified an area of land suitable for development and buying back could release the development potential.
- Where we have a shortage of available accommodation to let of a certain type and bedroom size and being unable to offer this type of accommodation is holding regeneration schemes and vacant possession

The Benefits of buy backs

17. These bought back properties would count towards the Council commitments to increase housing supply, as set out in the “Routes to 11,000: a new council homes strategy for Southwark” approved by Cabinet in April 2020 where it was under the Options for reaching our short-terms goals to 2022. The strategy said the Council was to *consider buying back properties bought under right to buy where they make economic sense in comparison to a new build or link to longer term strategic aims*. With the subsequent affects of Covid-19 and the impact of the new fire regulations on leaseholders the case for buy backs has increased.
18. The policy would utilise retained RTB receipts (or grant) thereby avoiding the need to return capital funds to the government and reducing the impact on the Housing Revenue Account’s (HRA) borrowing headroom.
19. Depending on the funding available there would be an opportunity to target larger bedroom sized properties that are in very short supply. This would support the range of properties available for offer where we need to find alternative accommodation for residents on our regeneration schemes such as Aylesbury as one of the greatest blockages is the lack of available property.

20. It would ensure that in certain scenarios we could demonstrate we have acted fairly and put leaseholders concerns at the heart of our policy commitments. In turn this is likely to reduce the number of potential challenges at a First Tier Tribunal.
21. In terms of value for money, buying back homes is cost effective.

Fire Regulations

22. The Fire Safety Bill and other legislation following the tragic Grenfell fire puts increasing regulation on landlords to ensure fire safety, especially in tall buildings.
23. It is already becoming harder for homeowners, particularly in tall buildings to obtain a mortgage. Examples of this include mortgage providers asking for evidence of an external wall survey, which comes in the form of an ESW1 certificate – and problems are arising as people find that their building does not have one. Frustrated homeowners are not only unable to sell, unless they can find a cash buyer, but can face months on their lender's most expensive deal: the standard variable rate.
24. This situation is likely to be exacerbated as more fire regulations come into force and homeowners are less able to remortgage or sell their properties.

Criteria for Purchase

25. A criteria for purchases has been developed for the purchase. The criteria includes:
 - a. Targeting areas where properties are lower value and where there is a strategic fit.
 - b. Aiming at a guide purchase price of around £260,000 with a £325,000 ceiling for a one bed, and £325,000 with a ceiling of £400,000 for a two bed. Larger properties may be considered where there is a specific need identified.
 - c. Only buying on Council estates / blocks, where the Council is already the freeholder and service provision will be easier.
 - d. A reasonably good state of repair, so that minimal void works need to be undertaken (Void works will be limited at £15k through a surveyors inspection once a price is agreed for us to be conveyancing).

Value for money

26. Assuming 20 one beds and 20 two beds and the target price can be met, the total cost will be £11.7m. A further £1.1m should be allowed for stamp duty, legal fees and repair costs. The Council will apply for an exemption for stamp duty if applicable..

27. RTB receipts can be applied to 30% of the purchase cost or possibly further grant if awarded.
28. The costs compares favorably in terms of cost to new build social flats, especially taking into account land purchase costs. Unlike new build social rented stock the rent from the homes can pay off the money borrowed against them (if this is how these are funded).
29. These homes are included as part of the 11,000 council homes delivery.
30. The cost of new homes is estimated to cost around £350,000 without land costs and over £400,000 with land. The cost of these homes is estimated to be around £300,000.

Procedure

31. A procedure has been drawn up to ensure that there is a smooth process that has been agreed with the relevant managers. In summary:
 - a. The MySouthwark Homeowners Service will oversee the process, identify opportunities and carry out checks.
 - b. The Property Team will oversee valuations and price negotiations.
 - c. The MySouthwark Homeowners will undertake the conveyancing.
 - d. Asset Management will undertake the void works.
 - e. Housing Solutions will take over the management of the letting / licence.
 - f. No additional staffing resources are required.
32. Sources for properties will be first refusal right to buy properties and properties on the market / establishing relationships with estate agents. Properties may also be sourced with links to the rooftop homes programme or where major works are taking place.
33. The budget and monitoring will be managed by the MySouthwark Homeowners Service.
34. The Property Team will oversee the valuations and negotiation process and sign off the final purchase offer.
35. The aim would be to have the majority of these purchases in completed by March 2022. However, if successful further purchases may be sought by delegated authority.
36. The Council review take-up in September 2021 or before if demand dictates and potentially add to the RTB buybacks ('re-nationalisation programme') if there is a strong response to the programme.

Tenancies and rents

37. The Council will decide the best use of these assets and allocate them in line with the allocations policy.

Management / Support needs

38. The Resident Services division will undertake the day to day housing management functions associated with the ex right to buy properties.

Policy Implications

Housing Strategy to 2043

39. The new long-term housing strategy for the borough was agreed by Cabinet on 27 January 2014 and refreshed on the 8 December 2020. It contains a vision for the future of housing in the borough, which consists of four principles:
 - Principle 1. Increasing the supply of genuinely affordable high quality homes that meet our residents' housing needs and aspirations.
 - Principle 2. Demanding safer, higher quality, energy efficient homes
 - Principle 3. Promoting tenure security and social support in housing, and improving the health, wellbeing and economic resilience of residents
 - Principle 4. Empowering residents and communities to have pride and influence over the running of their homes and neighbourhoods.

Community Impact Assessment

40. The Public Sector Equality Duty requires public bodies to consider all individuals when carrying out their day to day work, in shaping policy, in delivering services and in relation to their own employees. It requires public bodies to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between different people when carrying out their activities.
41. The provision of accommodation is helping the house the most needy in our society often disproportionately from disadvantaged groups.
42. The Council buying back properties will have a positive impact on homeowners looking to sell there properties, especially those who may find it harder to get a mortgage or if any downturn following the Covid 19 affects the market.

43. With a likely greater need for housing with unemployment estimated to reach 8-8.5%¹ the commitment to deliver new council homes to support those in need of affordable housing will be increasingly important.

Resource Considerations

44. The additional costs of projects would be capitalised.
45. The staffing costs are within the current staffing arrangements.

Financial Implications

46. The acquisition of an additional 40 ex-RTB properties will incur capital expenditure, which is estimated at £12.8, allowing £11.7m for and £1.1m for stamp duty, acquisition fees and costs to bring the homes into use. There is provision within the Housing Investment Programme for this expenditure from the acquisitions budget. Financing will depend on the availability of grant funding. Should this not be forthcoming, the cost may be met in part from the application of Right To Buy receipts. Regardless of whether grant or Right To Buy receipts are applied, borrowing is likely to be required to finance the balance of the spend.
47. It is anticipated that all of the properties will be acquired and all expenditure incurred during 2021/22. All expenditure incurred will be charged to project code H-2017.2025.14.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Finance and Governance (H&M 20/133)

48. This report seeks approval from the Cabinet Member for Housing to purchase 40 ex-RTB properties for use within the Housing Revenue Account at an estimated overall cost of £12.8m. As outlined in the financial implications section of the report, budgetary provision exists already for these acquisitions, but the level of grant funding available is uncertain at this stage.

Director of Law and Governance

49. Section 120 (1) of the Local Government Act 1972 (“LGA 1972”) states that a principal council may acquire by agreement any land, whether situated inside or outside their area for the purposes of: any of their function under that or any other enactment, or for the benefit, improvement or development of their area.

¹ UK Economic outlook: The long road to recovery Oct 2020 Institute for Fiscal Studies

50. Section 120 (2) of the LGA 1972 enables a council to acquire by agreement any land for any purpose for which they are authorised by that or any other enactment to acquire land, notwithstanding that the land is not immediately required for that purpose and until it is required for the purpose for which it was acquired any land so acquired may be used for the purpose of any of the Council's functions.

51. It is noted that Cabinet agreed the strategy "Routes to 11.000: a new council homes strategy for Southwark" on 7 April 2020 which included a consideration of buybacks as an option for delivery of new homes to 2022. Paragraph 17 of this report sets out the benefits of buy backs for the purposes of meeting the requirements of this strategy.

52. Legal authority will be required from the Director of Regeneration in respect of the purchase price for each property.

Head of Property

53. Valuations to set the parameters for the purchase price and for negotiations have been undertaken by third party surveyors. This seeks to demonstrate an objective and impartial approach in determining the price the Council should be prepared to pay, in which all parties can take assurance.

54. Acquisitions will only be signed off where the price agreed is consistent with the valuation. To ensure that full reliance can be placed in the valuations, the Head of Property has required that they must:
 - a) be prepared in accordance with the appropriate sections of the current Royal Institution of Chartered Surveyors (RICS) Professional Standards;

 - b) by a firm that is regulated under the RICS Valuer Registration Scheme; and

 - c) by a valuer with sufficient current local and national knowledge of the particular market together with the skills and understanding required to competently undertake the valuation.

55. All valuations undertaken are reviewed by the Property Team, which itself includes RICS registered valuers with extensive knowledge of local markets, and who are therefore in a position to judge realistically the recommendations presented.

BACKGROUND PAPERS

Title:	Held at	Contact
Routes to 11,000: a new council homes strategy for Southwark	Housing and Modernisation Tooley St - Third Floor, Hub 3 160 Tooley Street London SE1 2QH	Richard George Programme Manager 020 7525 3293
http://moderngov.southwark.gov.uk/mglIssueHistoryHome.aspx?Id=50022697&Opt=0		

APPENDICES

Appendix number	Title of appendix
None	

AUDIT TRAIL

Lead Officer	Michael Scorer, Strategic Director of Housing and Modernisation		
Report Author	Richard George, Programme Manager, Housing and Modernisation		
Version	Final		
Dated	February 2021		
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CONSULTATION WITH OTHER OFFICERS/DIRECTORATES/CABINET MEMBER			
Officer Title	Comments Sought	Comments Included	
Director of Law and Governance	Yes	Yes	

Strategic Director of Finance and Corporate Services	Yes	Yes
Head of Property	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Officer		11 February 2021