



Council Cabinet
July 17 2019

ITEM 11

Report sponsor: Don McLure, Interim Strategic Director, Communities & Place
Report author: Ian Fullagar, Head of Strategic Housing

Sales of property to Derby Homes

Purpose

- 1.1 To gain cabinet approval to implement an efficient process for the sale of vacant properties from the Council to Derby Homes.

Recommendations

- 2.1 To agree the principle of property sales to Derby Homes, within the scope of section 32 and General Consent A of the Housing Act 1985 - currently limited to a maximum of 5 properties per year. Sales will only proceed under the provisions of this legislation where they support corporate goals and are consistent with the Council's adopted asset management strategy.
- 2.2 To delegate authority to approve these sales, as and when arising, and subject to 2.1 above and 4.9 below, to the Strategic Director for Communities and Place, in consultation with the Strategic Director of Corporate Resources and the Portfolio Holders for Governance and Licencing and Adults Health and Housing.
- 2.3 To agree in principle to ring-fence all receipts raised, to be applied towards replacement Council owned homes and Council regeneration/refurbishment programmes.
- 2.4 To authorise the Interim Strategic Director of Communities and Place to request Government to change the rules on the disposal of properties, to enable Local Authorities to be able to sell more than 5 properties per year to their respective arms length management organisations (ALMOs).

Reasons

- 3.1 Selling properties to Derby Homes will conserve and potentially expand the social housing stock in Derby by furnishing a receipt to the HRA which can, in turn, be reinvested in new housing stock.
- 3.2 Delegating authority for such sales to the relevant Strategic Directors and Portfolio Holders will ensure smooth and efficient transfers of empty properties. This will reduce the risk and liability associated with holding properties vacant and will reduce potentially lengthy and costly void periods.
- 3.3 Ring fencing all receipts raised and applying to replacement Council owned homes or regeneration initiatives will conserve Council stock and support key regeneration

proposals and associated Community benefits.

- 3.4 Raising the ceiling on the numbers of properties that can be sold to ALMOs will increase the extent to which the benefits of such sales, as outlined in 3.1, 3.2 and 3.3, can be achieved.

Supporting information

- 4.1 The Council now owns just under 13,000 Council homes. Of this total, only 156 (1.2%) are four bedrooms or larger. Last year only 4 of these became available for new lets. There were 165 families on the waiting list for those properties, which means that if this were the only means of providing housing to this cohort of families, the waiting time would average 40 years.
- 4.2 To attempt to address the larger homes issue, Derby Homes has started a programme of converting a few 3 bedroom homes to larger properties, which has allowed for several further properties to be made available. The Council has also bought a number of 4 bedroomed or larger homes using HRA resources, but further intervention to buy more would be useful if possible. In addition, the Council is building 4 bedroomed or larger properties where possible, but the need to ensure that new developments have a mix of house types means that this larger property new build is on a relatively small scale.
- 4.3 Derby Homes' Board has identified that there could be a way in which to increase the likelihood of the number of newer and/or larger homes increasing over the longer term. Derby Homes has offered to buy up to 5 properties a year from the Council at market value.
- 4.4 Under General Consent A (GCA) of Section 32 of the Housing Act 1985, the Council is permitted to transfer up to 5 'housing accommodations' within any financial year to a company in which it holds an interest. This allows up to 5 separate dwellings to be transferred to Derby Homes each financial year at Market Value. These have to be empty social housing properties between lettings so no existing tenants would be affected by this proposal.
- 4.5 If approved, some empty ('void') properties – particularly those that are being converted in the way described above – could be sold from the HRA to Derby Homes. The proposal would mean that Derby Homes pays market value to the Council and lets the property at a sub market rent to a new tenant. Derby Homes will use its balance sheet strength and / or loans from the Council to purchase the homes from the Council.
- 4.6 Under current Council policy, receipts from the disposal of HRA 'land' (which also covers void properties) is applied 50% to affordable housing and 50% to regeneration projects (the '50/50 policy') in order to retain these receipts rather than see them 'pooled' nationally, i.e. returned to HM Treasury.
- 4.7 The HRA debt cap was lifted from November 1 2018. New homes development therefore is no longer restricted by this relatively arbitrary limit, but instead by the financial viability of a development proposal (whether the rent will cover running costs and the interest and repayment of any borrowing). There is therefore still a significant

constraint as affordable rents are limited to 80% of the market rate (or government set 'formula rent' if higher). A subsidy is normally required to support this discount to make a development viable. The 'recycling' of Right to Buy sales income currently supports 30% of the cost of a new home with the rest to be supported by rental income. Indeed it would be possible to replace the sold homes with more replacements than those sold under this proposal, funded by additional borrowing and Right to Buy receipts, while also holding on to the sold properties through ownership of Derby Homes and protecting the supply of larger and newer properties. The proposal in effect stretches - to a small extent - the overall capacity of the Council to deliver affordable housing.

- 4.8 It is suggested therefore that we implement a process to sell up to five homes a year as currently allowed by General Consent A. The sold homes would not be available under the Right to Buy, securing the home for future Council group ownership and allocation to larger families, while the replacement(s) would be potentially available for sale under the Right to Buy.
- 4.9 Under General Consent A, only vacant properties can be considered for transfer, and only at market value. Therefore, when larger properties fall vacant they could be considered for this scheme. A financial appraisal would be undertaken in each case to ensure value for money for the Council. In the case of properties that the Council has spent significant sums upgrading or adapting, but whose sums are not reflected in current market value, the appraisal will ensure the best interests of the Council are protected.
- 4.10 The process for sales would need to be agreed and to be relatively quick to avoid lengthy void periods when homes might stand empty awaiting transfer. Under current rules, each sale has to go through multiple approval processes as if the sale was to a fully independent third party. It is proposed therefore that sales of property to Derby Homes under this scheme be delegated to the Strategic Director for Communities and Place, in consultation with the Strategic Director of Corporate Resources and the relevant Cabinet members for housing and estates. Sales would be at market value, and would be quicker, with minimal costs of transfer. No Stamp Duty is payable as both the Council and Derby Homes as Registered Providers of Social Housing.
- 4.11 Derby Homes has set aside funds for a programme of such purchases for the next 5 years but would not have limitless funding potential. At the scale envisaged and allowed by the General Consent, funding should be possible to allow for a maximum of 25 properties (based on a broad average cost per property estimate) over the next 5 years.
- 4.12 Clearly, the Council and Derby Homes would have greater flexibility if the number of sales were not limited to just 5 a year and it is proposed that the Council write to Government to request that it reconsiders the current limit.

Public/stakeholder engagement

- 5.1 Derby Homes' Board has approved this concept in an attempt to assist the Council to secure rare larger and newer homes into longer term availability for affordable housing.

Other options

- 6.1 To do nothing and to re-let all larger and newer properties within the HRA as currently happens. However, the types of home under consideration for this scheme (as outlined in 4.1) have the greatest undersupply when compared to demand.
- 6.2 Approve the property transfers but not delegate authority. This would severely slow the transfer process and result in lengthy and costly void periods as Cabinet or Cabinet Member approval would be needed for every transfer.
- 6.3 Approve the transfers and delegated authority mechanism and require that 100% of the receipts be recycled for solely HRA housing purposes. This would increase the number of affordable homes that could be provided, but would reduce the funding available for key regeneration projects in the City which may in turn deliver additional affordable housing together with wider community benefits.

Financial and value for money issues

- 7.1 Sales of these properties will generate a capital receipt for the Council which can be reinvested in much needed additional housing stock and key regeneration projects.
- 7.2 Council financial interests in this process will be safeguarded by an appraisal by relevant officers preceding each sale.
- 7.3 The proposal utilises Derby Homes' balance sheet to extend their ownership and secure rare assets for the future. Larger and newer homes are rare and their turnover is also rare; larger families placed in Bed & Breakfast accommodation are expensive for the Council as there is not full recovery of the housing benefit paid. This process will potentially expand the supply of these properties and will therefore tend to reduce these costs to the Council.

Legal implications

- 8.1 General Consent A of the Housing Act 1985 allows the transfer of HRA homes at Market Value to a local authority subsidiary company but this is currently constrained to a maximum of 5 a year.

Other significant implications

- 9.1 There is now the ability for the Council to borrow funds beyond the HRA debt cap. This means that there are fewer obstacles to the proposals made here as the Council is able to borrow as long as that borrowing is prudent and sustainable.

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal	Olu Idowu	7-6-19
Finance	Amanda Fletcher	12-6-19
Service Director(s)	Greg Jennings	27-6-19
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Other(s)	David Enticott, Finance Director & Company	20-6-19

Secretary, Derby Homes

Background papers:	None
List of appendices:	None