



## **Acquisition of Homes in Priority Area**

### **SUMMARY**

- 1.1 Arboretum is the most deprived ward in Derby. It is therefore the clear choice for any intervention activity intended to address deprivation and improve quality of life.
- 1.2 The part of Arboretum immediately to the north of the former Baseball ground, as identified in appendix 2, has been identified as particularly problematic. It contains a large number of poor quality, low cost, private rental homes with associated problems of urban decline.
- 1.3 Nevertheless, there remains a demand for good quality properties in this area. The acquisition of properties in this area, enabling their refurbishment and letting at an affordable rent can therefore meet housing need, improve housing conditions and support a more stable community.
- 1.4 The area has a range of property types for sale ranging from 2 to 4 bed houses, predominantly of low cost terraces. Inspections have been carried out on some of these to establish an indicative works cost to bring the properties to a suitable standard for use as affordable rental homes. The analysis indicates that the acquisition and improvement of properties can be carried out in a cost-effective way.
- 1.5 This report recommends the approval of an acquisition programme in the area. Purchase and improvement costs can be met through a provision in the HRA business plan and the properties can be managed and maintained by Derby Homes.
- 1.6 The area initially selected for intervention should be considered a pilot area. If successful it could be replicated in other parts of the ward or city.

### **RECOMMENDATION**

- 2.1 To agree the acquisition and improvement of a number of residential properties over the next 3 years in accordance with provision allowed for within the approved HRA plan. The acquisition properties are to be located primarily, but not exclusively, within the intervention area shown in Appendix 2.
- 2.2 To authorise the Strategic Director of Communities and Place, in consultation with the Director of Governance and Monitoring Officer to undertake valuations and negotiations to purchase suitable properties in accordance with Rec 2.1 above.
- 2.3 To undertake where necessary the full refurbishment of the acquisitions to ensure they achieve the decent homes standard and are attractive to let. Properties to be let at affordable rents.

## REASONS FOR RECOMMENDATION

- 3.1 The purchase, improvement and on-going management of properties within this area will improve the overall housing stock. In conjunction with other renewal activities and neighbourhood management, this will help uplift the area and reduce resident churn, so helping to create a more stable, stronger and cohesive community.
- 3.2 Acquiring additional properties in a cost-effective way will also help deliver our broader housing objective of maintaining the supply of good quality affordable homes.



**SUPPORTING INFORMATION**

*Background – Arboretum Ward*

- 4.1 The Arboretum ward covers an area which stretches as far north as the city centre and the northern part of the inner ring road, and as far south the Shaftsbury street industrial area. As such it has comprises a range of districts, predominantly residential, but with a proportion of retail and leisure provision.
- 4.2 However, it is the most deprived ward in Derby, according to an analysis of indices of multiple deprivation (IMD)<sup>1</sup>. Despite statutory and community involvement in the area over a number of years, lower levels of educational attainment, low employment prospects, poor housing, poor health prospects and environmental problems persist.
- 4.3 Property conditions are frequently substandard, as are housing management practices. These problems are compounded by issues associated with new migrant communities from central and eastern Europe – overcrowding, a low skills base a transient population and perceptions of anti-social behaviour.
- 4.4 The Arboretum Ward is one of twelve wards prioritised by cabinet in 2016 for Neighbourhood Working interventions. Neighbourhood Working aims to revitalise neighbourhoods and to work with local people to tackle the issues that matter to them 'on their doorstep'.

*Selecting the Intervention Area*

- 4.5 Although overall the Arboretum ward is the most deprived in Derby, there are varying levels of deprivation within it. An analysis has been completed, which compares relative levels of deprivation in the various districts<sup>2</sup> within Arboretum, and also more widely across the city. The analysis considers IMD and also levels of service requests to the Council's Housing Standards Team (HST) and Environmental Protection Team (EPT).
- 4.6 This analysis shows that the proposed intervention area (as shown in Appendix 2), although subject to significant problems, does not incorporate the very worst parts of the ward, or indeed the city. More deprived and problematic areas lie further north in the ward, particularly in the city centre area, the Hartington Street area, and to the west, close to the Abbey ward boundary.

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<sup>1</sup> Indices of multiple deprivation (IMD) is a term which covers a wide range of issues and refers to unmet needs caused by a lack of resources of all kinds, not just financial. It attempts to measure multiple deprivation by taking into account a range of factors. These factors comprise Income, Employment, Health and Disability, Education Skills and Training, Barriers to Housing and Services, Living Environment, Crime.

<sup>2</sup> The geographical areas considered are Lower Super Output Areas (LSOAs) which comprise an average of 650-700 dwellings

- 4.7 An additional area, north of the proposed Intervention Area but not as far north as the city centre, also looks slightly more problematic. This area is roughly bounded by Becher street in the south and Normanton Rd / Cummings street in the north.
- 4.8 However, the proposed Intervention Area has been selected taking into account the above analysis but also a number of other factors. These include:
- a) Other initiatives currently or likely to be imminently under way
  - b) Previous housing led renewal work
  - c) Area perception
  - d) The fact that the initial area will be a 'pilot', which if successful can be replicated in other parts of the city in due course
- 4.9 With respect to 'other initiatives', the city centre area is currently subject to intervention under the *City Living* initiative, while the Hartington street area is under consideration for a targeted housing standards approach in partnership with local landlords.
- 4.10 Certain parts of Arboretum have been subject to significant renewal expenditure in the previous decade, primarily under the Rose Hill Market Renewal Area initiative. The proposed Intervention Area will generally not duplicate these previously targeted areas, and has therefore predominantly not benefited by former renewal programmes.
- 4.11 The selected Intervention Area is affected by a private rented sector that suffers from a perception (and reality) of offering low quality housing. This in turn leads to a high level of turnover in the area resulting in a transient population. The result is a low level of community connection and ownership of the common parts of the area, leading to them becoming neglected. This neglect reinforces the area's reputation as an undesirable place to live.

#### *Acquisition Programme – Rationale, Cost and Process*

- 4.12 Clearly, no single renewal tool on its own can uplift an area. Derby Homes is already implementing a range of neighbourhood management and community engagement initiatives to support the area. However, a higher concentration of council stock in the area will increase the 'critical mass' and support further improvements. An acquisitions programme will help facilitate this.
- 4.13 A range of properties are currently for sale that could, if purchased and owned by the Council and renovated and managed by DH, provide good quality accommodation. This could promote the growth of a stable community; raise the level of resident connection and thus the overall standard and reputation of the area.
- 4.14 A range of properties were viewed by Derby Homes in an initial survey and valued by the Council's Valuers. The survey involved a mixture of development, maintenance and housing management staff in order to establish property suitability and demand, and the level of work required to ensure the property achieved a decent standard for affordable rent. The valuation established an indicative property price.

4.15 Derby Homes calculated costs using their existing supply chain to establish an estimated price for the refurbishment required in order to bring the properties into use as affordable homes.

4.16 Generally the inspections identified the following items of work were required, but were not limited to:

- Gas central heating upgrade
- Improvement to thermal insulation
- Replacement kitchen/bathroom
- Installation of hard-wired smoke alarms
- New roof covering and rain-water goods.
- Garden clearance
- Damp treatment
- Pointing
- Treatment of Japanese knotweed

The estimated cost of works is up to £35,000 excluding fees. These can be funded from a provision made in the HRA business plan.

4.17 These improvements will improve the overall thermal efficiency of the house as well as its functionality and visual appearance, so creating an appealing home.

4.18 It has also been identified that this area of Arboretum is affected by Japanese knotweed. This is a highly invasive plant that can cause damage to properties, spreads rapidly and is difficult to remove, unless a thorough treatment plan is properly implemented.

4.19 Business Plan costs have been calculated to establish a range of acquisition and refurbishment costs for 2 and 3 bedroom properties. The financial assumptions are as follows:

- Purchase costs established by a review of available property for sale
- Works costs, based on sample survey with established DH component costs
- On costs including fees and taxes
- Rents based on Local Housing Allowance levels
- Benchmark management, maintenance sinking fund costs
- Borrowing based on a 50-year annuity loan at Public Works Loan Board Rates
- Break even on a cumulative revenue basis will occur in year 41 or 42, subject in some cases to an initial HRA subsidy.
- The use of Right to Buy (RtB) receipts or HCA Empty Homes grant to support the cost of the acquisition and development. RtB receipts can meet up to 30% of the cost; the level of Empty Homes grant varies depending on property profile.

4.20 The Business Plan costs have been analysed using the Council appraisal model. The appraisal results using low and medium range priced houses is as set out below:

	<b>2 bed mid range</b>	<b>2 bed low range</b>	<b>3 bed mid range</b>	<b>3 bed low range</b>
<b>Acquisition cost:</b>	£70,000	£65,000	£100,000	£90,000
Works cost	£35,000	£25,000	£35,000	£25,000
On-costs	£6,000	£6,000	£7,000	£6,000
<b>Funded by:</b>				
Borrowing funds by rents	£59,000	£59,000	£85,000	£85,000
Right to Buy receipts	£33,000	£29,000	£43,000	£36,000
HRA subsidy	£19,000	£8,000	£14,000	£0
<b>Break even year (cumulative)</b>	<b>42</b>	<b>41</b>	<b>42</b>	<b>41</b>

The accounting assumptions underpinning this table are consistent with the current HRA business plan.

4.21 The appraisal above illustrates a range of acquisition and refurbishment costs and how these acquisitions will be funded. In respect of the funding this can be explained as follows:

- i) Borrowing costs funded by rents is the amount of borrowing costs that the rental income will support
- ii) Right to Buy (RtB) receipts is amount of RtB grant allocated to the scheme at the allowable amount
- iii) HRA subsidy is the amount cross subsidy required from HRA reserves.

#### *Vacant Possession*

4.22 It is intended to primarily target empty properties, taking ownership with vacant possession. Occupied properties are not excluded, but these are more problematic. Occupied properties will therefore only be considered where:

- They are in poor physical conditions and/or poorly managed
- Suitable decanting arrangements can be made (where necessary) to allow renovation work to take place
- Suitable arrangements can be made to address any overcrowding or under occupation issues.

## OTHER OPTIONS CONSIDERED

- 5.1 To do nothing – this option would not address the issues relating to the housing quality within this area.
- 5.2 Consider the above project but as a market rent intervention instead of low cost rent. The additional rent raised through applying market rent would be approximately 10-15% more than affordable rents which would be available to support borrowing to fund purchases. RtB receipts would not be available for market rent properties and given the low rentals in this area such a scheme would be marginal, given the repairs that would be needed to bring average purchases up to a standard acceptable by the Council.
- 5.3 The Council could purely intervene in the area by taking enforcement action under the Housing Act 2004. Local Authorities have a duty to take enforcement action to secure necessary improvements where Category 1 (serious) hazards are present, and the discretion to intervene where category 2 hazards are present. However it is not considered that an approach based purely on housing enforcement would support the wider Community engagement, confidence and stability in the area, or improve its reputation as described in paragraphs 4.12 and 4.13 above.

**This report has been approved by the following officers:**

<b>Legal officer</b> <b>Financial officer</b> <b>Human Resources officer</b> <b>Estates/Property officer</b> <b>Service Director(s)</b> <b>Other(s)</b>	Paul McMahon, Principal Lawyer Amanda Fletcher, Head of Finance, Mazer Hussain, Group Accountant David Cox, Head of HR  Greg Jennings, Director of Regeneration, Property and Housing Ian Fullagar, Head of Strategic Housing
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<b>For more information contact:</b>  <b>Background papers:</b> <b>List of appendices:</b>	Karen Brierley 01332 640318 <a href="mailto:karen.brierley@derby.gov.uk">karen.brierley@derby.gov.uk</a> , Jeremy Mason, 01332 640329 <a href="mailto:jeremy.mason@derby.gov.uk">jeremy.mason@derby.gov.uk</a> None Appendix 1 – Implications Appendix 2 – Map of intervention area
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<b>IMPLICATIONS</b>
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### **Financial and Value for Money**

- 1.1 The acquisitions will be funded by the HRA for new build and acquisition and RtB receipts at a rate of up to 30% of the overall cost of acquisition and refurbishment. Empty Homes grant could conceivably be used but this is less likely and would be considered on a case by case basis
- 1.2 All purchases will be subject to 3% SDLT.
- 1.3 Provision has been made for this pilot within the recently adopted HRA Business Plan.

### **Legal**

- 2.1 Housing Act 1985 (s.9) allows the council to buy houses to rent. The acquisition will be subject to the usual due diligence throughout conveyance.
- 2.2 The property will be subject to the usual due diligence throughout the conveyance process.

### **Personnel**

- 3.1 None directly arising from this report

### **IT**

- 4.1 None directly arising from this report

### **Equalities Impact**

- 5.1 These properties will be let to those people who are on the Council's waiting list or who are in need of emergency accommodation. Some of these people are therefore potentially vulnerable and may well have protected characteristics by virtue of their age, disability, religion or belief etc.

### **Health and Safety**

- 6.1 This will improve the housing quality within this area where poor quality homes can lead to poor health conditions.

## **Environmental Sustainability**

- 7.1 Once acquired, the properties will benefit from improvements to the gas central heating system and thermal insulation.

## **Property and Asset Management**

- 8.1 The acquisitions will bring properties of a popular size and type into the Council's portfolio.

## **Risk Management and Safeguarding**

- 9.1 The intervention initiative presents a number of risks which are set out below:
- The target properties will most likely be over 100 years old and as such are likely to present higher on-going maintenance challenges.
  - Initial renovation is also more prone to unforeseen works being necessary with older properties; but this will be mitigated as far as possible by detailed surveys before acquisition.
  - Many of the properties purchased will be terraced. As such they are at risk of impact from poor conditions in neighbouring properties. This point also applies to the treatment of knotweed which can reoccur after treatment if neighbouring properties are still untreated
  - The Council could lose the properties to Right to Buy after 15 years.

An assessment balancing these risks will be made in each case before a decision is made to proceed with a purchase.

## **Corporate objectives and priorities for change**

- 10.1 This acquisition supports the Council's vision to address the quality of housing in Arboretum to increase resident retention and community stability.

Map of Proposed Intervention Area

