



Derby City Council

**ADULTS, HEALTH AND HOUSING CABINET
MEMBER MEETING
Thursday 30 August 2018**

ITEM 5

Report of the Strategic Director of Communities
and Place

Purchase of ex-council owned three bedroom house

SUMMARY

- 1.1 The Council has been offered the opportunity to buy back a three bedroom house located in Osmaston, a suburb close to the city centre where the council is supporting a wider programme of regeneration, delivering significant new housing and commercial development.
- 1.2 When purchasing ex-council owned properties the council is able to apply Right to Buy (RtB) receipts at a rate of 50% of the overall costs as opposed to a rate of 30% with standard acquisitions.
- 1.3 This increase in the allocation of RtB receipts assists the council to absorb its RtB receipts whilst having less of a financial impact on the Housing Revenue Account (HRA) for new build and acquisitions.

RECOMMENDATION

- 2.1 To approve the proposed acquisition of a three bedroom semi-detached house in Osmaston.
- 2.2 To approve the subsequent refurbishment of the property by Derby Homes.
- 2.3 To incorporate the dwelling into the management portfolio of Derby Homes.

REASONS FOR RECOMMENDATION

- 3.1 To provide an additional affordable dwelling for those on the Housing Register whilst supporting the wider regeneration of the area.
- 3.2 To ensure that the property provides appropriate, affordable accommodation to meet the needs of households on the Housing Register.
- 3.3 To ensure the property is adequately managed and maintained.

SUPPORTING INFORMATION

- 4.1 The three bedroom home is located in the Osmaston area of Derby. This area is the focus of a proposed regeneration scheme which will deliver significant levels of new residential development.
- 4.2 The property was sold by the council in December 2014 via the RtB scheme but the owner recently encountered financial hardship and so approached the council directly to see whether the council would be interested in re-acquiring the asset.
- 4.3 As the property was sold less than five years ago a portion of the discount must be repaid. In this case the repayable discount is £24,720, which when deducted from the purchase price of £103,000 means the purchase is for a value of £78,280.
- 4.4 This represents excellent value for money for a large three bedroom semi-detached property.
- 4.5 This reduces the financial burden of the acquisition on the HRA for new build and acquisitions and helps the council to absorb its RtB receipts, which if not spent within three years of receipt must be returned to central government.
- 4.6 The property requires modernisation which will include but is not limited to:
 - Upgrades to kitchen and bathroom
 - Redecoration throughout
 - Electrical and gas safety testing, plus any remedial work required.

The works will be completed by Derby Homes with costs expected to be in the region of £18,000 including fees, contingency and overheads.

- 4.7 The finances associated with acquiring this property are as follows:
 - Agreed purchase price - £103,000
 - Stamp Duty Land Tax (SDLT) at 3% - £3,090
 - Legal and valuation fees - £1,000
 - Projected refurbishment costs - £18,000
 - Total - £125,090
 - Discount repayable by vendor - £24,720
 - Right to Buy Receipts (50% of total cost) - £62,545
 - Housing Revenue Account funding - £62,545
- 4.8 As the proposed spend is between £100,000 and £250,000 the acquisition of this property can be approved by the Cabinet Member for Adults, Health and Housing in accordance with the Council's approved scheme of delegations.
- 4.9 The purchase will produce an operational surplus in year one due to the 50% subsidy from RtB receipts, with a cumulative surplus greater than the outstanding loan balance in year 24.

- 4.10 The acquisition has been agreed with Derby Homes who will allocate and manage the property on behalf of the council.
- 4.11 The dwelling will be protected from any financial loss from subsequent right to buy applications by the cost floor rules, meaning that the property cannot be sold for less than the value of the cumulative total spend for 15 years from the date of acquisition.
- 4.12 The acquisition of the property and any required refurbishment work can be funded from the existing Housing Revenue Account (HRA) new build and acquisition budget. Minute ref: 185/15 Housing Revenue Account Business Plan 2016 – 46.
- 4.13 Proposals for the acquisition or disposal of land or buildings, whether freehold or leasehold, shall be referred to the Director of Finance and the Chief Executive in accordance with the Financial Procedure Rules.

OTHER OPTIONS CONSIDERED

- 5.1 Do Nothing. This does not:
- Bring an additional affordable housing unit into the council's residential portfolio.
 - Ensure the timely allocation of RtB receipts to avoid retuning the receipts to central Government.

This report has been approved by the following officers:

Legal officer	Emily Feenan, Principal Lawyer
Financial officer	Mazer Hussain, Group Accountant
Human Resources officer	N/A
Estates/Property officer	Jayne Sowerby-Warrington, Head of Strategic Asset Management and Estates
Service Director(s)	
Other(s)	Richard Boneham, Head of Audit Partnership Ian Fullagar, Head of Strategic Housing

For more information contact:	Carly Saunt 01332 640321 carly.saunt@derby.gov.uk
Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Financial Business Case

IMPLICATIONS

Financial and Value for Money

- 1.1 The finances associated with acquiring this property are as follows:
- Agreed purchase price - £103,000
 - Stamp Duty Land Tax (SDLT) at 3% - £3,090
 - Legal and valuation fees - £1,000
 - Projected refurbishment costs - £18,000
 - Total - £125,090
 - Discount repayable by vendor - £24,720
 - Right to Buy Receipts (50% of total cost) - £62,545
 - Housing Revenue Account funding - £62,545
- 1.2 The agreed purchase price reflects the valuation completed by the council and represents excellent value for money.
- 1.3 The cost of the improvement works will not to be greater than £18,000 which alongside the purchase cost will be financed by Right to Buy Receipts at a rate of 50% with remaining costs deducted from existing capital budgets.
- 1.4 The purchase will produce an operational surplus in year one with a cumulative surplus greater than the outstanding loan amount in year 24.
- 1.5 A financial business case is appended at Appendix 2.

Legal

- 2.1 The acquisition will be subject to the Council's standard due diligence throughout the conveyance process.

Personnel

- 3.1 No implications.

IT

- 4.1 No Implications.

Equalities Impact

- 5.1 It is not possible to complete any major adaptations due to the size and layout of the property.

Health and Safety

- 6.1 No implications.

Environmental Sustainability

- 7.1 The acquisition will enable the council to undertake improvements to the gas central heating and insulation where required, increasing its environmental sustainability.

Property and Asset Management

- 8.1 This acquisition will provide an additional affordable dwelling for those in identified housing need in the city.

Risk Management and Safeguarding

- 9.1 The acquisition will be subject to the council's standard due diligence throughout the conveyance process.
- 9.2 The risk of losing the property via Right to Buy exists but the council will not be open to any financial loss as the cost floor rules will prevent the property being sold for less than the amount spent on it for 15 years following the acquisition.

Corporate objectives and priorities for change

- 10.1 This acquisition supports the council's objective to increase its affordable housing stock to ensure Derby's residents have access to high quality, affordable homes and housing services which support communities and improve quality of life.

Financial Business Case

What

- 1.1 Acquisition of a three bedroom semi-detached house in the Osmaston regeneration area.

Previous Cabinet Approval

- 2.1 None.

Financial Implications

- 3.1
- Acquisition cost - £78,280
 - The cost of refurbishment will not exceed £18,000.
 - SDLT - £2,348.40
 - Fees - £1,000
 - Total - £99,628.40
 - RtB receipts at 50% - £49,814.20
 - Interest Rate – PWLB 2.56%
 - Loan over 50 years
 - Operating surplus from year 1.
 - Breakeven (cumulative surplus generated exceeding outstanding balance of the loan) achieved in year 24.

Justification

- 4.1 The Council has been offered the opportunity to buy-back a three bedroom semi-detached house in the Osmaston gateway. The property is an ex-council house sold in December 2014 and so there is discount repayable of £24,720 which when deducted from the agreed purchase price of £103,000 Results in a capital outlay for the acquisition of £78,280.

When purchasing ex-council owned properties the council is able to apply RtB receipts at a rate of 50% of the overall costs as opposed to a rate of 30% with standard acquisitions.

This increase in the allocation of RtB receipts assists the council to absorb its RtB receipts whilst having less of a financial impact on the Housing Revenue Account (HRA) for new build and acquisitions.

Other Options Considered

- 5.1 Do nothing – This is not recommended as it would not ensure that the property is refurbished and made available to those in housing need on the housing register and does not assist with absorbing the council's RtB receipts.