

Name of meeting: Cabinet

Date: 12 October 2021

Title of report: Proposal for delivering more affordable homes through Right to Buy (RTB) buyback

Purpose of report: The purpose of this report is to outline the issues with the RTB buyback programme and to seek approval from the Cabinet to introduce a capped negative Net Present Value (NPV) under certain circumstances when seeking to purchase properties from the open market.

[NB: NPV is the key indicator used to assess the financial viability of longer-term investments made by the council.]

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Yes/ no or Not Applicable Yes If yes give the reason why Expenditure > £250,000 and affects more than 2 wards
Key Decision - Is it in the <u>Council's Forward Plan (key decisions and private reports)?</u>	Key Decision – Yes/No Yes Private Report/Private Appendix – No
The Decision - Is it eligible for call in by Scrutiny?	Yes/No or Not Applicable Yes
Date signed off by <u>Strategic Director</u> & name Is it also signed off by the Service Director for Finance? Is it also signed off by the Service Director for Legal Governance and Commissioning?	David Shepherd – 1 October 2021 Eamonn Croston – 30 September 2021 Julie Muscroft – 1 October 2021
Cabinet member portfolio	Give name of Portfolio Holder/s Councillor Cathy Scott

Electoral wards affected: All

Ward councillors consulted: None

Public or private: Public.

Has GDPR been considered? Yes – no implications.

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1. Summary

Approximately 200 council homes are lost through the Right to Buy (RTB) each year and the number of active applications on the housing register is rising, (15,490 on 1 September 2021), impacting on the council's ability to rehouse those most in need of affordable housing.

The Council's newbuild programme will help deliver more housing but is in its early years of delivery whilst the pipeline matures into deliverable sites.

It is therefore important the council continues to grow its housing stock through the purchase of Right to Buy Back properties (RTBB). The RTBB programme has proven to be a successful tool in helping to address a range of issues as well as contributing to re-housing people on our waiting list.

However, the Council has found it challenging to achieve its target of 35 acquisitions per year to mitigate the effects of the RTB and avoid having to return unspent RTB receipts to central government (MHCLG).

35% of all purchase opportunities are lost (40 homes in 2020/21) because house price increases over the past year mean that the Council cannot pay market value for the type of homes that are most needed and recover its investment over 30 years based on the rental stream (i.e. achieve a zero or better NPV). The Council is unable to exercise the right of first refusal because it cannot offer market value for many property types due to the high negative NPV. Five opportunities have already been lost this year. The pipeline of potential RTBB has dried up as we continue to turn vendors away because we are unable to offer anywhere near market value.

To increase housing supply and mitigate the risk of having to return unspent RTB receipts to MHCLG, this report outlines some options for consideration.

Option 1: Approve property purchases with a capped negative NPV under certain circumstances

Option 2: Change the assumptions in the financial appraisal model

Option 3: Do nothing

2. Information required to take a decision

2.1. Council context

The council has a RTBB programme which contributes on average an additional 30-35 properties per year to the Council's housing stock. This programme assists the Council in reducing pressure on the waiting list and spending its RTB receipts and also in meeting its wider strategic priorities. These include working with Access to Housing and Adult Social Care to source particular property types that can be adapted for households with a specific need, working with Children's Services to identify potential children's homes and the provision of move-on accommodation for single homeless people.

Based on Choose 'n' move bid data taken over a 5-year period, three-bedroom properties attract the highest average number of bids at 117 per property. 3-bedroom homes have a relatively low turnover rate and therefore a household, even with a priority banding for example due to homelessness must wait almost a year on average to be re-housed. Increased house prices mean that virtually all 3-bedroom houses that come on the market are above what the Council can pay, making it increasingly difficult to meet demand and reduce waiting times.

The Council is also seeking to deliver suitable accommodation options at pace under the Afghan relocation schemes and the buybacks programme is expected to play a part in this. It is important that the Council can maximise all opportunities to acquire property quickly to facilitate the relocation programme and to reduce the distress caused by families in acute housing need having to wait so long for suitable property to become available.

With the decision to redevelop the high-rise flats at Berry Brow, there will shortly be a significant need for suitable homes to re-house tenants displaced by the proposals. It is important that the Council can increase its supply of 1- and 2-bedroom accommodation in areas that residents have expressed a desire to live in to enable the decant process to be completed quickly and efficiently.

The rules governing retained RTB receipts require the receipts to be spent within 5 years (extended from 3 years by MHCLG in April 2021) and can be used to fund up to 40% of the total cost of purchasing and refurbishing existing properties. If receipts are not spent within the required time limit, they must be repaid with interest of 4% over base rate.

In March 2021, MHCLG announced that from April 2022 the RTBB programme will only be able to make up 50% of the Council's total delivery using capital receipts (dropping to 40% in 2023 and 30% from April 2024). It is particularly important to have a large RTBB programme this year to get a good head start against spend targets that arise from the council's ambition and the forecasted receipts profile.

2.2. National and local context - Covid19 Pandemic and the creation of a buoyant housing market

The gradual lifting of lockdown restrictions, the introduction of a stamp duty holiday, the furlough scheme, a recovering economy, and record-low mortgage rates have resulted in propelled house prices and sales. According to the Office of National Statistics (ONS), average house prices rose sharply in the latter part of 2020 in the Yorkshire and Humber area, to a high of 7.6% in November. Savills project a 28% rise in prices in Yorkshire over the next five years.

2.3. Rising house prices

Paragraph 2.2 sets out how house prices have increased over the past year meaning that properties once affordable at market value are not anymore. This, combined with the Council's low rents, make it increasingly difficult to find suitable purchases within the agreed financial parameters, particularly for the most highly demanded property types.

There are gaps of between £15k and £45k between the average market value for the most highly demanded property types and the average price the Council can afford to pay on the rents it charges.

In some cases, the Council is unable to offer market value to acquire flats in blocks and this could leave it vulnerable when it comes to ensuring that essential fire safety works are implemented and maintained.

2.4. Fewer vendors approach the council direct & need to exercise right of pre-emption

The number of direct vendor RTBB scheme enquiries fell last year and has not yet recovered to the levels seen before the pandemic. Considerable officer time is being spent trying to generate new purchase leads but has had limited success because of the increase in house prices.

The Council could deliver more homes for social rent, more efficiently by purchasing back all properties where the right of pre-emption applies. However, section 158(1) Housing Act 1985 states that the Council must pay market value which generally results in an unviable purchase.

2.5. Poor financial return on investment (NPV)

In order for a purchase to be considered a good investment, it should have a positive or zero NPV over 30 years i.e. the cost to the HRA of acquiring and refurbishing the property is recovered through the rental stream within 30 years. 35% of all property enquiries last year did not proceed due to the Council's inability to offer market value and still recover its investment

within 30 years. Only 14% of property enquiries translate into purchases. Of the 40 properties bought since 1 April 2020, only 7 are high demand archetypes in wards with above average demand. High house prices and the resulting negative NPV means that the Council can only afford to purchase low value properties in less popular areas.

2.6. Options for consideration

Option 1: Approve property purchases with a negative NPV under the circumstances set out in Table 1 below and include in the 30-year business plan.

Table 1

Property type	Maximum negative NPV	Circumstances when the negative NPV is acceptable
Bungalow	-£31,000	<ul style="list-style-type: none"> Property has been adapted or is adaptable Accessible Homes Team has identified a specific household for whom the property would be suitable Property is in a ward with above average demand for bungalows (based on average bid data from Choose N Move over past 5 years)
House 2 bed	-£15,000	<ul style="list-style-type: none"> Property is in a ward with above average demand for 2 bed accommodation (based on average bid data from Choose N Move over past 5 years). Purchase would help achieve wider strategic objectives e.g., estate improvement/regeneration, action to reduce ASB.
House 3 bed	-£15,000	<ul style="list-style-type: none"> All properties
Flat 1 bed	-£4,000	<ul style="list-style-type: none"> Purchase would help achieve wider strategic objectives e.g., estate improvement/regeneration, action to reduce ASB Purchase returns the block to full Council ownership Property is in a block with an internal communal area.
Flat/Maisonettes 2 bed	-£6,000	<ul style="list-style-type: none"> As 1 bed flats

Proposed NPVs based on cost of actual opportunities since 01st April 2021 (bungalows since 1 April 2020).

Applying these parameters would have allowed the Council to take forward 18 out of 24 opportunities so far this year. To date we have progressed only 5 opportunities. This is the recommended option and if approved, we would expect to be able to purchase 6-7 properties per month.

If all purchases were at the maximum negative NPV, as a worst-case scenario, the RTBB programme for 2021/22 would show a negative NPV of **-£12,800** and the Council's initial investment would be recovered over a longer cashflow period. This assumes the programme is made up of 1/3 3-bed houses, 1/3 2-bed houses and 1/3 1 and 2 bed flats and is affordable within the parameters of the 30-year HRA Business Model. In practice this worst-case scenario will not apply this year given that not all purchases approved to date have a negative NPV.

Any purchase will be supported by an independent valuation confirming that the agreed price represents market value and will be subject to the same delegated authority as it is now.

Option 2: Change the assumptions in the financial appraisal model.

It is appreciated that this option will need careful consideration and modelling by the Finance team before it could be implemented. It is recommended that consideration is given to this option and a decision made on its implementation later.

Option 3: Do nothing

This option is not recommended because of the risks it carries.

The continued risk of opportunities to mitigate the impact of RTB being lost because the Council cannot afford to pay market value. Based on figures so far this year, this equates to losing 55% of potential purchases with the corresponding effect on the waiting list and the Council's ability to house people quickly and appropriately.

There is a risk that the Council will not spend its RTB receipts by the deadlines imposed by MHCLG if the number of properties it is able to purchase is limited. This carries potential reputational as well as financial risk.

There is a risk that simple measures such as purchasing a property that is causing blight or anti-social behaviour concerns in a community will not be possible if the Council cannot pay a market value. This could have a negative impact on communities and the desirability of housing locally.

If Option 3 is preferred, we forecast completing 24 purchases by year end, based on activity since the start of the financial year. These would be lower value purchases because they are likely to be primarily flats. Whilst this doesn't carry any immediate risk of underspending RTB capital receipts, it puts increased pressure on the newbuild programme to deliver as it is unlikely RTBB can make up any shortfalls in numbers and spend caused by unforeseen delays in the housebuilding programme.

3. Implications for the Council

- **Working with People**

There is overwhelming demand for 3-bedroom properties in virtually all wards. This proposal will enable the purchase of more family homes across the Borough to assist the Council in meeting our citizens' needs in the most highly demanded areas. Increasing the supply of Council housing will help to reduce waiting times for applicants meaning that they spend less time in unsuitable accommodation.

The council is currently also needing to find alternative accommodation for those tenants who will be rehoused from high rise as part of the Cabinet's approval to develop proposals to remediate, refurbish or replace the existing blocks. There is also an urgent need to provide larger properties for Afghan refugees and implementation of Option 1 will enable suitable properties in appropriate areas to be identified quickly. This is in line with the Council's overall ambition for safe and cohesive communities.

Improving the Council's ability to purchase property will help to reduce the number of former Council properties entering the private rented sector. This sector plays a useful role; however, rents are higher, there is poor security of tenure, and the safety and quality of some accommodation can be below acceptable standards. Increased numbers of Council houses will help to reduce the number of people who are living in expensive, unsuitable, and poor quality private rented accommodation with the corresponding knock-on effect on their health, wellbeing, income, and quality of life. In turn, this will reduce the number of households who present as homeless due to private sector tenancies ending and will help to reduce Housing Benefit costs.

- **Working with Partners**

Officers have built up relationships with several property agents across the Borough and are working with internal colleagues to identify potential purchase opportunities and the areas and property types that are in highest demand.

The Housing Growth Team is working with colleagues in the Building Safety Team to identify multi tenure Council blocks where it would be beneficial from a health and safety viewpoint for all

flats in the block to be in Council ownership. This proposal will enable the RTBB scheme to offer market value to acquire these properties should the owners wish to sell.

- **Place Based Working**

A working group has been set up involving Partnerships and Community Cohesion colleagues in respect of the Afghan Resettlement projects to ensure that the accommodation options put forward are appropriate for both the refugees and the communities in which they will live.

The recommended option would allow the purchase of properties at a capped negative NPV in circumstances where it would help to reduce anti-social behaviour or blight in a community and where it would contribute towards wider estate regeneration and improvement initiatives.

This proposal would have a positive impact on other Council priorities such as the major refurbishment proposals at Buxton House and the redevelopment at Berry Brow. It would enable the Council to acquire the leasehold properties at Buxton House to facilitate the refurbishment. Being able to purchase smaller properties in more desirable and expensive areas will improve the range of alternative accommodation that can be offered to residents displaced from Berry Brow which will in turn make the decant process quicker and smoother.

- **Climate Change and Air Quality**

Repair and improvement work is carried out on all purchases prior to letting. This includes the provision of additional carbon reduction measures such as increased loft insulation, installation of energy efficient heating systems and draft proofing to increase the SAP banding to at least a C in line with the Council's aims for its existing stock. This has the added benefit of reduced running costs for residents which contributes to the Council's affordable warmth aims.

- **Improving outcomes for children**

Approval of Option 1 is likely to lead to an increase in the supply of family housing. In turn this will help to ensure that more children get a good start because they live in safe, affordable, and decent accommodation. The knock-on effects of good quality housing on children's health, education and general wellbeing are well known.

- **Other (e.g., Legal/Financial or Human Resources)**

Increasing the number of property purchases will have an impact on the workload of the Legal team. The team are actively recruiting additional resources to deal with the expected increase in conveyancing instructions. The team also have access to three frameworks of external solicitors who can be instructed where necessary to alleviate pressure on the in-house team.

4. Consultees and their opinions

- The proposal was presented to Senior Management Team (SMT) on 9 June. SMT asked for worst case scenario modelling to be undertaken to show what the impact would be on the HRA Business Plan. This was done and the results are set out in paragraph 2.6 above.
- The proposal was presented to Senior Leadership Team (SLT) on 22 June. SLT supported the immediate implementation of Option 1 subject to the decision being ratified by Cabinet and the overall negative NPV of the RTBB programme not exceeding -£250k. As a result, terms have been agreed on an additional 6 purchases. The NPV for the buyback programme for 2021/22 is currently positive at £4k.
- The proposal was discussed with the Portfolio Holder on 5 July. Councillor Scott was very supportive of the proposal.
- The proposal was presented to Executive Team on 20 September.
- The proposal was presented to Leadership Management Team on 27 September.
- Consultation with the Council's in-house Legal Team on 1 October. Expected numbers and timescale for purchases discussed and confirmation given that a successful recruitment would mean that the expected numbers of purchases could be dealt with in-house.

- Consultation is on-going with the Afghan and Refugee Resettlement Programme working group to ensure that properties put forward for the programme are suitable.

5. Next steps and timelines

- Prepare implementation plans for Option 1, subject to the Cabinet decision. Officers will continue to identify suitable properties to acquire under the new parameters.
- It is anticipated that 6-7 purchases can be identified each month. This has the potential to increase the number of buybacks purchased by 50%.

6. Officer recommendations and reasons

Cabinet is recommended to approve Option 1 - Approve property purchases with a negative NPV under the circumstances set out in Table 1 above and include in the 30-year business plan.

Of the three options proposed, Option 1 offers the quickest and best opportunity to:

Help meet increasing demand for affordable housing within Kirklees, including specialist housing for particular groups such as Afghan refugees, people with physical disabilities and existing tenants who need to relocate to facilitate redevelopment and remodelling proposals.

Reduce pressure on the council house waiting list.

Assist the Council in undertaking essential fire safety work in communal blocks

Help alleviate other issues for Kirklees residents such as overcrowding, unsuitable and expensive private sector accommodation, and community cohesion.

7. Cabinet Portfolio Holder's recommendations

The Cabinet Portfolio Holder recommends that Cabinet approves Option 1 as it provides a simple and effective means of maximising opportunities for the Council to deliver more social rented housing in Kirklees and to reduce the impact that the general lack of good quality affordable housing is currently having on families and communities.

8. Contact officer

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9. Background Papers and History of Decisions

- September 2012: agreement with Secretary of State to retain receipt following the sale of council houses through the RTB
- Supported by the Councils ongoing/existing policy to buy former council housing stock
- 2017 HGB approvals to increase spend thresholds to £125k per property
- 2020 HGB approvals to increase spend thresholds to £150k per property

10. Service Director responsible

Naz Parkar, Service Director Homes & Neighbourhoods