

London Borough of Waltham Forest

Report Title	Acquisition of New Build Homes for Affordable Housing
Meeting / Date	Executive Decision, 31 st March 2025
Cabinet portfolio	Councillor Ahsan Khan, Portfolio Lead Member for Housing & Regeneration
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Wards affected	Chapel End
Public access	OPEN except Appendix 2 & 5 which are EXEMPT in accordance with Section 100(A-H) of the Local Government Act 1972 and Schedule 12A as amended, on the grounds that it involves the likely disclosure of exempt information as defined in Part 1, paragraph 3, as it contains information relating to the financial or business affairs of any particular person (including the authority holding the information) and disclosure would not be in the public interest.
Appendices	Appendix 1 – Plan of Site Appendix 2 – Financial (Exempt) Appendix 3 – Preliminary Equality & Diversity Template Appendix 4 – Climate Change Impact Matrix Appendix 5 – Savills Red Book valuation (Exempt) Appendix 6 – December 2024 Executive Decision Report

1. Summary

- 1.1 On 23rd December 2024, The Portfolio Lead Member for Housing & Regeneration approved an Executive Decision to use the council's available Right to Buy receipts to acquire 53 newbuild homes at the Fellowship Square development for affordable housing.
- 1.2 This opportunity arose following the announcement by the Secretary of State for Housing, Communities and Local Government (MHCLG) that changes to the rules governing Right to Buy (RtB) receipts allowed local authorities to fund 100% of acquisition costs using RtB receipts until March 2026.

- 1.3 This report sets out updated terms of the acquisition, and associated benefits for the council, and recommends that the council proceeds with the acquisition to ensure that RtB receipts are used within the set period.

2. Recommendations

- 2.1 The Deputy Leader & Portfolio Lead Member for Housing & Regeneration is recommended to:
 - 2.1.1 **Approve** the use of the council's available Right to Buy receipts to acquire 53 newbuild homes at the Fellowship Square development (Hepworth Place), to be let as affordable housing.
 - 2.1.2 **Approve** that the acquisition represents best value for the council as set out in the report.
 - 2.1.3 **Approve** the acquisition on the terms as set out in the exempt Financial Appendix 2.
 - 2.1.4 **Delegate** agreeing the final heads of terms and entering into all necessary legal agreements for the acquisition of the homes by the council to the Acting Strategic Director, Place in consultation with Strategic Director, Resources, Finance & Governance and the Corporate Director, Regeneration, Planning & Delivery.

3. Proposals

3.1 Background

- 3.1.1 This opportunity has arisen due to changes that have been made by central government to the way that local authorities can utilise RtB receipts. The new rules allow more flexibility on how receipts can be used for the next two years. Previously it was only possible to contribute 50% of RtB receipts towards an acquisition, meaning that the remaining 50% would be required to be funded from the Housing Revenue Account (HRA). The changes were made in recognition of the challenging circumstances that local authorities are working in, constraints on HRAs and the need to release funds that can unlock new affordable housing.
- 3.1.2 On the 30th July 2024 the Secretary of State for Housing, Communities and Local Government announced the changes to the rules which govern Right to Buy (RtB) receipts. The key changes are:
 - Until March 2026, local authorities can now use up to 100% of their retained RtB receipts to fund replacement affordable housing.
 - RtB receipts will be permitted to be used alongside Section 106 contributions where this is required.
- 3.1.3 Prior to the December 2024 Executive Decision the council explored various options for acquiring additional homes using its RtB receipts to maximise the quantum of affordable housing that can be delivered under the revised rules.

3.1.4 The most advantageous opportunity was identified at Fellowship Square, where the Council agreed to acquire core 3 in Block C from its Development Partner, Countryside Properties (UK) Limited (CP), as set out in the Executive Decision report of December 2024.

3.1.5 The breakdown of the units in Block C is as follows:

Block C	Homes
1B2P	7
2B3P	14
2B4P	26
3B5P	6
TOTAL	53

3.1.6 It was possible to agree favourable terms for the council on the basis that the deal potentially could be agreed and finalised as soon as possible.

3.1.7 Following the Executive Decision the council commissioned a Red Book valuation for the units to be valued at social rent, attached at Appendix 6. This was lower than the offer that had been made to Countryside which was based on open market value.

3.1.8 This report sets out the justification for the decision to proceed with the acquisition at the original offer stated in the December 2024 Executive Decision. The full financial details are set out in Appendix 2 and are exempt for reasons of commercial sensitivity.

3.2 Rationale

3.2.1 The flexibility to utilise RtB receipts to fund 100% of acquisition costs provides the council with an opportunity to bring additional affordable homes into its portfolio. These will provide high quality permanent homes for households on the borough's Housing Register as well as for homeless households currently living in temporary accommodation.

3.2.2 A valuation was procured to support the decision to proceed with the acquisition at the proposed offer amount. This is a required part of the audit process with central government as well as determining that the council achieves value for money. As set out in detail in the exempt Appendix 2, Savills returned a valuation lower than the council's proposed offer for the units.

3.2.3 The reason for the lower valuation of the 53 units is that they have been valued on a social rented basis by their Existing Use Value. Existing Use Value reflects the value that the units would represent to the council in rental income over the course of the long leasehold interest that it will acquire, minus operating costs, i.e. the income the council will realise as a result of owning the units. Existing Use Value does not represent an open market value.

- 3.2.4 The valuation also sets out what Savills consider to be the current open market valuation of the 53 units. This is £8m higher than the council's offer and demonstrates that whilst the council will not sell the units directly itself, the acquisition cost in reality represents excellent value for newbuild units. Further detail on this point is set out at 7.1 and in the exempt Financial Appendix 2.
- 3.2.5 The financial appendix demonstrates how it would not be possible for the council to acquire comparable units for the same cost within Waltham Forest based on the sales values at similar developments in the borough. On average it would cost the council 20% more to acquire comparable units at another scheme of similar specification in the borough. If the council were to buy individual units it would also not benefit from the units being located within a single block and core, and the respective management advantages that this allows for.
- 3.2.6 A further consideration is the current levels of build costs in the UK at present. House builders and Registered Providers face an uncertain operating environment as a consequence of ongoing macroeconomic shocks over the past three years, including Brexit, Covid-19, and Russia's invasion of Ukraine. Presently, high inflation, a tight labour market, and the residual impact of the pandemic on supply chains have increased costs to build. Borrowing costs have also increased, both from substantially rising interest rates and from widening spreads on debt.
- 3.2.7 Block C is currently under construction with an anticipated practical completion date of November 2025. CP are currently on programme to deliver to schedule and confident of meeting that completion date. However, there is a risk that slippage to the programme could lead to the units being delayed. In this scenario the council may be unable to use 100% RTB receipts in order to fund remaining payments of the acquisition which would require borrowing to make up the shortfall. The financial implications of this specific scenario are considered further in the exempt Financial Appendix 2.
- 3.2.8 In order to mitigate this risk, the council are undertaking 2 weekly inspections of the site including set milestones and gateways for CP to meet.
- 3.2.9 Generally, the acquisition is financially viable for the council within the HRA's Medium-Term Financial Strategy (MTFS) as the units will provide a surplus in year 1 due to being funded with no borrowing. Full financial commentary is provided at 7.1 and in the exempt Financial Appendix 2.
- 3.2.10 Beyond the financial advantages of the acquisition there are numerous benefits to the council of acquiring the units. Primarily the acquisition increases the council's overall supply of social rented housing as well as increasing the council's ownership of homes at the Fellowship Square scheme. As set out in the December Executive Decision report the delivery of new affordable housing is a strategic priority for the council.
- 3.2.11 The 53 new homes will increase the council's housing stock, providing much needed housing for council tenants on the Housing Register and also settled accommodation for families currently in temporary

accommodation. The average unit cost of temporary accommodation is £259 p.w. (£13,468 p.a.), and average waiting time for housing is about 5 years, which means that total savings per unit of social housing provided are c.£66,000.

3.2.12 The acquisition also protects and expedites the delivery of affordable housing at Fellowship Square. It improves the viability for the continued delivery of the Fellowship Square scheme for both the council and Countryside Properties.

3.2.13 As set out in the December Executive Decision, this opportunity to acquire the Fellowship Square units arose due to difficulty Countryside were experiencing in disposing of affordable blocks at the development to a Registered Provider. This is likely because of the economic position set out at 3.2.6. Rather than invest in new social housing, Registered Providers are instead undertaking substantial investment into their existing stock to improve quality, building safety, and decarbonisation commitments.

3.2.14 For the above reasons it is likely that delivery of Fellowship Square could stall and no new affordable would be delivered if Countryside relied on identifying an alternate Registered Provider. The acquisition by the council will therefore protect the delivery of the wider Fellowship Square programme as well as providing affordable homes through the acquisition itself.

3.2.15 The exempt Financial Appendix 2 also contains detail of the specific financial implications for the council of RtB receipts not being spent in the period up to March 2026.

3.3 Due to the above reasons, it is considered that the acquisition at Fellowship Square presents the best possible opportunity to the council to maximise the benefit of available RtB receipts within the period 2024/25 – 2025/26.

4. Options & Alternatives Considered

4.1 Do nothing. The council is only able to use 100% of RtB receipts towards an acquisition prior to March 2026. Due to the borrowing requirements that would be necessary after this period it would not be able to undertake an acquisition of this scale. This option would therefore not provide any new affordable homes for the council.

4.2 The council could acquire homes in another location. The council has already considered various options prior to making an offer to acquire the homes at Fellowship Square. However, due to the time sensitive nature of the requirements, no other opportunities were considered as advantageous to the council as acquiring the units at Fellowship Square. As set out at 3.2.5 & 3.2.6, and in detail in the Financial Appendix 2, it is very unlikely that the council would be able to acquire an equivalent quantum of units at an alternative location for the same offer amount. It would also be unlikely that units could be acquired together in a single block at another location.

5. **Council Strategic Priorities (and other National or Local Policies or Strategies)**

- 5.1 The delivery of affordable housing is a strategic priority identified by the council's Local Plan and critical to the borough's identified 5-year housing supply.
- 5.2 Mission Waltham Forest sets out how the council will make strategic investments for the greatest impact. This decision is being taken in line with that aspiration to ensure that an opportunity is not missed to increase housing supply in the borough without impacting the HRA.
- 5.3 Unlocking the delivery of new affordable homes in the borough as set out in this report will help the council meet key outcomes of the Housing Strategy 2024-2029, including:
 - Outcome 2a: Increasing the supply of different types of homes so people can stay in Waltham Forest throughout their lives.
 - Outcome 2b: New development provides homes for residents who need them most.

6. **Consultation**

- 6.1 Comprehensive consultation has been undertaken in respect of the Fellowship Square development.
- 6.2 No additional consultation was required in respect of this decision as there will be no impact on any existing residents as a result of the acquisition.

7. **Implications**

- 7.1 Finance, Value for Money and Risk
 - 7.1.1 The acquisition would be fully funded by RtB Receipts, therefore there would be no requirement for any council borrowing.
 - 7.1.2 The detailed financial implications of this acquisition can be found in the Financial Appendix 2.
- 7.2 Legal
 - 7.2.1 Under section 9 Housing Act 1985 the council as the local housing authority has the power to provide housing accommodation by acquiring properties for that purpose.
 - 7.2.2 The council has entered into an agreement with the Secretary of State under section 11(6) Local Government Act 2003 that enables it to retain RTB receipts. The proposed use of RtB receipts for this acquisition is in accordance with the guidance 'Retained Right to Buy receipts and their use for replacement supply' as updated in July 2024.
 - 7.2.3 The council will enter into the necessary legal agreements with CP to acquire the properties on the agreed terms.

7.3 Equalities and Diversity

7.3.1 An Equality and Diversity Screening template has already been completed for the Fellowship Square redevelopment and is reattached at Appendix 3. There are no further equality impacts as a result of this decision.

7.4 Sustainability (including climate change, health, crime and disorder)

7.4.1 A Sustainability Matrix has already been completed for the Fellowship Square scheme from December 2019 when the decision to enter into the development agreement was originally made, and is reattached at Appendix 4. There are no further considerations as a result of this decision.

7.5 Council Infrastructure

7.5.1 There are no implications for council infrastructure related to this report.

Background Information (as defined by Local Government (Access to Information) Act 1985)

None