

CABINET - 15 NOVEMBER 2006

PRINCIPAL SCRUTINY COMMITTEE – 4 DECEMBER 2006

DISPOSAL OF VACANT COUNCIL DWELLINGS

REPORT OF THE DIRECTOR OF COMMUNITIES

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RECENT REFERENCES:

CAB 1778 – HRA Budget 2006/07, 14 December 2005

CAB1231 – Delivering Decent Homes – HRA Business Plan Update, 22 March 2006

EXECUTIVE SUMMARY:

Whilst the Council is on target to achieve the Decent Homes Standard by 2010, concerns remain about its ability to maintain that standard in future years. In addition, a number of emerging issues are facing the Housing service which will require significant capital funding. The capital programme relies heavily on the 25% of receipts that the Council retains from Right to Buy sales. However, sales have reduced significantly in recent years and this is placing real pressure on the programme and the Council's ability to invest in affordable housing. This report proposes the development of a small programme of disposing of vacant dwellings which will allow the Council to retain 100% of any receipts generated for investment in affordable housing.

RECOMMENDATIONS:

That Cabinet, Principal Scrutiny Committee and Council approve:

1. That a small scale programme of vacant dwelling disposals be established, with no more than a maximum of 10 vacant properties disposed of in any one financial year, being either:-
 - (a) void properties where the estimated repair/improvement costs exceed £8,000 or
 - (b) high value properties (normally non-standard stock) which have a high asset value compared to a relatively low income stream due to rent restructuring.

2. That all receipts generated from the vacant dwelling disposals be reinvested in the Housing Investment Programme element of the Capital Programme, with 50% of all such receipts being used to fund new build programmes and 50% being used to fund improvements and enhancements to existing stock.
3. That the Council's Capital Strategy, Housing Strategy and Housing Revenue Account Business Plan all be amended to reflect this approach.
4. That the Scheme of Delegation to Portfolio Holders in Part 3 of the Constitution be amended to permit the Portfolio Holder for Housing and Communities to authorise disposals of up to 10 vacant dwellings in any financial year in accordance with approved policy and the Council's Housing Strategy.

That, subject to the approval of the policy set out in the above recommendations, Cabinet approve:

5. That 34 Lower Brook St, Winchester, 7 The Goodens, Cheriton and 2 Westwood View, Kilmeston be offered for sale on the open market in line with the above proposals.

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DETAIL:

1 Introduction

1 Background

1.1 The Housing Options Review in 2005 concluded that the Council would be able to meet the Decent Homes Standard by 2010, although it highlighted the limited resources available to fund any works other than those required to meet the standard. The review will be updated in 2008 to take account of recent changes and to address the longer term funding concerns facing the service.

1.2 Since 2005, a number of major issues have emerged that will place further pressure on limited Housing Revenue Account (HRA) and capital resources in future years. Many of these were highlighted in the 2006 HRA Business Plan Update, including:

- a) Backlog of Disabled Adaptation Works
- b) Increasing Heating System Obsolescence
- c) Digital Switchover
- d) Low demand for sheltered housing
- e) No allowance for inflation on the repairs programme in recent years

1.3 The HRA is currently operating at an annual deficit of £153,000. With balances currently at £500,000, clearly urgent action is required to balance the budget for 2006/07. A number of detailed recommendations will be included in budget proposals in December 2006. However, whilst these proposals will seek to address the current shortfall, there is still little scope to identify resources required to fund the emerging issues referred to above.

1.4 If the City Council is to be able to fund these and other emerging issues facing the Housing Service, it will need to consider how it can make the most effective use of its existing assets and this paper proposes the development of a small programme of vacant dwelling disposals.

2 Existing Stock

2.1 The City Council currently has 5,200 properties within the HRA. Sales through the Right to Buy (RTB) process have slowed significantly in recent years from over 40 in 2004 to less than 20 projected for the current year.

2.2 Receipts from RTB sales are subject to Government pooling rules and the Council can only retain 25% of them to assist with funding the capital programme. However, under the Capital Finance Regulations 2003, the Council is able retain 100% of

receipts if it disposes of vacant dwellings provided the resource is re-invested in affordable housing. The regulations define affordable housing as "the provision of dwellings to meet the housing needs, as identified by the local authority, of persons on low incomes, whether provided by the authority or a social landlord registered under section 1 of the Housing Act 1996". In both the Housing Revenue Account Business Plan and Housing Strategy, the refurbishment of existing stock is clearly included within the definition of the "provision of affordable housing".

- 2.3 Discussions with the District Auditor and the Department of Communities and Local Government have confirmed that expenditure on improving existing stock falls within the definition, subject to the Council taking its own legal advice. The District Auditor has confirmed that "we have to date been happy to certify pooling claims without comment where an authority has interpreted the affordable homes rules to apply to the continuing (enhanced) provision of existing dwellings rather than just to new build".
- 2.4 The City Secretary and Solicitor and Director of Finance confirm that Regulation 16 (1)(c) of the 2003 Regulations includes the costs of projects for "improving dwellings" in the definition of the Council's total capital allowance which it can offset against the pooling requirement. However, this needs to be done by reference to specifically identified projects in the Council's approved programmes. The Capital Programme for 2006/07 and 2007/08 includes a provision of £500,000 for each year for Affordable Housing/Regeneration projects as a provision to take up capital receipts that might otherwise be pooled. To date, no such receipts have been received and no specific projects are allocated to this part of the Capital Programme. However, subject to the approval of recommendations in this report, detailed proposals will be submitted to Cabinet as part of the Capital Programme report in January 2007.
- 2.5 When a property becomes vacant, the City Council currently spends an average of £1,300 to bring it up to a lettable standard. However, each year, a small number of properties (on average 10 to 15) require major repairs, placing real pressure on void budgets, which have been reduced in recent years to release resources for the Decent Homes programme. Many local authority landlords now set a limit where any property requiring major void repairs above a certain value are not renovated but disposed of, either to a registered social landlord or on the open market.
- 2.6 The average open market value of City Council stock is approximately £158,000. However, this is affected by the number of bedsits, flats, sheltered units and maisonettes. The average value of houses within the stock is in excess of £200,000. All types of general needs housing is in high demand and disposing of dwellings in effect reduces the overall supply of affordable housing. However, it is one of the very few options open to most local authority social landlords to generate sufficient resources to assist with making the most effective use of its stock, meeting the business plan requirements and generating capital resources for investing in affordable housing development.

3 Limitations on Disposals

- 3.1 The Council cannot dispose of Housing Revenue Account properties without the consent of the Secretary of State. However, section 32 of the Housing Act 1985 does allow certain specific and general consents. : There are general consents for the disposal of houses and land made in 2005. Consent A - The general consent for the disposal of Part II dwelling-houses, provides that a local authority has the power to dispose of vacant dwellings for a consideration equal to its market value:

- a) to any individual who intends to use it as his only or principal home or
- b) to a builder/developer on their covenanting to carry out any substantial works of repair improvement or conversion required prior for onward sale into owner-occupation by an individual who intends to use it as his only or principal home.
- c) There is also provision under this Consent for the sale of a vacant dwelling to any person regardless of the use to which the purchaser intends to put it. (Paragraph A5.1.1). No more than one dwelling may be acquired by a Purchaser (alone or with others) from an authority under the consent in this paragraph in any financial year.

3.2 A local authority could also dispose of dwellings in need of substantial repair or improvement to a registered social landlord under paragraph A5.2.1 of General Consent A for “the best consideration that can reasonably be obtained” provided that the total number of disposals in any one year does not exceed the greater of 50 or one quarter of one percent of the total stock at the commencement of the financial year in which the disposal takes place.(13 per annum for the City Council at current levels).

4 Increasing the Supply of Affordable Housing/Improving Existing Stock

- 4.1 With approximately £60,000 of grant needed to support the development of one affordable unit, it would be possible to fund 3 to 4 new units through our RSL partnerships by selling one existing City Council dwelling. However, this approach would ignore the significant financial pressures facing the HRA. Therefore, a shared approach of using 50% of receipts to fund new supply and 50% to reinvest in existing stock could help meet two key corporate strategy objectives.
- 4.2 Taking this example further, if the Council was to sell a maximum of 10 vacant dwellings each year, the receipts from 5 (£1 million assuming an average sale value of £200,000) could support the development of 16 new affordable units. The receipt from the other 5 could support the HRA capital programme and provide capacity to address many of the emerging issues highlighted in paragraph 1 above. Whilst a 10 year programme at this level would result in the loss of 100 properties, the Council would still have approximately 5,000 properties if RTB sales remained at current levels, which is likely given current values and without a change in Government rules relating to discounts.
- 4.3 Whilst this proposal sets out a principle of 50% of receipts funding new supply, this should not be restricted to grants to other social landlords. Opportunities exist to create new units within in existing stock and to adapt unpopular stock (sheltered housing and bedsits for example) to create new units which take account of current need. Opportunities where funding can be used effectively to support the development of new Council homes are currently being investigated.
- 4.4 Any such programme would need to remain under review and may require amending if schemes such as the current “Homebuy” trials are extended in future years. (This may introduce a shared equity approach to RTB).
- 4.5 In addition to the emerging issues highlighted in the Business Plan and in paragraph 1 above, a number of other issues may also require funding in the next few years and will be included for further consideration in the HRA budget proposals to be submitted to Cabinet in December and Capital Programme proposals in January 2007. These may include:

- a) Adaptations required to existing Common Rooms to meet DDA requirements
- b) Maintenance to the garage stock, including a replacement programme for pre-cast concrete garages (approx 500 nearing the end of their useful life).
- c) A programme of loft conversions in existing stock to increase the supply of family homes and to prevent the need to move growing families.
- d) Further energy efficiency works to improve the existing SAP rating in line with other landlords and/or to work towards Eco Homes standards.

5 Implications on the HRA

- 5.1 Selling one property would result in an average net loss of revenue amounting to approximately £2,000 per annum. This would be offset by reduced management and maintenance costs over time and reduced void repair costs. However, any programme of disposal would clearly have a direct revenue impact and would require a corresponding programme of efficiencies to ensure that service levels can be maintained in the long term. However, this is no different than the pressures in recent years of RTB sales which resulted in similar year on year losses. If the right properties are selected for sale, the savings to the voids budget alone would fund the loss of revenue for at least five years.
- 5.2 Using events in 2005/06 as an illustration, the 10 most expensive void works to empty properties required an investment of £135,000 to bring them back to a lettable standard. If they had been disposed of, they would have saved this investment but incurred a net total revenue loss of £12,000 (lost rent less savings in average essential maintenance costs and negative subsidy). Therefore, it would take over 10 years for the disposals to have a net negative impact on resources. Also, the sales would have generated £1.8 million of income that could all have been re-invested in the housing capital programme.

6 Criteria for Disposal

- 6.1 Taking account of pressures on the void budget, it is proposed that if a programme of disposals were to be implemented, the criteria for disposal should be linked to the cost of works required or to the value of the property. If the limit for voids costs were set at £8,000, then any vacant property requiring more than £8,000 of work to bring it to a lettable standard could be referred to the Portfolio Holder for Communities for consideration for inclusion in the disposal programme. It is recommended that the Scheme of Delegation to Portfolio Holders be amended to permit the Portfolio Holder for Housing and Communities to authorise disposals of up to 10 vacant dwellings in any financial year in accordance with the approved policy and the Council's Housing Strategy. This approach would allow all decisions to be subject to consultation with the Chairman and Vice-Chairman of Principal Scrutiny Committee and members of the Social Issues Scrutiny Panel. As with any other disposal of housing assets, it would also include full consultation with local members, parish councils and TACT.
- 6.2 There are also a small number of very high value properties within the HRA that would be worthy of inclusion in the programme should they become vacant simply because of the asset value compared to the relatively low income stream due to rent restructuring.

7 Existing Vacant Units

- 7.1 There are currently three vacant properties that will require significant investment to bring back to a lettable standard. These are:
- a) 34 Lower Brook St – A 2 bed semi detached property in central Winchester that requires major renovations. The previous tenant refused all previous offers of kitchen, bathroom and heating improvements. The property is also in need of some structural works to up to the Decent Homes standard.
 - b) 2 Westwood View, Kilmeston – This is a 3 bed semi detached property in a rural location. Whilst the property is structurally sound, it requires a replacement kitchen and heating system as well as a significant amount of other internal and external maintenance works.
 - c) 7 The Goodens, Cheriton – A 2 bed “Swedish” style chalet bungalow of non-traditional construction. The previous tenant was resident for 60 years and opted to avoid general improvement works and accepted only essential maintenance works. It now requires complete replacement of facilities.
- 7.2 To bring these three properties back in line with the Decent Homes standard would cost the Housing Revenue Account in excess of £80,000. However, the sale of the properties in their current condition could generate a capital receipt in excess of £575,000. Specific valuations are detailed in the exempt appendix.
- 7.3 All RSL partners have been approached to test whether they would be interested in acquiring the properties with a view to the Council retaining nomination rights. Only one was prepared to consider making a payment for either property. However, any receipt would only be in the region of 25% of the open market value and therefore it is considered that an open market sale would be more appropriate and provide more resources for investment in affordable housing. It is therefore recommended that both of these properties are sold on the open market. The receipt generated will need to be reinvested directly into Housing capital proposals if 100% is to be retained. Specific schemes will be proposed as part of the capital programme in the HRA budget report due to be considered by Cabinet in December.

OTHER CONSIDERATIONS:

7 CORPORATE STRATEGY (RELEVANCE TO):

- 7.1 The Corporate Strategy recognises the importance on increasing the supply of affordable housing and making imaginative use of existing stock as a key factor in the delivery of all key objectives included within the Strategy. Whilst relevant supporting strategies all take account of the above principle and the commitment to achieving the Decent Homes standard, it is recommended that they all be amended to reflect this specific proposal as a means of supporting the overall “provision of affordable housing”.

8 RESOURCE IMPLICATIONS:

- 8.1 The key resource implications are contained in the detail of the report. Whilst the recommendations contained in the report are not subject to the “Call in” rules, Principal Scrutiny Committee are requested to consider the proposals, as the generation of additional receipts that may arise from this approach is likely to have a significant impact on the Capital Strategy and the financing of the Capital Programme.

9 TACT COMMENT

9.1 Disposal of Vacant Council Dwellings:

- a) TACT would like to thank Richard Botham for taking TACT through his paper, and his thoughts behind it.
- b) TACT realise that to reach the Decent Homes Standard and maintain it in the future, will be a hard task.
- c) Central Government do not make the task any easier, because they will not put us on an even playing field with housing associations as regards funding etc.
- d) Richard took us through the emerging issues facing the Housing service, and we have every sympathy with him, the task ahead will not be easy.
- e) Ruth Kelly has put back the date of her policy making decisions regarding Council Housing till the New Year. (They say time is a great healer providing the patient has not died in the mean time.)
- f) Receipts from Right to Buy have slowed this comes as no surprise to TACT, unless tenants come up on the Lottery, this will continue to be the case.
- g) TACT is not happy with the disposal of any Council Housing, but accept in the short term it may be the only way. However they do not consider it to be the long term solution and want a full consultation of any properties to be sold, and a full account of where that money will be spent.

9.2 Increasing the Supply of Affordable Housing/Improving Existing Stock:

- a) TACT support increasing Affordable Housing Stock, the 50% approach to both Council Housing and Housing Associations from the sale of vacant Council Housing, may serve the purpose in the short term, but TACT feel strongly ways should be sought to build 100% Council Housing.
- b) TACT note the loss of revenue to the HRA by selling off Council Housing, and the manner by which this would be offset, and the programme of efficiencies required to ensure that service levels can be maintained in the long term.
- c) This however does not bode well for tenants facing every increasing rents, to have a service from the council, that at best will be struggling to stay at the level it is at now, with little hope of improvement for the tenants homes.
- d) Central Government may find this pleasing, so that council tenants, at the next Housing Options may be inclined to vote for a new landlord. From what I gather from tenants, this will not be the case there is unlikely to be any change of landlord.

9.3 TACT will support the Council where it can, and will monitor proceedings closely in the future we have many difficult times ahead.

9.4 You can be sure that TACT will keep our tenants informed and updated, by any means at our disposal. As regards to the Councils approach to the way ahead for Council Housing, we regard the selling of Council Housing as a short term solution.

BACKGROUND DOCUMENTS:

Operational and financial records held in the Communities, Development Services and Finance Directorates

Appendix - Vacant Council Dwellings – Property Valuations EXEMPT