

<b>TITLE OF REPORT - Acquisition of properties to support the delivery of affordable housing</b>  <b>Key Decision No - NH Q40</b>	
<b>CABINET MEETING DATE (2019/20)</b>  16.03.2020	<b>CLASSIFICATION:</b>  <b>OPEN</b>
<b>WARD(S) AFFECTED</b>  All wards	
<b>CABINET MEMBER</b>  Philip Glanville, Mayor of Hackney	
<b>KEY DECISION</b>  Yes	
<b>REASON</b>  Affects two or more wards and involves significant spending	
<b>GROUP DIRECTOR</b>  Ajman Ali, Acting Group Director, Neighbourhoods and Housing	

## 1. CABINET MEMBER'S INTRODUCTION

- 1.1. Our borough faces an unprecedented housing crisis, with over 13,000 families on our housing register - 3,000 of whom are in temporary accommodation. Despite the desperation of families who need a genuinely affordable place to call home, the Government offers very little support to local authorities to build the new generation of Council housing we so badly need. In addition to this Government cuts to housing benefit and continuing rising rents leave more and more households turning to the Council for emergency support.
- 1.2. Even with these challenges, I'm proud that Hackney is building. Since 2011 this Council has completed more than 900 new homes, acting as our own developer, on our own land, and largely without any support from Government. Half of these were for genuinely affordable social rent and shared ownership, paid for by selling some outright in the absence of any significant funding. But building homes is hard. It costs around £300,000 to build a new home in Hackney, and although our starting point is to build as many homes for social rent as we can, we can't build as many as we'd like to without more direct grant funding.
- 1.3. I'm proud that Hackney is committed to building around 2,000 homes between 2018 and 2022 at dozens of sites across the borough. Our ambition is clear, and our direct delivery, cross-subsidy model delivers results. Rather than just talking about building homes, we're actually doing it. However more needs to be done to tackle the housing crisis that we face. We therefore must seek innovative solutions to support the delivery of genuinely affordable homes in the borough.
- 1.4. This report sets out the detail around how Council resources can be deployed to accelerate the delivery of affordable homes in the borough. In particular it will result in homes that were previously subject to Right-to-Buy being brought back into Council ownership to be used as genuinely affordable housing.
- 1.5. I am proud to lead a Council finding innovative and successful solutions to the housing challenges we face. This report shows that scale of our ambition and how we will deliver on it to secure new affordable homes our residents so desperately need.

## **2. GROUP DIRECTOR'S INTRODUCTION**

- 2.1 The Council currently has over 13,000 households on the housing register and a further 3000 families being housed in temporary accommodation.
- 2.2 In response to this housing crisis the Council is leading the way in the direct delivery of genuinely affordable new homes in the borough. Cabinet first approved the Estate Regeneration Programme (ERP) in July 2011, and the Housing Supply Programme (HSP) in February 2016 to build more homes.
- 2.3 Despite this more needs to be done to meet the outstanding housing needs of Hackney residents. The Council must therefore explore innovative methods to secure the maximum delivery of additional affordable housing.

- 2.4 This report outlines how, by purchasing by acquiring former Right-to-Buy properties and converting them back into use as affordable homes, additional affordable housing can be delivered to help meet outstanding housing need in Hackney.

### **3. RECOMMENDATION(S)**

**Cabinet is recommended to:**

- 3.1 Authorise the principle of purchasing former Right-to-Buy properties including those owned by Housing Associations to support the increased supply of affordable housing in the borough. Such purchases will be subject to the Group Director of Finance being satisfied that this is the most cost effective solution to support the delivery of affordable homes in the borough.**
- 3.2 Authorise a spend of up to £10m per annum from existing affordable housing budgets for the purchase of former Right-to-Buy properties, including those owned by Housing Associations, to support the increased supply of affordable housing in the borough.**
- 3.3 Delegate authority to the Director of Corporate Property, in consultation with the Group Director of Neighbourhoods and Housing on behalf of the Council, to negotiate final terms and conditions on the above purchases, including price and purchase of the properties.**
- 3.4 Authorise the Director of Legal and Governance Services to prepare, agree, settle and sign the necessary legal documentation to effect the proposals contained in this report and to enter into any other ancillary legal documentation as required.**

### **4. REASONS FOR DECISION**

- 4.1 The reasons for providing this report and the recommendations set out within it are;
- To approve the principle of purchasing open market and former Right-to-Buy properties as outlined in the recommendations above in order to support the delivery of homes for rent in the borough.
  - To give the Council additional flexibility, by granting delegated authority the Group Director of Finance, to acquire homes that can support the delivery of affordable housing in the borough.

### **5. DETAILS OF ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

- 5.1 The Council could do nothing and the RTB properties would be sold on the open market. This would result in the delivery of fewer additional homes for social rent in the borough.
- 5.2 In addition to this, the continuing use of more expensive nightly paid temporary accommodation by the Housing Needs Service adds further to the forecast overspend on temporary accommodation. Purchase of these properties would contribute towards provision of less temporary accommodation overall.

## **6. BACKGROUND**

### **6.1 Site Purchases**

- 6.1.1 There are significant demands for affordable housing in the borough and whilst the Council has taken the lead in delivering new affordable homes through its extensive regeneration programme, wider opportunities in the borough are available to support the delivery of affordable housing.
- 6.1.2 At the same time, the (statutory) Right to Buy policy results in over 50 social housing properties being sold each year which are no longer available as affordable housing. Therefore the report recommends introducing a programme of repurchasing ex-RtB properties and returning them to social housing.

### **6.2 Policy Context**

- 6.2.1 There are over 13,000 households waiting for a home on the Council's housing register and a further 3,000 families being housed in temporary accommodation. By contrast the supply of social housing being made available to let is reducing considerably; only 640 lets were made available between April 2018 and March 2019, compared to 1,132 the previous year and 1,229 in 2016/17.
- 6.2.2 In response to this the Council is directly delivering over 2,000 new homes in the borough and is retaining the ownership of the social rented and shared ownership properties it is building. It is also supporting the development of a number of outright sale properties, in order to generate the funding and cross-subsidy needed to build the new genuinely affordable homes.
- 6.2.3 Whilst the Council has an extensive regeneration programme, the numbers and timeframe of delivery are insufficient to meet all of the borough's housing demand. Acquiring privately owned properties that were previously subject of the Right-to-Buy gives the option for the Council to convert these properties back into affordable homes.
- 6.2.4 Hackney has experienced huge change over the last fifteen years, particularly against the backdrop of a challenging national housing agenda and the subsequent impact on local communities and the local housing market. Over the last ten years the Government's social housing and welfare reforms have led to higher rent levels while at the same time reducing welfare benefits for

those who need support in paying their rent in both the social and private rented sectors. The issue of housing affordability has therefore become severe in Hackney.

6.2.5 Current national policy is unlikely to halt or redirect these trends. Significant financial measures and interventions are required in order to provide a step change in housing supply and housing quality. The Government promotes owner occupation as the tenure of first choice, but this is a tenure that is simply unachievable for and unavailable to a majority of households in Hackney.

6.2.6 Similarly while the recent policy announcement of the removal of the Housing Revenue Account (HRA) borrowing cap is welcome, this action will not of itself provide the catalyst to significantly increase the supply of genuinely affordable housing in the borough.

6.2.7 Hackney remains a prudent local authority: the removal of the artificial cap simply means that we are able to deliver our existing housing supply programmes with a greater degree of surety. A more holistic and wide ranging change to housing finance is urgently required, including, for example, much greater flexibility in how we can use our Right to Buy receipts and much higher grant and subsidy levels to help us massively increase the supply of truly affordable, social rent homes.

6.2.8 Despite these significant challenges our strategic vision for housing in Hackney is that all residents have access to decent, stable and genuinely affordable housing that meets their needs as these change throughout their lives. We are working to maximise housing supply across the full range of tenures in Hackney. Both our Community Strategy and our new Local Plan set out plans for housing and economic growth across the borough. Our Housing Strategy also focuses on the pressing need for a mix of both genuinely affordable homes for those on low to middle incomes and the delivery of new high quality private homes for market sale and rent.

### **6.3 Equality Impact Assessment**

6.3.1 The purchase of homes from the private sector will facilitate an increase in the range of tenures and housing opportunities that the Council can provide and consequently the range of people who could benefit.

### **6.4 Sustainability**

6.4.1 None of the recommendations in this report would have a direct impact on the physical or social environment.

### **6.5 Consultations**

6.5.1 No formal consultations are required as part of this report.

### **6.6 Risk Assessment**

6.6.1 There is a risk that purchases may not be a cost effective solution to deliver new affordable homes. However, such purchases will be subject to the Group Director of Finance being satisfied that this is the most cost effective solution to support the delivery of affordable homes in the borough. This will be based on expert appraisal of each individual scheme.

## **7. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES**

7.1 There are significant demands for affordable housing in the borough and whilst the regeneration programmes replace the existing poor standard social housing, only the shared ownership properties delivered as part of these programmes provide additional affordable (ownership) housing.

7.2 At the same time, the (statutory) Right to Buy (RtB) policy results in over 50 social housing properties being sold each year which are no longer available as affordable housing. Therefore the report recommends introducing a programme of repurchasing ex-RtB properties (including those owned by Housing Associations) and returning them to social housing.

7.3 These properties have been sold under the RtB scheme where a discount was given on the market value, currently up to £110,500. Of the discounted sales receipt, 75% is paid to central government under the pooling regulations. The average value of an ex-RtB property is £400,000 therefore would be sold for £289,500 with the RtB discount. Of this £217,000 is 'pooled' and therefore only £72,500 is retained by the Council.

7.4 Under the RtB 1-4-1 funding, if the total value of (discounted) sales in the year exceeds £4.6m (about 25 property sales), the excess is retained by the Council to fund the replacement (1-4-1) of the sold properties, but can only contribute 30% of the cost. This funding could be used to fund any acquisition of ex-RtB properties.

7.5 Using the average ex-RtB property value of £400,000, Stamp duty (SDLT) is payable and the property would require fitting out to the Council's standard. Therefore, an additional budget provision of £25,000 is required. The total cost would be funded from £127,500 of RtB 1-4-1 funding leaving a borrowing cost of £297,500. The annual borrowing cost of this value exceeds the (social) rent charged on the property, and so even excluding management and maintenance cost is not viable.

7.6 As the properties are in existing housing blocks, there is minimal additional management and (block) maintenance costs. There would be internal maintenance responsibility of these properties. If any freehold/street properties are purchased they are likely to be of a higher value and will require additional management costs. There is potential additional maintenance cost as it will be a new property structure to maintain. Also the rent for houses are not significantly different to flats, therefore freehold/street properties would not be as cost effective to purchase.

- 7.7 Under the RtB 1-4-1 funding regime, the value of the property is protected from a cost floor sale value where the property can't be sold for less than the purchase cost for a period of 15 years. Therefore in assessing the viability it is not required to repay the borrowing/purchase price, but viability should consider future investment cost of around £3,000 per year (assumption in Asset Management Strategy).
- 7.8 Taking into consideration the wider impact of housing and the cost of temporary accommodation (TA), the supply of a social rented property will save the General Fund around £3-5,000 p.a. Therefore, the rent charged on the property and the General Fund saving from TA would provide sufficient resources to cover the borrowing cost and maintenance/investment in the property, with any debt repaid on sale of the property, therefore a managed programme of acquisitions could be supported. It is unlikely the demand for social housing will diminish in the medium term, but the annual budget requirement would need to be assessed against the housing purchase cost, the cost of TA and the investment requirements in the properties.

## **8. VAT Implications on Land & Property Transactions**

- 8.1 Property transactions generally involve complex VAT issues that can impact the Council's partial exemption calculation. The proposed acquisition programme cost does not attract VAT and whilst the letting of residential property is exempt from VAT, when used as social housing it is considered a non-business transactions and therefore there are no VAT issues to consider.

## **9. COMMENTS OF THE DIRECTOR, LEGAL & GOVERNANCE**

- 9.1 Under the Hackney Mayoral Scheme of Delegation of January 2017 , the acquisition of leasehold land is reserved to the Mayor and Cabinet and additionally Financial Procedure Rule 20.4 confirms that the acquisition of lease of land or disposal shall be agreed by Cabinet .
- 9.2 Section 1 of the Localism Act 2011 ( the general power of competence) grants local authorities the ability to do anything that a private individual is empowered to do so , subject to restrictions which bound local authorities before the coming in force of that Section or any later provisions to apply to it
- 9.3 S120 of the Local Government Act 1972 enables the Council to acquire by agreement any land for the purposes of discharging any of the Council's functions or for the benefit, improvement or development of its area. The Council may exercise this power whether or not the land purchased by agreement is immediately required for the intended purpose and the Council may use the purchased land in the interim for the purpose of discharging any of its other functions.

- 9.4 Section 9(1) of the Housing Act 1985 permits the Council to provide housing accommodation by erecting houses, or converting buildings into houses, on land acquired by them or acquiring houses.
- 9.5 Pursuant to S120 of the Local Government Act 1972 and 9(1) of the Housing Act 1985 the Council will be in a position to purchase the properties within the borough

## **APPENDICES**

None

## **BACKGROUND PAPERS**



**In accordance with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012 publication of Background Papers used in the preparation of reports is required**

None

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