

Growth Committee

13 October 2016

Investigating a leasing model for Housing property development (for vacant high value local authority housing): Housing and Planning Act 2016

Reference from the Housing Sub-Committee meeting of 13 September 2016

Purpose

To recommend the Committee requests a report investigating the viability of a leasing model for Housing property development arising from the requirements of the Housing and Planning Act 2016.

Recommendations from the Housing Sub-Committee meeting

To **resolve** that -

1. a report is submitted to a future meeting of the Growth Committee investigating the viability of a leasing model as a way of responding to the housing property development requirements of the Housing and Planning Act 2016 in relation to high value vacant properties (ref paras 5-7 of this report); and
2. decisions on individual disposals are delegated to the Head of Housing in consultation with the Portfolio Holder for Adults Social Care and Health and the Portfolio Holder for Regeneration in accordance with the criteria as set out in paras 8-15 of this report.

Key Points

- A. At its meeting on 13 September 2016 the [Housing Sub-Committee received a report](#) on the likely impact of the requirements of the Housing and Planning Act 2016 in relation to disposal of high value void properties and considered possible approaches to enable the Council to meet the requirements of this legislation.
- B. The Housing and Planning Act 2016 (Part 4, Chapter 2) sets out that local authorities will be required to make a payment to central Government equal to the value of all high value properties likely to become vacant over the following year.
- C. Although the specifics of the scheme are not yet known, the report estimated the financial impact on the Council at between £10.6M and £14.8M in the first year.
- D. As well as selling properties according to a calculated approach, the Council may consider other measures such as development land sales, property development and sale, and the sale and leasing back of properties (ref paras 5-7).
- E. Given that decisions on individual disposals will need to be taken within timescales which do not fit with the schedule of the five Housing Sub-Committee meetings per year, the Housing Sub-Committee agreed a process of delegating decisions on individual disposals to the Head of Housing in consultation with the Portfolio Holder for Adults Social Care and Health and the Portfolio Holder for Regeneration in accordance with criteria set out in paragraphs 8-15 of this report.

Context

1. The Housing and Planning Act 2016 (Part 4, Chapter 2) sets out that local authorities will be required to make a payment to central Government equal to the value of all high value properties likely to become vacant over the following year. The payment will be described according to a determination from the Secretary of State.

2. The Regulations, which are expected shortly, will: define high value properties; describe the method of calculation of the determination value; and indicate the implementation date.
3. Until regulations are issued, the following specifics of the scheme are uncertain:
 - the definition of a high value void property
 - any excepted property types (e.g. sheltered accommodation)
 - the method of calculation of the determination value
 - the implementation date of the scheme
4. For the purposes of this report, the following assumptions are being made to allow the broadest range of possible approaches:
 - the Council will be limited to only selling certain properties to raise the amount described by the determination – proposed exclusions will be:
 - sheltered/vulnerable accommodation
 - specially adapted properties
 - properties with shared facilities
 - properties on estates subject to planned redevelopment
 - the determination value will probably fall within the range predicted in the above introduction section
 - the scheme will be implemented shortly after issue of the regulations and no later than the end of the current (2016/17) financial year

Proposal and Options

(1) Leasing model for Sale of Newly Developed Affordable Properties

5. Once a new property has been built, and forms part of the Council's housing stock, it will be considered no different from any other RBK property. While the Council may wish to categorise any such properties as a low priority for sale, as they represent modern high quality housing, these properties are conversely also likely to be high value for their size and this will be reflected in a high sale priority on the Property Assessment Index set out in Table 1 paragraph 13 below.
6. Given the limitations the Council faces in developing new affordable/ social rented properties, the Council may want to consider the viability of creating a new model whereby they set up a separate holding company to develop properties for sale on the open market specifically to make the most of existing Council owned land, and on new sites purchased by the holding company. As well as creating a sustainable model, this would also serve to increase the level of private and affordable housing in the borough.
7. Some London boroughs are currently considering models which sell higher value assets on into either an independent company (contracted with the Council but not Council owned) or a council subsidiary company with the assets bought by an institutional investor and leased back.

(2) Process and criteria for delegated decision-making on individual disposals

8. As properties become vacant an assessment should be made of the eligibility and relative value of the property to the Council based on the **following criteria**:

- property type - certain types of specialised property may be exempted
 - property size - and therefore whether it is a property in high or low demand – please see the supply and demand analysis (Table 1, para 13 below)
 - location
 - condition - whether the building containing the property is in need of any future work.
 - tenure - percentage of other privately owned properties in the building.
9. The Property Assessment Index (ref Table 1 para 13 below) compares the demand of each property type against the average value to create an overall point value for any specific property. The point value is intended to prioritise properties for sale, the higher the point value the more beneficial the sale.
10. For instance if we were to use only demand as an indicator we would probably chose to sell mostly one bedroom properties as we have a high supply relative to the demand. If we were to use only the value as an indicator, we would sell mostly four plus bedroom properties.
11. By combining the two approaches, we are optimising the receipts, while still factoring in the demand. According to this approach, the sale of properties with 4+ bedrooms represents the best balance of demand against value, and the sale of 2 bedroom properties represents the worst balance.
12. The overall point value can also be biased up or down for individual properties according to factors that may vary the benefit to the Council or appeal to a buyer, such as:
- location – an adjustment to the valuation according to postcode
 - condition – the need for substantial expenditure in the next 5 years
 - tenure – to reflect a high number of privately owned neighbouring properties
13. In **Table 1** the demand has been determined based on the number of homeless households qualifying for temporary accommodation. Alternatively where the demand is determined as the total number of households on the Housing List (9,226 as at 01 August 2016) priority for selling different sizes of property corresponds exactly to the average value, or in other words the larger the property the higher the priority to sell it. **Table 2** provides a full analysis of all households on the housing list.

Table 1. Property Assessment Index

Size (beds)	Supply	Demand	% met	Av. Value (£k)	Location (bias)	Condition (bias)	Tenure (bias)	Points Overall	Sale Priority
1	84	118	71	170	100%	100%	100%	121	2nd
2	65	330	20	280	100%	100%	100%	55	4th
3	41	114	36	305	100%	100%	100%	110	3rd
4+	12	36	33	430	100%	100%	100%	143	1st
Totals /Av.	202	598	34	-					-

Table 2. Households on housing register by band and property size (as at 01.08.16)

	Studio	1	2	3	4	5+	Total
Band A	5	163	89	27	7	1	292

Band B	0	178	185	96	48	11	518
Band C	0	3074	1219	682	177	30	5182
Band D	0	1584	1182	402	60	6	3234
Total	5	4999	2675	1207	292	48	9226

14. In addition to the above sliding-scale approach, we may consider straightforward thresholds for property value or estimated maintenance costs. For instance, the immediate sale of any property valued over £400k, or any property with £10k of maintenance work estimated over the next 5 years.

Land/Garage Sales

15. The sale of Council owned land could provide an additional source of income to meet the determination payment. Where land has been earmarked for development and planning permission has been secured this would maximise its market value. As this is something the Council is already doing, the consideration is whether these funds can be used toward the determination, or be deducted from the determination amount. Receipts of the above land sales for October 2015 to date amount to £1.8M.

Consultations

16. Detailed information on consultations with officers in other boroughs on the approaches which they are taking is set out in the [report to the Housing Sub-Committee](#).

Timescale

17. The relevant regulations are anticipated to be published in Autumn this year.
18. Individual disposals cannot be authorised by the Housing Sub-Committee as decisions will need to be taken within timescales which do not fit with the five Housing Sub-Committee meetings per year.

Resource Implications

19. The report to the Housing Sub-Committee estimates an overall cost to the Council of between £10.6M and £14.8M (for which [detailed calculations are set out in the report](#)), which is made up of:
- the value of property which Kingston will be expected to sell between 42 (25%) and 58 (35%) of properties that become vacant estimated value of between £10.134M and £14.187M
 - conveyancing, estate agent and administration costs of the requirements
 - the increase to the Council's Nightly Paid Accommodation Costs
 - lost rental income of between £248k and £347k (arising from reduction in the housing stock of between 42 and 58 properties).
20. In view of the significant financial implications outlined above, a review of the Housing Revenue Account Business Plan will be undertaken once detailed regulations are available in the Autumn and reported to the Housing Sub-Committee.

Legal Implications

21. Further legal advice will be sought once the regulations are published in the Autumn and that advice will be included within the report (if the Committee requests this) to be submitted on the investigation of a leasing model.

Risk Assessment

22. The risks to the Council are:
- the financial impact as set out above
 - the reduction of capital assets in the form of housing stock

Equalities Impact Assessment

23. In implementing these proposals we will ensure that any detrimental impact for any particular communities will be monitored and appropriate remedial actions are undertaken to eliminate discrimination and advance equality of opportunity, and foster good relations within the protected characteristics. When the regulations come into force, a full equalities impact assessment will be undertaken prior to implementation.

Road Network and Environmental Implications

24. There are no road network or environmental implications arising from the report recommendations.

Background papers held by the author of the report, Robert Richmond Lead Officer Leasehold Services email: robert.richmond@kingston.gov.uk tel 020 8547 5566