

Report of: Executive Member for Housing and Development

Meeting of:	Date:	Ward(s):
Executive	17 th October 2019	All

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THE APPENDIX TO THIS REPORT IS NOT FOR PUBLICATION**SUBJECT: Buying New Council Homes****1. Synopsis**

- 1.1 The Council is committed to helping residents access genuinely affordable homes in Islington by increasing the supply of social housing to help address the housing crisis. This report builds upon two previous reports that introduced successful property acquisition schemes: *Delivering More Council Homes: Purchasing Existing Properties* (Approved by the Executive in October 2014) and *Delivering More Council Homes: Providing improved, better value, temporary accommodation* (Approved by the Executive in June 2018). This report seeks permission to extend the programme of property acquisition agreed in October 2014 by removing the £6m annual cap on expenditure, enabling the council to take advantage of opportunities to purchase more properties as long as they are deemed prudent, affordable and required to meet residents housing needs. It also seeks an extension to the delegated authority provided in June 2018 to buy properties outside of Islington if this is appropriate in the discharge of the councils housing duties.

2. Recommendations

- 2.1 To note the success of the current property acquisition programme which has resulted in an additional 60 new homes for homeless families since the programme commenced in July 2018.
- 2.2 To agree to remove the cap of £6m expenditure per annum for the HRA property acquisition programme agreed in October 2014, subject to the Director of Housing being satisfied that the year's acquisition programme is necessary to meet housing need; and the Section 151 Officer being satisfied each year that the budget provision and programme are affordable for the council and represents value for money.

- 2.3 To note that the HRA property acquisition programme will be ongoing subject to annual budget provision being made available and approved by the Council.
- 2.4 To note that in order to facilitate the extension of the HRA property acquisition programme in 2019-20 the necessary budget virements will be recommended for approval by the Executive in October 2019 as part of the financial monitoring report.
- 2.5 To extend the existing HRA acquisition programme, approved in October 2014, to include the purchase of housing properties within the Greater London area for temporary accommodation or general needs housing.

3. Background

- 3.1 In October 2014 the Executive agreed to an ongoing programme of acquisition of individual residential properties to help alleviate the impact of the housing crisis. The scheme, operated within the Housing Revenue Account (HRA), facilitated the acquisition of 26 properties over two years but was limited by the availability of funding and Right to Buy (RTB) 141 receipts and capped to a maximum expenditure of £6m per annum. It was also limited to buying properties within the borough.
- 3.2 In June 2018 the Executive agreed to a new programme of property acquisitions for use as temporary accommodation using RTB 141 receipts and General Fund prudential borrowing. Acquisition was to be delivered within the General Fund due to the lack of borrowing capacity within the HRA resulting from the Government imposed borrowing caps on council's Housing Revenue Accounts. The programme allowed properties to be bought both on and off council owned estates and outside of the borough as there was, and remains, some concerns that limiting the acquisition of properties to within the borough would limit the number of available properties and the potential savings and benefits that could be realised as a result of the programme. Between June 2018 and March 2019 the programme delivered 46 new council homes, bought exclusively within the borough and realised savings of £100k for the General Fund. Further properties have been purchased in the current financial year and resulted in further savings for the GF.
- 3.3 Following the removal of the HRA borrowing cap toward the end of 2018, it became possible, indeed preferable, to continue the acquisition of new council homes within the HRA. There are a number of benefits to doing this which include greater flexibility in terms managing the debt, greater flexibility in the type of properties we can buy, a preference of owning and managing all housing stock within the HRA and continuing to deliver savings on temporary accommodation for the General Fund.
- 3.4 Moving the acquisition programme back within the HRA is therefore the preferred route for continuing and expanding the acquisition of additional council homes. However, it would only be possible to do this by amending the delegated authority granted by the Executive in October 2014, which is limited to a maximum of £6m spend per annum and limits the purchase of properties to within the borough. These restrictions would mean that a maximum of circa 15 properties could be purchased in any one financial year and that the programme could be significantly limited or stopped entirely if the number of affordable properties available for purchase within the borough reduced.
- 3.5 It will be necessary therefore for the cap of £6m per annum in the HRA to be replaced with a requirement for the programme to continue on an ongoing basis, Funding for the scheme will primarily be from borrowing, one off capital receipts and RTB 141 receipts, as and when they are available. The scheme would therefore be ongoing, subject to annual budget provision being made available.

- It is also recommended that the geographical area for purchases be expanded to locations outside Islington within the Greater London area, as agreed in June 2018, which have direct public transport links back into the borough so that tenants can still access services and support networks with relative ease. We will, of course, focus our efforts on purchasing homes within the borough as a preference and have managed to do this thus far.
- 3.6

4. Implications

4.1 Financial implications:

- 4.12 The tables appended to this document (exempt Appendix A) outline the financial basis for the acquisition of up to 50 properties for temporary accommodation but can be extrapolated beyond this number if required and deemed both viable and affordable. The long-term financial viability of funding an HRA acquisitions programme is primarily dependent on the level of rents chargeable, access to surplus RTB 141 receipts and low cost borrowing.
- 4.13 At present, the Council has more RTB 141 receipts than it is able to utilise within the current new build programme and following the removal of the HRA borrowing cap can now extend HRA borrowing powers to facilitate capital investment. Using a combination of these RTB 141 receipts and borrowing delivers a temporary accommodation acquisitions programme within the HRA that is viable in its own right, if the purchase price does not exceed agreed levels & the related rents charged are set at the relevant Local Housing Allowance (LHA) rates (but no more than 80% of the market rent in order to comply with rules pertaining to the use of RTB 141 receipts).
- 4.14 Based on purchasing 2 bed Inner London North properties, the property acquisition program is financially viable and has a negligible impact on the overall HRA Business Plan. Each property would generate a small surplus of £750 per annum which would result in an estimated £0.886m surplus over 24 years for 50 units.

This is based on the following assumptions:

- A purchase price and initial works required not exceeding £0.435m.
- Annual inflation of 2% applied to expenditure
- Inflation of 2% applied every 5 years to rents (LHA rates)
- House prices 2% annual inflation / nil growth
- Fixed Term maturity borrowing the model assumes a prudent 2.75% (current 25 year PWLB rates 2.20%).
- Economies of scale are achieved in the management & repairs of the additional properties.

In addition, this is based on not repaying debt only servicing the interest – at the end of a 25-year term if house prices only increased by inflation then 50% of the units would need to be sold in order to redeem the debt.

See Appendix A for further details.

- 4.15 The programme could be suspended or ceased entirely if the level of accommodation acquired met the level of need, RTB 141 receipts were no longer available or LHA rent levels were reduced to a level that affected the ability to service borrowing. Further, properties could be sold on the open market to repay the debt.

There is currently General Fund budget provision of £13.100m included in the 2019-20 capital programme for property acquisitions. An extension of the programme within the HRA will require an increase to the 2019-20 HRA capital programme budget provision and as such approval by Executive.

4.2 Legal Implications:

- 4.21 The council may meet housing need for temporary accommodation and general housing stock by acquiring properties located within and outside Islington to be held in the HRA. (section 9 of the Housing Act 1985).

- 4.22 It is proposed to fund the cost of acquiring properties from HRA borrowing, one off capital receipts and one for one Right to Buy receipts where available.
- 4.23 Right to buy receipts must be applied in accordance with the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended) and guidance thereunder and the terms of any agreement under section 11(6) of the Local Government Act 2003 modifying the applicability of the regulations. The council entered into a s11(6) agreement with the Secretary of State for Communities and Local Government on 29 May 2012 (subsequently varied on 23 May 2013) pursuant to which the council is permitted to use right to buy receipts for the provision of social housing. In this context 'social housing' is residential accommodation that is made available for less than market rent to people whose needs are not adequately served by the commercial housing market. Under the agreement, the council may use RTB receipts for the purchase of existing dwellings other than existing social housing dwellings. However, the contribution from RTB receipts must not exceed 30% of the purchase price

4.4 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

- 4.41 The proposed programme of property purchase will have positive environmental implications. This is because the properties purchased are likely to be maintained to higher environmental standards than they would have been had they remained in the private sector. All Islington Council properties are maintained to the Decent Homes standard whilst approximately 20% of properties in the private sector currently fall below this standard.

4.5 Resident Impact Assessment:

- 4.51 The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.
- 4.52 An Equality Impact Assessment was completed and is appended to this report and marked as Appendix B. The EIA identified that there would be no negative differential impacts. This decision was made because for each of the protected characteristic groups the proposed purchase programme had no adverse impact. However, in relation to age (both young and old), ethnicity, poverty and disability the impact of the strategy in terms of increasing the supply of social housing in Islington will have a positive impact. This is because residents from these protected characteristics groups are more likely to be in housing need in Islington.

5. Reason for recommendations

- 5.1 This report recommends that approval for a removal of the financial cap placed on the delegated authority issued for the property acquisition programme in October 2014 and replaced with a requirement for it to be deemed to be necessary, affordable and prudent by the directors of Housing and Finance and Resources. The programme will be subject to annual budget provision being made available and agreed by the Council. In addition, whilst we would seek to purchase as many homes within Islington, agreeing the expansion of the geographical area properties may be purchased within, will combine to maximise the number of purchases made and the increase the resultant financial and social benefits of the programme.
- 5.2 The increase in council owned rented homes will help meet housing need in the borough, save money on temporary accommodation for the General Fund, reduce the number of properties with unaffordable rents and generate additional income to the HRA to cover delivery costs.

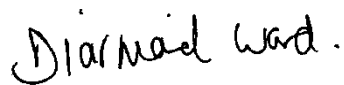
Appendices

- Appendix A – Financial Modelling (EXEMPT)
- Appendix B – RIA (Not EXEMPT)

Background papers: None

Final report clearance:

Signed by:



Diarmaid Ward
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Development

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