

## Manchester City Council Report for Resolution

**Report to:** Executive – 13 November 2019

**Subject:** Acquiring properties for affordable housing

**Report of:** Strategic Director (Growth & Development)

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### Summary

This report recommends an approach to acquiring properties which are offered to the Council to increase the amount of affordable housing and, in particular, to reduce the number of former Council properties entering the private rented sector.

### Recommendations

The Executive is recommended to:

1. Approve the principles outlined in this report.
  2. Authorise the Head of Housing Services in consultation with the Deputy Chief Executive & City Treasurer and the City Solicitor to progress and formalise arrangements with the Registered Providers (RP).
  3. Authorise the Head of Housing Services in conjunction with the Deputy Chief Executive & City Treasurer and the City Solicitor to review and make minor amendments to this new policy during the next 3 years.
  4. Note that a request for a budget of £1.5m for the acquisition of properties over the three-year period will be advanced through the City Council's capital approval process.
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**Wards Affected** Cheetham, Crumpsall, Charlestown, Moston, Harpurhey, Higher Blackley, Miles Platting & Newton Heath, Piccadilly, Ardwick

Manchester Strategy outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	Affordable housing gives people a stable, well-managed home to enable them to fulfil their potential
A highly skilled city: world class and home grown talent sustaining the city's economic success	A world class city requires a mix of homes for all members of the community
A progressive and equitable city: making a positive contribution by	Increasing the amount of affordable housing will provide the opportunity for Manchester residents to raise their individual and collective aspirations

unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	Registered Providers will continue to lead the drive towards a zero carbon city. Each property acquired will become part of the RP's asset management strategy which will, amongst other things, include retrofitting to reduce the carbon impact.
A connected city: world class infrastructure and connectivity to drive growth	Reducing the number of homes which end up in the less-regulated, often poorly managed private rented sector will enable us to retain neighbourhoods where residents choose to live and their housing needs and aspirations are met.

**Full details are in the body of the report, along with any implications for**

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

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### **Financial Consequences – Revenue**

The revenue consequences of each acquisition will need to be considered on a case by case basis, and this will need to consider future management arrangements of each property. If the properties are to be managed by the registered providers there are no direct revenue consequences for the City Council as the RP will be responsible for collecting the rents, and this will be used to fund any associated costs in respect of managing and maintaining the properties on an ongoing basis. Properties that are acquired directly by the council will be held in the Housing Revenue Account (HRA) so there are no direct implications for the City Council general fund. The implications on the HRA will need to be considered on a case by case basis as each property becomes available and properties will not be acquired in certain circumstances as described in Section 6 of this report.

### **Financial Consequences – Capital**

Approval will be sought to establish a capital budget of £1.5m to be used over the next 3 years to provide both gap funding to Registered Providers and to purchase properties for City Council ownership. It is intended that the One-for-One Right to Buy receipts will be used in the first instance. Under Government guidelines the One for One receipts can be used to support a maximum of 30% of any property acquisition and this will need to be considered for each acquisition. If acquisitions are made for City Council properties then there will be a need for 70% of the funding to be identified from within the existing housing capital programme. If the Council purchases a property outright it will be subject to the Right to Buy and the Council's capital investment will, therefore, potentially diminish.

The formal capital approvals will be sought in line with City Council processes.

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**Background documents (available for public inspection)**

The following documents disclose important facts on which the report is based and have been relied upon in preparing this report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the officers above.

Acquisition of settled accommodation for homeless families – Executive 21 March 2018

Delivering Manchester's Affordable Homes to 2025 - Economy Scrutiny Committee - 5 September 2019 Executive - 11 September 2019

## 1.0 Introduction

1.1 At its meeting on 11 September 2019 Executive agreed that the Head of Housing Services should:

a) develop a policy for buying back Council properties

and

b) work with local Registered Providers (RPs) to identify those that might be willing to purchase properties. In particular, the Council requires one or more RPs to purchase properties in the area managed by Northwards Housing.

1.2 By introducing this approach the Council is looking to:

- Maximise the supply of affordable housing within Manchester;
- Reinvest Right to Buy receipts in a way which makes a more direct connection with reducing the impact of Right to Buy;
- Avoid properties being sold and then used in the private rented sector; and
- In exceptional circumstances, provide solutions for old, vulnerable or other households who can no longer maintain their property or wish to move to right size.

1.3 It is acknowledged that this approach does not increase the overall quantum of housing, but it will add to the stock of affordable homes in the city. However, it should be noted that any property acquired by the Council will still be subject to the Right to Buy and any property acquired by a Registered Provider will be subject to the Right to Acquire.

1.4 Owners of former council owned properties are obliged to offer them to the Council if they wish to sell within 10 years of purchase., Other properties are also occasionally offered to the Council and this policy is intended to cover any properties offered.

1.5 The proposal is to use a similar approach to the larger property acquisitions (Executive 21 March 2018) whereby the Council and Registered Properties have to date jointly purchased 19 four bedroom properties to provide homes for larger homeless households, who may otherwise remain in temporary accommodation. This arrangement has provided valuable insight and learning into developing effective partnership arrangements to deliver affordable homes.

1.6 The expectation is that Registered Providers will purchase the majority of the properties offered. As the Council's funding is limited it is proposed that the Council focuses its direct acquisitions on properties in shared blocks (flats and maisonettes) where the management of these properties presents, at times, significant issues particularly in relation to essential health and safety checks

1.7 This is a new policy and it may require minor amendments during its

implementation. Executive is asked to agree that the Head of Housing Services in conjunction with the City Treasurer and the City Solicitor may make minor amendments to this policy.

## **2.0 Right To Buy - buy backs legal requirements**

- 2.1 Where the sale of the property is within the first 10 years of the Right to Buy acquisition date, it is a legal requirement that the property is offered back to the Council. The Council may choose to repurchase the property or offer it to another social landlord. The property should be sold at the full market price agreed between the vendor and the Council or RP. If the valuation cannot be agreed the District Valuer will be appointed by the Council or RP to provide an independent and final valuation.
- 2.2 The Council or RP is required to commence the acquisition process within 8 weeks of the notification, otherwise the vendor is free to sell their home on the open market.
- 2.3 When we are notified that a former Council property is available to be repurchased we will check with the local housing management contractor (Northwards Housing and the 3 contractors managing PFI-funded estates in Ardwick and Miles Platting) whether there is demand for this type of property in this location. At the current time that will inevitably be a "Yes".
- 2.4 Following the 10th anniversary of the Right To Buy acquisition date, the vendor is free to sell the property on the open market, and the Council is not notified on the sale on these occasions.
- 2.5 In the last 12 months the Council has been offered 25 former Council properties under this procedure. Due to the increasing numbers on the Housing Register it is likely that, if this policy had been in place, the Council would have sought RP partners to acquire every one of them.

## **3.0 Proposed operational model**

- 3.1 An outline operational model is summarised below following early discussions with Manchester RPs and this will be developed further subject to the necessary approvals:
- 3.2 RP purchases

Upon receiving notification of an opportunity to purchase a property the Council will contact the relevant RP (they have indicated they will agree which areas they are interested in acquiring properties as they do with the large properties for homelessness) to offer the property within 48 hours.

- If the RP accepts they will attempt to contact the vendor within 48 hours to arrange access for a valuation within 7 days.

- If the RP does not accept, they must notify the Council in writing within 3 days and the property will be offered to another RP (how this will work in practice will be agreed with those RPs who express an interest in acquiring properties. It is most likely that we will operate a rota system if more than one RP is interested in acquiring properties, for example, across north Manchester).

If no RPs are interested the Council will consider purchasing the property (see 3.3 below)

The RP will assess the value of the property and make an offer to the owner. Where the vendor does not accept the valuation the RP will appoint the District Valuer.

- Once the valuation is agreed the RP will undertake a property appraisal taking into account the affordable rent payable and the cost of acquiring and managing the property as described in Section 5 of this report.
- In cases where the RP is buying a property they will determine whether there is a gap funding requirement from the City Council in order to make the purchase viable.

The Council will review the proposed gap funding requirement and decide whether it wishes to offer the amount requested. Agreement for any expenditure will follow the existing capital approval process. If, for any reason, the Council will not provide the gap funding the purchase will not proceed.

If the gap funding is agreed the RP will make a formal offer within the prescribed 8 week period

- The RP will refurbish the property to a decent homes standards and will include it in their asset management strategy which will, amongst other things, include retrofitting, and other work, to reduce the carbon impact.
- The RP will let the property at affordable rent (Local Housing Allowance).
- Where gap funding is provided the Council will have 100% nomination rights in perpetuity. Where an RP purchases a property outright they will let it within their usual policy. In most cases property will be offered via Manchester Move to applicants on the Housing Register (sometimes property are let with Manager's Discretion for specific families outside the Manchester Move process and some RPs let a proportion of their properties using their own rehousing criteria).

### 3.3 City Council purchases

If no RP is interested in purchasing a property the Council will consider buying it. However, the Council can only charge social rent (determined by Government) for properties it owns. It is therefore, recommended that where no RPs want to buy a property the Council undertakes an appraisal and only

considers buying a property where the rental income over 30 years covers the cost of acquisition and bringing the home up to the decent homes standard.

In the area managed by Northwards Housing the Council would ask Northwards to manage and maintain the property within their existing resources. This would not require any increase to the management and maintenance fees that the City Council pay to Northwards, and could be balanced through the fee not being reduced each time a property is sold under the right to buy scheme.

In the areas managed by PFI contractors there is an annual fee for re-entering a property into each contract and this would have to be factored into any financial appraisal.

#### **4.0 Geographical approach to buy backs**

##### **North Manchester**

- 4.1 In the area managed by Northwards Housing we are in discussion with the Manchester RPs who are members of the Manchester Housing Providers Partnership to identify those that might be willing to manage properties in this area and those that might be willing to purchase properties in this area and allow Northwards to manage them.
- 4.2 There has been an initial discussion with RPs and more than one has shown an interest in being a partner and we will work with the Partnership to determine the preferred partner(s) for north Manchester buy backs. It is proposed that the Head of Housing Services works with the interested RPs to determine an appropriate way to select preferred partners.
- 4.3 Registered Providers who manage former Council properties (One Manchester, Southway and Wythenshawe Community Housing) already have established processes for buying back properties which are offered to them and we will work with them to ensure efficiency and maximise their existing resources and knowledge.

##### **West Gorton**

- 4.4 The 171 council homes in West Gorton built in 2011 are currently managed by the Guinness Partnership. This management contract has to be reproced in 2 years.
- 4.5 The Guinness Partnership also own over 200 properties on the West Gorton estate so it is recommended that if former Council properties become available in West Gorton that they are offered to the Guinness Partnership in the first instance. This would mean the property would be owned, managed and let by them using their own lettings and rental policies.
- 4.6 If the Guinness Partnership is unwilling or unable to buy the property the Council will consider whether to invest its limited resources in buying back the

property. 124 of the properties are apartments so would meet the Council's priority criteria.

- 4.7 If the Council procures a new management contractor for its properties in West Gorton as part of the procurement exercise consideration will have to be given as to whether to offer buy backs to this contractor or the Guinness Partnership

#### **Areas managed by PFI contractors**

- 4.8 In Grove Village, Miles Platting and Brunswick we will firstly ask the RPs who are managing the Council properties in these areas (Your Housing, Jigsaw Homes and Onward Homes) to consider buying the property and managing it outside the PFI contract.
- 4.9 If the contractor is unwilling or unable to buy the property the Council will consider whether to invest its limited resources in gap funding for the RP or in buying back properties and re-entering them into the PFI contract. Each contract has pre-agreed terms for adding properties back into the contract if they have been sold under the Right to Buy.

#### **5.0 Gap funding for RPs**

- 5.1 In some cases the rent recoverable by the RP who has been asked to buy the property will not cover the cost of buying the property, bringing it up to the decent homes standard and managing and maintaining it for a 30-year period as required in their Business Plans.
- 5.2 It is in such circumstances that the Council may be willing to provide gap funding on a case by case basis (no standardisation) to assist the RP to buy the property. This gap funding would be in the form of a capital grant and secure 100% nomination rights. However in line with the larger homes acquisitions it is proposed that we would limit the Council's contribution to a maximum 30% share.

House prices vary widely and in recent months the Council has been offered properties from £65,000 (one bedroom) to £180,000. The Council's maximum share, if required, would be in a range from £19,500 to £54,000 based on these prices.

- 5.3 The Council's funding to acquire larger properties for homelessness is provided as an equity stake, repayable on sale. An equity stake based on the share the Council contributes towards any acquisition would be the preferred option for the Council. However, in initial discussions with the RPs they have suggested an alternative approach where the Council would offer a grant payable either on a future sale or at the end of the grant agreement term.
- 5.4 The Executive is asked to authorise the Head of Housing Services along with colleagues from finance and legal to work with the RPs to agree an effective means of securing the Council's stake in the property.



## **6.0 When will we not buy back a property?**

- 6.1 In certain circumstances the cost of purchasing and bringing the property back into use for affordable housing will not be viable because the gap funding required will be greater than 35% or the limited budget will not be sufficient to cover the gap. (Note - the One-for-one receipts can only be used for up to 30% of the acquisition costs so any funding requirement above this will have to be met from other capital funding).
- 6.2 There is also a strict time limit for the Council (or its nominated RP) to complete the purchase so there may be some cases where the decision cannot be made in time and the property is sold on the open market.

## **7.0 Other acquisitions**

- 7.1 In the past we have been asked to buy back a former Council property and to allow the existing occupier to remain in it as a tenant. It is proposed that the Council considers each case on its merits but that this would only be appropriate if there were exceptional circumstances.
- 7.2 The Council is also occasionally offered other properties, for example when a RP is choosing to dispose of properties in a specific geographical area for strategic reasons. This policy would cover the potential acquisition of such properties.

## **8.0 Conclusion**

- 8.1 The recommendations are listed at the beginning of this report.
- 8.2 This policy will be reviewed in 2022/3