

Subject:	Potential purchase opportunity of properties with restrictive covenant.		
Date of Meeting:	15 March 2017		
Report of:	Executive Director Neighbourhoods, Communities & Housing		
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Ward(s) affected:	Queens Park		

FOR GENERAL RELEASE**PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 Improving housing supply in the city, particularly the supply of affordable homes for rent is a key element of our city-wide Housing Strategy 2015 and identified as a priority in the Fairness Commission report of June 2016. Existing work to meet this includes the council's New Homes for Neighbourhoods programme which is bringing forward developments on council-owned land, and the Affordable Housing Development Partnership working with Registered Provider (RP) partners to provide affordable housing in the city.
- 1.2 Approval to take forward alternative models to improve delivery of affordable homes including the Living Wage Joint Venture with Hyde and the wholly owned Special Purpose Vehicle to allow for Housing Market Intervention / direct delivery and other housing delivery options were agreed at Housing & New Homes Committee in November 2016.
- 1.3 In terms of need for affordable rented accommodation: We currently have 1,655 households in Temporary Accommodation (TA), where the council has a duty to accommodate. This includes 1,098 households with children and/or pregnant women. There are currently more than 25,404 people on the housing register - 64% of whom are in demonstrable need - Bands A to C. [Source: Housing Statistical Bulletin October to December 2016].
- 1.4 Our Housing Asset Management Strategy acts as a link between our Housing Strategy and investment programmes including a priority of supporting new housing supply. The 2017/18 Neighbourhoods, Communities and Housing (NCH) Budget Strategy includes savings to be achieved through the potential development of TA through commissioning a council housing stock review to deliver conversions of existing under-used or unused buildings or spaces into TA.
- 1.5 A covenant was included in the in the transfer of two properties in the Carlton Hill, Queens Park area of the city when they were sold by the council to Orbit Housing Association (HA) in 1999. This covenant requires the properties to remain as affordable housing and requires the council's approval to remove the covenant to allow sale on the open market. Orbit Housing Association are now seeking to dispose of the properties in question.

- 1.6 The covenant has created an opportunity for the council to influence the use of this property and retain the housing as affordable housing. Three options have been explored, namely:

Option 1: Refuse to release the covenant and aim to buy back and refurbish the properties direct;

Option 2: Refuse to release the covenant and seek another RP partner to purchase the properties to retain it as social housing;

Option 3: Agree to release the covenant with suitable compensation made to the council for so doing.

2. RECOMMENDATIONS

That Housing and New Homes Committee

- 2.1 Notes the range of future options considered for these properties.
- 2.2 Agrees to proceed with preferred Option 1 that the council negotiates with the current owners with the aim of exploring the possibility of purchasing and refurbishing the properties for council use, subject to a viable scheme.
- 2.3 If a viable scheme is identified then a further report regarding the potential cost of this would be brought to Housing and New Homes committee for consideration, and then to Policy Resources and Growth Committee for a final decision.

3. CONTEXT / BACKGROUND INFORMATION

- 3.1 The dwellings consist of two large terrace properties which were sold by the council to Orbit HA in 1999. The properties have been used as supported housing for a number of years but the HA has now decanted the properties with a view to selling them on the open market, as part of an asset management review.
- 3.2 The council had included a restrictive covenant in the original sales document which requires the properties to remain as affordable housing. Council approval is required to release this covenant and the HA have asked for it to be released allowing them to sell the properties on the open market. The covenant has significant effect on the value of the properties.
- 3.3 The properties are in a cul-de-sac of terraced properties situated very centrally off Carlton Hill, in the Queens Park area of the City. The properties themselves are formed of :
- Property 1 – a large former villa currently converted as 12 flats (9 x 1 bed and 3 x studio) and a ground floor office room – it has a large garden area that wraps around both buildings at the rear and runs along behind the other properties in the row. The ‘front’ area of this garden is quite large, contained by a possibly historic flint wall.
 - Property 2 is a smaller building currently forming three self contained flats (1 x 2 bed and 2 x studios) and in a poor condition internally.

4. ANALYSIS & CONSIDERATION OF OPTIONS

- 4.1 There are two key costs: purchase of the property and refurbishment costs.
- 4.2 A valuation by an independent valuer was commissioned jointly by the council and Orbit HA dated 08 July 2016 which outlines the significant difference in value if the affordable housing covenant remains.
- 4.3 This valuation is not fixed and will need updating when negotiations go ahead. Purchase cost is a risk factor for this option and the price agreed will be subject to negotiation by both parties.
- 4.4 Both the properties had been marketed with an offer initially accepted for property 2 (the smaller house) subject to the covenant issue being removed.
- 4.5 If a viable purchase is not achieved the council can explore releasing the covenant to allow the private sale in return for suitable compensation payable to the council.
- 4.6 Council surveyors visited the properties and provided an initial estimate of works costs needed to bring the properties back into use.
- 4.7 The properties could be used to meet a range of housing needs of those to whom the council owes a duty to accommodate including general needs, temporary accommodation, other homelessness or social care subject to scheme viability.

Summary of the options explored:

Option 1 : The council buy back and refurbish the property/ies direct.

Financial modelling will be carried out as part of the negotiation process for the purchase of these properties as outlined in the financial comments below, subject to scheme viability considerations. This is our preferred option with the council negotiating with the current owners with the aim of exploring the possibility of purchasing and refurbishing the properties for council use, subject to a viable scheme. As outlined in Finance comments the funding of the scheme will be modelled to ascertain whether borrowing can be supported by net rental income generated and / or other potential sources of funding if required. We are currently proceeding on the basis of Housing Revenue Account borrowing subject to Finance comments in paragraph 7.4 concerning the HRA borrowing cap.

Option 2 : Seek an alternative partner Registered Provider (RP) to purchase the properties for council nomination / use.

This has not been tested but indications are that RPs would be unlikely to take on the properties given current risks around their borrowing to provide homes for rent, the small scale of the scheme and our recent experience of RPs disposing of miscellaneous properties as part of their asset review / asset management strategies.

Option 3: The council agree to remove covenant and negotiate compensation.

This option would potentially lead to the properties becoming private housing or potentially leased back to council for TA at lease rates although there is no guarantee of this. Given current pressures arising from large scale use of Temporary Accommodation outlined in paragraph 1.3 any lease back of this property for temporary accommodation usage will only meet a very limited element of our overall demand.

Although not the preferred option, this does provide the potential of a capital sum paid to the council as compensation for removal of the covenant. There are industry standards for the level of compensation which would be negotiated. Details of this sum would be included in a further report brought forward following negotiation. These funds could be used to fund accommodation elsewhere in the city.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 None carried out related specifically to the proposal at this time. Any resident/ community consultation will be undertaken as required with regard to major works or any planning permissions needed.

6. CONCLUSION

- 6.1 The covenant included in this transfer document offers an opportunity to provide much needed affordable housing in the city. This report asks for this to be explored fully with the end result of purchase of the properties or, at the very least, a significant amount of compensation paid to the council for release of the covenant.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 Standard financial viability modelling as used for projects within the New Homes for Neighbourhoods programme will be required to assess the preferred option. This will consider the cost of the properties and refurbishment costs including the use of contingencies where required. The funding for the scheme will be modelled to see whether or not borrowing can be supported by the net rental income generated and will look at other potential sources of funding if required. Sensitivity analysis will be undertaken on the project to ensure that it provides good value for money for the council and risks are minimised.
- 7.2 However, under section 11 of the Right to Buy (RTB) agreement, the council is unlikely to be able to use RTB receipts to fund this project as the homes were

previously used as social housing by a Registered Provider and so they are not new social housing units. The council is seeking further clarification on this case. The inability to use RTB receipts does not mean that the project will not be viable.

- 7.3 The costs of managing and negotiating this purchase will be met from current budget resources within Housing HRA and General Fund.
- 7.4 Further borrowing means that the HRA moves closer to its borrowing cap. However, this scheme would not endanger the cap being reached or exceeded.

Finance Officer Consulted: Monica Brooks

Date: 06/03/17

7.5 Legal Implications:

It is not within the Housing and New Homes Committee's powers to make a final decision on the purchase of the properties: the council's constitution provides that the acquisition of land shall be referred to the Policy, Resources and Growth Committee for determination. Should Option 3 (release of covenant and compensation) be the preferred route, this will also require Policy, Resources and Growth's Committee approval under its Property Management powers.

Lawyer Consulted: Name Liz Woodley

Date: 03./03/17

Equalities Implications: The housing provided could provide homes for vulnerable groups.

Sustainability Implications: improvement and full occupancy of these homes would increase housing supply and improve the condition of the city's housing stock and the local neighbourhood thereby improving sustainability. .

Any Other Significant Implications: None identified.

Public Health implications: Poor housing conditions impact negatively on health. Improvements to housing quality and neighbourhoods will have a positive health impact on residents.

Crime & Disorder Implications: improvement and full occupancy of these homes would reduce their vulnerability to anti-social behaviour.

Risk and Opportunity Management Implications: Options provide opportunities to increase affordable housing within the city or bring in financial compensation to the council.

Corporate / Citywide Implications: Retaining the properties as affordable housing is in line with stated aims in the Housing Strategy.

