



PR.63 13/14
Policy & Resources Committee
Date 17 April 2014

Subject: Property Acquisition (Strategic Housing – Empty Homes and Regeneration)

Report by:	John Rice, Interim Commercial Director
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Purpose / Summary:	Report detailing the Councils recent property acquisitions and/or disposals.

RECOMMENDATION(S):

Note the properties detailed in this report have been added to the Council's Asset Register. These properties have been purchased to enable the delivery of the Council Empty Homes Project to support sustainable regeneration in the SWW.

IMPLICATIONS

Legal:

The houses have been purchased under S1 Localism Act 2011 to support sustainable regeneration of the SWW area. Lincolnshire Legal confirm 'there is no issue with WLDC purchasing property for this project under s1 of the Localism Act 2011 rather than the Housing Act 1985, which would require SoS approval to then transfer that stock to a company.'

These properties have been be purchased in accordance with the Acquisition and Disposal Policy which enables the Council to make investment decisions to buy land or buildings if the decision provides good value.

The properties can be legally let via Northwoods (a 3rd party) to avoid a secure tenancy being created following legal advice from Lincolnshire Legal. The method for letting the properties is as follows:

- The Council will enter into a property by property lease arrangement with Northwoods for a 36 month period
- The Council will receive a guaranteed rental income during this period, based on the property specifics.
- Northwoods will take on responsibility for the void periods during the 36 months
- The Council will be responsible for the utilities and Council Tax when the property is void
- Northwoods will be responsible for finding tenants and managing them during the 36 month period
- The Council will be responsible for repairs and an allowance has been made for this within the financial model

Note: this arrangement with Northwoods has been procured via Procurement Lincs and was advertised on Source Lincolnshire. The engagement of an Agent, is the only method available, which allows the Council to purchase properties and subsequently lease them without creating a secure tenancy and Right To Buy implications.

Financial : FIN/03/15

The purchase and refurbishment costs of £209,554 will be met from the approved Capital Budget for Strategic Housing – Empty Homes. This amount will be wholly funded from DCLG Grant funding.

The net revenue impact is an annual surplus of £5,200 for the four properties.

Potential income, under the current New Homes Bonus (NHB) scheme of £5,824 per annum for 3 years will also be receivable.

Whilst the Council has not used its own resources to finance these purchases, the properties will be added to its asset register and have the potential to generate long term returns and/or a future capital receipt, in support of its Strategic Housing and Commercial strategies.

Staffing :

n/a

Equality and Diversity including Human Rights :

n/a

Risk Assessment :

The properties have been valued and had structural surveys undertaken prior to completion. Please see appendix 2 for risks.

Climate Related Risks and Opportunities :

n/a

Title and Location of any Background Papers used in the preparation of this report:

n/a

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

x

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

x

No

Executive Summary

Strategic Case

The purchase of these 4 properties was funded from the £1,190,000 Strategic Housing - Empty Homes capital investment programme. The programme is partly funded from a DCLG grant of £595,000 provided to achieve bringing 100 properties back into use in the South West Ward in Gainsborough; the remainder being match funding from WLDC.

These purchases support the achievement of the priorities of Council as documented in:-

- The West Lindsey District Council, Gainsborough South West Ward Action Zone Neighbourhood Renewal Assessment.
- Medium Term Financial Plan and Strategy
- The West Lindsey Corporate Plan
- Progress and Delivery Reports

The purchases directly support the strategic objective of targeted intervention to regenerate the area through the refurbishment of a significant number of homes to a standard that is attractive to both the rental and buyer market (first time buyers etc.); and as a key intervention strategy to regenerate the area and enable 100 of the 176 long term empty homes to be brought back into use as one of the key tools:

- Buying homes, refurbishing, letting and then disposing when the market improves

Commercial Case

The purchase of these properties and subsequent renting provides a net income to the Council of £5,200 per annum; and the potential to achieve additional income of in respect to NHB of £1,456 per property per annum for the next 6 years (current scheme).

The yield to the Council (split by calculation type is shown below) and takes into account that the Council will spend up to 25% more in refurbishment costs (as opposed to a typical market investor in the area) to achieve the desired 'decent homes' specification.

Note - the itemised cost of the specific works are commercially competitive it is simply that the Council will undertake all necessary works to ensure that the house is at fit for purpose standard to attract tenants.

Attached at Appendix 1 are the property details and their yields. The Net Yield calculation (Net Revenue impact/Total Investment excluding NHB) includes the costs to the Council of the necessity of 'outsourcing' the management of the tenancy to avoid a secure tenancy being created. The Gross Yield (Gross Rental/Total Investment) is provided for comparison.

The Council will own the properties and their value added to our balance sheet, with any future sale generating a capital receipt for capital investment.

Note - All of these factors need to be considered when reviewing this Commercial Case to provide a comprehensive commercial view.

Appendix 1

Detail	Net Acquisition Costs to WLDC	Net Refurbishment Costs to WLDC	Grants Applied	Net Income	Future Liabilities (Maintenance & VOID Costs)	Net Yield	Gross Yield
55 Waterworks Street	£32,900	£16,733	£49,633	£1,300	£650	2.62%	7.25%
40 Waterworks Street	£36,700	£14,534	£51,234	£1,300	£650	2.54%	7.03%
3 Clinton Terrace	£28,900	£25,211	£54,111	£1,300	£650	2.40%	6.65%

Appendix 2

ID	Risk Description, Inc. cause, impact and assumptions	Impact 1 = Negligible 2 = Minor 3 = Major 4 = Critical	Likelihood 1 = Very Low 2 = Low 3 = Medium 4 = High	Risk Score	Mitigation or Minimisation	Mitigation or Minimisation Actions With Named Action Owners	Revised Risk Score
Strategic Risk							
1	The Project does not achieve the Strategic Aims of the Project and return 100 properties back into use.	4	1	4	Mitigation	This will be mitigated by planning the work undertaken and through the use and successful implementation of the various options available to the project.	0
2	The pure 'commercials' of the project are defined in such a way, i.e. as 'market investor', to ignore the social return of the project and as a consequence 100 homes are not brought back into use creating a reputational issue with DCLG.	4	3	12	Mitigation	Agreement is to be reached as to what the commercial and financial outcomes are to be benchmarked in view of that 50% of the funding is a Grant and protocols agreed to the calculation of the commercial returns to reflect the structure of this funding.	0
Commercial Risk							
3	Void period is greater than 20%	3	3	9	Minimisation	Overall yield provides allowance for additional voids. Liaison with Northwoods to help to ensure minimisation.	3
4	Refurbishment costs are greater than planned.	4	2	8	Minimisation	Detailed schedules of works are in place and each property will be priced by a qualified and briefed resource to avoid over specification. The 'decent homes standard' will be viewed as a benchmark (which can add additional costs) but a pragmatic approach will be undertaken. A Structural Survey will be undertaken prior to purchase to also assess the impact of the works on costs.	1
5	No purchases are undertaken as the yield rates will be less than 8% (a commercial rate) due to the cost of bringing the properties back to a 'decent homes standard' (typically 30% greater than current refurbishment works) and the reduction in the income due to the Council having to 'outsource' letting due to avoid a secure tenancy.	2	4	8	Mitigation	A pragmatic approach will be taken with the works to not overly specify and ensure that it is of a good 'market standard' and economies of scale will be achieved through the procurement of single contractor. However, the level of the current private sector refurbishments is not generally fit for purpose and also exacerbates the current issues in the SWW. Additional yield calculations will also be reported take in to consideration the, fee to Northwoods (to avoid a secure tenancy), the net NHB payment per property and the 'capital' from the DCLG Grant used to fund the works (as to reflect Government investment in achieving this outcome).	0
6	There is no demand for the properties in both the rental market, short-term, and selling market mid-term.	4	2	8	Minimisation	This risk will be minimised by successful mitigation/ minimisation of all the risks identified on this risk register; and via the Project Manager and Project Sponsor addressing and managing the programme.	4
7	Completion of refurbishment works takes longer than expected as there is not the capacity to achieve the speed of refurbishment. Impacting revenue.	3	2	6	Mitigation	A single supplier will be engaged, the required capacity, to achieve the speed of refurbishment required.	0
8	The pure 'commercials' of the project are defined in such a way, i.e. as 'market investor', to ignore the social return of the project and as a consequence 100 homes are not brought back into use creating a reputational issue with DCLG.	4	3	12	Mitigation	Agreement is to be reached as to what the commercial and financial outcomes are to be benchmarked in view of that 50% of the funding is a Grant and protocols agreed to the calculation of the commercial returns to reflect the structure of this funding.	0
9	There is no net increase in the reduction of Empty Homes across WLDC and NHB payments are not increased leading to reduced income.	4	2	8	Minimisation	The Empty Homes Project will target the high risk empties to enable greater influence on this minimising this risk to income. Collation and reporting of net empty homes to be reported to Commercial Board to track progress.	4

Financial Risk							
10	Property values decrease over the 36 month period and a potential future capital receipt is not achieved.	4	2	9	Minimisation	Continued regeneration of the area will work to ensure that values increase. Other initiatives across the Council will need to be developed to support this. The Localism Team will undertake a defined and target programme of work to address issues with the current street scene.	4
11	The pure 'commercials' of the project are defined in such a way, i.e. as 'market investor', that a defined number of purchases are not made to achieve a capital receipt that at least provides a return (plus interest) on the Council matched funding element of the project.	4	3	12	Mitigation	Agreement is to be reached as to what the commercial and financial outcomes are to be benchmarked in view of that 50% of the funding is a Grant and protocols agreed to the calculation of the commercial returns to reflect the structure of this funding.	0
12	Property values decrease over the 36 month period and a potential future capital receipt is not achieved.	4	2	9	Minimisation	Continued regeneration of the area will work to ensure that values increase. Other initiatives across the Council will need to be developed to support this. The Localism Team will undertake a defined and target programme of work to address issues with the current street scene.	4
Technical/Operational Risk							
13	Completion of refurbishment works takes longer than expected and there is not the capacity to achieve the speed of refurbishment.	2	3	5	Minimisation	Regular liaison with contractor and quick resolution of any issues that occur	5
Legal Risk							
14	Creation of secure tenancy at end of lease agreement	4	2	6	Mitigation	36 month lease to be agreed, with no break clauses. End use of property to be determined well in advance of 36 month period.	0
15	Letting company ceases to operate resulting in secure tenancy being created	4	1	5	Mitigation	Procurement exercise reviews stability of Northwoods. Regular contract monitoring to be put in place.	0
16	Legal risk in regards to searches, encumbrances and leases in light of property being sold by liquidators.	4	2	6	Minimisation	Advice to be sought from legal to confirm whether the risk is negligible.	4