Housing Revenue Account

Asset Acquisition & Disposal Policy

1 Introduction

The Housing Revenue Account Business Plan and Asset Management Plan set out a number of objectives, one of which is to invest in the provision of new affordable housing. It is identified that this can be achieved by either direct investment in purpose built new build housing or through strategic acquisition, either on the open market or through buy-back opportunities. The potential for strategic disposal of Housing Revenue Account assets is also identified, where it can assist in the viable delivery and sustainability of the plan.

The HRA Self-Financing Housing Capital Investment Plan included both funding for new build schemes and for strategic acquisition of dwellings under the right of first refusal legislation. Since the implementation of self-financing in April 2012, changes in the legislation surrounding right to buy sales and the treatment of the associated capital receipts has resulted in the need to consider a separate Acquisition & Disposal Policy.

2 Policy Statement

Cambridge City Council is committed to delivering, increasing, managing and maintaining the supply of quality affordable housing for residents in the city, maximising the delivery of new sustainable housing in a range of sizes, types and tenures.

3 Policy Objectives

The objectives of this Acquisition & Disposal Policy are:

- To increase the supply of additional suitable affordable housing owned and managed by the Housing Revenue Account, recognising the increasing demand on the housing register, whilst providing opportunity to re-balance the mix of housing owned by the authority.

- To facilitate the acquisition of property / assets that will assist in the delivery of identified and potential new build opportunities.

- To facilitate the disposal of property / assets that are no longer meeting the service or business need and where the receipt could be better utilised elsewhere.

- To provide a framework to assess the viability and value for money of acquiring or disposing of a specific property asset, delivering the flexibility to be able to act within limited timescales, as opportunities arise.

4 Background

In the current Housing Capital Investment Plan, the gross expenditure approved for both new build affordable housing and repurchase of right of first refusal properties is detailed below:

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	Total £'000
New Build (Cash Spend)	2,058	6,078	15,042	3,416	0	26,594
New Build (Notional Spend – Land Transfer Value)	1,500	5,308	1,134	0	0	7,942
RFR Repurchase	330	330	330	0	0	990

The identified new build expenditure is a combination of actual cash spend and notional cash spend, equivalent to the value of the transfer of land to developers to facilitate the provision of market housing, which cross-subsides the cost of delivering the affordable housing on our development sites.

Under the retention agreement introduced retrospectively and entered into by the authority, as part of the new right to buy legislation from April 2012, the authority has opted to retain a proportion of right to buy receipts to replace the dwellings lost through this process. Receipts from the first 9.7 sales in 2012/13 (assumed sales) are shared between the authority and central government in the old capital receipts pooling proportions. For any additional sales, a proportion is retained by the authority to set-aside in relation to the debt attributable to the sale. The balance is then available to be used in line with the current pooling arrangements and retention agreement.

Under the retention agreement, the authority is required to re-invest the retained receipt within a 3 year time frame, using it to fund a maximum of 30% of either a new build affordable dwelling or the purchase of an existing dwelling which is offered for sale. The preference will be to invest in new build dwellings where possible, as this increases the overall supply of housing in the city. However, shortage in available land and the tight development time frame mean that the ability to purchase existing dwellings will need to be actively exercised to ensure an increase in supply of affordable housing within the constraints that exist.

This policy seeks to ensure that the authority is able to meet its obligations under the right to buy retention agreement, taking advantage of opportunities as they arise.

Similarly to the policy in respect of the right of first refusal legislation, this policy needs to be supported by criteria under which potential acquisitions or disposals can be assessed quickly, enabling the required decisions to be made to facilitate completion within an appropriate time frame.

Currently, the Housing Capital Investment Plan does not incorporate additional receipts as a form of funding until the receipt is realised. It will be necessary going forward however, to include an estimated level of funding and an associated assumption of expenditure in relation to stock growth, to ensure that we can meet our obligations under the retention agreement.

Cambridge City Council already has funding from the Homes and Communities Agency (HCA) to build 146 new and re-developed homes in the city over the period to March 2015.

Retained right to buy receipt funding will need to be allocated to either new build schemes or strategic acquisitions.

Cambridge City Council is continuing to develop new-build schemes over and above those which currently have HCA grant funding, but the availability of land owned by the HRA, and in the city in general is a consideration. Schemes will continue to be presented for decision on a scheme by scheme basis, confirming the funding proposed for each scheme as it is approved, including any requirement for prudential borrowing.

This policy focuses particularly on the consideration required in respect of strategic acquisitions, buy-backs and disposals, establishing a set of criteria upon which acquisition or disposal decisions can be made.

The provision of any new build affordable housing by the HRA, will need to be closely aligned with the identified need for housing in the city, as dictated by the housing register, which is reviewed periodically to ensure it is representative of current need.

The mix of housing provided by the HRA would be expected to reflect the profile of identified need at bands A and B of the housing register.

It is proposed that any properties acquired on the open market or through buy-back are let at either social rent levels, assuming that they are introduced directly at target rent or at affordable rents if this is necessary to demonstrate that the acquisition is more financially viable. Affordable rents, or an interim negotiated rent, will continue to apply to new-build properties built with an element of HCA grant funding.

5 Detailed Implementation - Acquisition Criteria

Each potential acquisition will be assessed on an individual basis, in line with the acquisition criteria set out in this policy considering the financial implications of the acquisition and the relative merits in value for money terms.

A proposed acquisition will only be progressed if the criteria are met and the relative financial benefits can be demonstrated. The key criteria proposed are as follows:

- A property which has had, or is particularly suitable for, significant disabled adaptations which would meet the needs of an identified applicant with disabilities.
- A property which is in disrepair, causing concerns in the locality, and where works undertaken to allow letting would improve not only the dwelling, but also the surrounding area.
- A property in specific demand at any time – i.e.; larger properties (four or more bedrooms) suitable for larger households, one-bedroom dwellings suitable for downsizing.
- An existing market unit on one of the new build development sites, where this could increase the balance of affordable housing provision on the site.
- Leasehold flats, where the Council is the freeholder, reducing the risk to the HRA, for example in the identification and subsequent collection of Section 20 charges.
- A property in a specific location that could free up land or access to land, or otherwise facilitate affordable housing development.
- A property where the location lends itself to ease of housing management and maintenance, which could be outside of the city boundary.
- Any other property, where for whatever reason, it may be in the Council's interests to repurchase and value for money can be clearly demonstrated.

Property which has had, or is particularly suitable for, significant disabled adaptations

Consideration should be given to the purchase of property which is suitable for conversion, or extension, to create ground floor bathing facilities, level access showers, etc, or which lends itself to the installation of a through floor lift to allow disabled access to the first floor of the property.

Empty property or a property in disrepair, causing concern in the locality

Cambridge City Council is in the early stages of a new build programme, which incorporates some regeneration / re-development of existing housing that is no longer considered to meet the desired standards. Privately owned dwellings do not always receive the same level of improvement works. Sometimes this is because the owner (often a former council tenant when the properties are on existing council estates) is not financially able or willing to undertake improvement works. In these instances, it may be viable to make an offer to purchase the property, undertaking the necessary works ourselves, prior to letting the dwelling as an additional social housing unit.

Property in specific or high demand

From time to time, demand exists for a specific size or type of dwelling, for example, to meet the needs of a larger household. Historically the only real option open to the Council was to invest limited resource in converting two adjacent dwellings into one larger unit of accommodation. This has the negative impact that the rental income receivable on the one larger dwelling is less than could be anticipated from letting the two smaller units separately.
Where the need arises, and the opportunity exists, it may be financially viable to purchase an existing larger property on the open market, thus increasing the overall supply of affordable housing, whilst avoiding the conversion costs and loss of rental income.

There has historically been a shortfall in family sized accommodation, and more recently, due to a combination of our existing re-development programme and tenants need to downsize due to the removal of the spare bedroom subsidy as part of the Welfare Benefit Reforms, an emerging shortfall in one bedroom accommodation.

This key criterion would enable the purchase of suitable dwellings on the open market, in areas of high demand and to meet an identified housing need.

Market units on existing and future development sites

Working with our developer partners and other registered providers in delivering housing on both our own development sites, and the strategic growth sites, there may be an option to acquire new build dwellings direct from the developer, purchasing some of the dwellings initially identified as market housing. This would increase the supply of affordable housing delivered on any of these sites, with potential opportunities to acquire both general needs and shared ownership housing.

The authority will need to be mindful that there may be significant service charges attached to the purchase of any flat on the open market or directly from a developer,

Leasehold flats (when offered for sale by the leaseholder)

Cambridge City Council has approximately 1,100 leasehold flats, where properties have been sold under the right to buy legislation over the past 30 years.

Under the terms of the lease, leaseholders are required not only to pay annual service charges for services and facilities provided to them, or that they benefit from, but also to make an appropriate contribution for their share of the cost of any major repair / replacement / improvement works to the block in which they reside.

Legislation requires that the authority undertake Section 20 consultation with all leaseholders affected prior to letting contracts or awarding works to a block, adhering to prescriptive time frames and processes. Following the completion of works, the authority invoices and attempts to recover the cost of the works from the leaseholders in the block. An individual household's contribution to major works can be significant, and collection of the monies can prove difficult and costly. Any offer to spread or defer repayments has a negative impact on the cashflow for the Housing Revenue Account.

Where opportunities arise, the authority should consider buying back leasehold flats, therefore increasing the supply of affordable housing whilst also mitigating the impact of non-recovery of Section 20 charges, particularly where the purchase would result in the authority again having direct control over the entire block. Ownership of the entire block would only apply however, until any existing or future tenant exercised their right to buy.

The purchase of land or property that would aid a future development

Over many years, the Council has disposed of small areas of land and property where it was considered that alternative use was not an option. The ability to consider wider-scale re-development schemes as part of Self-Financing prompts consideration of any such requests very differently going forward.

Where the opportunity arises, the authority may consider acquisition of small strips of land, garages or existing dwellings, where ownership of the asset would aid the design of a potential development scheme. This would allow maximisation of development opportunities to deliver the greatest number of additional dwellings.

A property where the location lends itself to ease of management and maintenance

Property in or around existing housing estates may prove efficient to manage and maintain, particularly due to its locality, giving rise to consideration for purchase.

Other acquisition opportunities

From time to time there may be other opportunities to acquire an existing dwelling. In these circumstances a business case will be prepared to demonstrate the financial viability of any proposed acquisition.

6 Detailed Implementation - Disposal Criteria

Each potential disposal will be assessed on an individual basis, in line with the disposal criteria set out in this policy, considering the financial implications of the disposal and the relative merits in value for money terms. These will need to be balanced with the social value of the asset.

A proposed disposal will only be progressed if the criteria are met and the relative financial benefits can be demonstrated. The key criteria proposed are as follows:

- A property / asset where the business case indicates a negative contribution to the business plan, with anticipated costs of managing, maintaining and improving to the required standard, expected to outweigh the rental stream realisable, with no clear social benefit to retention.

- A property where the location detracts from ease of housing management and maintenance activity.

- A property where the build type detracts from ease of housing maintenance.

Property where the business case indicates a negative financial contribution

The need to invest in any dwelling to ensure that it continues to meet the desired standard for letting purposes should be carefully considered against the potential future rental stream for the property. If the investment need, plus the cost of management and maintenance for the property, outweighs the anticipated rental stream over the 30 year life of the business plan, the property should be actively considered for disposal.

Property location

On occasions the location of a particular dwelling makes it difficult to let, manage or maintain. In these instances consideration should be given to strategic disposal, particularly where the capital receipt anticipated can be demonstrated to deliver greater benefit elsewhere in the future provision of affordable housing. For example, where the receipt can be used to replace the dwelling with another / others in a preferable location

Property build type

The construction type of some of the housing stock is non-traditional. In some cases, this can make routine maintenance and future improvement of the dwelling difficult or impossible, particularly when it comes to energy efficiency works.
In specific circumstances it may be beneficial to the authority to dispose of such property, with a view to replacing the dwelling with another of a traditional construction type.

7 Assessment / Evaluation Criteria

The ability to demonstrate value for money in respect of any acquisition or disposal is key, with the following tools identified to support the authorities ability to effectively demonstrate this;

- Financial appraisal will be carried out using both the industry standard ProVal software and a financial model developed by the Chartered Institute of Housing, ensuring that the financial impact of the proposed acquisition or disposal is clearly demonstrated.

- An independent property valuation will be sought, using recent market place comparables to ensure validity.

- Appropriate surveys will be conducted, and could include condition, full structural, dilapidations, ground condition and asbestos surveys. These surveys should result in an estimate of the potential initial and future investment need for a property, whether it be to support the proposal to dispose of a dwelling or for inclusion in the business case for a purchase, to ensure that the rental stream for a property can support the required investment to render the property lettable.

- Where an acquisition is to facilitate future development, an assessment of the anticipated gain as a result of the purchase will need to be made. This may be best demonstrated by the additional numbers of units that could be delivered on the site as a direct result of the purchase.

8 Review of the HRA Asset Acquisition & Disposal Policy

Officers will review the HRA Asset Acquisition & Disposal Policy every 3 years, as a minimum.

Policy Date	June 2013
Review Date	June 2016