EXETER CITY COUNCIL

EXECUTIVE COMMITTEE
3 JULY 2012

LAINGS HOME REFURBISHMENT REVIEW

1 PURPOSE OF THE REPORT

1.1 To inform Members of the outcome of an internal review of the Laing's property refurbishment programme and seek Member approval of the recommendations contained within the report.

1.2 The review has been conducted as a consequence of an issue highlighted by Sovereign Housing Association connected to the use of Recycled Capital Grant Funding (RCGF) to fund the refurbishment of Laings homes.

2 BACKGROUND

2.1 The Buddle Lane estate in Cowick is made up of 294 family houses built using the Laing's Easiform building system. The estate was built during the 1920's & 30's.

2.2 Because of the construction methods used and the resultant problems with the structure of these houses, the Council designated the homes as defective and embarked on a long-term refurbishment programme to modernise each property as it became vacant.

2.3 A partnering agreement between Exeter City Council and Sovereign Housing Association was reached in the mid 1990s involving the trickle transfer of each home into Sovereign's ownership as they became vacant. Each home was then completely refurbished both internally and externally by Sovereign Housing Association.

2.4 This partnership was reviewed at Scrutiny Committee – Community in June 2006 and it was agreed to continue partnering with Sovereign Housing Association.

2.5 Some of the Laing homes have been suitable for extending and have been extended by Sovereign Housing Association to create larger homes suitable for families with a member in a wheelchair.

2.6 With the Laing Trickle Transfer programme being nearly 20 years old the numbers of homes that still remain in Council ownership is low. The tenure mix of the Laing Homes is currently 21 owned by Exeter City Council, 104 transferred to Sovereign Housing Association and 169 purchased under the Right to Buy.

2.7 Currently 3 of these homes remain vacant and in the Council's ownership. They are 40 Myrtle Road, 44 Merrivale Road and 57 Newman Road. These three homes have been vacant for over 12 months and are classified as 'long term empty homes'.

2.8 The average age of the tenants still residing in the 18 remaining occupied properties is 65 years. The actual age range is spread across 39yrs to 99yrs. It is likely to be several years before some of the remaining homes become vacant.

2.9 In January 2012 Sovereign Housing Association wrote to the Council stating: *"We have had our first review meeting with the HCA and one of the items discussed involved the Social Rent levels required by Exeter City Council for the above properties (Laing's).*

Unfortunately, as we suspected the HCA are adamant that schemes with rents charged less than 80% of open market rent will not be approved. Additionally, the use of RCGF will only be supported on schemes meeting the Affordable rent levels. Currently the Social Rent level equates to 56% of OMR.

The HCA have made it quite clear that should the Local Authority insist on applying Social Rent levels, the funding gap would need to be covered with LA funding which equates to approximately £17.5k per unit."

2.10 As a result of Housing Revenue Account Reform, all of the remaining Laings homes now have a debt against them of approximately £12,000 per home.

3 COSTS

3.1 Before considering the options available, the review looked at the value of the homes on the open market and the costs involved in refurbishing the Laing homes based on recent examples undertaken by Sovereign Housing Association.

3.2 The properties are valued on the open market at approximately £100,000 each.

3.3 The internal & external refurbishment costs, with no additions amounts to approximately £75,000 per home.

3.4 The internal & external refurbishment costs plus a ground floor extension to include bedroom and bathroom to make the home wheelchair adapted is approximately £125,000 per home.

3.5 Council capital grant required by Sovereign Housing Association to plug the RCGF gap is at least £17,500 per home for the internal and external refurbishment works only (excluding wheelchair adaptation).

3.6 To date, we have transferred property to the value (today) of over £10m to Sovereign Housing Association at nil cost, and in many cases have also gifted them Capital Grant to help facilitate the refurbishment works.

4 OPTIONS

4.1 Options considered in the review were as follows;

<u>Option 1 – Council retains ownership of the remaining 21 properties and undertakes the refurbishment works itself.</u>

4.2 In this option the Council would retain ownership of the remaining 21 properties and keep the income and the repairing obligations associated with ownership. This option would require a total refurbishment investment by the Council of at least £1.58m, which would be increased if any of the properties were able to have extensions. This expenditure would need to be funded from the HRA but it would only be payable as and when the Laings homes became vacant and refurbished.

Option 2 – Council transfers ownership of the remaining 21 homes to Sovereign Housing Association and gives no grant

4.3 In this option, if the Council were to give no grant to Sovereign Housing Association they would continue to use their RCGF grant funding and under the terms of their agreement with the HCA, would be required to charge an Affordable Rent on these properties.

Option 3 – Council transfers ownership of the remaining 21 homes to Sovereign Housing Association and gives grant to fill RCGF gap

4.4 In this option, the Council would be required to give grant to Sovereign Housing Association on each of the 21 remaining homes to guarantee that these properties are let at Social Rent levels. The cost to the Council would be at least £17,500 per property, so a minimum of £370,000 for all 21. We currently have only £50,000 allocated to Laings homes in the Affordable Housing Capital Budget for the next 2 years.

Option 4 – Sell the remaining 21 homes on the open market as they become vacant

4.5 Despite the type of building system used in these homes, they have an indicative market value of approximately £100,000 per property. The sale of all 21 remaining properties would net approximately £2m in capital receipts.

Option 5 – Carry out refurbishment works and sell the remaining 21 homes on the open market as they become vacant

4.6 The average selling price for 3 bedroom houses in Exeter is £184,025 but due to the location of these properties and the fact that they are Council stock we would expect them to be worth in the range of £150,000 - £160,000. Taking £160,000 as the value, the Council would realise a gross receipt of approximately £3.36m for the remaining 21 homes. The costs of carrying out the refurbishments works would be £1.58m, giving a net capital receipt of approximately £1.78m.

4.5 This option would; most likely, result in less income compared to option 4, but would make the homes more saleable.

Option 6 – Retain, transfer outside of the HRA and add to the Extralet/PSL portfolio

4.6 This option would require the formation of a Special Purpose Vehicle (SPV), which would take time and funding to set up and run. It would enable the homes to be transferred to a SPV operated by the Council that would fall outside some of the statutory regulations and controls (Right to Buy, Target

Rents etc.).This would provide greater freedom to let the homes at different rents (to meet housing need), allow the potential to repay the capital costs of refurbishment quicker and safeguard the homes from the tenant's ability to buy under the Government's Right to Buy Scheme – thus providing a long and secure affordable housing option.

4.7 The structure, cost and time required to set up a SPV for this specific purpose is unlikely to be viable given the number of Laing homes remaining. It be worth considering if the SPV's purpose was extended to address other Council stock opportunities.

4.8 The above options can be summarised as follows:

Option	**Income – revenue**	**Income - Capital**	**Costs**	**Rental Level**	**Comments**
1. Retain	Long term rental income	Retained capital value of £3.36m	£1.58m	Social or Affordable Rent	Council retains the asset within its HRA portfolio
2.Transfer without grant	£0	£0	£0	Affordable Rent	Cheapest option but assets are lost to the council and rents will be higher
3.Transfer with grant	£0	£0	£370K	Social Rent	This is the cheapest option that delivers social rent but it requires investment and the assets are not retained. Only £50,000 is allocated for this purpose at present.
4. Sell on open market	£0	£2.1 m	Fees only	n/a	Net loss of affordable housing but could be reinvested in new stock
5. Refurbish and sell on open market	£0	£3.36m	£1.58m	n/a	Net capital receipt of £1.78 million delivers less than Option 4
6. Retain outside HRA for Extralet/ PSL portfolio	Long term rental income (higher than Option 1)	Retained capital value of £3.36m	£1.83m (minimum)	Local Housing Allowance	No capital funding for refurbishment works. Likely to prove expensive given the small number of the Laings homes remaining and the operational costs of running a SPV.

5 CONCLUSIONS

5.1 The review concludes that the best option for the Council would be to retain the ownership of these homes and refurbish them using HRA funding (**Option 1**). With the reform of the HRA, the Council now has access to the funding necessary to carry out the refurbishment work that it hasn't had in the past. This option keeps the ownership with the Council and ensures that these properties are let at Social Rent levels.

6 RECOMMENDED

It is recommended that Option 1 be adopted: namely to end the trickle transfer of Laings homes to Sovereign Housing Association, for the Council to retain them as part of their HRA portfolio and for a programme of refurbishment to be put in place as and when Laing homes become vacant.

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Local Government (Access to Information) Act 1972 (as amended)
Background papers used in compiling this report:-
None