**Cabinet**

**5 June 2013**

**Empty Homes Cluster Programme**

**Key Decision R&ED/10/13**

---

## Report of Corporate Management Team

**Ian Thompson, Corporate Director Regeneration and Economic Development and Don McLure, Corporate Director Resources**

**Councillor Eddie Tomlinson, Cabinet Portfolio Holder for Housing and Rural Issues and Councillor Alan Napier, Cabinet Portfolio Holder for Finance**

---

### Purpose of the Report

1. The purpose of this report is to update members of the progress in establishing the County Council's Empty Homes Cluster Programme to purchase private sector owned empty properties in targeted areas and, with partner Registered Providers, invest in these properties in order to bring them back into use.

### Background

2. In 2012 the Homes and Communities Agency (HCA) invited bids from Local Authorities for financial assistance to assist in bringing long term private sector empty properties back into use.

3. The cluster bid process focussed on bringing empty properties back into use within areas where void levels exceeded 10% of housing stock with a minimum aim of bringing 100 properties back into use in total.

4. An assessment was made in April 2012 to identify all areas which fell within these criteria in the County. In total there were seven defined settlements which could then be grouped into three distinct areas. These three areas are:

   - Easington Colliery
   - South West Durham (includes Eldon Lane, Coundon Grange, Coundon, Dean Bank and Chilton)
   - Craghead/South Moor

5. A total of 20 Local Authorities including Durham, were successful in their bids to the HCA against a funding pot of £60m. The national scheme aims to bring a minimum of 3,500 empty properties back into use. The

successful bid submitted by Durham County Council (DCC) was awarded £2.12m, or 3.5% of the total available. This amount is to assist in bringing an estimated 120 empty properties back into use by April 2015. A condition of the bid is that the HCA funding is match funded by the local authority.

6. The DCC proposal will see the following estimated number of empty properties brought back into use within the 3 areas:

- Easington Colliery – 40 Units
- South West Durham – 55 Units
- Craghead/South Moor – 25 Units

7. The bid proposed an approach to bringing empty homes back into use that would involve partnership working with local Registered Providers (RP's) who would provide additional investment funding as well as assist with the delivery of the project.

8. It was also a requirement of the HCA funding that the programme included a model for re-investment in bringing additional empty homes back into use once the initial HCA funding was spent. In this way, the Government intends this first phase of investment to kick start a longer term, self-sustaining programme of bringing more empty properties back into use.

**Bid proposal**

9. This is as an excellent opportunity to deliver a scheme to bring empty properties back into use within those areas of the County with high vacancy rates.

10. The overall objectives of the scheme are to:

- Bring long term empty properties within Durham back into use in line with the Council's Private Sector Housing Strategy.
- Deliver a high standard of property improvement and management and encourage further improvements in standards within the private rented sector.
- Increase decent and affordable rented housing for those in housing need and maximise housing choice for customers.
- Support investment within the council's renewal areas through the reduction of long-term empty homes and prevention of decline.
- Maximise use of existing housing stock.
- Invest in capital assets with a future realisable value which also generates income and meets social objectives.

11. The bid submitted by DCC estimated that about £36,000 on average would be required to purchase a vacant property within one of the areas shown at paragraph 6. Additionally, it was estimated that approximately £15,000 would be required to bring the property up to the Decent Homes Standard. This funding would be provided by the partner RPs.

12. Based on those assumptions, the bid to the HCA was made on the following basis:

| | |
|---|---|
| Purchase: | £18,000 HCA Funding<br>£18,000 DCC match funding |
| Repair: | £15,000 investment by Registered Provider partner |

13. The proposed model is for the council to purchase private sector long term empty properties on the open market, with long term defined as empty for greater than six months. The council will own these properties. The homes will be an asset to the authority, sitting outside Council homes owned by the Housing Revenue Account.

14. Each property will be leased to a RP, through a formal lease agreement. The RP will then invest their own funds to bring the property up to a decent standard and manage the property for a period of 12 years. The Housing Provider will be responsible for all management and ongoing maintenance of the property.

15. The bid proposal has assumed that the property will be rented out by the RP at an affordable rent level. This will be in the region of £90 per week but will fluctuate between areas. The rental income will be collected by the RP and through the lease agreement the council will receive a proportion of the rental income.

16. Once the scheme has delivered the original 120 units planned for the first phase, using HCA and match council funding, the homes will generate an annual rental income for the council. Over the 12 years of the model, this will add up to a substantial pot of money to re-invest in purchasing additional empty homes.

17. A period of 12 years has been deemed financially viable in terms of return on investment for the RP. Over the 12 year period, the RP will receive income to repay the initial investment in repair and improvement and cover on-going management and maintenance costs.

18. Financial modelling has been undertaken based on a number of assumptions, which include:

- Estimated average purchase price (£36,000) and investment required to bring the home up to a lettable standard (£15,000)
- Inflation at an annual rate of 3%
- Estimated financing costs
- That 10% of the purchased homes are empty at any one time
- 12 year lease to the partner registered provider

19. Based on these assumptions, the 12 year model produces a cumulative council surplus of over £875,000 which will be available for re-investment

in the purchase of further empty homes. However, this figure is an estimate for illustrative purposes and change in any of the variables listed above will affect the sum of money available for re-investment.

20. The Council's rental surplus will be ring-fenced in line with the HCA guidelines. The income in this pot will be re-invested to bring further empty properties back into use across the County. This second phase of investment in empty homes is not specific to the areas identified within the cluster bid. This will enable the council much more flexibility to address private sector empty homes across the County, once the initial HCA funding allocation is invested.

21. The re-investment through the proposed model will see a minimum of 120 units brought into council ownership in the first 2 years. An estimated forward projection forecasts the number of properties owned by the council to increase as follows:

| | |
|---|---|
| Year 3 | – 123 Properties |
| Year 7 | – 130 Properties |
| Year 9 | – 135 Properties |
| Year 12 | – 144 Properties |

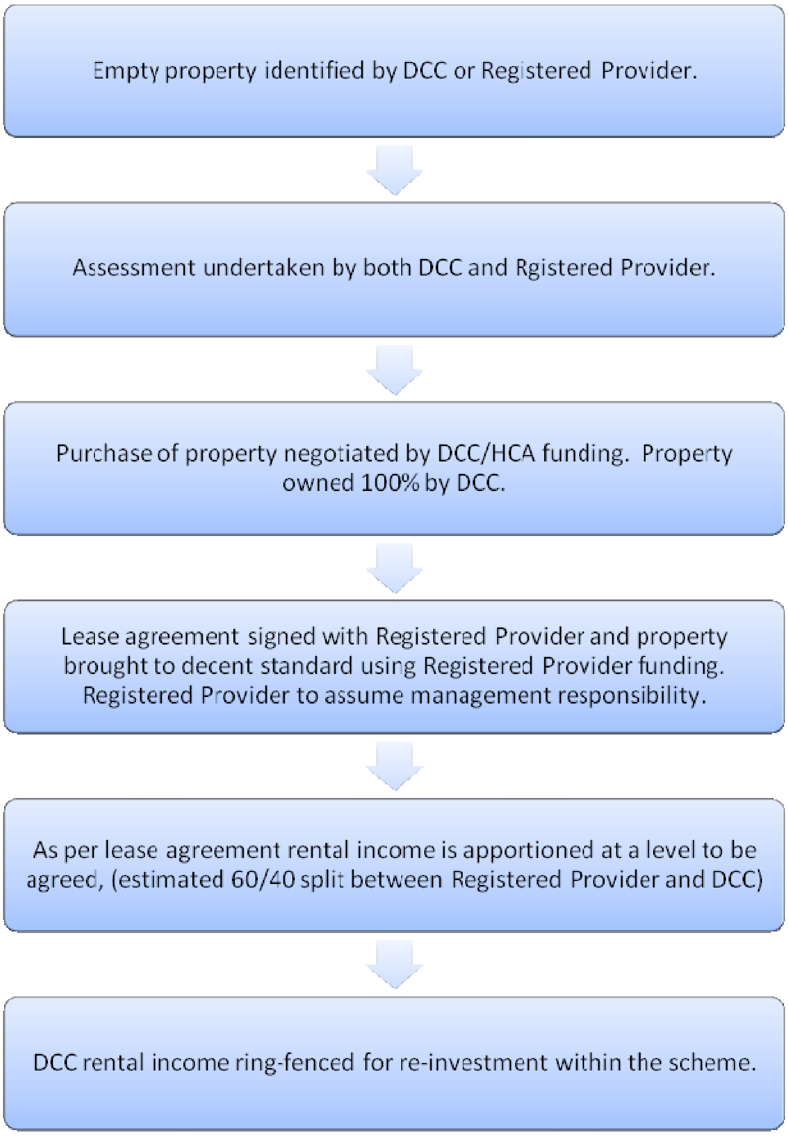
22. These projections assume that none of the properties are sold during the period, although this is an option. As the housing standards in these areas improve, the council and partner RP could make the decision to sell the properties at any stage. This will again assist in regenerating an area as the units could be sold as affordable, thus assisting families to get onto the property ladder. Any income from sales would again be split proportionally.

23. Each property brought back into use will also contribute to the Council's new homes bonus calculation. If the properties are let at an affordable rent (80% of market value) they will also qualify for the affordable uplift and will receive extra New Homes Bonus for a 6 year period.

24. The following funding amounts have agreed through the Council's MTFP capital process. This is the required match funding of the HCA allocation:

2013/14 – £1,123,200
2014/15 – £1,123,200

25. The flow chart below gives details on the main stages within the proposed model:




26. Due to the workload involved in delivering such a scheme, it is proposed that an additional member of staff is employed. This cost has been factored into the overall allocation.

27. It is also envisaged that delivery of the Empty Homes Cluster Programme would require significant input from the existing area-based housing regeneration teams. As part of their work they already target owners of empty homes within these priority areas. Identifying potential properties to be purchased as part of this programme and carrying out negotiations with property owners would become a significant part of their work programme over the period 2013/15.

28. An informal working group of other Councils that have received Empty Homes Cluster funding has been established by DCC. This group will share good practice which will assist in taking the scheme forward.

**Issues and Risks**

29. As it stands, this proposal will see the council own housing stock outside of the Housing Revenue Account (HRA). This is at a time where the stock within the HRA is going through an options appraisal process. If the Council's HRA housing stock transfers to a registered provider, the ownership of these homes will not transfer. The Council would still own the homes and they will continue to be managed and maintained by the partner RPs under the long term lease agreement. At the end of the 12 year lease, if the properties have not been sold, then the Council will need to either dispose of the properties or enter into another long term lease agreement with a RP.

30. As the partner RP will be the legal landlord, not the Council, there will not be the need to comply with the various requirements related to council housing, such as rent setting restrictions, tenancy agreements, the Right to Buy and other rights that secure Council tenants have. The tenants of these properties would not be secure tenants but would be offered some other sort of tenancy, such as an assured tenancy as offered by other RPs.

31. The Government's welfare reform changes is another risk. It is expected to have a negative impact on demand for some types of home, particularly three bedroom properties in areas of already low demand. This is a specific risk that will need to be addressed when considering the actual purchase of empty homes in the Cluster bid areas. Careful consideration will have to be given to the types of properties purchased, as well as the levels of likely rental income, including possible void rates, that can be expected.

32. The difficult housing market may also have a negative impact on the success of the proposal. While this is leading to larger numbers of empty homes and is causing some private sector landlords to want to exit the market, there may also be a resistance by some potential vendors to selling at what is viewed to be currently at the bottom of the market. Some may wish to hold onto their properties in the hopes that the market recovers. Countering this view however will be the impact of the Council's recent decision to increase the council tax on empty homes, ending the exemption period and increasing it to 150% for homes empty for more than 2 years. Some landlords, in the face of this increase in cost, may decide to cut their losses and exit the market.

33. It is important for the success of this proposal that the Council purchases properties that a partner RP will be able to rent once they have been brought up to the Decent Homes Standard. This suggests that, in the initial phases at least, the Council will not be targeting homes in some of the most affected areas, but will seek to purchase properties on the more marginal periphery of the cluster areas.

34. It is not anticipated that this is likely to be subject to the Public Contracts Regulations 2006 as it is a property/leasing arrangement, however legal advice will be taken during the partner selection process to ensure that it is compliant with EU procurement law. The Council will undertake an open and transparent process to select Registered Provider partners to deliver the programme, as well as taking into account any procurement requirements set out by the HCA funding arrangement. This would particularly relate to the improvement works to be carried out by the chosen RP once the property was purchased.

35. RPs' possible reluctance to enter into long term agreements to lease properties in these areas is a risk to the proposal. Their wish to limit their exposure to risk may also result in lower rental income to the Council, reducing the pot for re-investment. They could also want to terminate the long term leases if they fail to rent the properties. However, initial informal contact with potential partners indicates that there are a range of Registered Providers interested in partnering with the authority on this proposal.

**Possible partnership with the HRA**

36. In light of the potential difficulty of engaging with RPs in the cluster areas the possibility of taking the proposal forward with funding from the Council's own HRA has been considered. While there were considered to be a number of advantages that involvement of the HRA would bring, there were also a number of risks, in addition to the substantial financial cost to the HRA.

37. While increasing the stock of Council homes with significant assistance from HCA grant is attractive, the total costs to the HRA are thought to be too great in light of the pressing need to maximise investment in achieving the Decent Homes Standard across all the existing stock of Council homes. The risk of the impact of the right to buy (RTB) and the potential impact of options appraisal are also factors weighing against amending the original proposals.

38. For these reasons the possible partnership with the HRA has been ruled out.

**Recommendation**

39. It is recommended that Cabinet

- Note progress on development of the Empty Homes Cluster Programme
- Agree to delegate approval of the purchase of empty properties through the Cluster Programme to the Corporate Director Regeneration and Economic Development and Corporate Director Resources in consultation with the portfolio holders for Housing and Resources

- Agree to delegate the choice of Registered Provider partners to the Corporate Director Regeneration and Economic Development and Corporate Director Resources in consultation with the portfolio holders for Housing and Resources

**Responsible Officer: Sarah Robson, Head of Economic Development and Housing**

## Appendix 1: Implications

**Finance –**
A bid was made under the MTPF for an amount of £2,246,000 from the Council's capital programme. Risk assessments have been completed. An amount of £2,124, 474 has been awarded to DCC from the Homes and Communities Agency.

Financial modelling has been undertaken based on the assumptions outlined in the main body of the report regarding investment costs, maintenance and rental income share arrangements, and this shows that the scheme is financially viable for both the Council and participating RSLs with income exceeding expenditure during the life of the programme.

**Staffing –**
The bid identifies an amount of £126,000 for staffing to deliver the scheme, this funding is for the initial programme of 120 units up until April 2015. At this time the need for the additional staffing will reduce.

**Risk –**
The project has had a risk assessment undertaken as part of the MTFP process.

**Equality and Diversity / Public Sector Equality Duty -** No issues Identified.

**Accommodation –**
N/A

**Crime and Disorder –**
This proposal directly links to the reduction of crime and disorder due to the linkages between empty homes and vandalism/crime.

**Human Rights –**
No issues identified.

**Consultation –**
Consultation has taken place with stakeholders and the Overview and Scrutiny Committee. All of which supported the scheme.

**Procurement –**
Procurement have been consulted and their views are reflected in the main body of the report.

**Disability issues –**
It is envisaged that a number of properties will be adapted to suit the needs of people who have a disability.

**Legal Implications –**
The programme will be delivered in accordance with all relevant legislation, including to ensure compliance with EU procurement law, as set out in the main body of the report.