



## SHEFFIELD CITY COUNCIL Cabinet Report

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**Report of:** Executive Director, Place

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**Date:** 10 April 2013

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**Subject:** Reducing Long Term Empty Properties (LTEs) –  
Purchase & Repair Scheme

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**Author of Report:** Christine Rose

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### **Summary:**

Sheffield City Council has an important role to play in place shaping and ensuring that Sheffield is a “great place to live”. This means delivering successful places and sustainable, thriving communities, with desirable homes, access to local facilities and services, social and economic activity, and a safe and sustainable transport infrastructure. The quality of life will be high and Sheffield people will feel content with, and proud of, where they live.

One way of helping to deliver this vision is through reducing the number of Long Term Empty (LTE) properties in the City which are impacting upon the success of the City’s neighbourhoods. The regeneration benefits of bringing LTEs back into use are wide ranging, it will help to shape and create safe, sustainable neighbourhoods by reducing the places where anti social behaviour can happen, making use of existing housing stock that would otherwise stand unused often attracting anti social behaviour and providing much needed affordable housing for Sheffield.

The Council has been working with owners of empty homes to reduce the number of LTEs in the City through a combination of targeted support and advice. This has seen the number of empty properties reduce considerably. However, there are a significant number of LTE properties which are unlikely to come back into use without further intervention from the Council. The Purchase and Repair Scheme will provide the Council with an additional and effective tool to bring these homes back into use.

The purpose of this report is to establish a Purchase & Repair Scheme whereby Sheffield City Council will purchase Long Term Empty properties (LTEs) from owners, where the properties have been empty for an average of 2 years across the scheme. The Purchase & Repair scheme will target properties that help the

Council meet its strategic housing objectives, increasing the delivery and range of quality affordable homes, in safe, sustainable places where people want to live.

The Council will refurbish the properties to the Home and Community Agency's Design & Quality Standards and they will become permanent Council housing. They will then provide affordable rented homes for the City and help to reduce the number of LTE properties on the Council Tax register.

This project will have the additional benefit of helping the Council to maximise income generated under the New Homes Bonus (NHB) and the Affordable Homes Bonus (AHB).

**Reasons for Recommendations:**

- The Council has identified a strategic need to deliver more affordable housing across the City , helping to meet the demand for affordable rented properties across Sheffield.
- It will contribute towards place shaping and the regeneration of neighbourhoods, enabling the Council to improve (sometimes eyesore) properties through refurbishment. This will benefit local neighbourhoods.
- It will bring more long term empty properties back into use and reduce the number of LTEs on the Council Tax register. This will help to maximise the NHB and AHB payable to the Council by government.
- It will help reduce anti social behaviour and the fear of crime that can be associated with LTEs.
- The scheme will provide the Council with increased assets by increasing its housing stock.
- It has the opportunity to deliver many reputational benefits for the Council as the scheme will result in both reduction in LTEs and provision of affordable housing.
- This scheme is an additional tool which can run alongside and compliment the other options the Council have in place help to bring LTEs back into use.

**Recommendations:**

R1 that approval is given to establish a Purchase & Repair Scheme as described in the report, subject to funding

R2 that approval is given for the use of prudential borrowing against the HRA of £2,260,000.

R3 That Cabinet agrees that for the duration of the funding agreement with the HCA an affordable rent as set in accordance with the terms of the agreement constitutes a reasonable charge for the occupation of properties purchased for this scheme and;

R4 notes that a capital approval submission for the expenditure has been submitted as part of the agreed monthly budget monitoring process to authorise and procure the necessary capital works.

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**Background Papers:**

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**Category of Report:** OPEN

## Statutory and Council Policy Checklist

<b>Financial Implications</b>
YES Cleared by: Paul Schofield
<b>Legal Implications</b>
YES Cleared by: Andrea Simpson
<b>Equality of Opportunity Implications</b>
YES Cleared by: Ian Oldershaw
<b>Tackling Health Inequalities Implications</b>
NO
<b>Human rights Implications</b>
NO:
<b>Environmental and Sustainability implications</b>
Yes
<b>Economic impact</b>
NO
<b>Community safety implications</b>
Yes
<b>Human resources implications</b>
NO
<b>Property implications</b>
YES
<b>Area(s) affected</b>
City Wide
<b>Relevant Cabinet Portfolio Leader</b>
Cabinet Member for Homes and Neighbourhoods
<b>Relevant Scrutiny and Policy Development Committee if decision called in</b>
Safer and Stronger Communities
<b>Is the item a matter which is reserved for approval by the City Council?</b>
YES/NO
<b>Press release</b>
YES/NO

## **Reducing Long Term Empty Properties – Purchase & Repair**

### **1. SUMMARY**

- 1.1 Sheffield City Council has an important role to play in place shaping and ensuring that Sheffield is a “great place to live”. This means delivering successful places and sustainable, thriving communities, with desirable homes, access to local facilities and services, social and economic activity, and a safe and sustainable transport infrastructure. The quality of life will be high and Sheffield people will feel content with, and proud of, where they live.

One way of helping to deliver this vision is through reducing the number of Long Term Empty (LTE) properties in the City which are impacting upon the success of the City’s neighbourhoods. The regeneration benefits of bringing LTEs back into use are wide ranging, it will help to shape and create safe, sustainable neighbourhoods by reducing the places where anti social behaviour can happen, making use of existing housing stock that would otherwise stand unused often attracting anti social behaviour and providing much needed affordable housing for Sheffield.

The Council has been working with owners of empty homes to reduce the number of LTEs in the City through a combination of targeted support and advice. This has seen the number of empty properties reduce considerably. However, there are a significant number of LTE properties which are unlikely to come back into use without further intervention from the Council. The Purchase and Repair Scheme will provide the Council with an additional and effective tool to bring these homes back into use.

- 1.2 The purpose of this report is to establish a Purchase & Repair Scheme whereby the Council will purchase properties which have been empty for an average of 2 years across the scheme. It will target properties that help the Council meet its strategic housing objectives, increasing the delivery and range of quality affordable homes, and creating safe places where people want to live.

The scheme will also deliver financial benefits, as reducing the number of LTEs attracts government funding via the NHB. It will also provide the Council with increased assets by increasing its housing stock. Over time these assets will provide a return for the Council.

The properties purchased will be refurbished and then included in the Council’s housing stock as permanent Council housing. They will then provide affordable rented homes for the City and help to reduce the number of long term empty properties on the Council Tax register, by bringing them back into use. We propose that 31 LTE properties will be purchased and brought back into use via this scheme.

This project will have the additional benefit of helping the Council to maximise income generated under the New Homes Bonus and the Affordable Homes Bonus.

## **2. WHAT DOES THIS MEAN FOR SHEFFIELD PEOPLE**

- 2.1 This scheme will bring 31 empty properties back into use to be let as Council housing at an affordable rent and increase the supply of accommodation across the City.
- 2.2 With additional NHB/AHB generated through the provision of more affordable homes, this money can be reinvested into housing and economic regeneration in Sheffield.
- 2.3 Properties which have stood empty for over 2 years often attract anti social behaviour and increase the fear of crime experienced by the community. These types of properties are unlikely to come back into use without significant intervention. This project will help to tackle properties which are impacting negatively on neighbourhoods and contribute towards safe and secure communities.
- 2.4 Properties which have stood empty for long periods of time can often have a detrimental effect on the surrounding neighbourhood and impact on market values and saleability of nearby properties. This scheme will work towards alleviating these issues in areas where properties are purchased.

## **3. OUTCOME AND SUSTAINABILITY**

- 3.1 This scheme will invest in existing homes through refurbishment which will make good use of an existing resource. The carbon footprint will be lower than that of building a new property.
- 3.2 Properties will be refurbished to meet the HCA Design & Quality standards, which focus on ensuring the properties meet adequate space, layout and sustainability standards. This will ensure the properties brought into the Council's stock will be high quality affordable homes that will help sustain long term tenancies.
- 3.3 The scheme will be available in areas where the Council has identified a demand for affordable rented housing.

## **4. MAIN BODY OF THE REPORT**

### **4.1 Background**

The NHB was introduced by Government in March 2011. It was designed to create an effective fiscal incentive to encourage local authorities to facilitate housing growth. The government will pay the equivalent of one year's Council Tax for 6 consecutive years for each

- Net new home built; and
- Long term empty property brought back into use, based on the total in the October Council Tax returns.

In order to maximise the funding available the Council need to encourage both new build homes and reduce the number of long term empty properties in the City. This scheme is one way of reducing the number of long term empties, by enabling them to be purchased by the Council and then used as affordable rented accommodation in the City. It will sit alongside and complement the wider work being carried out by the Council to reduce empty properties.

#### **4.2 Empty Property Purchase & Repair Scheme**

The purpose of this report is to establish a Purchase & Repair Scheme whereby the Council will purchase properties that have been empty for an average of 2 years across the scheme, and rent them out as affordable homes. The scheme will target properties where work with owners has demonstrated they won't come back into use without significant intervention. This will help contribute towards the Council's strategic housing objectives including:

- reducing long term empty properties across the City and the impact they have on our communities
- delivering more affordable housing
- giving a wider choice to people looking for affordable housing including rural housing and larger family homes
- The regeneration and creation of sustainable, safe neighbourhoods where people want to live.

In turn, this will help the Council to deliver on key Corporate objectives such as creating "a great place to live" and "creating safe and secure communities."

Once properties have been purchased, they will be renovated, brought into the Council housing stock as permanent Council housing and let on secure tenancies. Management, maintenance and repairs will be carried out in the same way as all other Council houses in the City. However, due to funding arrangements, HCA guidance dictates that an affordable rent will be charged. Affordable rent is 80% of market rent which is likely to be higher than social rent. Social rent is calculated using a formula which takes into account valuation of the property, number of bedrooms and average regional earnings.

Properties must be refurbished to meet the Decent Homes and HCA Design & Quality Standards. This will help to ensure high quality affordable homes that will help sustain long term tenancies. Decent Homes predominantly focuses on the age and condition of the facilities and component parts of a property, whilst the HCA Design and Quality Standards ensure adequate space, layout and sustainability standards. The primary purpose of the HCA's standard is for new build. Conversely, the HCA acknowledges that given the limited opportunities for redesign within the confines of an existing structure, there will be instances where some shortfall against the performance measures will be unavoidable. Properties which would require extensive and costly refurbishment to meet the standard would not be considered for purchase under the scheme.

Given there is a shortage of affordable housing in all areas of the City, the

Purchase and Repair Scheme will primarily target family houses (3 bed+) in areas where they will be cost effective for the Council to manage. It is likely that these properties will be ex Right to Buy properties in predominantly Council managed areas. This may include leasehold flats in Council owned buildings. However, this is not exclusive and there may be opportunities to purchase properties in other areas which meet our strategic needs and where value for money is achieved. For example, this could include properties in rural areas or 'problem' properties which are negatively impacting upon our neighbourhoods and meet our scheme requirements.

The Purchase and Repair scheme will provide us with another tool to sit alongside existing enforcement measures to deal with problem empty properties.

The scheme will enable the Council to purchase 31 properties between 2013/15. The financial implications of this are shown in paragraph 4.4 below.

We have based our unit purchase price on research carried out for the average market value of a 3 bed property in areas that have a high level of Council properties. This value is around £70k - £75k. The properties purchased through the scheme will be at varying levels of repair however, the amount of money needed to refurbish the unit will be taken into consideration when agreeing the purchase price and final decision to purchase. The Council will carry out the property valuations and prepare the schedule of works. As part of the decision to purchase, the long term maintenance and management implications for the type of property will be carefully considered to ensure costs can be afforded.

#### **4.3 Legal Implications**

The Council has the power to acquire properties to use for the purposes of Part II of the Housing Act 1985 under section 17 of the Act. They must ensure that any such properties are used as housing accommodation as soon as reasonably practicable after the completion of necessary works.

It will be necessary to enter into a funding agreement with the HCA and to comply with its terms for the duration of the agreement. In particular, the Council must agree to let the dwellings acquired for this scheme at an affordable rent (no more than 80% of market rent) which must not be increased by more than RPI + 0.5% per annum and which must be reset based on a new valuation each time the property is let to a new tenant.

Section 24 of the 1985 Act provides that the Council may make such reasonable charges as it may determine for the tenancies of its houses. To comply with the HCA agreement it must agree that an affordable rent as set in accordance with the terms of the agreement constitutes a reasonable charge for the occupation of these dwellings.

#### **4.4 Financial Implications**

There are upfront capital and ongoing revenue costs associated with the scheme. Ultimately, the scheme will provide the Council with an asset which provides a financial return in the very long term (55 years). However, the

primary reason for the scheme is being able to help deliver the Council's strategic housing objectives as set out above.

### **Up Front Capital Costs and Initial Prudential Borrowing Against the HRA**

A successful bid to the HCA has secured £538,335 of funding, equating to an average grant of £17,366 of grant per property towards purchase and refurbishment costs. The scheme will look to spend between £60k-£80k per unit on purchasing the property, with total costs per unit of £90k. This will include work cost, purchase price, stamp duty, legal and survey costs and fees. The cost of refurbishment will need taking into detailed consideration when finalising a purchase price. The anticipated total upfront costs for the scheme are therefore £2,798,000. Thus the scheme will also require prudential borrowing of around £2,260,000. The capital spend will be the subject of a separate report to Members as part of the monthly capital approvals process.

The breakdown of costs above are estimated guide prices as we will look to purchase properties which meet the schemes targets and strategic aims, whilst ensuring value for money within the budget constraints.

### **Long Term Revenue Implications**

#### *Management and Maintenance Costs*

The anticipated revenue running costs of the properties are based on previous experience of managing the Council's housing stock. The estimates allow for periodic refurbishment to maintain the properties at Decent Homes standard.

Rents have been based on affordable rent levels of £95 per week (with future inflation increases linked to inflation plus 0.5%).

#### *Re-Paying the Prudential Borrowing*

The upfront borrowing required for the scheme is £2,260,000. This will be repaid over a 30 year period and the repayment and interest costs (at 4.5%) have been factored in.

#### *Key success factor*

The scheme assumes that rent will increase annually at a rate 0.5% higher than inflation and this is critical to the scheme repaying the loans by year 30 and breaking even at year 33.

#### *Right to Buy Implications*

Once the properties are let as Council housing on secure tenancies they will be subject to the Right to Buy (RTB). This legislation may have implications of financial loss for the Council. However, the Cost Floor rule means that for any RTB applications completed in the first 15 years, the discount must not reduce the purchase price below specified costs incurred in respect of the property, broadly the purchase cost and any other major repair and refurbishment costs incurred by the Council. After the Cost Floor period the discount due to a tenant buying under RTB will not be reduced to take account of the costs incurred, including any outstanding loan repayments on



the property. There would be no further rental income received to cover loan costs. However, current rates of RTB completions are low at around 0.4% of total stock. Currently it is too early to predict what the new levels of take up may be with the new increased discounts. Future predictions of RTB completions across the city are currently 150 sales for 2013/14 and 2014/15 which equates to 0.4 %.

There are claw back provisions in the HCA funding agreement if any property to which it applies is sold under RTB. A maximum of £17, 366 could be repayable per property.

#### *HCA Repayment of grant conditions*

There are other circumstances where the HCA will require payback of a grant. Examples include improper use of funds, fraudulent behaviour, demolition of units and under performance on unit completions without prior agreement of the HCA.

#### *New Homes Bonus*

Potentially, there will be NHB and AHB generated by bringing 31 LTE properties back into use. This will roughly be the equivalent of 1 year's Council tax per property payable to the Council for 6 consecutive years assuming current government policy stays in place. The table below summarises the expected NHB financial benefits of bring the 31 properties back into use up until 16/17.

<b>NHB Benefits</b>	<b>Yr 1 11/12</b>	<b>Yr 2 12/13</b>	<b>Yr 3 13/14</b>	<b>Yr 4 14/15</b>	<b>Yr 5 15/16</b>	<b>Yr 6 16/17</b>	<b>Total (1 - 6)</b>
15 properties acquired in year 2013/14 and 16 properties acquired in 2014/15	-	-	-	9,000	25,000	34,000	68,000
0.35k AHB per property pa for 6 years	-	-	-	3,000	8,000	11,000	22,000
<b>Total</b>				12,000	33,350	45,000	<b>90,000</b>

\*For the purposes of the NHB the reduction in the number of LTE is measured from Oct – Oct, with the NHB funding being paid in the following year. For example a reduction in LTEs between Oct 12 and Oct 13 would be awarded in April 14.

#### **4.5 Environmental and sustainability implications**

This scheme will invest in existing homes by bringing them up to the HCA Design & Quality Standards and makes good use of an existing resource. The carbon footprint will be lower than that of building a new property.

Sheffield City Council is in the process of securing early ECO funding for Properties across the City. If successful, the Council will seek to include any eligible measures within the ECO funding in these properties as part of a Purchase and Repair Scheme.

#### 4.6 **Community safety implication**

Organisations such as the Empty Homes Agency confirm that empty homes commonly increase the fear of crime to adjacent occupants. Bringing empty homes back into occupation helps to reduce this fear of crime and increase community safety.

#### 4.7 **HR Implications**

There are no HR implications

#### 4.8 **Equality of Opportunity Implications**

The Equality of Opportunity implications have been explored in the EIA.

#### 4.9 **Risks**

There is considerable financial risk in this project committing the Council to long term borrowing with an uncertain income stream over a very long period of time for little financial return. The primary benefit is helping to deliver the Council's strategic housing objectives, by increasing the number of affordable homes, reducing the number of LTEs and improving the sustainability of the city's neighbourhoods. The Purchase and Repair scheme is an additional tool to help the Council achieve this and will create financial benefit by generating NHB/AHB for the new affordable units created.

Specific risks associated with a Purchase & Repair scheme may be:

Financial – Costs associated with purchasing/improving properties may be higher than estimated which could have an impact on budgets.

This could result in the budget not being able to cover the purchase & repair of all 31 proposed properties

Mitigation – Ensure that all costs are accurately accounted for and factored into budgets. Select properties for purchase that the scheme can afford. This will be determined an individual value for money assessment which considers the long term sustainability of the property, upfront purchase and repair costs and future management and maintenance implications.

Financial – Prudential borrowing against the HRA may be a risk to the HRA if the properties are unable to generate the rent levels estimated in order to pay back the borrowing.

Mitigation – Careful and well informed selection decisions to be made when selecting properties to purchase. Demand and supply information analysed to ensure that tenancies and property types are in demand and sustainable.

Financial – Once the properties are let as Council housing on secure tenancies they will be subject to the Right to Buy (RTB). Once the cost floor period has past, the risk is that the Council may lose financially due to the discounted purchase price and will not fully recoup the money spent on the property including any outstanding loan repayments.

There will also be a financial risk for the Council as the HCA will require their grant funding to be repaid if a RTB completes on one of the acquired properties. However, if within the cost floor period this cost will be recovered in the sale price. With increased discounts for RTB there may be increased take up.

Mitigation – The cost floor rule applies for the first 15 years after the purchase and refurbishment costs have been incurred. Current rates of RTB completions are around 0.5%. Currently it is too early to predict what the new levels of take up may be with the increased discounts.

Financial – There is a risk that the HCA will require the grant funding to be repaid if grant conditions are broken. These include, in addition to sale of the properties, improper use of funds, fraudulent behaviour, demolition, and inability to deliver a unit completion without prior agreement from the HCA.

Mitigation – Ensure that the scheme is managed transparently and effectively with the scheme's performance monitored for targets and progress.

## **5. ALTERNATIVE OPTIONS CONSIDERED**

### **5.1 Alternative option: No Purchase & Repair scheme**

Outputs:

- No Purchase & Repair scheme will see fewer LTEs brought back into use. Having fewer methods in which to tackle LTEs will potentially mean fewer LTEs brought back into use and that the Council is less likely to deliver its strategic housing objectives as effectively.
- No Purchase & Repair Scheme will also result in a potential resource of affordable housing in the city not being utilised.
- Loss of HCA grant funding

Benefits

- There will be no need to use prudential borrowing to fund the scheme and no risk to the HRA.

Outline costs

- By not having a Purchase & Repair scheme there will be the potential loss of the NHB and AHB that would be payable for the 31 properties bought back into use by this scheme. There would also be no HCA grant funding.
- However, no prudential borrowing against the HRA.

Risks

Without the Purchase & Repair Scheme, the risks may be:

- Strategic, we fail to utilise on a resource to help us meet the increasing demand for housing of all tenures, but especially affordable, across the city.
- Empty properties continue to impact negatively on the success and sustainability of the City's neighbourhoods.

- Financial, it could have a negative impact on the NHB/AHB
- Reputational, an increase in LTEs or lack of methods to deal with them has a detrimental impact on the quality of neighbourhoods

## **6. REASONS FOR RECOMMENDATIONS**

**6.1 Preferred Option:** Establish a Purchase & Repair scheme aimed at reducing the number of LTEs across Sheffield.

- The Council has identified a strategic need to deliver more affordable housing across the City , helping to meet the demand for affordable rented properties across Sheffield.
- It will contribute towards place shaping and the regeneration of neighbourhoods, enabling the Council to improve (sometimes eyesore) properties through refurbishment. This will benefit local neighbourhoods.
- It will bring more long term empty properties back into use and reduce the number of LTEs on the Council Tax register. This will help to maximise the NHB and AHB payable to the Council by government.
- It will help reduce anti social behaviour and the fear of crime that can be associated with LTEs.
- The scheme will provide the Council with increased assets by increasing its housing stock.
- It has the opportunity to deliver many reputational benefits for the Council as the scheme will result in both reduction in LTEs and provision of affordable housing.
- This scheme is an additional tool which can run alongside and compliment the other options the Council have in place help to bring LTEs back into use.

**7. REASONS FOR EXEMPTION** (if a Closed report)

N/A

## **8. RECOMMENDATIONS**

8.1 That approval is given to establish a Purchase & Repair Scheme as described in the report, subject to funding

8.2 R2 that approval is given for the use of prudential borrowing against the HRA of £2,260,000.

8.3 That Cabinet agrees that for the duration of the funding agreement with the HCA an affordable rent as set in accordance with the terms of the agreement constitutes a reasonable charge for the occupation of properties purchased for this scheme and;

8.4 notes that a capital approval submission for the expenditure has been submitted as part of the agreed monthly budget monitoring process to authorise and procure the necessary capital.

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Date: March 11 2013

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