

Select Committee on the Environment 24th January 2011

Report of the Assistant Director of Housing

High Cost Voids

Purpose of Report

1. The purpose of this report is to appraise members of the current position with High Cost Voids and proposed actions to deal with these, and to seek support for a series of recommendations to be made to the Cabinet Member. These recommendations have been formulated through the work of officers and the Housing Working Group.

Background

2. As previously discussed with members, since early 2009 the Directorate has been experiencing a high number of void dwellings that, for various reasons, require a significant amount of capital investment to return them to a satisfactory habitable condition. The volume of High Cost Voids (HCVs) has continued throughout 2010 and the current approved budgets, to support these refurbishments, are insufficient to meet this demand.
3. Void refurbishment budgets for 2010/11 total £14.75 million. This includes £11.05 million for day-to-day routine voids and £3.7million for HCVs. Total void refurbishment expenditure currently equates to almost 29% of the total repairs and maintenance budget, with demand from tenants for improvements, e.g. refurbishment and energy efficiency works, in excess of the Decent Homes Standard, remaining high.
4. The approved budget of £11.05 million for routine voids is expected to be fully committed by the end of March. However, the HCV budget was fully committed as at the end of November 2010 and a number of properties with typical works values of in excess of £35,000 remain void.

Overview of High Cost Void liability as at 30th November 2010

5. Between the 1st April and 30th November, 183 HCVs had been committed for refurbishment, at a total budgeted works value of £3.7million. These properties have a typical 'works cost' of up to £30K, although a small number of properties exceeding this value have been issued due to exceptional circumstances, e.g. required for adaptation, urgent family need, etc.
6. There are currently 93 that are on hold pending adequate budget provision. Collectively, these have an estimated total works value of approximately £3.2million. These properties have been secured and precious metals have been

removed to prevent vandalism. The financial impact of these properties remaining void is primarily loss of rental income, as security costs are negligible. However, they can create a negative image of the wider community, particularly if gardens become overgrown.

7. HCVs generally fall into three categories:
 - a. Major structural works or long-term underlying maintenance issues/defects
 - b. Prior modernisation/Decent Homes refusals
 - c. Major disrepair costs, in particular external/garden works
8. Category a - Most properties with known structural defects are under ongoing regular monitoring and a separate limited budget exists to remedy these, as required, over the long-term.
9. Category b - Stock condition information provides estimates of our long-term financial liability and investment need. However, due to the responsive nature of voids, we are unable to predict when this liability will present itself.
10. Category c – Major internal disrepair costs are normally either associated with general neglect (i.e. failing to report repairs as a result of normal wear and tear) or deliberate/malicious damage. In recent years, we have also experienced significant costs associated with garden clearances and hazardous paths/structures within the property's boundary.
11. In order to respond to rising costs of the Category c properties, internal reviews are ongoing to further exploit cost savings. These range from using alternative contractors or in-house provision to undertake the clearance works, adopting a less risk adverse approach to specifying external works, and deferring some works for future programmes. It is recognised that deferring some improvement activity into future works programmes may reduce customer satisfaction with their new home, but this approach will enable properties to be let more quickly, reduce works costs, as they are associated with a batched programme, and to apply comparable service standards with existing tenants whom also require investment works.

Remedial and Re-provision Options

12. Recognising that there is insufficient budget to repair all existing voids and that some existing voids cannot be economically repaired, it is intended to develop a strategic approach to deal with these and others that may arise in the future. This approach will encompass;
 - a. A range of options which will ideally include a balance of sales, improvements and re-provision
 - b. An options appraisal toolkit to determine the most appropriate option for each void or group of voids
13. We already have some sites which have been identified as surplus to requirements and/or having issues which extend to neighbouring properties, for example Hartland Avenue, Cook Avenue and Beech Road (Kingswinford). There is currently little appetite in the market for the speculative acquisition of development sites, and there is a financial risk involved in any attempt to clear a site for this purpose, especially where not all of the affected properties are in our ownership. This suggests that we should only currently be contemplating

expenditure on these sites, or similar sites identified in future, if we are able to demonstrate that it is viable for us to complete the process of remediation and redevelopment ourselves or with a development partner.

14. Individual property disposals would realise some capital receipts which could be used to support improvements to properties we wish to keep. Property values remain low, and we would anticipate average receipts of no more than £50k per property. Whilst 75% of Right to Buy receipts must be passed to the Treasury for the duration of the Comprehensive Spending Review, land or non-RTB disposals would still be 100% retained, subject to the Council demonstrating that it is spending the full receipt on affordable housing or regeneration.
15. Where properties are sold at auction, they are most likely to be acquired by private landlords and there is a risk that some may be poorly repaired, be let to uncommitted tenants, and potentially contribute to the decline of a street or wider area. The preferred option would therefore be to work with registered or accredited landlords or market the property directly to first time buyers. These could be supported by our Private Sector Housing Team to have work carried out by reputable contractors. In this case, we would need to accept that capital receipts could be lower than if the properties were sold at auction. It may however be possible to introduce covenants to ensure that these properties are only sold on to first time buyers, so that they remain in the market place as accessible affordable homes. There are General Consents which would allow us to dispose of up to 57 properties per year to
 - a. Individual purchasers who will pay the market rate (or a discounted rate to reflect the need for improvements providing these can be completed within two years) and who will occupy the property themselves
 - b. Developers who will pay the market rate, refurbish and sell on for owner occupation within two years
 - c. Registered Social Landlords, at the best price available. In this case we would retain nomination rights in perpetuity.
16. The option of demolition and re-provision becomes preferable in principle when the cost of repairs to an individual property exceeds £40-45k, and where the ownership and occupancy of any adjoining property is not an issue. It has the clear benefit of saving the money that would have been spent on repairs and producing a new, modern asset with no net loss of affordable housing. Local Government finance models are currently in a state of flux and our ability to borrow/fund the new build against the new property's income stream is subject to change. The Housing Minister has announced new funding arrangements for the HRA, which may increase the council's freedom and flexibility, although these will not take effect until April 2012.
17. Since October 2009, the Council can retain all rent and subsequent receipts from new build as a result of changes made to the capital financing regulations. This takes new build effectively outside the subsidy system even in advance of the further reform planned for 2012/13. The Council would need to obtain HCA and Secretary of State approval, but this is unlikely to be problematic. Assuming there would be no Social Housing Grant, the Council would be free to set rents at target levels or higher in order to produce a viable financial model. However, it is also noteworthy that future amendments to the Council's proposed financial regime may include a cap on borrowing. Therefore, any capital financing options for void works or re-provision will need to be considered alongside other Council

- priorities.
18. Officers would also wish to explore whether improvement or re-provision for 'shared ownership' as opposed to rent is an option, either for the Council or in partnership with an RSL. It has the benefit of bringing an earlier capital return, whilst still retaining or replacing an affordable home. It may be attractive where an estate has a higher level of Right to Buys already, which have proved attractive on resale, or where there have been fewer RTBs and the area would benefit from diversification of tenure. It would be possible to market this, or indeed other innovative options, to people on our waiting list through Dudley at Home, and to consider what help may be available through existing funding or new partnerships to assist first time buyers with their deposits.
 19. Finally, there are two options which would enable suitable properties to remain within our own rented stock at a reduced cost.
 - a. The Council undertakes a limited number of major adaptations for existing families to enable them to remain in their home. However, due to high levels of expenditure incurred during major adaptations, we could promote the use of High Cost Voids, within the locality, for such adaptations. This would result in the family relocating to a new home. However, the total cost of the refurbishment work to the HCV and the property the family has vacated would be generally less than the total cost of adapting an existing tenanted home and returning the HCV into general circulation.
 - b. We could still offer the property for letting ourselves, but significantly reduce our expenditure by only carrying out internal decency and HHSRS works and letting to tenants who were prepared to carry out external works themselves. This could be suited to properties with sloped and overgrown gardens, outbuildings and deteriorated hard landscaping, providing we could be assured the new tenants would meet our requirements and that we would not expose ourselves to claims of unfair contract terms or to negligence claims following loss or injury. If this scheme proved popular, we could consider extending it to suitably qualified individuals to carry out their own internal works, or as a training and employment package along the lines of self build schemes. However, a suitable and proportionate incentive, e.g. a rent free period, or free provision of skips, may be required to support the new incoming family. This scheme would be subject to detailed legal and risk management controls.
 20. All of these possibilities will require ongoing development work and the consideration of legal and financial issues, modelling and testing, in particular to ensure there are no unforeseen adverse consequences. It may also be the case that other options or variations on these options present themselves, or begin to become available with the anticipated relaxation of central government controls.

* Housing Health and Safety Rating System, as defined under the Housing Act 2004

Strategy for Going Forward

21. The history of the HCV issue and these proposals for responding to it have already been debated in some detail with the cross-party Housing Working Group. The Working Group particularly wished to be assured of reducing numbers of HCVs until they are eliminated and this will be achieved by:
 - a. The Home Check Programme, which currently aims to inspect every tenanted property once every three years in order to ensure that the tenant is meeting their responsibilities. This will continue, but will also be more specifically

- targeted in future. This will include varying frequencies of inspection dependant upon risk assessment, plus specific Home Checks prior to the acceptance of any application for transfer, or where there is early intelligence that a tenant may be planning to move outside our stock.
- b. The completion and maintenance of Decent Home Works, and every effort being made to convince reluctant tenants to accept improvements when offered.
 - c. Monitoring and taking action both where tenants are reporting no repairs (as this may indicate a degree of neglect) and also where they are reporting repeated repairs (as this may indicate abuse). Both neglect and abuse represent breaches of tenancy conditions and need to be addressed.
22. Meanwhile there would be adopted a structured approach to determine the future of each existing or occurring HCV. This would include consideration of its structural integrity, the likely cost and nature of required improvements, its suitability for adaptation for disabilities, its popularity in terms of area and property type and conversely its potential adverse impact on a less popular estate, and the need to produce a cost effective and risk managed solution. This matrix would facilitate a programme of:
- a. Properties with structural defects being marketed for six months then if still unsold being offered for sale by auction.
 - b. Properties sold individually or in packages to approved parties for onward affordable sale or rent to our nominated households.
 - c. All receipts from these options ring-fenced to the HCV budget to cross fund other options.
 - d. Properties being repaired and let where the specification, particularly for external work, can safely be reduced to a reasonable level.
 - e. Properties adapted where this results in savings overall.
 - f. Properties demolished and reprovided where this is an achievable solution.
 - g. All approvals for sale to be via Decision Sheet.
 - h. Periodic monitoring reports to the Housing Working Group.
23. An analysis of the current 93 voids stated in paragraph 6 suggests that the strict application of this strategy may initially result in around 12 disposals, potentially releasing up to £600k to support the refurbishment or re-provision of a similar number of properties. A further 10 properties could potentially be brought within routine expenditure levels through letting to tenants who can carry out some works themselves, and 4 or 5 adapted for tenants with disabilities. Given that the current number of HCVs represents a backlog built up over two years, this strategy is therefore capable of managing future HCVs and around one third to one half of the backlog. In the first year, and bearing in mind that not all disposals will be at market value, it is likely that there would need to be a further 12-20 selective disposals in order to kickstart our programme and make some impact on the backlog.

Finance

24. This report is financial in its nature and relevant information is contained within the body of the report.

Law

25. The Council's budgeting process is governed by the Local Government Act

1972, the Local Government Planning and Land Act 1980, the Local Government Finance Act 1988, the Local and Government and Housing Act 1989 and the Local Government Act 2003.

26. The condition of the Council's housing stock is governed by a range of statutory instruments including Environmental Protection Act 1990, The Housing Act 2004, The Defective Premises Act 1972 and the Occupiers Liability Act 1957 and 1984.

The Council would need to obtain Secretary of State consent for all disposals other than those covered by General Consents referred to at paragraph

Recommendations

27. Members are asked to comment upon the contents of this report, and to endorse the recommendations in section 22 with the understanding that the Assistant Director Housing Management will discuss them with the Cabinet Member for Housing.



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Diane Channings
Assistant Director of Housing

Contact Officers:

Ian Gardner Head of Construction
Telephone 01384 812113
Email ian.gardner@dudley.gov.uk

Sian Evans Head of Housing Options
Telephone 01384 812021
Email sian.evans@dudley.gov.uk