

Stock Options Appraisal Scheme

1. Introduction

- 1.1 The Council has ambitions to improve the quality of housing for existing and future tenants, deliver much needed new housing, and enhance the environment and quality of life in the borough. This ambition has come under pressure as a result of reducing resources and government legislation. Therefore it is necessary to enter into a more active asset management programme, to maintain our existing stock within our new Asset Management Plan and to deliver our legal obligations to pay the annual levy to Government. We also wish to address the imbalance in the stock. We have a greater proportion of one bed properties, than is reflected in local housing demand, and we have a lower proportion of two and three bed properties than we need to meet local housing needs. This can only be achieved by consideration of disposals and conversions of existing stock, in order to reconcile all the conflicting pressures.
- 1.2 This scheme sets out the circumstances in which social housing units within the Housing Revenue Account (HRA) will be considered for sale on the open market (disposal) or be converted to an alternative tenure. The key criteria underpinning any assessment are:
- The current condition and financial performance of the property
 - The need for the property (i.e. size, location and property type)
 - The market value of the property
 - The opportunity to use proceeds to deliver more/better affordable housing elsewhere.
- 1.3 Disposals allow the Council to capitalise upon the value of properties, to pay the required levy to central government and to develop or to facilitate the provision of additional more accessible and higher quality affordable housing units.
- 1.4 Re-provision through the facilitation of alternative tenure homes, can assist the Council to meet a range of housing needs. The conversion of larger properties into two or more homes, whilst retaining the asset, improve the performance of the Housing Revenue Account, and generate revenue to invest in the stock, and regeneration opportunities.
- 1.5 This scheme describes the route by which housing units or freehold interests may be sold or converted. The decision to dispose of or convert an affordable housing unit continues to be at the discretion of the Council, and is an individual decision in each case. This scheme proposes that capital receipts arising from the sale of properties under this scheme will be ringfenced to the HRA to meet the costs of the Government's levy under the Housing and Planning Act, and the provision of replacement homes under the potential "2 for 1" programme set out in the legislation.

2. Scope

- 2.1 This scheme covers the circumstances in which the Council will consider the sale on the open market or conversion of existing affordable housing properties currently held within the HRA. The Council may choose not to sell or convert a property which meets the criteria set out in the scheme.
- 2.2 This scheme covers the sale of properties under Section 32 of the Housing Act 1985. It also covers the sale of freehold interests to blocks which are either entirely or contain a high percentage of leaseholders (meaning 80% or more). It does not include the sale of properties under the Right to Buy.

3. Purpose

- 3.1 The purpose of the Scheme is to introduce an active management programme to dispose of stock that costs most to maintain, and least fits the Borough's strategic housing requirements. It seeks to raise resources to manage and maintain the core housing stock and to continue to meet the needs of those in housing need in the borough. It will also enable the Council to meet with the Government's requirements under the Housing and Planning Act 2016.
- 3.2 Clear processes and policies need to be put in place to support decision making, as other local authorities and housing associations have already done. The purpose of the scheme therefore is to set out the circumstances under which housing units or other freehold interests would be considered for sale on the open market or converted to an alternative tenure.

4. Legal Framework

- 4.1 The disposal of vacant social housing by the Council is permissible under Section 32 of the Housing Act 1985 (amended by the Housing and Regeneration Act 2008) and as set out in The General Housing Consents.

5. Disposal

- 5.1 The Council has a need for all kinds of property, types and sizes, and therefore disposal of units will always be a difficult decision. However, it is an essential part of the process of managing the financial situation, and ensuring that the best and most needed stock is retained. Therefore the Council will actively need to assume a level of sales, and achieve that level of sales in order to keep pace with all the legislative and financial requirements. The Council has therefore developed a list of types of properties which will always be presumed to be sold, if they become vacant, and a second list of properties which will be considered for sale, if they become vacant.
- 5.2 The list of properties where a sale is presumed, other than in exceptional circumstances are:

- (a) Listed properties

Listed properties are particularly difficult to manage and maintain, due to the constraints of listed status.

(b) Properties where the cost of work is in excess of £50,000

To maintain an easily managed and maintained stock of rented properties, the Council needs to divest itself of properties which have major structural problems. When works required are in excess of £50,000 this is likely to be because of significant major faults.

(c) Properties which are the last rented property in a block of leasehold properties

Blocks of homes which are largely leasehold, are costly to maintain and manage. Although the Council does get back the costs from leaseholders over time, there is always a time lag, and the costs of the management of services and service charges are not always completely recovered. Where the block becomes wholly occupied by leaseholders, the Council will offer the leaseholders the option of buying the freehold, and if they are not interested, the Council will consider disposing of the freehold on the market.

5.3 Properties which will not be sold include:

- (a) Properties in an area identified for Regeneration
- (b) Properties part of the portfolio in plans for the Haringey Development Vehicle (HDV).
- (c) Adapted properties
- (d) Individual Sheltered properties

5.4 Consideration of the disposal or conversion of housing when one or more of the following criteria apply:

(a) Negative Net Present Value

The Council maintains a full list of all the Net Present Values (NPV) of all its assets, by individual property and grouped by estates. The NPV takes into account all the income and expenditure on a property, brought forward into the current year represented as a discounted value. Approximately 500 homes have negative values; this represents only 3.4% of the Council's housing stock. A further 677 have NPVs below £10,000 over 30 years, which represent a further 4.3% of our stock. Whilst these properties clearly make a contribution to the HRA, it has to be remembered that it is possible that the Council will be required to dispose of a third of all its vacant stock, which means that disposing only of properties with negative NPVs will not raise sufficient funding to pay the levy.

(b) Strategic needs of the Council

The strategic needs of the Council will always be a key consideration. For example, whilst there is a need for housing of all kinds, types and sizes of

homes within Haringey, there are some homes which are in greater demand, because of the demography of the households on the Housing Register. The greatest demand is for family sized homes and in particular, homes which have two or three bedrooms. Homes which have only one bedroom are in the least demand and waiting times for this type of home are far lower than for family homes. Where there is scope to convert larger properties into two or more properties of at least two bedrooms, this can be an improvement in meeting the needs of the housing register, and can also improve the financial performance of the asset, by providing two rental incomes, where currently only one is forthcoming. In addition, conversion of properties into additional homes may be counted as “2 for 1” replacement under the levy rules, and meet more than one aim. This should therefore be considered in all cases.

(c) Capital values

Clearly, the quickest way of raising sufficient capital to pay the levy, and also to enable the provision of the replacement of two homes for the price of the sale of one, is to sell those with the highest values. Higher value properties therefore will be part of the consideration when deciding which homes to sell. The Council maintains a “book” value of all its stock for the purposes of accounting. Using these values, which are updated once a year, the top third of properties by value, would be any home above £306,000. This would impact most strongly on the west of the borough, where the highest value properties are located. When a property over the value of £306,000 therefore becomes vacant, it is proposed that it should be considered for disposal.

(d) Cost of works

There are a number of cases, where properties become empty either because they have structural defects, or structural defects are discovered after they become empty. The costs of works in bringing these properties back into use can be very high, and when combined with other factors, such as high value (even though they have defects) or where the NPV is negative, it is recommended that before embarking on high expenditure, consideration should be given to alternative options where the cost of works exceeds £10,000.

- 5.5 Whilst all these criteria are relevant in deciding what should be disposed of, what should be converted and what should be retained and let as quickly as possible, all these factors will be considered together and an individual decision made in each case.

6. Assessment

- 6.1 The Stock Options process will require a complete review of all the options available to make the best of use of each property. The options under consideration are: retain and rent, retain but convert to an alternative tenure or use; dispose.

- 6.2 Properties that meet one or more of the appraisal criteria will be identified by Homes for Haringey in the first instance, when carrying out their housing and asset management functions during the tenancy, and will be flagged up on their asset management system for consideration once they become void. An Options Appraisal report will be provided for each case, and a recommendation made to the Council.
- 6.3 The performance of sales against a quarterly target will be monitored, and the programme increased or decreased in order to ensure that there are sufficient funds to meet the requirements of the levy.
- 6.4 Hostels are an important part of the Council's management of emergency housing situations, as they are within the HRA, cost effective and immediately available. They are also exempt from the levy. Therefore, where there are large properties which may be suitable as shared facilities type hostels, this option should always be considered.
- 6.5 Where a recommendation is made to change the tenure the Council could invest in the property, but decide to use the property as for an alternative use. This could be temporary accommodation for a time. This would generate additional income, and provide good quality temporary accommodation for those in need. Alternatively, the Council could decide to dispose of a selection of properties on a shared ownership basis. This would enable the Council to generate a capital receipt (although not 100% of the value) and retain the property in the affordable housing sector.
- 6.6 A recommendation on disposal or conversion will be prepared for Member decision. As it is anticipated that there will need to be regular decisions on sales, these may need to be scheduled as Leader or Lead Member Signings on a monthly basis.
- 6.7 Properties will be sold at full market value, either by auction or through estate agents, on the advice of the Property Services. Properties will not be sold at less than best value. Where a property is not considered appropriate for disposal or conversion, it will be repaired and let.

Sale of Freehold Interests

- 6.8 Freehold interests in blocks where all properties are leasehold properties will be considered for disposal. This will assist the Council in that although leaseholder contributions to major works do eventually come back into the HRA, they are delayed, often for some time where leaseholders seek repayment options over a long period of time. The Council will first offer the freehold of the block to the leaseholders and enable them to enfranchise to purchase the freehold if they wish to do so.

In circumstances where the leaseholders do not wish to purchase the freehold, the Council will consider the disposal of the freehold on the open market.

7. Use of Receipts

- 7.1 The additional income generated from the disposal of properties will be needed to pay the mandatory levy to the Government under the provisions of the Housing and Planning Act 2016. Where the Council is successful in negotiating a reduction in the levy, on condition of replacing homes sold with new homes on a “2 for 1” basis, the receipts will be put to that purpose.

8. Monitoring of disposals and conversions

- 8.1 It is proposed that any disposals and conversions undertaken under this scheme will be included in the HRA Business Plan report and any updates.
- 8.2 Quarterly sales and receipts will be monitored in order to ensure that the Council has sufficient funds to meet its financial obligations.
- 8.3 In addition the monitoring report will consider the impact of the sales programme on groups with protected characteristics in line with the Council’s Equality duty.
- 8.4 Expenditure on the “2 for 1” replacement programme will also be monitored quarterly in order to ensure that any conditions of this programme are met.
- 8.5 The Asset Management Delivery Plan will provide an annual update on Key Performance Indicators, including the stock, by size, type, age and tenure to monitor the impact of this and other Government legislation.

Assessment Criteria

Reason	Criteria	Commentary
Uneconomic asset	Net present value	Negative and marginal assets will be considered for disposal, and where it is not possible to improve the NPV
Significantly higher than average void costs should trigger an assessment	Void costs over £10,000	Assessed by void inspection
Reduce leaseholder liabilities/cash flow issues	Leaseholder costs; high percentage of leaseholders	Consideration of disposal of freehold
Strategic needs of the Council/Size of the property	Where a larger property can be converted into a minimum of two two bed properties	Proactive assessment during void period
Capital Value	Where a void property is over the threshold for disposal – the top third by value of properties	Assessed when void; checking the asset value register