Background Paper: Disposal of Housing Revenue Account (HRA) Assets

Background to the Decision

1.1 Nottingham City Council owns a number of residential properties in the Arboretum area, which are managed by Nottingham City Homes. These properties are commonly referred to as HMOs and are configured to offer individual self-contained accommodation; most are s.257 Houses in Multiple Occupation (properties subdivided prior to 1991 building regulations), however not shared housing. The properties are generally in a poor state of repair, with several requiring immediate remedial repairs. The location and configuration of these properties has made them popular with private landlords and providers of supported or short-term accommodation; evidenced by 14 different RPs operating in the area; all of which creates a transient community leading to a number of social, economic and environmental problems. The current situation also undermines the valuable character and architectural offer of the conservation area that covers these properties.

1.2 Since 2009 a series of Council decisions have been taken to try to address these conditions. Whilst progress has been made, it is now considered financially prudent to dispose of the entirety of the HRA HMO stock in the Arboretum and to re-focus activity toward utilising these assets to improve the social, environmental and economic conditions of the area. A previous decision was taken in the 2014 DDM ref:1301 that established the justification for the disposal of HMO stock particularly in the Arboretum area.

In this context two scenarios have been considered:

1) Sale to the Market/Private sector
2) Sale to NCH E Ltd

After this consideration, this report recommends that the housing stock in the area is disposed of to NCH E Ltd, who have the skills and experience to work alongside tenants, residents and contractors in regeneration areas. Their relationship with NCC will also mean that the Council can continue to play a partner role in ensuring its regeneration objectives are achieved.

1.3 In advance of each phase of disposal, NCH will continue to manage these properties through the existing contracts they have with the Council and, as tenants cannot be compelled to leave, will support tenants to achieve a relocation solution that is mutually acceptable. To reduce the impact on affected tenants a full programme of support and financial assistance will be provided including a financial incentive equivalent to home loss payments. A previous Council decision in 2014 authorised a similar budget for the relocation and disturbance costs for 28 of the affected units however, an additional budget is now required to meet the costs for the disposal of all 32 properties. This position is explained in Appendix 1.

1.4 The sale of these assets, which require a high level of investment, if retained, will provide NCC with a stream of capital receipts over the next three financial years, which could support the wider HRA programme.

1.5 To support this approach an initial business case, supplied by NCH E Ltd, has been reviewed by a project working group consisting of officers from: Regeneration, Finance, Property, Legal and in collaboration with officers from NCH. This review has confirmed a viable business case, in the context of the assumptions set out in Appendix 1.

1.6 In Appendix 3, the subject properties are identified. Whilst this reports seeks authority for the disposal of all 32 properties, in practice the properties will be disposed of in three separate phases. It is currently anticipated that this will be over 3 phases.

1.7 Prior to each phase of disposal a detailed business case will be produced which will include independent property valuations informed by NCHE's detailed assessments of the 'ideal' building reconfiguration and detailed refurbishment costs works obtained from technical studies, which NCH E will commission. This information will be provided to the Director of Strategic Assets and Property to inform and agree the Heads of Terms for disposal.

1.8 Project assurance will be provided by a project board, which will report progress directly to the Build a Better Nottingham Steering Group and will be supported by a project working group.

1.9 NCH E Ltd will acquire the properties via a loan arrangement with NCC. This report requests authority to agree a loan facility under the terms and conditions established in Appendix 4. This will be in addition to the funding already agreed with NCH to develop their private market rental product.

1.10 A number of the properties contain leasehold interests with some buildings being 100% occupied by leaseholders. As freeholder, NCC are responsible under the lease arrangements to maintain and repair the buildings. A proportion of these costs are then recharged to leaseholders. Disposal of the properties to NCH E Ltd will relinquish NCC from these financial obligations of long-term maintenance and major repairs.

1.11 The Housing Revenue Account has made provision for the loss of rental income arising from the disposal of the void assets in the mid-term 30 year Business Plan. However where the properties are tenanted, this rent loss has not been taken into account. The capital receipt and the long-term savings, obtained from reduced management and maintenance costs, are forecast to be sufficient to offset this loss of income to the HRA. This means the disposal of the identified properties will be viable and economically efficient for the HRA. This assessment has been based on current estimated valuations however it is subject to market valuations at the time of disposal for each phase.