

Subject:	Empty Homes project budget	Status:	Public
Report to:	Cabinet	Date:	1 st December 2020
Report of:	Chief Executive	Portfolio Holder:	Leader of the Council
Key Decision:	<input checked="" type="checkbox"/> Forward Plan <input checked="" type="checkbox"/>	General Exception	<input checked="" type="checkbox"/> Special Urgency <input type="checkbox"/>
Equality Impact Assessment:	Required: No	Attached:	No
Biodiversity Impact Assessment	Required: No	Attached:	No
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1. RECOMMENDATION

That Cabinet approves a revenue increase to the Empty Homes project budget for 2020/21 of £650k, increasing the in-year revenue budget to £950k, funded from the transitional budgetary support reserve.

2. PURPOSE OF THE REPORT

- 2.1 To seek Cabinet approval of an amendment to the Empty Homes project budget for this financial year. The report explores the budgetary pressures on the project and the rationale for an increase in the project budget for this financial year.

3. BACKGROUND

- 3.1. Since 2015 the council has been managed the legacy of the collapse of AAW. AAW were commissioned to act as the managing agent to bring empty homes back into usage across East Lancashire. With the demise of AAW, the council became responsible for managing the remaining properties on the scheme. All of which were leased to AAW by their owners.
- 3.2. On 28 July 2020 the council's Audit & Accounts Committee received a detailed report on the background to the project and its management. In February 2020, as part of the council agreeing its 2020/21 budget it agreed a project budget for Empty Homes of £300k.

4. THE PROJECT IN 2020/21

- 4.1. Currently 112 properties remain in the scheme. Managing the project remains extremely challenging. In recent months a number of improvements have occurred, including:
- Calico relationship – regular meetings are taking place with Calico and a number of operational issues have been resolved around finance information, end of lease processes and overall the relationship is improving
 - Relationship with contractors – on-going savings are being made through negotiation with contractors undertaking repair/improvement works
 - Loan repayment – new process introduced to better notify owners of any outstanding loan at handback and seeking greater clarity on repayment schedule of the loan
- 4.2. During 2020 a legal firm have been pursuing legal claims against the council in respect of both properties still in the scheme and some properties which have now been handed back to owners. Dealing with these claims has proven very time consuming and

challenging. Settling these claims is significantly increasing the costs associated with the project.

- 4.3. As at the end of quarter 2, total costs for 2020/21 are £369k. A further £153k anticipated costs are already committed for the remainder of the year and this is set to increase through the second half of the year. The total net cost of the project (from 2015/16) to the end of September 2020 is £6.50m.
- 4.4. The table, below, outlines the 2020/21 costs to date:

<i>Description</i>	<i>Actual</i>	<i>Commitment</i>	<i>Total</i>
Building Renovation Costs ¹	179,017	103,331	282,349
General Repairs ²	44,910	46,283	91,194
Rent	86,428	0	86,428
Council Tax	21,743	0	21,743
Professional Fees ³	22,729	450	23,179
Door Security	2,110	427	2,537
Settlement Payments to Owners ⁴	24,635	0	24,635
Legal Fees	7,760	2,690	10,450
Provision for Bad Debt	2,128	0	2,128
Repayment of Principal	36,467	0	36,467
Other Costs Recovered	-36,467	0	-36,467
Rental income ⁵	-21,929	0	-21,929
TOTAL	369,535	153,182	522,718

¹ Costs associated with significant end of lease property improvements to ensure they meet the Decent Homes Standard

² Day to day repairs including tenant damage (beyond 'wear and tear')

³ Primarily building surveyor costs for the 19 Newgreen properties

⁴ Legal settlement with owners, primarily back rent previously withheld

⁵ This does not include rental income received by Calico for the 87 properties they manage, as part of the agreement to cover their tenant management costs

- 4.5. The costs have been greater than anticipated when the budget was set in February 2020. 32 properties have (or are) being dealt with this year where normal repair/tenant damage issues apply. £215k has been spent to date on 25 properties and we anticipate a further £60k for 7 properties before year end.
- 4.6. However, the biggest contributor to the increased cost relates to properties already handed back at end of lease (when they expired in 2018/19). Legal claims have been submitted to the council based on:
- Original AAW works not being completed
 - Deterioration over the lease period
 - Tenant damage
- 4.7. Not all legal claims are likely to fall into this financial year. This is outside of the normal property repair issues for properties still under lease. This year we have paid out either via a court order of mutual agreement £46k (an average £9k per property). The initial claims average £18k per property, but to date the council has settled at an average of

£9k. In summary, in the year to date we have handed back 38 properties costing an average of £9k each (totalling £342k).

- 4.8. Given the significant cost related to the settlement on properties subject to legal claims the project budget has been exceeded. The projected costs over the remainder of the year will bring the anticipated cost for 2020/21 to £950k.
- 4.9. The conditions of the lease are extremely restrictive. As a result, the council has no legal grounds to dispute a large proportion of the claims. It is actively challenging individual claims as well as day-to-day on-going repairs on the 115 remaining leased properties. This is reducing the scale of the liability, but the scale of this is very limited given the overall scale of both current works and claims related to historical leases.

5. RISK

- 5.1. The project's risk register identifies seven current significant risks. The cost of repairs/works to properties exceeding the annual budget and the extent and impact of legal action taken against the council, both financial and reputational are two of these risks. The council has been using its agreed approach to mitigating these risks throughout the year. This includes; challenging Calico on the standard of repairs required, negotiating with contractors to ensure value for money is obtained and ensuring and end of repairs check is undertaken. However, as outlined in section 4.9 the conditions of the lease are extremely restrictive giving the council very limited scope to control costs related to legal claims.
- 5.2. The five other significant risks identified in the project risk register are monitored by the project team on an on-going basis. This includes, for example, ensuring the percentage of tenanted properties does not decline reducing rental income and properties not being returned at end of lease increasing liability.

6. COMMENTS FROM STATUTORY OFFICERS:

6.1. SECTION 151 OFFICER

The financial monitoring of the project is summarised in sections 4.3 to 4.8 of this report.

The council's 2020/21 revenue budget allocated £300k to the project. This report requests that the budget is increased to £950k and the associated adjustments made to the council's overall budget. The additional budget of £650k will be funded from the transitional budgetary support

Whilst this report is requesting an additional £650k revenue funding, wherever possible expenditure will be capitalised e.g. for renovation works, this will give the council the option to borrow to fund these costs, thus spreading the cost over several years and alleviating the adverse impact on the council's 2020/21 revenue budget.

6.2. MONITORING OFFICER

The legal issues including the property leases are explored in the report.

7. CONCLUSIONS

- 7.1. The council has made a provision of £300k in the Medium Term Financial Strategy for 2020/21 for the project. The project team monitor the cost and have projected the future costs of the project, to year end. This totals an anticipated £950k. The council will work hard to minimise on-going and future costs associated with the project. Whilst it is more

able to do this in relation to future discussions related to repairs and rental payments, it is much more restricted in its ability to mitigate costs associated with historic legal claims

Background Papers	
Document	Place of Inspection
2020/21 Corporate Priorities, Council Tax and the Medium Term Financial Strategy Council (26 February 2020)	https://www.rossendale.gov.uk/meetings/meeting/1184/council
Empty Homes project Audit & Accounts Committee (28 July 2020)	https://www.rossendale.gov.uk/meetings/meeting/1208/audit_and_accounts_committee
Management response to the Lancashire County Council Internal Audit report: "Bringing Empty Homes into Use" (inc the LCC Internal Audit report)	https://www.rossendale.gov.uk/meetings/meeting/874/council
Council (9 December 2015)	