

Homeswaps

City of Salford

INSIDE THIS REPORT

PAGES 2-3

Summary Report

PAGES 4-7

Detailed Report

- Legality of the scheme
- Operation of the scheme
- Acquisition of 153 Highfield Road

PAGE AP1

Action Plan



DISTRICT AUDIT

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Introduction

Seedley and Langworthy is an inner city area that has suffered significant decline over the last few years. The area consist of 3,300 properties although around 800 of these are empty. In addition to housing issues, Langworthy and Seedley suffer from a number of social problems.

The Council aims to improve the area as part of its overall regeneration strategy and has secured significant Single Regeneration Budget (SRB) funding to assist in this process. One strand of the renewal project is to demolish 1,100 properties over the next ten years. These properties are concentrated in the areas where the problems are most pronounced with approximately 660 occupied, 350 of which are owner occupied.

With regard to the remaining areas, the Council has various plans including improvement, remodelling and in some cases no action at all. The overall objective is to revitalise these refurbishment areas so that properties do not fall into the same level of disrepair as those that are to be demolished. The Council hopes that this will encourage the development of a thriving community.

Due to the declining property prices, many of the owner occupiers in Langworthy and Seedley have mortgages that are greater than the market value of their homes. In order resolve some of the problems that these home owners face (and achieve the overall objective of the regeneration scheme) the Council has devised an innovative approach known as the homeswaps.

In essence the scheme will involve:

- the Council buying empty houses in the areas that are to be refurbished
- renovating those properties to an agreed standard
- allowing owner occupiers in the clearance areas to part exchange their home for one of the renovated houses in the refurbishment areas.

All the purchases and sales must be made at market value. However in an effort to ease the financial burden of the swap and to encourage home owners to remain in the area the Council will discount the selling price of the new house by 30% over 5 years. Any outstanding balance on the purchase price of the house will be subject to a charge on the deeds which may or may not be enforced on the eventual sale of the property.

Objectives of the review

We were asked to review the homeswaps scheme because of its innovative nature and sensitivity with the local community. Some residents of Langworthy and Seedley have expressed concerns about the operation of the scheme. The circumstances surrounding the Council's purchase of one particular property (153 Highfield Road) has resulted in accusations of unfair treatment being published in the local press and the Council asked us to provide an independent review.

The objectives of our review were to:

- consider the legality of the scheme
- examine the operation of the scheme to date
- review the acquisition of 153 Highfield Road.

Main conclusions

The homeswaps scheme is an innovative approach to solving a very difficult problem. If the scheme is successful it may become a regeneration model that is replicated in other parts of the country. The Authority has identified the legal powers upon which it will be relying to operate the scheme. A comprehensive report detailing the various aspects of the scheme and clarifying the legal powers being used will be submitted to Cabinet in the near future.

The initial guidance on purchasing homeswap properties was very broad. Essentially the Council said that it would consider purchasing any property if the owner wanted to sell. The lack of detailed criteria to support this wide remit left the Council open to the following pitfalls:

- potential for treating residents differently with possible accusations of unfair treatment
- possibility of purchasing properties that did not accord with the strategic objectives of the scheme.

In addition to the problems with the lack of eligibility criteria, the procedures surrounding the operation of the scheme were weak. In some areas the records were poor or non-existent. This lack of an audit trail, together with the absence of detailed eligibility criteria, could make the system open to the risk of abuse. It could also place staff in a vulnerable position and potentially open to accusations of improper conduct.

The purchase of 153 Highfield Road epitomises the problems outlined above. The Council valued the property at £18,000 and paid this amount for it. This was £4,000 more than the subsequent valuation done by the District Valuer. However the District Valuer's valuation was almost twelve months later and property prices could have changed during this time. The rationale behind the acquisition is not documented on file although the purchase does accord with the very broad criteria that existed at the time. Recently the criteria has been revised to take account of the strategic implications of purchases. Under the revised guidance 153 Highfield Road, which was occupied, may not have been acquired as the new criteria gives priority to empty properties.

The way forward

Homeswaps have the potential to make a significant difference to the regeneration of the Seedley and Langworthy area. It is therefore essential that the scheme is clear, robust and well applied. We have made a number of recommendations in the attached Action Plan which, if addressed, will improve the scheme's probity.

SECTION 1

Legality of the scheme

Legality of the scheme

1. The Council recognised that due to the innovative nature of the scheme, its legality would have to be thoroughly researched. Counsels opinion was therefore obtained. This concluded that the scheme could be operated legally providing specific procedures were followed for certain stages of it.
2. In view of the nature of the scheme and its potential for application outside Salford we felt that we needed to obtain our own legal opinion and sought the views of the District Audit solicitor. Essentially he concurs with counsel's opinion that overall there appears to be the legal provision to enable the Council to implement the scheme.
3. The Council is planning to submit a comprehensive report to Cabinet clarifying both the legal basis and the purpose of the scheme. We support this proposal and suggest that this report should contain the following:
 - the purpose of the scheme
 - the legal powers being relied upon
 - a proper assessment of any criteria that need to be considered in exercising the legal powers
 - a clear explanation of how the scheme will operate including eligibility criteria
 - a clear assessment of financial implications
 - a checklist/flowchart to aid members and officers understanding of how it will work.
4. The Counsel previously instructed by Salford may be able to assist in drafting the Cabinet report. Ultimately it is for Council to satisfy itself that the scheme is operating within the law. However it is important that the scheme is not jeopardised because the legal position has not been adequately considered and documented.
5. The majority of funding for the Langworthy and Seedley improvement scheme is to come from the SRB. The Council has been liaising closely with the Department of Transport, Local Government and the Regions (DTLR) on the detailed operation of the scheme. Recently a General Consent under the Housing Act 1985 has been obtained from the DTLR to enable the scheme to progress. We recommend that this liaison continues.

Recommendation

- R1 A detailed report outlining the various aspect of the scheme, including the legal powers being utilised, should be submitted to members.

SECTION 2

Operation of the scheme

Background

6. The regeneration improvement plan divides Seedley and Langworthy into smaller zones. These are:
 - clearance areas requiring acquisition and demolition
 - remodelling areas requiring some acquisition and demolition and some improvement and remodelling
 - improvement areas where the stock will be improved
 - some areas where no action is required.
7. The intention is to acquire properties in the improvement and remodelling areas to build up a stock of suitable properties to allow owner occupiers in the clearance areas the opportunity to homeswap. The Council currently owns around 70 houses in the improvement areas and as yet no homeswaps have been completed.

Eligibility criteria

8. Initially there was adverse publicity for the Seedley and Langworthy scheme particularly in relation to the perceived unfair treatment of different householders in the area. Recently the situation has improved with some positive comments on the outcomes of the homeswaps scheme. Nevertheless it is essential that the Council has clear criteria for each part of the scheme against which the applicants will be measured.
9. With regard to purchasing properties for homeswaps, we found that the Council had not initially set down detailed criteria under which a purchase would be made. The only guidance was contained in early literature sent to all residents indicating that if any person within the improvement area wanted to sell their property the Council would be willing to discuss it. However there was no detailed guidance beyond this.
10. The lack of properly defined criteria has exposed the Council to the following risks:
 - potential to treat residents differently with possible accusations of unfair treatment
 - possibility of purchasing properties that do not accord with the strategic objectives of the scheme.
11. In the case of the latter risk, the Council began to think more strategically about property purchases in July 2001. Some literature after this date contains references to purchasing empty properties although this criteria was not set out formally until October 2001. Prior to this the Council acquired both occupied and unoccupied properties from within all the improvement zones. Purchasing occupied properties seems to go against the rationale of the scheme as it may lead to well established residents leaving the area rather than staying to help build up a thriving community.
12. As outlined earlier, the Council has not yet completed any homeswaps although a pilot involving approximately ten properties is underway. Guidance for people in the clearance areas who want to swap has been issued. It is important that this criteria is reviewed against the latest legal advice which states that certain conditions must be met for each individual property in order to comply with the legal framework.

Procedures

13. In addition to problems with eligibility criteria, we found that the procedures surrounding the scheme were weak. The Living Environment Team in Housing initiates requests to the Development Services Directorate for the purchase of properties for homeswap. These requests may be of a general nature referring to the need to purchase a range of properties in a particular zone. Alternatively they may refer to the possibility of purchasing an individual property where the owner wants to sell to the Council. We found that the documentation supporting these requests was poor or non-existent often relying upon telephone calls between the two directorates.
14. The Development Services Directorate then values the properties and processes the purchases. The initial lack of detailed eligibility criteria meant that the selection of properties was largely based on the owners willingness to sell to the Council at the current market value. The decisions to purchase individual properties are formally approved by the Lead Member for Housing and are now following the agreed acquisition policy.
15. The weaknesses in procedures mean that there is the lack of an audit trail showing why a particular property was initially considered for purchase. This lack of documentation, together with the absence of eligibility criteria, makes the system open to the risk of abuse. It also places officers in a very vulnerable position and potentially open to accusations of improper conduct although no findings of this were identified.

Recommendations
R2 Eligibility criteria, against which applicants will be assessed, should be set for acquiring properties for homeswaps.
R3 The guidance for people in clearance areas who want to homeswap should be reviewed to ensure it contains all the steps recommended by the latest legal advice.
R4 A detailed procedure manual covering all aspects of the homeswaps scheme should be prepared.
R5 Decisions surrounding homeswaps should be subject to an appropriate level of approval.

Acquisition of 153 Highfield Road

16. 153 Highfield Road is the home of an ex-councillor who was an active member of the Seedley and Langworthy Initiative. The property is in an improvement area and was purchased by the Council for £18,000 as a potential homeswap property. Some Langworthy and Seedley residents have alleged publicly that the ex-councillor was given preferential treatment because of his Council connections.
17. The valuation of the property has already been subject to a separate investigation by Internal Audit which included a request for an independent valuation by the District Valuer. £18,000 is the highest price paid so far for a homeswap property and is £4,000 more than that recommended by the District Valuer. The District Valuer's valuation was done almost twelve months after the Council's and at this time properties in the area were being sold for between £8,000 and £21,000. It is possible that house prices in the area had changed in the year between valuations. Internal Audit's investigation highlighted the need to involve an independent valuer in sensitive cases, such as those involving current or former council officials, in the future.
18. The reasoning behind the purchase of 153 Highfield Road is difficult to establish because of the poor record keeping described in the previous section. There is no written evidence to support the decision to purchase on the file. An officer in the Living Environment Team recalls a telephone conversation with the former Councillor during which he indicated that he intended to leave the area and wondered whether selling his property to the Council was an option. In our view the failure to record the rationale behind the purchase was naive given its sensitive nature and the potential for challenge.
19. The property was valued in July 2000 and was occupied at the time. An offer was made for the property in September 2000 and the owner moved out at the beginning of October 2000. The property fell within the very broad remit that existed for purchases at that time which was essentially that any property would be considered for purchase. However, under the revised guidance considered in July 2001, 153 Highfield Road may not have been acquired. This is because the updated criteria considers the strategic importance of purchases and gives priority to empty properties. Occupied properties are only purchased in exceptional circumstances.

Recommendation

- R6 The District Valuer should value properties in sensitive cases such as those involving current or former Council officials.

