CABINET

26th September 2012

REPORT OF THE PORTFOLIO HOLDER FOR HOUSING

Re-investing Right to Buy Receipts in New Affordable Homes

EXEMPT INFORMATION
No

PURPOSE
- To agree to the local retention of Right to Buy Receipts to support the delivery of affordable housing.
- To confirm the action of officers in signing the agreement to retain Right to Buy Receipts (shown at Annex One) in order to met CLG deadlines.

Background
The Government has made a number of changes to arrangements for the Right to Buy Council properties including raising the cap on the level of discount available to tenants. These changes are summarised in the table attached at Annex Two to this report.

Government ministers have clearly stated that they wish these changes to result in an overall increase in the number of households exercising the Right to Buy. In response to concerns regarding the impact of additional Right to Buy sales on the availability of affordable housing Government have been clear that they intend to achieve a one for one replacement of sold properties with new affordable dwellings on a national basis. To seek to achieve this a proportion of Right to Buy receipts will be available to fund new affordable housing.

The Department of Communities and Local Government (CLG) is offering stock retained Local Authorities the opportunity to retain Right to Buy receipts for the purpose of delivering new affordable housing. Participating Local Authorities are required to sign an agreement with CLG which is attached as Annex One to this report.

In consultation with the Portfolio Holder for Housing and in order to meet the deadline for the submission of the agreement to DCLG the Director of Housing and Health has submitted the signed agreement to CLG. CLG have been notified that the agreement is subject to Cabinet approval at this meeting.

If the Council does not wish to enter into this agreement then any usable receipts will be included in the national investment programme administered by the Homes and Communities Agency (HCA) and delivered by Registered Providers.

RECOMMENDATIONS
1. That Cabinet agrees to the retention of Right to Buy receipts locally to deliver new affordable homes
2. That Cabinet retrospectively confirms the actions of officers in signing the agreement with CLG to retain Right to Buy receipts locally (shown at Annex One) in order to meet the Government deadline of 12noon on the 26th September 2012

RESOURCE IMPLICATIONS
As part of its proposals regarding changes to the Right to Buy Central Government announced that Capital receipts arising from additional Right to Buy sales would be used to fund one for one replacement of sold properties with new affordable housing.

However the proportion of the receipts arising from a sale which will be usable for this purpose will be reduced by the following:

A flat rate administration fee which the Local Authority will retain (set at £1,300 per sale in Tamworth)

A sum to compensate Local Authorities and Treasury for projected income from Right to Buy receipts included in the HRA Self Financing Settlement
For additional Right to Buy sales that were not included in the Housing Revenue Account Self Financing settlement, local authorities will be able to deduct the necessary amount to cover Housing Revenue Account debt from the receipt.

In assessing the amount of additional usable Capital receipt likely to be available to the Council the following issues need to be taken into account:

- The level of receipts received is dependent not only on the number of properties sold but also the valuation of the property and the level of discount to which the tenant is entitled.
- The increase in the discount cap has the effect of reducing the potential receipt from any sale
- The level of income which the Treasury expects to receive is based on a notional number of Right to Buy sales and an estimated level of Capital receipt which is expected to accrue from those sales
- These estimates are based on the level of Capital receipt which would have accrued from sales prior to the increase in the discount cap

For Tamworth Central Government is anticipating that there will be a total of 9 sales during 2012/2013. Based on this number of sales Central Government is anticipating that it will receive £290k during 2012/2013. In addition, Government has calculated that the Council should receive £122k from the sale of properties during 2012/2013. Therefore unless these income levels are met as well as an amount relating to Housing Revenue Account debt and meet the fixed administration cost there will be no funds available for new affordable housing regardless of the number of homes sold.

In addition as the forecast income is estimated on a quarterly basis it will be necessary for the amount of receipts to exceed this level within each quarter before any resources become available for new affordable housing.
As part of the agreement with CLG the Council is required to commit to the following:

That the available receipts will be used to fund the development of new housing to be let on affordable rents
That the level of receipts used must not exceed 30% of total cost of the new home
That any receipts which are not used within three years of the financial year in which they arose will be refundable to central government
That any refunded receipts will be subject to an interest charge payable by the local authority of 4% above base rate.

Therefore, should the Council fail to make use of a usable receipt within three years of it arising the Council would be liable to pay a penalty interest charge equating to an estimated £45 per £1k (based on current base interest rates).

<u>Forecasting the level of usable receipts</u>

There are a number of issues which limit the Council's ability to forecast the likely level of usable receipts which may become available from additional Right to Buy sales.

Firstly, it is not clear what impact the changes to the level of discount cap will have in increasing Right to Buy sales. During 2011/2012 the Council received 17 Right to Buy applications which resulted in 7 sales. During the current financial year, to the end of August, the Council has received 37 applications and has to date sold 4 properties. As Right to Buy applications can take a considerable time to deliver sales it is unlikely that the impact of the changes will become clear. In seeking to forecast the number of sales however the Council has assumed an incremental increase rising from 7 sales during 2011/2012 to 12 during 2012/13 and 40 sales during 2013/14.

The second variable is the type of property purchased and its value. This is also impacted by the level of discount which tenants are able to claim. It is not possible for the Council to predict the properties which will be sold. However in seeking to develop a forecast the Council has assumed the sale of a mixed number of property types, values and discount levels based on previous sales.

As stated above the level of usable receipt is dependent upon the delivery of certain financial targets. As this is balanced on a quarterly basis a final variable in forecasting the level of usable receipts is the timing of sales.

Given the above caveats and assumptions a forecast has been undertaken and is shown in the table attached as Annex Three to the report. Based on this forecast Right to Buy sales will not realise any receipts available for 2012/2014. However for 2013/2014 an estimated £676,259.84 could potentially be available with £649,340.68 for 2014/2015.

As noted above any forecasts made at this point are subject to a number of variables and further more reliable forecasts will need to be made once the position is clearer.

LEGAL/RISK IMPLICATIONS BACKGROUND

A key risk for the Council to consider is that it may find itself in a position whereby it is unable to make use of the available receipts within the three year timescale stipulated. If this were the case then the Council would be required to return funds to Government and pay an interest charge of 4% above the base rate.

This is considered to be a manageable risk. The Council's Healthier Housing Strategy and Housing Revenue Account Business Plan sets out a series of ambitions for the development of new affordable housing within the borough. These include:

- Development of new affordable housing in partnership with Registered Providers including redevelopment of redundant Garage sites
- Potential regeneration at Tinkers Green and Kerria
- The potential for an acquisition programme to bring new units into the Housing Revenue Account
- Further evaluation of underused garage sites to deliver new build properties within the Housing Revenue Account
- Further initiatives to regenerate neighbourhoods

Usable Capital receipts could be used to contribute to the delivery of these ambitions contributing to the development of new housing by the Council itself or by working with Registered Provider partners. The agreement stipulates that the Local Authority may not allocate receipts to support the delivery of any home which is also funded by a grant from the Homes and Communities agency (HCA). Although this will place a restriction on the combination of funding streams this is a matter which can be managed through a planned approach to development and resource allocation.

The Council is required to make use of the receipts within a three year period. This therefore does not require the new properties built to be completed within this period as the use of resources can be front loaded to meet early costs such as land purchase and site evaluation and design work.

As a further mitigation for this risk the Council will be able to annually review during its budget process the level of receipts rising from sales set against its plans to deliver new affordable housing. Where the Council identifies that there is a risk of resources not being used it will be able to either develop new plans or return resources to CLG thereby avoiding any interest charges.

In reality, given the level of housing need within Tamworth and the Council's record in delivering new affordable housing whenever resources have been available, it is deemed unlikely that any funds will remain unused.

There is a further risk arising from these changes in that the level of replacement achievable using available receipts will be considerably less than a one for one replacement as specified by Government. However, it should be noted that the target of one for one replacement specified by central government is a national target and the agreement does not place this responsibility on the Council to deliver one for one replacement locally. There is therefore no sanction placed on the Council if this target is not met. Should this position change then the Council would be required to review its continued commitment to the initiative.

SUSTAINABILITY IMPLICATIONS

Tamworth has a significant need for new affordable housing to meet demand. Any material increase in Right to Buy sales and therefore loss of the Council's stock will dramatically impact on the Council's ability to meet housing demand, reduce homelessness and deliver sustainable, healthy communities. To mitigate against these losses it will be important to ensure that the number of affordable homes locally increases.

The Council has ambitious plans to achieve this both through the use of its own resources and by working with partner Registered Social Landlords. These include:

- Development of new affordable housing in partnership with Registered Providers including redevelopment of redundant Garage sites
- Potential regeneration at Tinkers Green and Kerria
- The potential for an acquisition programme to bring new units into the Housing Revenue Account
- Further evaluation of underused garage sites to deliver new build properties within the Housing Revenue Account
- Further initiatives to regenerate neighbourhoods

The Council will be updating its Housing Revenue Account Business Plan later this year to assess the potential impact of increased Right to Buy sales. A material loss of units through the Right to Buy without a subsequent increase in new Council homes will result in a loss of income overall. This will threaten the ambitions contained in the plan, particularly with regard to neighbourhood regeneration and has the potential to impact on the delivery of services to tenants.

MATTERS FOR CONSIDERATION

The Council recognises that owner occupation plays a vital part in meeting housing need and ensuring balanced housing markets. The Council wishes to ensure that there is access to owner occupation for those for whom this is the preferred and appropriate tenure. To achieve this aim:

- the Council works with Registered Providers to develop shared ownership options with new housing schemes. Under these schemes residents are able to purchase a proportion of a property while paying rent on the remainder.
- the Council is also evaluating the Local Authority Mortgage Scheme (LAMS). This innovative scheme supports first time buyers in obtaining a mortgage via and indemnity provided by the Council. Once an evaluation of the scheme has been undertaken and if a proposal to implement this scheme is to be brought forward this will be included in a separate report to Cabinet
- the Council provides a range of advice and support services to owner occupiers via its Housing advice services to seek to ensure that owner occupiers experiencing financial difficulty are able to maintain their homes

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LIST OF BACKGROUND PAPERS

ANNEX
Annex One- CLG agreement
Annex Two – Summary of right to buy changes
Annex Three- Forecast of Useable Receipts