Report for Resolution

Report to	Cabinet 13 June 2012	**Item** 13
Report of	Deputy chief executive (operations)	
Subject	Changes to right to buy scheme for council tenants, including the retention of a portion of right to buy receipts to spend on replacement affordable housing.	

Purpose:

To consider the changes introduced by the Government to the Right To Buy (RTB) scheme which increases the level of discount available to secure council tenants to buy their homes and the new provision for councils to retain some of their RTB receipts for investment in replacement affordable housing.

Recommendations

1) To enter into an agreement with the Department for Communities and Local Government to retain Right to Buy receipts from the sale of council dwellings for investment in replacement affordable housing, and

2) To delegate authority to the Chief finance officer to determine the Right to Buy receipts to be reclaimed.

Strategic Priority and Outcome/Service Priorities

The report helps to meet the strategic priority "Safe and healthy neighbourhoods – working in partnership with residents to create neighbourhoods where people feel secure, where the streets are clean and well maintained, where there is good quality housing and local amenities and where there are active local communities" and the service plan priority decent homes for all.

Financial Consequences

The financial consequences of this report are set out in the text.

Wards: All wards

Cabinet Member: Cllr Macdonald and Cllr Waters

Contact Officers

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Background Documents: None

Report

Background

1. The government has introduced a number of measures to ‘reinvigorate’ to right to buy scheme. Initially introduced in 1980 the right to buy enables secure council tenants to buy their homes at a discounted rate, based on the length of time they have held a secure social housing tenancy.

2. The basics of the current scheme prior to the 2 April 2012 were:

Eligibility

3. Tenants must have been secure social housing tenants for 5 years before they qualify for the Right to Buy,

Discount

4. The incentive discount for houses is 35% of the property’s value plus 1% for each year beyond the qualifying period up to a maximum of 60%.The maximum discount was £34k; in practice, most Right to Buy discounts in Norwich are limited by this cap.

5. The incentive discount for flats: 50% plus 2% for each year beyond the qualifying period up to a maximum of 70%.

Cost Floor / Administrative costs

6. An allowance is made for administration costs. In the last financial year this has amounted to about £600 per property, though this considerably underestimates the actual costs incurred.

7. The council can reclaim monies spent on building and improving properties within the last 10 years. Currently Right to Buy discount is limited to ensure that the purchase price of the property does not fall below what has been spent on building, buying, repairing or maintaining it over the past 10 years. This is called the cost floor.

Capital receipts

8. 75% of the sale price goes to the government and 25% stays with the council. An allowance is made for administration costs and cost floor deductions as set out above.

9. In 2011/12 the council had 100 applications to buy properties under the right to buy and sold a total of 38. The average valuation was £98k, average discount £33k, and average sale price £ 64k.

Changes introduced from 2 April 2012

10. The four ‘reinvigoration’ measures introduced from the 2 April 2012 are detailed below. The first three concern the level of discount and remuneration

the council will receive for administering the sale. These are mandatory. The final measure regarding capital receipts is an optional agreement the council can choose to enter. The basic eligibility criteria remains the same

Discount

11. The percentage discount remains the same but the maximum financial discount will increase to £75k. This will mean that a tenant with maximum discount would be able to buy their home worth £98k for just under £40k (£30k for a flat) as opposed to £64k at present. The government has advised all stock holding local authorities of their responsibility to advise all secure tenants of these changes, and the City Council is in the process of doing this.

Cost Floor / Administration costs

12. From April 2012 the government will pay an allowance of £1,300 for each right to buy sale completed. Cost for unsuccessful applications and rejected offers are factored into this allowance. The cost floor time limit is increasing to 15 years.

Capital receipts

13. A new scheme, consisting of an agreement between a local authority and the government, has been introduced to allow local authorities to retain some capital receipts to build new homes. This is to expedite the government pledge to replace every council house sold, on a nationwide basis and not in local areas, by a new 'affordable' housing home. Replacement only applies to numbers of properties sold which exceed previously agreed estimates contained in council's self financing business plans.

Retaining capital receipts - the agreement in detail

14. It is proposed that the council enters into an agreement with central government to retain some capital receipts to invest in additional affordable homes.

15. The government will allow the council to retain additional Right to Buy receipts, from their 75% share, to fund the provision of replacement stock. They will allow three years (from the completion of the relevant sales) for the use of those receipts before requiring the money to be returned. Building of any home does not have to be completed within three years but the local authority must have incurred expenditure sufficient that RTB receipts form no more than 30% of it.

16. In return authorities must agree that Right to Buy receipts will not make up more than 30% of total spend on replacement stock, of the total amount invested in replacement stock (which could mean newly built council homes, newly acquired council homes (i.e. existing homes bought on the open market) or social housing provided through local authority grants to registered providers (RPs). Any receipts not so used must be returned to the government with interest.

17. The government states the 30% cap is necessary to ensure that they get

maximum value for money from the RTB receipts and enable the building of as many new homes as possible. The local authority (or RP if recipients of grant funding) will be expected to fund the remaining 70% from its own reserves or through borrowing serviced by the anticipated rental income from the new homes built. When building new homes local authorities can decide whether or not to charge an affordable rent (i.e. up to 80% of market rent), but will need to be mindful of cost of borrowing when reaching a decision.

18. Where retained receipts exceed 30% of spend the local authority will agree to return the additional receipt (i.e. the receipt above 30%) to government with interest, at base rate plus 4%.The rate of interest has been set deliberately high in order to incentivise local authorities to invest in replacement stock. The rate is specifically designed to discourage local authorities from retaining receipts until such time that they are required to surrender them

19. It is up to each authority whether to enter into such agreements and entirely its decision as to how much of the surplus receipt it retains in each quarter of a financial year. If a local authority does not wish to enter into an agreement then any surplus receipts arising in their area will be surrendered to the Secretary of State and passed to the Homes and Communities Agency for them to invest in replacement stock which may be anywhere in the country.

Grants to Housing Associations

20. If the authority chooses not to build itself, but instead to grant fund a Registered Provider, (RP) grant payment is not recommended until scheme completion to enable clear demonstration that the contribution did not constitute more than 30% of total scheme costs. This will shift the risk of repayment due to exceeding the 30% limit from the council to the RP.

Termination of the agreement

21. The government can terminate an agreement at any time, but would expect to do so only in extreme circumstances (for example, where there was absolutely no evidence that a local authority was commencing activity). The effect of termination would mean that an authority could, from that point, no longer retain any receipts but would still have the three years from the start of the agreement to invest the receipts it had already retained (or have to return them). Equally an authority can terminate an agreement either by voluntarily returning all future receipts (and paying back what it had already retained) or by requesting the Secretary of State to terminate as set out above.

22. Local authorities that enter agreements after quarter 1 in 2012/13 will not be able to claim back receipts already surrendered. Similarly where a local authority decides in any quarter not to retain the full amount, but instead decides to return some or all of it, it cannot subsequently claim that money back.

The agreement timetable

23. Local authorities were made aware of the potential agreement on 5 April 2012 and asked to comment on the draft by 20 April 2012. The final version of the agreement has been issued and local authorities are required to return

these by 27 June 2012. The government then sign and return copies of the agreement to participating authorities by 29 June 2012.

Potential Implications of the changes for Norwich

24. The increased discount will make the RTB more attractive to eligible tenants. It is too early to say how many extra homes will be sold as a result. The estimate for the number of sales in 2012/13 prior to these changes was 34. The improved discount will probably increase the number of leaseholders as well as reduce the number of family homes the council has available to let. More leaseholders will increase the pre work consultation activity required for major works, increasing the lead in times for contract letting.

25. Under the previous capital receipt regulations the council would on average receive £15k from every sale. The new discounts mean 25% share will be on average £8k, before taking into account the new receipts recycling agreement.

26. As members are aware the housing revenue account became self financing from April this year, involving the council borrowing approximately £15,000 for each home. The loss of potential income, and changes to the pooling of capital receipts, may have significant affects on the business plan, which will need to be modelled and sensitivity tested to inform decisions.

27. The council can utilise the retained receipts from RTB sales for the following options: -

    - building new council homes;
    - purchasing properties previously sold under RTB that are being offered back to the council;
    - purchasing affordable housing as part of private developments;
    - purchasing open market dwellings;
    - grant funding Registered Providers to develop new affordable housing;
    - bringing empty homes back into use through the private sector leasing scheme. (subject to confirmation from clg)

    The viability of these options will be explored in further detail.

Operation of the changed RTB pooling arrangements

28. The government requires that claims for RTB receipts to be retained for investment in replacement stock are completed quarterly in arrears. To over claim will lead to repayment at a punitive cost in interest; to under claim will reduce the resources available to the council to replace the lost RTB stock.

29. It is recommended that the Chief Finance Officer is authorised to determine the level of the quarterly claim, based upon the calculated amount claimable and the likelihood of the time and cost constraints being met from planned new development.

Conclusion

30. The changes to the RTB scheme may reduce the councils housing stock and the variety of homes it owns

31. The changes to the RTB pooling arrangements offer the council additional resources to replace stock loss through RTB, though bringing with them some risk if new stock is not delivered to cost and deadline constraints.

32. While the operation of the proposed RTB agreement poses some challenges for the council, not to enter into the agreement would prevent the council accessing these potential additional resources for stock replacement. The risks attached to the resources flowing from the agreement will not arise unless the council makes a claim for the resources, and can be managed by prudent claims and monitoring of outcomes against targets and timetables.

33. Members are asked agree to the council entering an agreement to retain RTB receipts for replacement housing.

Integrated impact assessment

NORWICH City Council

Report author to complete	
Committee:	Cabinet
Committee date:	13 June 2012
Head of service:	Tracy John
Report subject:	Changes to right to buy scheme for council tenants including the retention of a portion of right to buy (RTB) receipts to spend on replacement affordable housing.
Date assessed:	22 May 2012
Description:	This report looks at the changes introduced by the Government to the Right To Buy (RTB) scheme which increases the level of discount available to secure council tenants to buy their homes and at the new provision for councils to retain some of their RTB receipts for investment in replacement affordable housing.

	Impact			
Economic **(please add an ‘x’ as appropriate)**	**Neutral**	**Positive**	**Negative**	**Comments**
Finance (value for money)	☐	☒	☐	The council will have acess to capital receipts previuosly unavailble for building new homes. However it will have to find match funding of 70%.
Other departments and services e.g. office facilities, customer contact	☒	☐	☐	
ICT services	☒	☐	☐	
Economic development	☐	☒	☐	Increased local building activity and additional socail housing
Financial inclusion	☒	☐	☒	Any new units may have to be let at affordable rents in order to be financially viable. Any new homes will be built to latest energy efficient standards. The new discounts may attract those into home ownership who cannot sustain it.
Social **(please add an ‘x’ as appropriate)**	**Neutral**	**Positive**	**Negative**	**Comments**
Safeguarding children and adults	☒	☐	☐	
S17 crime and disorder act 1998	☐	☒	☐	New and better designed housing should reduce ASB
Human Rights Act 1998	☒	☐	☐	
Health and well being	☐	☒	☐	New and better designed housing should be healthier

	Impact			
Equality and diversity (please add an ‘x’ as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Relations between groups (cohesion)	☒	☐	☐	
Eliminating discrimination & harassment	☒	☐	☐	
Advancing equality of opportunity	☒	☐	☐	
Environmental (please add an ‘x’ as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Transportation	☒	☐	☐	
Natural and built environment	☐	☒	☐	New and better designed housing should be more sustainable.
Waste minimisation & resource use	☐	☒	☐	New and better designed housing should be more sustainable
Pollution	☐	☒	☐	New and better designed housing should be more sustainable
Sustainable procurement	☐	☐	☐	
Energy and climate change	☐	☒	☐	New and better designed housing should be more sustainable
(Please add an ‘x’ as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**

	Impact			
Risk management	☐	☐	☒	If the council retains receipts and is unable to use them as proscribed within the required three year time frame they could incur financial penalties as well as lose the receipts.

Recommendations from impact assessment
Positive
There are positive economic, social and environmental impacts arising from this agreement to retain and use capital receipts from right to buy for providing new social housing.
Negative
The council must be mindful of the potential cost of retaining receipts and then not using them in the proscribed manner or timescales. Those who cannot sustain home ownership risk losing their homes.
Neutral
Issues
The ‘reinvigorated right to buy’ will inevitably attract those into home ownership who cannot sustain it as well as potentially reduce the council’s ability to meet housing need.