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Report of Director Environment and Neighbourhoods

Report to Executive Board

Date: 16th May 2012

Subject: Reinvigorating the Right To Buy – Sale of Council Homes

Are specific electoral Wards affected? **All** If relevant, name(s) of Ward(s):	☐ Yes	☒ **No**
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☒ **No**
Is the decision eligible for Call-In?	☒ **Yes**	☐ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☒ **No**

Summary

The Government proposes to reinvigorate the sale of Council houses through the Right to Buy (RTB) and has pledged to replace properties sold on a one for one basis.

Tenants will be eligible for a higher maximum discount limit, where they qualify for the RTB. In Leeds the maximum discount will increase from £24k to £75k, from the 2nd April 2012.

In the event that the scheme generates more sales than forecast in the HRA Business plan, the Council can retain the additional receipts and build properties under a Local Agreement with the Government, subject to the conditions set out below. If the Council does not accept the conditions, the additional capital receipts will be returned to Government and will be processed through the Housing and Communities Agency (HCA) for new affordable housing.

The key conditions are that: new build properties are to be let on affordable rents (80% of market rent), not social housing rents, (50% of market rent); and additional capital receipts retained by LA's can only be used to support 30% of the capital financing for the new build properties.

Currently all council housing is within the same rent structure, on average at 50% of market rent. If the Council chooses to directly deliver, it will require significant changes to its lettings and tenure strategy, together with a resource plan to meet the funding

difference. Alternatively, the Council could choose to grant fund Housing Associations. Further options to maximise funding opportunities to support the development of affordable homes are to be explored and will be the subject of a further report to Executive Board..

The government requires councils to inform tenants of the changes to the RTB legislation. The Government has produced a range of materials to make tenants aware. The range of materials includes posters, brochures and a model letter which can be used to send to tenants. Government requires that the documents are issued as soon as practicable. Attached at Appendix 3 is the proposed correspondence adapted for Leeds tenants.

Recommendations

It is recommended that Executive Board agree:

- To enter into the Local Agreement to re-invest in the development of new affordable homes. The conditions include that the homes are let at 80% of market rent and support is limited to 30% of value.

- Request a further report on the funding options and implications of building new affordable homes at 80% market rent..

- It is recommended that Executive Board note the correspondence with tenants – Appendix 3

1.0 Purpose of This Report

1.1 The report advises the Council of the changes implemented on the 2nd April 2012 to amend the Right to Buy discount arrangements and the aim to replace the properties sold on a one to one basis with affordable homes at 80% of market rent.

2.0 Background and Context

2.1 A tenant's entitlement to discount under the RTB is determined by their social housing tenancy period. After 5 years a tenant qualifies for 35% discount in respect of a house, with this increasing by 1% for each additional year to a maximum of 60%, whilst for a flat the discount starts at 50%, increasing by 2% for each additional year to a maximum 70%. Under the previous scheme there was a discount cap to a maximum of £24,000. The new scheme percentages and conditions are unchanged but the Government has increased the maximum discount value entitlement for tenants to £75,000.

3.0 Main Issues

3.1 The Council has the option of:

- Declining to enter into the Local Agreement with Government which will result in all capital receipts from the sale of council housing being centralised and allocated to the Homes & Communities Agency (HCA). Based on a model of 250 sales in a year, this would result in £4.659M of capital receipts being given to Government.

- Or agreeing to enter into the Local Agreement to re-invest in the development of new affordable homes. The conditions include that the homes are let at 80% of market rent and support is limited to 30% of value.

3.2 If the Council decides to retain the receipts there are significant housing policy, financial and delivery implications arising from how the Council decides to proceed in the delivery of new homes. There are two main options:

a) Build new council homes at 80% market rents
b) Provide grant support to partners to build new homes at 80% market rents

3.3 **Build new council homes at 80% of market rent**

Currently all council housing is within the same rent structure, on average at 50% of market rent. Delivery of new affordable housing by the Council at 80% of market rent will introduce a two tier rental structure for new council homes. Delivery of housing for rent at social and affordable rents will need to be reflected within the Lettings Policy, to reflect affordability and meet a range of customer needs.

3.3.1 The development and delivery of new homes is essential to meet identified housing needs and is a key priority in the City Priority Plan. The new homes will be able to be delivered to a specification which meets identified needs and will replace some of the sold stock. The creation of the new council housing will support the sustainability and stability of the self financing housing revenue account through increased income.

3.3.2 The ability to build new council homes could be constrained by the ability to fund the 70% of the development costs. The Government has determined that the additional capital receipts can only represent 30% funding of new build properties. Local Authorities will be required to provide the additional 70%. There are a number of funding options.

3.3.3 The HRA Business Plan has identified the development of new social rented housing as a key investment priority. Within the self financing HRA borrowing is limited. Based on the model assuming 250 sales in a year, and therefore £4.656M capital receipts, Leeds would have to borrow £10.9m to build 129 new properties (details in Appendix 1). The self financing debt settlement provides £22M headroom and therefore could only sustain borrowing for two years. Alternative funding sources include housing investment through the corporate capital programme, use of new homes bonus, or use of council assets / land. All of these alternative sources have competing priorities against them and will require proper consideration by the Executive Board in due course.

3.4 **Provide grant support to partners to build new homes**

3.4.1 The provision of grant support to Housing Associations to build new homes at 80% of market rent would enable the Council to retain council housing within one rental structure. Housing Associations would be able to utilise the grant to lever borrowing to deliver. Grant support would enable the Council to lead manage and direct the housing association / partner housing development programme to support the regeneration priorities for the City. A further benefit would be the ability to influence partners engagement on the delivery of the City's Priorities, for example Jobs and Skills, and influence housing and locality management.

3.4.2 The significant disadvantage is the impact the loss of rental income from the homes sold would have on the sustainability of the Housing Revenue Account. Based on the modelling (250 sales) the annual rent loss would be £439,000.

3.5 As the HRA borrowing cap will only sustain the development of approximately 250 new homes over the next 2 years, as noted above, it is possible that a mix of approaches may well occur.

4.0 Financial Implications

4.1 The Government anticipates that the change in the maximum discount will generate an increase in the number of sales above the assumed number included in the self-financing settlements, which commenced in April 2012. For Leeds the number of assumed sales in 2012/13 is 119, and over the 30 year period of the approved HRA Business Plan around 6% of the stock is anticipated to be sold.

4.2 Capital receipts from sales above the 119, after deducting the allowable costs, could be used for new build properties either through the Council entering into a Local Agreement with Government (no details yet available), or by passing the receipts to the Housing and Communities Agency (HCA). LA's could then bid for resources for new build projects from monies held by the HCA (no details yet available).

4.3 Appendix 1, Table 1 provides examples of the potential capital receipts balances based upon sales, below, at and above the assumed sales of 119. In Example 3, in Appendix 1, sales of 250 per annum would realise £12.34m and from this attributable debt on the additional sales (£1.626m) and cost of all sales (£325k) can be deducted.

4.4 After sharing the level of receipts assumed in the HRA self-financing settlement, based upon 119 sales, between the Government (£4.043m) and the Council (£1.686m) this would leave £4.659m available to support new affordable homes.

4.5 The Government has determined that the additional capital receipts can only represent 30% funding of new build properties. Local Authorities will be required to provide the additional 70%, from the HRA and one of the options for this is borrowing.

4.6 The self-financing settlement for housing in Leeds, provides that the Council has a debt ceiling of £722m. Current borrowing is at £700m. Therefore further borrowing of £22m is available, plus any debt repayment during future years. The additional borrowing requirement based on building 129 properties is £10.9m, therefore the Council could only sustain borrowing for new build for 2 years. The Government has not made any provision for increasing the Debt Cap for local authorities.

4.7 Appendix 2, shows the implications for the HRA in the event that the Council sold 250 properties in 2012/13.

4.8 Table 1 of Appendix 2 shows the net annual cost to the HRA (£164k) if the Council chose to build 129 new properties for let as affordable rents.

4.9 Table 2 of Appendix 2 shows the effects of the new build costs on the Council's Debt Cap. It demonstrates that new build could only be sustained at these levels for a period of 2 years before the Council reached its borrowing limit under self-financing.

4.10 The Government still requires the pooling of Capital Receipts from RTB sales which have been assumed in the self-financing settlement. It has also made some changes:

a) made an allowance for costs to be offset for RTB applications which do not proceed to sale.

b) the value of administrative costs which can be offset for processing applications has been prescribed at £1,300 for each successful application which includes a 25% uplift for applications not proceeding to sale. Under the arrangements prior to April 2nd 2012 when the new arrangements became applicable, actual administrative costs could be offset against the capital receipts received, which in the previous year were £2,300 per property.

c) retention of the provision that Councils may offset buy back costs against capital receipts. However, the provision is only available against the additional capital receipts received and to a maximum of 6.5% of the value of the additional receipts.

4.11 The Government has extended the Cost Floor Regulations period from 10 to 15 years. This means that the sale price of a property cannot fall below any costs incurred by the Council in the build, acquisition or improvement of a dwelling over the previous 15 year period where the property is new build from April 2012. The 10 year period is applicable to properties built prior to April 2012.

5.0 Risk Analysis

5.1 Increased sales of Council Housing will reduce the available housing stock of social housing at 50% market rent. Replacement property will be let at an affordable rent, 80% of market rent; this will impact on affordability, access for people in housing need.

5.2 If the Council chooses to replace houses directly with support to the value of 30%, this will place a significant call upon either HRA or general Council resources, at a time when there are other pressing priorities to maintain investment in the present stock and address other non housing priorities.

5.3 A decision to not replace council stock by either returning the finances to the HCA or grant funding Housing Associations will undermine the revenue flow to the HRA as numbers of houses reduce.

5.4 Administrative costs to the HRA will increase due to anticipated increases in RTB application volumes and legislative changes which limit the costs which can be offset against the receipt. Currently all costs incurred in respect of sales completed can be offset against receipts.

6.0 Corporate Considerations

6.1 **Consultation and Engagement:** The decision to implement the changes has been subject to consultation and discussion with CLG. To date there has been no consultation with tenants on the changes to the discount levels Appendix 3 details the proposed correspondence to tenants.

6.2 **Equality and Diversity / Cohesion and Integration:** To ensure that due regard and proper consideration to equality is given in line with extended equality groups and new general duties required by the Equality Act 2010, an Equality Impact Screening has been undertaken and indicates that there are no specific implications of implementing the national policy and this decision; however detailed evaluation will be required of the investment options which will be subject to a further Executive Board report.

6.3 **Council Policies and City Priorities:** The changes to the Right to Buy are likely to reduce the level of social rented housing in the City, whilst creating resources for re-investment in new affordable rented housing at 80% of market rent. Within the Best city to live priority, increasing the number of new homes built and the number of new affordable homes are key headline indicators.

6.4 **Legal Implications, Access to Information and Call In: T**here are no specific legal implications.

7.0 Recommendations

It is recommended that Executive Board agree:

a) To enter into the Local Agreement to re-invest in the development of new affordable homes. The conditions include that the homes are let at 80% of market rent and support is limited to 30% of value.

b) Request a further report on the funding options and implications of building new affordable homes at 80% market rent.

c) It is recommended that Executive Board note the correspondence with tenants – Appendix 3.

9.0 Background documents[1]

Appendices:

Appendix 1: Assumed Effect of Sharing Receipts

Appendix 2: New Build Options

Appendix 3: Proposed Correspondence

Housing Act 1985

Right to Buy Discount - Statutory Instrument – 2012: No. 734

Capital Finance and Accounting - Statutory Instrument 2012: No.711

Reinvigorating the Right to Buy and One-for-One Replacement Information for Local Authorities.

[1] The background documents listed in this section are available for inspection on request for a period of four years following the date of the relevant meeting. Accordingly this list does not include documents containing exempt or confidential information, or any published works. Requests to inspect any background documents should be submitted to the report author.