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|--------------------------|--|---|---------------------|
| Subject: | RIGHT TO BUY RECEIPTS - DELIVERING REPLACEMENT AFFORDABLE HOMES | | |
| Date of Meeting: | 6 March 2013 | | |
| Report of: | Strategic Director Place | | |
| Contact Officer: | Name: | Martin Reid | Tel: 29-3321 |
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| Ward(s) affected: | All | | |

FOR GENERAL RELEASE**1. SUMMARY AND POLICY CONTEXT:**

1.1 Housing Committee on 16 January considered a Notice of Motion, Right to Buy Receipts Delivering Replacement Affordable Homes, and resolved that officers be requested to bring forward a report that:

- Evaluates whether the council would benefit from entering into the Right to Buy receipts scheme that would enable the receipts from any additional sales generated to be retained by the council in order to fund the provision of replacement housing stock.
- Explores whether the retention of Right to Buy receipts under the scheme could enable the council to buy back ex-council homes that come onto the housing market either from estate agents' repossession or at auction.
- Considers the possibility of the scheme being used in relation to leaseholders where the high cost of major works are causing particular difficulties.
- Demonstrates whether and if so, how entering into such a scheme could compliment the other initiatives being pursued in relation to the provision of affordable housing.

1.2 Improving housing supply through maximising investment in new affordable homes and retention of the Council housing stock are core elements of the City's Housing Strategy. Our Housing Strategy commitments include support for households to become homeowners through inclusion of shared equity products and low cost homes for sale in our Affordable Housing Brief for new housing developments.

1.3 The Government has recently sought to promote Right to Buy, including increasing the discount nationwide. In parallel with this, Department for Communities and Local Government (DCLG) invited local authorities to enter into an agreement with the Secretary of State to enable retention of additional Right to Buy receipts for investment in new affordable rented homes based on conditions outlined in the report. Failure to enter into agreement with the Secretary of State on retention of receipts within the very tight timescale set by DCLG meant the local authority would not be able to retain receipts.

1.4 On the basis of potential loss of Brighton & Hove receipts to the Homes and Communities Agency (HCA) and in light of our commitment to new affordable homes on 27 June 2012 the Council entered into this Agreement with Secretary of State to retain receipts for new affordable homes.

2. RECOMMENDATIONS:

- 2.1 That Housing Committee note the response to Notice of Motion - Right to Buy Receipts Delivering Replacement Affordable Homes.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 Retaining our Council housing stock is a cornerstone of our City-wide Housing Strategy and commits us to making best use of Housing Revenue Account (HRA) assets, building new council homes and increasing housing supply in order to address the shortage of affordable housing in the City.
- 3.2 Maximising investment in new affordable homes is a key Housing Strategy priority to make sure that the City has the right type of housing to meet the needs of current and future residents, whether it be owner occupation, private renting or social rented housing. The Housing Strategy includes a commitment to help households become homeowners focusing on increasing housing supply rather than loss of existing affordable homes.
- 3.3 Nationally the owner-occupation rate is 64.7%, a fall of 5% from its 2002 peak. Brighton & Hove has a smaller owner occupied sector than the national average at 54% (65,835) of all homes but much larger private rented sector compared to the England average. Census returns have shown a significant growth in the private rented sector in the City which at 34,081 homes is now 28% of all housing stock. This has included a significant growth in Houses in Multiple Occupation.
- 3.4 The cost of buying a home in the City is out of the reach of many with the average cost recorded in September 2012 as £227,267 compared to a national average of £162,561. Local prices are now only 2% below the high seen in November 2007. Local prices are consistently moving further away from the national average and are now 40% (£64,706) higher compared to February 2006 when they were only 17% (£27,282) higher. The Council's Assessment of Affordable Housing Need Report 2012 identified that the minimum household income required to afford market housing is £42,000 per annum against an average (median) income of £28,240. Almost 88,000 households (72%) cannot afford market housing without spending a disproportionate level of their income on housing costs or depending on some form of subsidy.
- 3.5 The City's high housing costs are causing more and more households to approach the Council in housing need. We have sought to address this issue through increasing housing supply, including the supply of low cost home ownership options for those households wishing to purchase a home.
- 3.6 The City Plan sets a local housing target for the City to 2030 of 11,300 new homes. The new City Plan strengthens provisions for affordable housing, including low cost home ownership, (CP20 Affordable Housing) and has lowered the threshold that required an affordable housing contribution to developments of 5 or more dwellings in recognition of the City's high level of housing need.

- 3.7 Our Affordable Housing Brief for new affordable homes includes provision to widen opportunities for home ownership and ensure high quality housing for those who cannot afford market housing. The Brief includes a tenure split for affordable housing of 55% social rented or affordable rented and 45% intermediate housing. Intermediate Housing is defined as being ‘at prices and rents above those of social rent, but below market price or rents, and which meet the criteria set out above. These can include shared equity products (e.g. HomeBuy), other low cost homes for sale and intermediate rent but does not include affordable rented housing’.
- 3.8 Investment has already been identified for over 500 new affordable homes under the existing 2011-14 Affordable Housing Investment Programme in partnership with Registered Providers and the Homes and Communities Agency (HCA). Over 400 of these new affordable homes are currently in development on sites across the City, c200 homes in the Affordable Housing Investment Programme are for low cost home ownership.
- 3.9 In addition, the HRA Capital programme includes funding for the development of new council homes on vacant garage sites and £1m for the procurement of initial feasibility, design and stakeholder engagement, on identified case studies for housing opportunities on HRA land, including low cost home ownership.
- 3.10 The Government increased the cap on Right to Buy discounts to £75,000 nationwide on 2 April 2012. For Brighton & Hove the previous level was £38,000. In the first 6 months applications have increased significantly, however from October take up has fallen back. In addition to increasing the discount the Government has recently sought to promote Right to Buy through marketing activity. Over time the increase in discount is expected to lead to an increase in the number of Right to Buy sales. Under the new RTB arrangements the Government expects that the additional receipts from any increase in sales will be reinvested in providing replacement homes. Local authorities are able to retain the receipts for replacement housing – provided they sign up to an agreement with Government that they will limit the use of the net Right to Buy receipts to 30% of the cost of the replacement homes.
- 3.11 Details of Right to Buy applications and sales from 2004 to 2013 are outlined in the table below. The table indicates a significant rise in applications following the increase in discounts in April 2012.

RIGHT TO BUY APPLICATIONS 2004-2013

| Year | Apps | Sales |
|-------------|-------------|--------------|
| 2004/05 | 237 | 109 |
| 2005/06 | 214 | 69 |
| 2006/07 | 209 | 68 |
| 2007/08 | 157 | 63 |
| 2008/09 | 47 | 7 |
| 2009/10 | 55 | 10 |
| 2010/11 | 49 | 16 |
| 2011/12 | 38 | 14 |
| 2012/13* | 115* | 13* |

*First 9 months only

- 3.12 On 15 May 2012 DCLG wrote to local authorities formally advising that the Government indicated that it would be prepared to enter into an agreement with any local authority which wished to retain receipts to reinvest in new affordable rented housing. A model agreement was attached to the letter. The Secretary of State was prepared to agree that local authorities could retain additional Right to Buy receipts, on condition that: receipts are used for the provision of affordable rented homes; receipts constitute no more than 30% of total investment in such homes; if, after three years, any of those receipts are not used it will pay the un-used sums, plus interest to the Secretary of State. Local authorities were advised that in order to retain receipts from commencement of the scheme a signed copy of the Agreement was to be returned no later than noon on 27 June. Local authorities were advised that failure to meet this deadline would mean that they would not be able to retain receipts arising in quarter 1 of 2012/13 (i.e. April, May and June). The DCLG letter advised that 'These receipts will immediately be passed on to the Homes and Communities Agency or the Greater London Authority for investment.' In order to retain receipts to be used for affordable housing in Brighton & Hove the Agreement was signed under officer delegated authority.
- 3.13 The agreements are designed to be 'light touch', there are no conditions on the number of new homes that must be built or acquired, their type, size, location or the rent that must be charged on them. These are decisions for the authority to make.
- 3.14 It is current Government policy that any new council homes built since July 2008 are eligible for exclusion from the provisions in the pooling regulations relating to Right to Buy sales, this includes any new homes built or acquired using receipts covered by these agreements. This means that, if replacement homes were subsequently sold under the Right to Buy, the authority would be able to retain the whole receipt (provided it is spent on affordable housing, regeneration or paying down housing debt).

The rules are complex on how the receipts should be spent but key elements are:

- Net receipts from Right to Buy sales (after allowable costs, repayment of housing debt and currently forecast receipts for councils and central government) can be used to replace the additional homes sold as a result of the higher discount levels. The amount available will depend on the level of sales during the year.
- Councils will have three years to spend the right to buy receipts on new homes, after this period unspent receipts would need to be repaid to the government with interest.
- The right to buy funding can only cover a maximum of 30% of the cost of building a new home, in line with the grant offered through the Affordable Homes Programme.
- The remaining 70% is to be found from local authorities' own resources, borrowing or other monies. Land cannot be included as part of the 70% contribution.
- The Council must demonstrate that it has spent the additional amount on affordable housing.

- The money can be transferred to another provider – e.g a housing association - as long as they bring 70% to the table.
- Councils also have the power to buyback former council properties using the net capital receipts from RTB sales. The Council is allowed to fund up to 50% of the cost of re-purchasing a former council home, up to a maximum of 6.5% of the net capital receipts (i.e. the receipts available for replacement homes).

3.15 The 30% benchmark: Drawing on evidence from the 2011-2015 Affordable Homes Programme, the Government is satisfied that it should be possible to fund new homes let at Affordable Rent levels, with *no more than 30%* of the cost of the new homes needing to come from the Right to Buy receipt (the total pot of money, not each individual sale).

3.16 As in the Affordable Homes Programme, the remainder of the cost will come from borrowing against the net rental income stream from the new property, and cross-subsidy from the landlord's own resources. (However, unlike the Affordable Homes Programme, local authority landlords will not be permitted to generate cross-subsidy by converting existing social rented homes to Affordable Rent).

3.17 Three years: The Government wishes to see replacement homes provided as quickly as possible. Interest will be charged at 4% above the base rate compounded with three monthly rests. This is on the basis that the Government see it as important that these receipts are invested in new homes as quickly as possible. The Government wish to create a disincentive to hold onto the receipts until such time as it becomes necessary to pay them over to the Secretary of State. Authorities have the option of re-paying retained receipts early (and therefore incurring less interest) if they decide that they would not be able to incur sufficient investment within the time period.

3.18 Other Investment: Government policy is to encourage an increase in the supply of new housing: new build should always be the favoured option. However, this does not exclude these receipts being used to buy existing properties for conversion into affordable rent. It is equally acceptable to fund new supply by grant funding another body, such as a housing association - but not a body in which the authority has a controlling interest.

3.19 Receipts not retained by the Local Authority: Receipts not retained by the local authority are passed to the Secretary of State and given to the Homes and Communities Agency. There is nothing to stop a local authority that has entered into an agreement with the Secretary of State from having access to funding from the HCA as well.

3.20 In relation to consideration of the possibility of the scheme being used in relation to leaseholders where the high cost of major works is causing particular difficulties, the scheme allows for local authorities to retain receipts to reinvest in new affordable rented housing. Funding a buy-back scheme for home owners who find their property unaffordable may not meet the aim of increasing overall affordable housing supply through use of Right to Buy receipts.

3.21 However should members wish this to be considered, particularly in the case of leaseholders of flats facing high major works charges, the Council would need to

judge which properties to buy back, what price to offer and whether to offer the owner a tenancy in that or another property. A budget would need to be identified to subsidise a buy back scheme as the rules only allow up to 50% of the cost of repurchasing a former council home to be funded from the net capital receipts.

- 3.22 Consideration may also be given to the impact of availability of payment options that have recently been extended to resident leaseholders facing high cost works which have reduced the demand for a buy-back budget of this nature. There is no such buy back facility currently in place, but this position is kept under review.

4. COMMUNITY ENGAGEMENT AND CONSULTATION

- 4.1 None directly arising from this report. Community engagement and consultation are undertaken in relation to development of any new affordable housing in the City as part of the pre-planning and planning application process. In addition, consultation with council tenants and leaseholders on the HRA budget found substantial resident support for best use of HRA assets and HRA capital and revenue support for building new homes and estate regeneration. Community engagement and effective consultation is central to development of design and feasibility options for future estate regeneration to be reported back to future Housing Committee meetings.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 5.1 The council has signed an agreement to retain any additional net capital receipts for new affordable homes. The net capital receipts are calculated after taking into consideration transaction costs, forecast capital receipts to be retained by the Government and the council (as advised in the Spending Review) and repayment of housing debt. It is difficult to accurately estimate at this stage the likely receipt, because although enquiries have increased, the actual increase in sales providing reliable data for assumptions will not take effect for several months.

Finance Officer Consulted: Sue Chapman *Date: 21/02/13*

Legal Implications:

- 5.2 The council's constitution gives officers wide delegated powers in relation to housing and housing finance. The signing of the agreement mentioned in paragraph 3.12 was therefore properly authorised. As the report is for noting, there are no other legal or Human Rights Act implications to draw to Members' attention.

Lawyer Consulted: Name Liz Woodley *Date: 22/02/13*

Equalities Implications:

- 5.3 Increasing housing supply supports Tackling Inequality, priority one of the Corporate Plan. It will help meet the identified needs of households unable to access housing other than by approaching the Council for assistance. It will also help the Council discharge statutory duties to accommodate vulnerable

households to whom it owes a housing duty. New affordable housing is built to Lifetime Homes standard with 10% fully wheelchair adapted in order to support households with a disability to live independently at home for as long as possible.

Sustainability Implications:

- 5.4 Newly built homes will be built to Affordable Housing Brief standards in terms of size, Code for Sustainable Homes, amenity space, Lifetime Homes Standard. Development to the BREEAM standard level 'Good' ensures that new homes are designed to be sustainable, to minimise carbon emissions and use sustainable materials in their construction. New homes will support One Planet Living principles.

Crime & Disorder Implications:

- 5.5 New affordable housing demonstrating good architectural and urban design can contribute to safer homes and neighbourhoods.

Risk and Opportunity Management Implications:

- 5.6 Risk and opportunity management implications are outlined in the report and will be kept under review. Right to Buy receipts from sales in Brighton & Hove under the new scheme would have gone to the Secretary of State for payment to the Homes & Communities Agency if the Council had not signed up to retaining the receipts for the purposes of building new affordable homes within the DCLG time-line. As outlined in the report the retention of receipts is subject to parameters including that the Right to Buy funding can only cover a maximum of 30% of the cost of building a new affordable home and that the Government has created a disincentive to hold onto the receipts through interest charges. Unused receipts will have to be paid back to Government with interest within time-frames outlined in the report. Opportunities include the potential to support improvement of housing supply in the City through use of the retained Right to Buy receipts to part fund the Local Housing Investment Plan and/or any future estate regeneration schemes. Risks and opportunities will be subject to any actual increase in Right to Buy sales arising from the introduction of higher discounts.

Public Health Implications:

- 5.7 Secure affordable energy efficient housing is key to supporting households to maintain a healthy life and sustain their independence.

Corporate / Citywide Implications:

- 5.8 Improving housing supply through supporting delivery of new affordable housing aligns to the following Corporate Plan commitment under Priority One, Tackling Inequality: 'Work with partners including the Homes & Communities Agency, neighbouring authorities and housing associations to provide 250 new and improved affordable and energy efficient homes'.

In addition, the City will benefit from additional affordable housing provision which will assist in meeting targets for new housing as identified in the Housing Strategy and the City Plan.

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

- 6.1 Improving housing supply through maximising investment in new affordable homes is a priority in the Corporate Plan, City Plan and a core element of the City's Housing Strategy. Failure to enter into agreement with the Secretary of State on retention of receipts to support improvement of housing supply in the City within the very tight timescale set by DCLG would mean that the local authority would not be able to retain Right to Buy receipts. Improvement in housing supply also includes support for householders to become home owners through the development of low cost home ownership options that tenants may wish to consider alongside the Right to Buy option allowing the possibility of retaining more existing Council homes.
- 6.2 An alternative option would be not to sign up to retention of Right to Buy receipts in the City on the basis that the Secretary of State pass receipts to the Homes & Communities Agency with the potential but not guarantee that this may in turn support future Registered Provider development of new affordable homes in the City.

7. REASONS FOR REPORT RECOMMENDATIONS

- 7.1 The report recommendations reflect resolution of Housing Committee on 16 January 2013 requesting officers bring forward a report in response to Notice of Motion, Right to Buy Receipts Delivering Replacement Affordable Homes.

SUPPORTING DOCUMENTATION

Appendices:

1. None
- 2.

Documents in Members' Rooms

1. None
- 2.

Background Documents

1. Brighton & Hove City Council Agreement with Secretary of State to retain receipts for new affordable homes (Agreement – Section 11(6) of the Local Government Act 2003).
- 2.