



Cabinet

18 NOVEMBER 2015

Subject Heading:

Social HomeBuy

Cabinet Member:

Councillor Damian White

CMT Lead:

Isobel Cattermole, Group Director,
Children's Adults and Housing

Report Author and contact details:

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Policy context:

Expanding opportunity for home ownership to Havering Tenants

Financial summary:

There is estimated to be a small reduction in rent receivable but a capital receipt would be generated

Is this a Key Decision?

Yes as it will have a significant effect on two or more Wards.

When should this matter be reviewed?

November 2016

Reviewing OSC:

Towns and Communities

The subject matter of this report deals with the following Council Objectives

Havering will be clean and its environment will be cared for	<input type="checkbox"/>
People will be safe, in their homes and in the community	<input checked="" type="checkbox"/>
Residents will be proud to live in Havering	<input checked="" type="checkbox"/>

SUMMARY

This report seeks Cabinet's agreement to a policy that enables existing Council tenants to purchase a share in their home, subject to the limitations and restrictions set out in the report.

RECOMMENDATIONS

That Cabinet:

1. **Agree** to the introduction of a social HomeBuy scheme to allow existing Council tenants to purchase a share in their home the principal terms of which are set out in the report.
2. **Authorise** the Head of Housing Services in consultation with the Cabinet Member for Housing to prepare and approve a detailed social HomeBuy scheme in line with principles outlined in the report.
3. **Authorise** the Head of Housing Services to amend the categories of properties exempt from the scheme after consultation with the Cabinet Member for Housing.

REPORT DETAIL

1. This proposed scheme is intended to increase opportunities for Havering Council tenants to take the first steps into home ownership by purchasing a share in their existing Council home. All Council tenants would be eligible under this scheme subject to the restrictions set out in the report.
2. This scheme is not a national requirement, but a voluntary arrangement similar to those operated by a number of London Boroughs. The scheme has some strong similarities to that introduced under the 2010 Guidance for Local Authorities issued by Communities and Local Government but does not replicate it in its entirety.
3. The scheme's benefits can be summarised as:
 - Offering sustainable home ownership to those not able to afford to buy outright under the Right To Buy (RTB) legislation.
 - Enabling incremental purchase over time as individual's financial circumstances change
 - Improving tenure mix on estates.
 - Providing replacement affordable housing through use of the Capital receipt.
4. How it works.
 - 4.1 Under this scheme existing Council tenants may buy a lease of the property for a minimum of 25% of its value, through savings and/or a mortgage. Purchasers pay the relevant percentage of the market value but in addition receive a further share of the property value, a 'HomeBuy bonus' equivalent to value of discount that they would

have received under the RTB, but in proportion to the share purchased.

- 4.2 The purchaser also pays an equity rent at 3% p.a. of the unsold equity, plus a share of any applicable service or ground rent charges.
- 4.3 Purchasers of flats are also responsible for all maintenance and major works costs regardless of the size of their share, and must meet any service charge requirements for communal provision.
- 4.4 Those who subsequently wish to move to full ownership are able to do so over time when this is affordable for them. Purchasers may buy further shares in tranches of a minimum of 10%, a process known as 'stair casing'. At each subsequent purchase the property is revalued and further discount is applied to the purchase price as with the initial sale and subject to a ceiling being the full RTB discount applicable at the time of original application.

5. Eligibility

- 5.1 To be eligible for the scheme tenants must be eligible to exercise the RTB. The full RTB statutory provisions therefore apply including, in brief:
 - They must be secure tenants who have held a public sector tenancy for a minimum of five years
 - The prospective buyer must not be in rent arrears or in breach of their tenancy agreement
 - They are not undischarged bankrupts or with a bankruptcy pending, be subject to a formal creditors agreement made under the insolvency acts, be obliged to give up their tenancy in pursuance of an order of court, or be subject to a suspension order.
- 5.2 Applicants will need to demonstrate their capacity to sustain the financial commitment required for home ownership, including having access to sufficient funds to pay for the normal costs of home ownership such as solicitors' fees, mortgage valuation and so on. This will be tested through a financial assessment as part of the application process.
- 5.3 The Council can also exempt certain properties from the scheme. The following exemptions are proposed:
 - Properties exempt under the RTB scheme, such as specialist housing provision
 - Properties subject to redevelopment proposals
 - Properties which have been constructed by the Council or where sufficient work has been carried out to make the RTB cost floor calculation relevant. This prevents sale of property where without this exemption the tenant could purchase at a price below the cost of construction or major refurbishment work.

- Any property type or class which the Head of Housing Services considers should not be sold because of an impact on the operation of the Housing service, for example sale of properties of a type in low supply and high demand.

6 Legal Status and Consent to Dispose

- 6.1 Under this scheme purchasers are granted a long lease by the Council of typically 125 years. The full legal interest is transferred to the purchaser but the Council retains the freehold. This mirrors other shared ownership arrangements.
- 6.2 The lease-holder enjoys all the usual rights of property ownership, subject to any restraints in the lease.
- 6.3 The scheme is not intended to be used for acquiring properties for investment purposes and so it is a requirement that at the time of the purchase the tenant should intend to live in the property as their only or principal home.
- 6.4 It is also proposed that the Council includes a condition in the lease controlling or prohibiting sub-letting. As this requirement is not provided for under the general consents for disposals issued by the Secretary of State under Section 32 of the Housing Act 1985 it will be necessary for the Council to make application for the Secretary of State's consent.

7 Resale and Repayment

- 7.1 Purchasers are able to resell their home at any point after purchase, even if they do not own 100% of the equity.
- 7.2 To maximise the likelihood that the affordable housing is retained to benefit the local community the Council will require through a covenant in the original sale terms a right of first refusal which will be triggered if the purchaser wishes to make an open market sale during the first 10 years after the initial purchase. This is a statutory requirement where homes are sold at a discount. We will also require the right to nominate another purchaser within a reasonable time period and so expand the pool of shared ownership properties available for Havering residents.
- 7.3 The 'HomeBuy bonus' available when a tenant purchases is subject to repayment under the same basis as the RTB scheme. This means that if a purchaser resells within five years from the date of purchase they will be required to repay some or all of their bonus on a sliding scale. This is set out within Appendix 1 along with examples.

8 Affordability

- 8.1 Comparing the RTB and Social HomeBuy option at Appendix 2 shows that the scheme effectively opens up access into home ownership for those on a lower income who cannot afford to buy the

home outright using Right to Buy but still wish, and can afford, to buy a share of the property.

- 8.2 The Appendix shows that whilst applicants on a low income may be able to afford to meet their monthly housing costs they would not be able to access a mortgage based on 3.5 times income to buy outright under the RTB. The Social HomeBuy proposal allows those people to enter home ownership by buying a share of their property.
- 8.3 Appendix 3 shows a range of comparisons for low cost home ownership and social renting options. After social renting, outright purchase with a maximum discount under the RTB is the lowest monthly payment for housing costs. This Social HomeBuy proposal is the next most affordable option.

REASONS AND OPTIONS

Reasons for the decision:

This proposal will increase the range of home ownership options available to Havering tenants. This will support the general aim to increase access to affordable homeownership as set out within the 2014 – 17 Housing Strategy.

A range of other options for accessing affordable home ownership already exist, including shared ownership which is targeted at first time buyers in general and not Council tenants.

In common with the Right to Buy legislation this proposal is specifically restricted to qualifying Council tenants but this option opens up accessibility to low cost home ownership through assisting those Council tenants who are not financially able to purchase outright.

Other options considered:

The option of not developing a social HomeBuy scheme for Council tenants was considered and rejected as it would not meet the objective of expanding the options for Council tenants wishing to access low cost home ownership.

It would also have been possible to determine different parameters for the scheme, qualifying criteria, and rules of operation but the proposed scheme appears to be the fairest in the circumstances.

IMPLICATIONS AND RISKS

Financial implications and risks:

There is estimated to be a small reduction in rent receivable, but a capital receipt would be generated.

Legal implications and risks:

The Council has a power to sell land and property held for housing purposes only with the consent of the Secretary of State under section 32 Housing Act 1985. That power is subject to the general rule in section 123 Local Government Act 1972 that it obtains the best price that can reasonably be obtained. The Report does not set out how the properties for social HomeBuy will be valued but this should be on the basis of a reasonable market value. The Secretary of State has given a general consent in 2013 to the sale of housing stock properties for social HomeBuy purposes provided, amongst other matters, that the discounts do not exceed those available under the Right to Buy legislative provisions.

The proposed scheme does not appear to breach the terms of the general consent but detailed legal advice may be necessary in determining the specific provisions of the scheme.

The proposed policy appears to be fair and reasonable. However, the Council will need to ensure that in drafting its detailed scheme that it has regard to the need to—

- (a) Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- (b) Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- (c) Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.”

The decision-maker therefore needs to pay careful regard to the attached equality analysis.

Legal advice and assistance will be required to prepare the relevant documentation for social HomeBuy sales.

Human Resources implications and risks:

There are no HR implications or risks for the Council, or its workforce, that can be identified from the recommendations made in this report at this present time.

Equalities implications and risks:

An Equalities Assessment has been completed.

BACKGROUND PAPERS

None