



CABINET

23 September 2015

Subject Heading:

Housing Scheme for the buy-back of ex-council properties.

Cabinet Member:

Councillor Damian White, Cabinet Member for Housing

CMT Lead:

Isobel Cattermole, Interim Group Director, Children, Adults and Housing.

Andrew Blake-Herbert, Director of Finance and Commerce.

Report Author and contact details:

Neil Stubbings, Interim Head of Housing Services – 01708 432970

Conway Mulcahy, Finance Business Partner – 01708 432656

Policy context:

The scheme will contribute to the London Borough of Havering's Housing Strategy, and will support the Council's vision of Putting Our Residents First.

Financial summary:

To agree to the principle of using the Housing Revenue Account (HRA) for buying back ex council properties sold under the RTB provisions

Is this a Key Decision?

No

When should this matter be reviewed?

This scheme should be reviewed by OSC one year after the start of the operation of the scheme

Reviewing OSC:

Towns and Communities OSC

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

Havering will be clean and its environment will be cared for
People will be safe, in their homes and in the community
Residents will be proud to live in Havering

SUMMARY

The Council is currently identifying a medium term strategy for the delivery of over 1,000 new council properties to provide affordable housing for Havering residents. At the same time, due to the new reinvigorated RTB process the Council is currently accruing significant RTB receipts which can, in part, be used to fund new build properties or the purchase of existing housing. A significant issue with the receipts is that they have to be “used” within three years otherwise they have to be handed back to Government along with interest at 4% over the current base rate. As part of the overall strategy for the delivery of new homes, this paper outlines a proposed RTB Buy Back scheme, explains how the scheme would operate and be financed, and seeks approval to proceed to implementation.

RECOMMENDATIONS

That Cabinet:

1. Approves the implementation of the scheme as outlined in the report;
2. Delegates to the Group Director, Children, Adults and Housing, authority to purchase properties, agree any necessary purchase prices and/or parameters and any other property transactions or decisions required to effectively implement the Scheme

REPORT DETAIL

1. The Right to Buy scheme was introduced in 1980 and gives qualifying social tenants the right to buy their home at a discount. During 2013 the Government increased the discount cap for London to £100,000 and this has accelerated sales. The maximum discount in London currently stands at £102,700 and is uplifted by the Consumer Price Index on the 1st April each year. Havering sold 15 properties during 2011/12, 51 properties during 2012/13, 85 in 2014/15, and has sold a further 18 to the end of quarter 1, 2015/16. At the same time the Council regularly receives enquiries from residents who are looking to sell their properties back to the Council, which could be facilitated through the implementation of a buyback scheme.

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2. The funding for acquisitions through a buyback scheme will come from within the HRA. The council is able to retain the receipts from RTB sales for replacement housing, using an agreement with Government which can be used to part fund the acquisitions within the scheme. The balance which is not met from RTB receipts will utilise HRA resources and borrowing as required. The current HRA Capital Programme for 2015/16 to 2017/18 includes a budget of £30m for housing Development, £10m of which is uncommitted and could be used to fund the scheme.
3. The acquisition of such properties offers a number of benefits, as part of a wider programme to deliver increases in housing units:
 - Supports the sustainability of the HRA through replenishment of stock and replacement of rental income lost through RTB sales,
 - Management and maintenance arrangements are already in place for such properties and in many instances the properties are leasehold with the council as landlord.
 - It allows a relatively quick application of RTB receipts when compared to new build schemes, which will support the maximum application of RTB receipts within allowable timescales.
4. It will assist in mitigating the general fund pressures on temporary housing accommodation by increasing the supply of affordable housing.
 - The dwellings are normally offered at a discount to the local market due to their location.
5. It is not currently known what level of conversion into actual purchases will be achieved as much will depend on valuation and purchase price negotiations and the location and type of properties that are purchased. However, this scheme, if implemented, will complement other initiatives aimed at increasing numbers of housing units and utilising the retained RTB receipts - which are included in the existing MTFS - such as the General Needs New Build and Supported Housing Programmes.

Supporting Information and operation of the Scheme

6. It is proposed to seek expressions of interest through a targeted letter which will invite interested owners to complete an on-line form. The mail shot will exclude any leasehold properties where the leasehold interest is held by a Registered Social Landlord (RSL), and will also make it clear that the Council will not be under any obligation to buy any specific property until a contract for purchase has been signed.
7. As a general principle the scheme will prioritise properties based on their cost, size, condition and location to ensure the best value is obtained. An initial shortlist will be compiled from the expressions of interest which will take account of the following considerations:

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- The Council will only be purchasing properties with vacant possession, and priority will be given to properties that are empty, to reduce the possibility of delays.
 - Any sub-let properties being used for temporary accommodation of clients on the Housing Register will be excluded at this time.
 - In view of the lower value of property prices and the priority housing need requirements, the initial focus will be on the repurchase of two and three bedroom properties in the south of the Borough.
 - Any tenant who purchased a property under the RTB Scheme would have to repay a proportion of the discount they received if they sell within the first five years.
8. Once an inspection has been undertaken by a Valuer, and provided that it is considered appropriate and feasible to repurchase the property within a reasonable period of time, each individual acquisition will be submitted for approval. It is proposed that delegated authority is given to the Group Director of Social Care, Health and Housing to approve the formal offer of purchase along with the proposed purchase prices and related property decisions. Each offer will be "subject to contract", vacant possession and achieving a target date for exchange.
9. The current rules concerning the RTB scheme state that a person has to be a council tenant for a minimum of 5 years before they can achieve the maximum discount under the scheme, but is reducing to three years during 2015 as part of new legislation currently progressing through Parliament. The cost floor determination (Section 131 of the Housing Act 1985) will also apply to any acquisitions within the scheme for a period of up to 15 years from the date of purchase. This limits the Right to Buy discount 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 that period. In practice this would ensure that if the cost floor is higher than the market value the property would be sold at market value - regardless of the tenant's discount entitlement - or alternatively if the cost floor is lower than market value, but higher than the discounted market value, the property would be sold at the cost floor value.

REASONS AND OPTIONS

Reasons for the decision:

The scheme will have benefits for the Housing Revenue Account (HRA). The additional stock will help to sustain the HRA rental income whilst providing additional units of accommodation to house those in need. It will also allow the Council to apply some of the time-limited retained Right to Buy (RTB) receipts.

Other options considered:

The Council could choose not to operate a buyback scheme, however the Council would not then have this option available to increase the supply of affordable housing, or be able to apply some of the retained RTB receipts. The operation of the policy will be kept under review, given the potential for changes in the operation of right to buy scheme, wider housing finance regime and the state of property market. The purchase decisions will be considered on a case-by-case basis with the benefit of full market knowledge from valuations, the impact on the HRA business plan and Medium Term Financial Strategy (MTFS).

IMPLICATIONS AND RISKS

Financial implications and risks:

The scheme for the buy-back of ex-Council properties outlined in this report is intended to replenish lost housing stock within the HRA, thereby supporting the financial sustainability of the Council's social landlord function. In addition, the increased supply of affordable rented accommodation could reduce the pressures within the Council's General Fund associated with the use of temporary accommodation to manage homelessness.

As detailed below, these purchases will enable the use of retained Right-to-Buy receipts which could otherwise become repayable to the Department for Communities and Local Government - thereby avoiding an interest charge of 4% plus base rate being borne by the HRA. The current cost floor mechanism, if maintained by central Government, will prevent any sale of repurchased properties to future tenants for less than the purchase price, or prevailing market value if lower, for a period of fifteen years.

The current HRA capital budget for 2015/16 to 2017/18 includes provision of £30m to support the development of new council property. It is not certain as to the exact number of units that will be acquired at this early stage. The comparative cost of New Build will be considered, when assessing the merits of Buy Backs.

As these are replacement homes the Council can use the retained RTB receipts to part finance the acquisitions. The application of net RTB receipts is usually limited to 30% of the cost of replacement homes, but Housing Finance regulations allow this to be increased to 50% in the case of ex-council properties, subject to a cap of 6.5% of the overall net receipts. The balance not covered by the RTB receipts, will utilise HRA resources and borrowing as required, with the necessary funding assumptions already built into the existing HRA MTFS and business plan. The application of RTB receipts to such a scheme will assist in meeting the Council's obligation to apply retained RTB receipts within three years of receipt. If these receipts are not utilised within the allowable timescales they are returned to central Government and an accrued interest charge is levied.

It is anticipated that the staffing implications of the scheme and any marginal costs in terms of undertaking valuations and legal procedures to support the timely conveyance of the properties can be managed within existing resources and budgets.

Legal implications and risks:

The Council's main power to provide housing accommodation is S.9 of the Housing Act 1985. This includes the power to acquire houses for this purpose in addition to doing so by building new homes and converting existing buildings. The power does not preclude the repurchase of former Council properties. Once houses have been acquired the Council may carry out alterations, enlargements and repairs.

Human Resources implications and risks:

None

Corporate Property implications and risks

Corporate Property have been consulted regarding the implementation of the buyback scheme, specifically concerning arrangements for the valuation of properties in the scheme. The valuation report will be carried out by a suitably qualified Valuer and will give the market value with vacant possession for each property inspected.

Equalities implications and risks:

It is not considered necessary to enter into an Equalities Impact Assessment in relation to the Buy Backs Scheme. Each potential purchase will only be completed after the usual property purchase negotiations using standard contract formats. Each purchase will therefore be undertaken with the expressed consent of each owner. an EIA is not therefore considered relevant.

BACKGROUND PAPERS

None