

---

---

<b>REPORT TO:</b>	<b>Finance and Management Committee</b>	<b>AGENDA ITEM: 16</b>
<b>DATE OF MEETING:</b>	<b>21<sup>st</sup> June 2012</b>	<b>CATEGORY: DELEGATED</b>
<b>REPORT FROM:</b>	<b>Mark Alflat - Director of Operations</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>Bob Ledger 5975 bob.ledger@south-derbys.gov.uk</b>	<b>DOC:</b>
<b>SUBJECT:</b>	<b>Right to Buy receipts – investment in new affordable rented homes</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>All</b>	<b>TERMS OF REFERENCE: HCS01, FM01</b>

---

---

## **1. Recommendations**

- 1.1 The Committee notes the recommendation of the Housing and Community Services Committee of 14<sup>th</sup> June 2012 relating to this matter.
- 1.2 Subject to 1.1 the Council signs the Government agreement to use additional Right to Buy receipts for investment in new affordable homes.
- 1.3 That a feasibility budget of upto £20,000 be approved to assist in developing delivery models for the new homes.

## **2. Purpose of Report**

- 2.1 To gain member approval for the Council to enter into an agreement with the government to use additional Right to Buy receipts for investment in new affordable homes.

## **3. Detail**

- 3.1 When a property is sold under the Right to Buy (RTB) provisions the government take 75% of the income from such sales with the remaining 25% being retained locally.
- 3.2 In the self financing settlement for the future operation of the Housing Revenue Account the government predicted the Right to Buy sales for the next 30 years for each local authority landlord. These predictions were based on sales numbers in recent years. The Government then built their predicted income into its own budgeting figures. For South Derbyshire the number of sales ranged from 6 (this year and next year) through to 11 per annum by year 30.
- 3.3 Prior to the 2<sup>nd</sup> April 2012 the cash discount that any prospective purchaser could obtain on buying their home in South Derbyshire was capped at £24,000. This was the East Midlands capping level – the amount varied according to regional circumstances.

- 3.4 On the 2<sup>nd</sup> April 2012 the Government increased the cap nationally on Right to Buy sales to £75,000. This is expected to substantially increase the number of sales beyond the numbers previously predicted and the issue at hand is how the income from those additional sales is treated. We are already seeing an increase in applications in this District.
- 3.5 The Government is stating that it will allow local authorities to retain all of the additional receipts if the income is used to provide new affordable housing. They are also stating that the maximum amount that can be used from the sales for each property built or purchased cannot be more than 30% of the cost of build or purchase. The balance of up to 70% would need to be funded by borrowing. In terms of the established model for delivering additional supply for affordable housing most of the capital cost has normally been funded by borrowing i.e. this is the established model. The difference here is that the government is seeking to limit the non-borrowing element to 30% in an effort to make the RTB receipt income go further and deliver the maximum number of homes. The implication of this is not only to increase borrowing but also to put pressure on rent levels i.e. higher borrowing means that higher rent level income may be needed to service that debt.
- 3.6 There are options on how the new provision could be delivered. The delivery mechanisms could be new build direct or purchase of new build properties from a developer or purchasing of existing properties either for sale or empty. These options could be delivered either directly by ourselves or in partnership with a Housing Association or other partner. If we were to enter into the government agreement the next stage in our preparation would be to resource a piece of work on the best delivery model for the local circumstance in terms of cost, quality and our ability to control the long term use and management of the new stock .
- 3.7 Early signs are that most local authorities will sign the agreement simply from the basis that it keeps the money local. The Chartered Institute of Housing is also supporting such a stance.
- 3.8 The Council is allowed 3 years from receipt in which to use the money for new provision. As part of the agreement if the money is not used within that timeframe we are required to pay it to Government with an allowance for interest i.e. this is a direct encouragement to get on and deliver.
- 3.9 For further information attached as an appendix to this report is the covering letter from Government to the actual agreement which sets out the Government's perspective on this proposal.

#### **4. Financial Implications**

- 4.1 There are no immediate financial implications in signing the agreement. By doing so though we do commit to additional affordable housing provision within at most the next three years. This may have additional financial implications dependent on the delivery model used. In turn any new properties built would generate additional revenue into the Housing Revenue Account if built or acquired direct by ourselves.
- 4.2 The formula used by the government in their modelling of the use of additional receipts presumes that the debt associated with the property sold (the average in South Derbyshire is £22,000 per property) has first call on the receipt and following additional deductions for RTB administration the remaining receipt is that to be used for new build. In practice there is no specific requirement to physically reduce loans; in any case, there may be penalties given the fixed term nature of the loans and the

very advantageous interest rates of the loans themselves. The mechanism is likely to be that the Council will 'set aside' an amount equivalent to the debt associated with each additional RTB sale (which will average £22,000) and then potentially draw on this to use as a resource to support new build or other services, with the proviso that regular updates to the business plan continue to give reassurance that all debt is prudently managed.

- 4.3 It is proposed that detailed feasibility work on the delivery options be undertaken over the next three months and that specialist support and advice is bought in to support this process as necessary and a budget of upto £20,000 be approved for this work.

## **5. Corporate and community implications**

- 5.1 A key strategic objective of the Council is to deliver a range of affordable and decent housing.
- 5.2 Council housing waiting list information clearly indicates that there is very high demand for additional affordable housing in the District.