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CABINET- 6 JUNE 2012

PORTFOLIO: HOUSING AND COMMUNITIES

RIGHT TO BUY: RE-INVESTING RECEIPTS IN NEW AFFORDABLE RENTED HOMES

1 INTRODUCTION

1.1 Members will be aware that on 2nd April 2012 the Government increased the cap on Right to Buy discounts from £38,000 to £75,000. The Government expect this to lead to an increase in Right to Buy sales. The Government is also committed to ensuring that the additional receipts that result from the increase in sales are reinvested to provide replacement homes.

2 BACKGROUND

2.1 The Right to Buy legislation was originally introduced by the Housing Act 1980 and led to a surge in Council tenants buying their homes. In the New Forest nearly 4,500 homes have been sold since that time. In recent years, however, the level of discount when set against the purchase price of a council home has been eroded and the numbers of sales has been steadily falling. During 2011/12 only 10 homes were sold.

2.2 Under the previous regime any property sold would result in 75% of the total receipt (after deduction of certain allowances) being passed back to central Government and only 25% being retained by the Council.

2.3 In the review of the HRA financing system, which was carried out before the increase in the discount cap, the Government assumed a level of RTB sales for each year of the business plan. The financial implications of this were taken into account in arriving at the Council's £142.7m settlement figure. This included an expected level of capital receipts for both the Government and the Council under the 75%/25% split.

3 PROPOSALS

3.1 Following the increase in the discount cap it is anticipated that the number of RTB sales will be greater than assumed in the settlement business plan. The Government has devised a complex formula for dealing with future capital receipts which aims to protect the expectations in the business plan, including the capital receipt shares in paragraph 2.3, but which then ensures that any additional receipts meet its commitment of 1-1 replacement, either nationally or locally.

3.2 Under the new arrangements any Council that wishes to retain the receipts from the sales in excess of those assumed in the business plan must first enter into an agreement with the Government stating that it wishes to retain receipts to reinvest in new affordable housing. Any Authority which does not sign up to this agreement will have to pass receipts from sales (after deduction of certain allowances, including an element for the debt attributed to the dwelling in the settlement payment) to the Government who in turn will ensure that they are used to provide additional affordable housing on a national basis.

3.3 If an Authority wishes to retain receipts and signs to that effect with Government then the agreement will confirm that the Council will:-

- Use those receipts for the provision of affordable rented homes
- That those receipts will constitute no more than 30% of the total investment in such homes, and
- That if, after 3 years, any of those receipts are not used as set out above, it will pay the unused sums (plus interest) to the Secretary of State.

3.4 The agreement is designed to be "light touch". There are no conditions on the number of new homes that must be built or acquired, their type or location or the rent that must be charged on them. These are decisions for the Authority to make.

3.5 Any new home built/acquired under these arrangements would also be liable to be sold under the Right to Buy. However, the Government has clearly stated that if any home were sold under Right to Buy the Authority would be able to retain the whole receipt (providing it is spent on affordable housing, regeneration or paying down housing debt).

3.6 The Government are 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 coming from the Right to Buy receipt.

3.7 As with the Affordable Homes Programme (primarily carried out in the past by Registered Social Landlords (RSL's)) the remainder of the cost will come from cross-subsidising from the Authority's own resources or by borrowing against the net rental stream from the new property.

3.8 It is clear that if NFDC wish to sign the agreement and therefore ensure that new affordable homes are provided within the New Forest for our local residents, then we should consider whether or not to charge Affordable Rents for those new properties. In that way, as currently happens in the RSL Sector, we can ensure that we achieve best value for money in the use of our resources.

3.9 Affordable Rent is defined as 80% of current market rents, so any new homes provided in this way would still be 20% cheaper than comparable private sector rents. The current average for a 3-bedroomed Council house is around £100 per week and it is anticipated that the average charge for an equivalent new home under the affordable rent proposals would cost in the region of £150 per week. However, there are a number of issues around the future levels of housing benefits and the equality of charging differing rents for similar homes that need further exploration prior to a firm decision being taken on this issue. It is therefore suggested that although Cabinet may agree in principle to the proposal to charge affordable rents for new homes under these proposals a further report on the detailed implications be prepared prior to a firm decision being taken.

4 FINANCIAL IMPLICATIONS

4.1 Various financial issues are included in the earlier paragraphs of the report. The report requests Members to consider two recommendations. If the Council agrees to sign up to the agreement it will retain more capital receipts than if it were not to sign the agreement, but the level cannot be quantified as it will depend on the number of sales, the value of dwellings sold and the discount rates applicable. Any decision to charge Affordable Rents will increase the resources available to the Housing Revenue Account.

5 ENVIRONMENTAL IMPLICATIONS

5.1 Any new housing constructed as part of these proposals would comply with modern requirements in terms of energy efficiency and would therefore have the minimum possible impact upon the environment.

6 CRIME AND DISORDER IMPLICATIONS

6.1 Good quality housing is recognised as having a positive impact upon the environment and in turn on how residents might feel about the area they live in. Therefore it is considered that anything we can do to provide quality affordable housing for our residents will have a positive effect on reducing crime and disorder generally.

7 CONCLUSION

7.1 With the recent review of the HRA Financing system members will be aware that the Council are now investing in new affordable homes from the surpluses created on the HRA account. The proposals set out by Government under the re-invigorated Right to Buy will complement our efforts in creating the maximum numbers of new affordable homes.

7.2 Rather than lose the receipt created by Right to Buy sales for investment in other areas, it is considered appropriate that we should enter into an agreement with the Secretary of State to retain any available future Right to Buy receipts.

8 PORTFOLIO HOLDER’S COMMENTS

8.1 Although I am less than enthusiastic regarding the new Right to Buy proposals I am very keen to keep as much of the receipt within the New Forest so we can at least ensure that for every property we might lose we can replace it with a new affordable home. This, coupled with our current proposals for increasing our stock of affordable homes under the HRA Finance Review, will ensure that we can still increase our overall stock of social housing to meet the needs of our residents.

9 RECOMMENDATIONS

9.1 That the Head of Housing be authorised to enter into an agreement with the Secretary of State that will enable the Authority to retain additional Right to Buy receipts for investment in new affordable rented homes.

9.2 That the principle of all new affordable homes provided under these arrangements being charged at an Affordable Rent (i.e. 80% of Market Rent) be agreed, subject to a further report on the detailed implications being presented to Cabinet later this year.

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Background Papers

Letter and attachments dated 15th May 2012 from Communities and Local Government.