

<b>DECISION-MAKER:</b>	<b>CABINET</b>		
<b>SUBJECT:</b>	USE OF RIGHT TO BUY RECEIPTS TO PROVIDE AFFORDABLE HOMES		
<b>DATE OF DECISION:</b>	21 JANUARY 2014		
<b>REPORT OF:</b>	CABINET MEMBER FOR HOUSING AND SUSTAINABILITY		
<b><u>CONTACT DETAILS</u></b>			
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## STATEMENT OF CONFIDENTIALITY

### BRIEF SUMMARY

Since 2012 the council has been able to retain some Right to Buy (RTB) receipts from the sale of council homes to existing tenants, provided it can demonstrate that it has spent a sufficient amount on replacement affordable housing, on at least a 'one for one' basis

This paper makes recommendations about spending some of these receipts to provide new affordable housing, initially through working in partnership with Registered Providers.

### RECOMMENDATIONS:

- (i) To add, in accordance with Financial Procedure Rules, a sum of £1,628,000 to the Housing and Sustainability Portfolio General Fund Capital Programme for a Registered Provider Grants scheme to be funded from Right to Buy receipts.
- (ii) To approve, in accordance with Financial Procedure Rules, capital expenditure of £1,628,000, phased £800,000 in 2014/15 and £828,000 in 2015/16, to award grants to Registered Providers to help fund new affordable housing in the city.
- (iii) To delegate authority to the Director of Place, following consultation with the Chief Financial Officer, the Head of Legal and Democratic Services, the Senior Head of Property and Procurement and the Cabinet Member for Housing and Sustainability to:
  - (a) finalise the bidding criteria for the grant funding;
  - (b) decide successful bidder(s) for the grant funding; and
  - (c) enter into a grant agreement with the successful Registered Provider(s)

## REASONS FOR REPORT RECOMMENDATIONS

- 1 The council has significant funding available from Right to Buy receipts. This money needs to be spent within 3 years of receipt, otherwise receipts must be paid to the Government, with interest.
- 2 These receipts can only be used to fund new affordable housing. The RTB receipts can only comprise 30% of the total cost
- 3 If the council were to build affordable homes itself then it would need to find 70% of the cost. The council's Housing Revenue Account has limited borrowing headroom available to contribute the additional 70% required.
- 4 Full consideration will be given to the council using future RTB receipts towards funding new affordable council homes as part of the Townhill Park regeneration
- 5 Funding Registered Providers (RPs/ housing associations) would provide affordable housing without the need for the council to fund the other 70%, helping the HRA's cash flow.

## ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 6 The council could decide not to spend the RTB receipts, but this would result in having to pay the money to the Government's Communities and Local Government department (CLG), with an interest payment of 4% above base rate (calculated from the date of receipt).
- 7 The council could spend all the money on new council homes. However, due to Government borrowing restrictions, the council would also need to make significant reductions in the Housing Revenue Account (HRA) Capital Programme with a consequent deterioration in the standard of the existing housing stock.
- 8 The council could decide to restrict grant funding **only** to conversion of existing properties. However this option has been rejected as existing properties can however be very complicated, time consuming and costly to convert or bring back into use. For this reason, new build options will also be actively considered (see paragraphs 26-28 below)

## DETAIL (Including consultation carried out)

- 9 **Background**  
Since 2012 the council has been able to retain some RTB receipts, provided it can demonstrate that it has spent a sufficient amount on replacement affordable housing on at least a 'one for one' basis.
- 10 Between April 2012 and the end of September 2013, the council had received £2.468M, which is available to spend, from 113 RTB sales. Under the rules regarding RTB receipts these have to be spent within three years, although the actual housing does not have to have been completed by then. This means the first receipts have to be spent by September 2015 and the latest by September 2016.
- 11 It was originally proposed that £1.9M of RTB receipts would be used towards the redevelopment of Erskine Court in Lordshill, with the remainder coming from within the Housing Revenue Account (HRA) borrowing headroom and

this formed part of the council's bid to the HCA in January 2013. In July 2013 the Homes and Communities Agency (HCA) confirmed that the council had been successful in its bid for Care and Support Specialist Housing Grant for the Erskine Court scheme and will receive £2.7M

- 12 In July 2013 the Department of Communities and Local Government wrote to all Local Authorities to advise that RTB receipts cannot be used at any development where any HCA funding is used. This meant that the plans to use RTB funding at Erskine Court could not proceed, leaving the council needing to find other opportunities to increase affordable housing through the use of RTB receipts. Alternative funding from the HRA has been identified to match fund the HCA grant to redevelop Erskine Court.
- 13 RTB receipts used to provide affordable housing cannot constitute more than 30% of the total amount spent. Therefore, to use the £2.4M from RTB receipts, a further £5.6M (70%) must be found from elsewhere, making a total spend required of £8M by September 2016.
- 14 The guidance from the CLG says there are two ways a council can spend the receipts on the provision of affordable housing.
  - Use the money itself as a direct provider whereby the council finds 70% of the cost of provision; or
  - Transfer the receipt over to another provider, with that other provider putting the remaining 70% funding into the provision.
- 15 In the short term, the council itself does not have the resources to use all the RTB receipts to provide new council owned homes. This is because, although RTB receipts would cover 30% of the cost of the provision of affordable housing, the council would need to find the remaining 70% from other HRA resources. The HRA must work within Government borrowing restrictions that have imposed a debt cap of just under £200M. Council have also agreed that a proportion of any 'borrowing headroom' will be retained as a contingency for any unforeseen or high risk short term issues that need to be supported.
- 16 In other words, the council does not have sufficient resources to match the RTB funds, were it to provide all the affordable housing itself, without making significant reductions in the Housing Revenue Account (HRA) Capital Programme with a consequent deterioration in the standard of the existing housing stock. However the receipts need to be spent to prevent not only the loss of the receipts, but also the paying of punitive interest.
- 17 This then leaves the option of spending some of the receipts to provide grant funding to a Registered Provider (RP/ Housing Association) partner to help provide new affordable housing in the city.
- 18 The benefit is that for every £3 provided by the council, the RP would contribute a further £7 from their own financial resources, as they too would also not be able to use any HCA funding if they received RTB funding for a particular scheme.
- 19 With this in mind, it is proposed that partner RPs (who participate in the choice based lettings scheme) are invited to bid for grant to provide affordable homes. The council currently has 7 partners which form the

Southampton Affordable Housing Partnership 2012-2015.

20 **Grant bids**

Bids will need to demonstrate how the design of any scheme enhances the sustainability of both the scheme and individual tenancies, as well as minimising any impact on the neighbouring community.

21 The bids will be assessed on the value for money they provide in terms of number of units and cost per unit, as well as quality and innovation.

22 Successful bids would be awarded a grant from the council to develop the scheme, up to a maximum of 30% of the total cost. In this way the RP would be responsible for the remaining 70% funding required.

23 An additional benefit is that the time pressure of spending the receipts would be reduced, as the council can transfer 50% of the grant over when the scheme commences (as the HCA current do with their grant) with clear protections for the funding in the grant funding agreement should the scheme stall. The other 50% will be paid when the scheme reaches completion.

24 It is proposed that the council seeks bids from RPs for schemes that provide affordable housing for single people. Currently nearly 50% of those on the housing waiting list are looking for one bedroom properties and this demand is increasing due to those who are looking to downsize in response to the spare room subsidy within welfare reforms. There is significant need for small homes for single person households who may benefit from intensive housing management in place, and where care and floating support could be provided as needed by individuals.

25 These homes would be highly specified and suitable for people moving on from specialist supported accommodation in the city. The homes would not be bespoke in design, allowing the flexibility of both first and future users. It is not envisaged that there would be any dedicated communal space / facilities, or the need for any on site care or support.

26 The housing would be targeted at single people under 35, as this group has been affected by changes to the housing benefit rates. In the private sector this group are entitled only to the single room rate of Housing Benefit (i.e. £64.62 per week), which can be a significant problem for people with vulnerabilities who cannot share a home.

27 Schemes that include converting offices to residential use or the purchase of off the shelf properties for conversion to flats or bringing empty properties in the city back into use will be favoured, as this helps to signal the council's desire to see creative options for existing properties, provided such schemes can demonstrate value for money and can deliver on time.

28 Existing properties that are unoccupied and evidentially redundant in their current uses can progressively have a negative impact on local communities. The act of conversion can generate employment in construction. Residential reoccupation can provide an increased customer base to help sustain existing businesses in the area, and/or encourage new businesses to start up.

- 29 Existing properties can however be very complicated, time consuming and costly to convert or bring back into use, and so may not offer the best value for money to the council. For this reason, new build options will also be actively considered. This approach has the benefit of signalling the council's desires around existing properties, but keeps the use of the grant open for RPs to submit solutions that offer the best value for money, the greatest number of units and certainty of delivery.
- 30 This proposal would take up £1,628,000 of the RTB receipts and would help to ensure spend within the required timescales using a method that would not require 70% match funding from the HRA. This would leave £840,000 of receipts to be spent (based on receipts to 30 September 2013), plus all future receipts. Other options are being developed for the spend of these resources. Current thinking is focused around limited options for new council homes.
- 31 A further consideration in 2014 will be the benefit of the council using future receipts towards funding new affordable homes as part of the Townhill Park regeneration. The new HCA bidding round opens next year, with guidance due in January 2014. Clearly maximising funding for the scheme is the priority,

## **RESOURCE IMPLICATIONS**

### **Capital/Revenue**

- 32 As at 30 September 2013 there is £2,468,000 in RTB receipts available to spend. The first tranche (£277,000) was received in quarter 2 of 2012/13 and has to be spent by September 2015.
- 33 It is recommended that, at this stage, £1,628,000 is offered in the form of grants to RPs, this being the receipts from the first tranche of sales, up to the end of Q1 2013/14, which will all need to be spent by June 2016.

### **Property/Other**

- 34 No comments

## **LEGAL IMPLICATIONS**

### **Statutory power to undertake proposals in the report:**

- 35 The Council has powers under the Housing Acts in relation to the provision of affordable housing. A power of general competence is also available under section 1 of the Localism Act 2011, the exercise of which is subject to any prohibitions or restrictions that may exist.

### **Other Legal Implications:**

- 36 Right to buy receipts must be applied in accordance with relevant legislation and guidance and particularly the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 (as amended) and the terms of any agreement reached under the Local Government Act 2003 modifying the applicability of the regulations.

**POLICY FRAMEWORK IMPLICATIONS**

- 37 The Housing Strategy 2011-15 sets out the 3 key housing priorities for Southampton, one of which is maximising homes for the city
- 38 The Council Plan 2013-16 has set a priority of encouraging house building and improving existing homes, including providing new affordable homes
- 39 The provision of new affordable homes through the use of RTB receipt therefore meets the council’s priorities and is within its policy framework.

**KEY DECISION?** Yes

<b>WARDS/COMMUNITIES AFFECTED:</b>	All
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**SUPPORTING DOCUMENTATION**

**Appendices**

1.	None
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**Documents In Members’ Rooms**

1.	None
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**Equality Impact Assessment**

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No
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**Other Background Documents**

**Equality Impact Assessment and Other Background documents available for inspection at:**

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
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1.	None	
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