AGENDA ITEM: 12

SUMMARY

Report for:	**Cabinet**
Date of meeting:	**29 May 2012**
PART:	**1**
If Part II, reason:	

Title of report:	**REINVIGORATING RIGHT TO BUY (RTB): RETENTION OF RECEIPTS FOR REPLACEMENT HOUSING**
Contact:	Cllr Margaret Griffiths, Portfolio Holder for Housing Cllr Nicholas Tiley, Portfolio Holder Finance & Resources Mark Gaynor, Corporate Director (Housing & Regeneration) Sally Marshall, Corporate Director (Finance & Governance) Author: James Deane, Group Manager (Financial Services)
Purpose of report:	To seek approval to enter into agreement with the Department of Communities and Local Government to retain additional receipts arising from Right to Buy in order to support the Council's replacement programme.
Recommendations	That the principle of a formal agreement with the Department of Communities and Local Government for the retention of Right to Buy receipts (as set out in the report) be approved and that authority be delegated to the Corporate Director (Finance and Governance) to sign the agreement.
Corporate objectives:	Affordable Housing
Implications: 'Value For Money Implications'	<u>Financial</u> Contained within the body of the report. <u>Value for Money</u> The resources would be additional and advantageous to the HRA Business Plan

Risk Implications	These are dealt with in the report
Equalities Implications	There are no Equalities implications arising directly from this proposal
Health And Safety Implications	There are no Health and Safety issues arising directly from this proposal
Monitoring Officer/S.151 Officer Comments	**Monitoring Officer:** The Housing (Right to Buy) (Limiit on Discount) (England) Order 2012 came into force on 2nd April 2012. This order increases the maximum discount cap for tenants to £75,000. The Order makes no changes to the eligibility criteria. **S.151 Officer** Whilst in the longer-term, the new RTB legislation may offer the Council additional assistance to progress its new-build ambitions, in the short-term close monitoring of the impact of the new legislation is required before any conclusions can be drawn. Over the next few months, the pattern of RTB sales should be kept under review, with close reference to the longer-term impact on the HRA business plan of the potential lost surplus-generating capacity caused by a reducing housing stock. This analysis will contribute to the Cabinet report scheduled for later in the year, on how best to utilise the additional surplus in the business plan generated by the lower interest rates secured on the HRA self-financing loan. In the short-term, the HRA new build programme should not rely on assumed additional funds resulting from this legislation.
Consultees:	Chartered Institute of Housing
Background papers:	None
Glossary of acronyms and any other abbreviations used in this report:	RTB – Right to Buy HRA – Housing Revenue Account DCLG – Department of Communities and Local Government HCA – Homes and Communities Agency

Background Information

1.1 In Laying the Foundations: A Housing Strategy for England, the Government announced its intention to increase the caps on Right to Buy (RTB) discounts to enable more tenants to achieve their ambition for home ownership. This was reported to Cabinet in December 2011.

1.2 Following a consultation period, the Government has now announced its planned changes to RTB, together with details of how additional funding will be available to Councils to support the delivery of a national target of one for one replacement.

Summary of key points

1.3 Key points in the RTB legislation are as follows:

a. The government has maintained the existing discount rates and qualifying criteria, but has increased the discount cap on an individual property to £75k. This represents a maximum increase of £41k on the current DBC cap of £34k for a tenant who has been resident in a house for 30 years or a flat for 15 years.

b. Under the new policy, RTB receipts will be applied as follows:

   1. Self financing debt attributable to the sold property to be retained by the Council;

   2. Associated administration and transaction costs to be retained by the Council;

   3. Council and Government split income at the existing pooling rate of 25:75 up to the income level assumed in the self-financing settlement;

   4. Any remaining balance (known as net receipts) is available to the Council for investment in affordable homes.

c. The 'cost floor' (the actual cost of providing a new home and the minimum price a tenant would have to pay regardless of discount) will be retained and extended from 10 years to 15 years. Councils will be able to apply for exemption from pooling arrangements (and therefore one for-one replacement) for RTB receipts from new social homes built after 2008. Without these changes there could be a financial disincentive for local authorities to provide new affordable rented homes in future.

The national context of the legislation

1.4 A key objective of the new RTB policy is that Government seeks to achieve one-for-one replacement of affordable homes on a national level. Government argues that if it were to keep the net RTB receipts (as defined in b. 4. of paragraph 1.3) it could achieve this target, whilst restricting the contribution made from the net RTB receipts to 30% of the cost of the replacement homes.

1.5 Subject to the Council signing an agreement with DCLG, the new legislation allows the Council to retain this net RTB receipt, providing it is able to match the Government's commitment to apply it to a new affordable rent housing programme up to a maximum contribution of 30% of the full programme cost. The remaining 70% of the programme costs must be financed by the Council. Any funds retained under this agreement must be used in the delivery of an affordable housing scheme within two years of retention, or be refunded to DCLG together with a 4% interest charge.

1.6 If the Council did not wish to enter into such an agreement, the net receipt would be surrendered to DCLG, and re-distributed nationally for new affordable rented housing by the Homes and Communities Agency (HCA).

1.7 In summary, Government is attempting to generate additional RTB receipts in support of what it believes is a feasible programme to deliver one-for-one replacement on a national scale. It is subsequently offering Local Authorities the option to contribute its receipts towards the national programme locally (through retention), or nationally through surrendering them to DCLG for national redistribution.

Risks & opportunities for Dacorum

1.8 The following questions and answers highlight some of the key points for the Council to consider.

What are the risks to the Council within the new legislation?

The self financing settlement included an assumed level of RTB sales averaging 15 per year over the next four years. The additional funding available under the new legislation (as shown in the allocation priorities in paragraph 1.3 b) only becomes available to the Council once the assumed income associated with this number of sales has been exceeded.

The key point to note is that this assumed income level is based on the discount levels that applied before the change in legislation, i.e. before the discounts were increased. The increased discount cap will result in a lower receipt for each property, which means that many more properties will need to be sold in order to meet the assumed income level.

It is possible that Dacorum will not experience the necessary increase in the number of properties sold in order to exceed the assumed income level and unlock the additional funding. There are a number of pressures that may reduce the number of properties sold, e.g. the current economic uncertainty, availability of mortgages, and the fact that many tenants will not have lived in their property for sufficient time to qualify for the maximum discounts that would incentivise them to purchase their property.

In summary, the key risk is that the enhanced discounts would encourage an increase in the number of sales, but not enough to provide the Council with additional funding.

The risk to the long-term HRA business-plan of a depleted housing stock is partly mitigated by the receipt retained from each sale to service the debt attributable to that property. However, reduced housing stock would result in a lower surplus-generating capacity than is currently assumed in the HRA business plan, which depending on the timing, value and number of sales could have a material impact over the longer-term plan.

The number and pattern of the Council's RTB sales will need to be closely monitored over the next few months in order to derive a robust understanding of the likely impact on the HRA business plan. Until the impact can more accurately be quantified it is recommended that the Council does not assume that it will have access to increased funds, and that it does not yet factor them into new build programmes.

What are the opportunities for the Council within the new legislation?

If the Council's RTB sales are sufficient to generate 'net receipts', then access to these funds represents an opportunity to the Council that did not exist under the old legislation.

The table below illustrates how the net receipts could make a significant contribution to the cost of a new build home. It should be noted that land already owned by the Council cannot be classed as a building cost for the purpose of allocating retained receipts, hence the separate columns in the table.

Key assumptions in the table are: build costs are £150k; the attributable debt level is an average of the total debt; the selling price of a property is c£155k.

	On Council land £000's	On purchased land £000's
Build cost	150	150
(less value of land if Council owned)	(50)	
TOTAL	**100**	**150**
Receipt of average HRA debt	36	36
Council's 25% retained receipt	30	30
One-for-one replacement grant	33	45
TOTAL	**99**	**111**
Balance to be sourced by HRA	**51**	**39**

If the Council signs an Agreement, for how long is it committed?

Although Government has yet to finalise the Agreement which Local Authorities would need to sign in order to retain receipts locally, much of the draft detail has been published.

The Agreements would work on a rolling quarterly basis, along the same lines as the current 'pooling returns', in which the Council reports the previous quarter's RTB sales to DCLG, together with details of associated payments.

For example, to retain the net receipts generated in Quarter 1, the Council would need to commit to investing them by the end of Quarter 13. For Quarter 2, it would commit to investing by the end of Quarter 14. As the process becomes established, it is envisaged that Councils will be required to report back, in the relevant quarter, details of how the receipts were invested in line with legislation. If the Council failed to invest the funds within the 3-year timeframe it would be required to repay them to DCLG with a 4% interest charge.

There is inbuilt flexibility in this arrangement which will help Council's manage their risk exposure the prospect of not investing funds within the required timeframe:

1. In not signing up for more than one quarter at a time, the Council has an opportunity to review the risk exposure each quarter in conjunction with the progress of the HRA business plan; and,

2. The existing HRA business plan already contains a new build scheme of 15 new properties per annum starting in 2012/13 which is currently financed solely through rental receipts. The Council could allocate any additional receipts to this project and remain in compliance with the Agreement.

Conclusion

1.10 An initial spike in demand is expected in response to the introduction of the new, more generous RTB discount cap. However, it will require several months of monitoring the pattern of sales before the longer-term impact of the new legislation can be accurately forecast. Ongoing demand will be monitored and Members kept up-to-date throughout the year.

1.11 Given the relatively low controllable risk to the Council, as detailed above, it is recommended that the Council begin the process by signing up to retain any net receipts locally. This will be kept under review as part of the business plan monitoring process.