

FAREHAM

BOROUGH COUNCIL

Report to the Executive for Decision 6 January 2014

Portfolio: Health and Housing
Subject: **Use of Right to Buy Receipts**
Report of: Director of Community
Strategy/Policy: Housing Strategy

Corporate Objective: A balanced housing market

Purpose:

To seek approval to use the Council's proportion of capital receipts arising from the sale of Council houses to provide replacement homes to help meet the growing need for affordable housing in the borough.

Executive summary:

The Right to Buy scheme was introduced in 1980 and is designed to help social tenants in England buy their home at a discount. The scheme is open to people who are secure tenants of a local council and who have spent at least 5 years as a public sector tenant.

Since April 2012, major changes have been made to Right to Buy. Maximum discounts were increased from as little as £16,000 in some areas to a maximum of £75,000 across England. As a result the number of Council houses sold under the Right to Buy scheme has risen.

As part of the 2012 changes, the Council entered into an agreement with the Government which allows the Council to retain a proportion of the capital receipt to build new affordable homes or purchase existing homes. A condition of the agreement requires the Council to make use of the capital receipt within two years of its collection or pay the receipt in full (plus interest) to HM Treasury.

This report outlines a proposal for spending the proportion of the capital receipt that the Council has collected (under the terms of the agreement) for the purchase of replacement homes.

Recommendation:

That the Director of Community in consultation with the Director of Finance and Resources be authorised to spend and continue to spend the Right to Buy receipts collected since April 2012 on the purchase of replacement homes to be let at affordable rents, subject to the cost being affordable and sustainable to the Housing Revenue Account.

Reason:

To replace social homes purchased under the Right to Buy Scheme and help to meet local housing need.

Cost of proposals:

The initial cost of this proposal is £791,411 comprising £237,423 from the portion of the Right to Buy receipts retained by the Council and £553,988 from the Housing Revenue Account Reserves.

The cost of this proposal can be met from within existing resources and can be met in full from the Housing Revenue Account. Future acquisitions will be dependent on the amount of future Right to Buy receipts and the ability of the Housing Revenue Account to support further purchases.

Background papers: **Agreement made between FBC and DCLG for the use of Right to Buy Retained Receipts** – (Agreement made under Section 11 (6) of the Local Government Act 2003 dated 22 June 2012 with amendment dated 28 June 2013).

FAREHAM

BOROUGH COUNCIL

Executive Briefing Paper

Date: 6 January 2014

Subject: Use of Right to Buy Receipts

Briefing by: Director of Community

Portfolio: Health and Housing

INTRODUCTION

1. The Right to Buy scheme was introduced in 1980 and is designed to help social tenants in England buy their home at a discount. The scheme is open to people who are secure tenants of a local council and who have spent at least 5 years as a public sector tenant.
2. Since April 2012, major changes have been made to Right to Buy. Maximum discounts were increased from as little as £16,000 in some areas to a maximum of £75,000 across England. And for the first time, the money raised through extra sales is going towards building new affordable homes for rent.
3. Following the changes to the Right to Buy Scheme, the Council was invited to enter an agreement with the Government to use the money from the sale of council homes in the borough to purchase replacement homes.
4. This report outlines a proposal for spending the proportion of the capital receipt collected and retained by the Council for the purchase of replacement homes for rent.

PROPOSAL

5. Since April 2012, the Council has sold 16 homes (up to 6 December 2013) under the new Right to Buy Scheme with a further 12 applications actively being pursued. (This compares with 10 homes sold between 1st April 2010 and 31st March 2012 under the previous scheme). The Council has been allowed to retain £237,423 of the sales proceeds under the new Right to Buy Scheme for investment in replacement homes.
6. Under the terms of the agreement with the Government, the Council is permitted to use the receipt to purchase a 30% stake in a replacement home with the balance (70%) of the cost being met from the Housing Revenue Account (either from HRA reserves or from HRA borrowing).

7. By combining the £237,423 retained receipt (the 30% stake) with a 70% stake (equivalent to £553,988) it provides the potential to spend a total of £791,411 to invest in replacement homes. The total amount is likely to increase as further homes are sold under the Right to Buy Scheme.
8. Therefore, it is proposed that in accordance with the agreement, the Council should use these funds to purchase replacement homes to help meet local housing needs.
9. It is estimated that the current budget is sufficient to purchase between 6 and 8 replacement homes for rent. Suitable properties will be selected by the Director of Community in consultation with the Head of Estates and the Head of Building Services.
10. As Right to Buy sales continue over the coming months and years, the Council will collect further receipts for investment in replacement homes. Therefore it is proposed that the Director of Community be authorised to continue to spend future Right to Buy receipts on new or replacement homes in consultation with the Director of Finance and Resources, subject to the purchase costs being affordable to the Housing Revenue Account.

RISK ASSESSMENT

11. The following risks have been considered:
 - 11.1 **Failure to use the receipts in accordance with the Government's agreement.** If the receipts are not used within two years of collection, the Council is required to pay the receipt plus interest to HM Treasury resulting in a loss of resources to Fareham and its residents.
 - 11.2 **Finding suitable properties.** The Council has suitably qualified and experienced officers to identify and acquire suitable properties.
 - 11.3 **Cost of matched funding from the HRA.** The Council can meet the cost of match funding the 30% stake from the Housing Revenue Account. Future acquisitions will be subject to consultation between the Director of Community and the Director of Finance and Resources to ensure the programme of future acquisitions is affordable and sustainable within the HRA.
 - 11.4 **Demand for social rented accommodation.** With approximately 1400 applicants on the Housing Waiting List and increasing numbers of households presenting in need of temporary accommodation there is plenty of demand for additional rented accommodation. At the time of writing this report, the Council has a total of 110 households placed in temporary accommodation and a further 12 households placed in Bed & Breakfast accommodation).

- 11.5 **Invest in new build or existing satisfactory purchases.** The Council has the option of investing the receipt in new affordable housing or purchasing existing homes. As the Council has no new build affordable housing onsite at present or prior to April 2014 (with the exception of the new sheltered housing scheme on the site of the former Collingwood House) there is little scope to invest in new affordable homes before a repayment is due. A further complication of the Agreement prevents the Council from using the receipt on new build affordable housing developments on sites where the Council has secured a grant from the Homes and Communities Agency.
- 11.6 **Future management and maintenance costs.** The properties will be retained within the HRA and their future management and maintenance costs will be met from the rental income.

FINANCIAL IMPLICATIONS

12. This proposal requires the Council to fund £553,988 (70% of the total funding) from the HRA. This can be met from within the existing HRA without the need for additional borrowing.
13. Further acquisitions will be discussed and agreed by the Director of Community in consultation with the Director of Finance and Resources and will be subject to the affordability and likely impact on the HRA.

CONCLUSION

14. The proposal outlined in this report will help ensure the Council retains a proportion of the Right to Buy receipts to invest in the provision of replacement homes for rent, thus helping to meet local housing need.

Reference Papers: None