

## **PLACE COMMITTEE**

**5 SEPTEMBER 2018**

### **REPORT OF DIRECTOR FOR GROWTH & REGENERATION**

#### **USE OF RETAINED RIGHT TO BUY RECIEPTS**

##### **1.0 PURPOSE OF REPORT**

- 1.1 To provide information on the retained Right to Buy receipts the Council currently holds and outline options for their use.

##### **2.0 RECOMMENDATION**

- 2.1 *To approve the purchase of new affordable rented housing as per section 3.12 to this report, Option 3*
- 2.2 *To authorise the Director for Growth and Regeneration (in consultation with the Chair of the Place Committee and with the section 151 Officer) to purchase dwellings that are considered to be suitable for use as affordable housing, agree purchase prices and parameters and make any decisions required to effectively acquire the properties*
- 2.3 *To authorise the Director for Legal and Democratic Services to negotiate and complete such documents as she deems necessary or desirable to conclude the transactions negotiated by the Director for Growth and Regeneration*
- 2.4 *To authorise the section 151 Officer to use the Right to Buy receipts where necessary to fund the acquisition of the properties purchased under 2.1*

##### **3.0 KEY ISSUES**

###### **Background**

- 3.1 New Right to Buy (RTB) rules were introduced by the Government from April 2012. As part of these new rules Councils were allowed to enter into an agreement whereby receipts from additional RTB sales had to be used to fund the 1-4-1 replacement of social housing. Melton Borough Council took advantage of this opportunity and signed an agreement on 27 June 2012.
- 3.2 These retained RTB receipts however must be spent within 3 years and must constitute no more than 30% of the total spent on new affordable rented housing. If not spent the money is returned to the Exchequer plus interest at 4% above the base rate, which is calculated on a day to day basis and compounded quarterly.
- 3.3 In addition to the three year restriction, there are various other restrictions applied to the use of RTB receipts. They cannot be used for expenditure on dwellings which are social housing at the time of the expenditure or which replace demolished dwellings; they cannot be used where the scheme is funded wholly or in part by grant funding and they cannot be used for low cost home ownership schemes.

- 3.4 Retained RTB receipts can be used to deliver social housing through the acquisition of market dwellings and for the acquisition of land and development costs to construct new dwellings. The receipts can also be given to another organisation to deliver social rented housing but not to an organisation in which the Council holds a controlling interest.

#### Unspent RTB Receipts in Melton

- 3.5 Retained RTB receipts which are required to be spend over this and the next two financial years in Melton total £629k and are detailed in the table below.

Financial Year	Unspent RTB 1-4-1 Retained Receipts by Financial Year	Estimated Interest Repayable (if Funds Returned)
2018/19	£90	£12
2019/20	£317,590	£42,500
2020/21	£311,141	£24,000
<b>Total</b>	<b>£628,821</b>	<b>£66,512</b>

- 3.6 Retained RTB receipts can only fund up to 30% of development costs. The table below illustrates a funding match requirement of £1.47m to March 2021.

Financial Year	Unspent RTB 1-4-1 Retained Receipts by Financial Year	Required 70% Match Funding	Total Fund
2018/19	£90	£210	£300
2019/20	£317,590	£741,043	£1,058,633
2020/21	£311,141	£725,996	£1,037,137
<b>Total</b>	<b>£628,821</b>	<b>£1,467,249</b>	<b>£2,096,070</b>

- 3.6 The HRA capital programme (2017-2022) supports the priorities and objectives of the Housing Asset Management Plan (HAMP) (2017-2022). It includes a number of allocations for strategic projects such as the Fairmead regeneration project and the Gretton Court extra care scheme as well as a £2.51m affordable housing capital budget to provide an estimated 30 new affordable homes in accordance with the HAMP.
- 3.7 Other than the recent purchase of a flat in Melton Mowbray there are no other projects currently committed to deliver housing using the affordable housing capital budget, although we expect this position to change as the new structure is now in place. The Council is currently assessing options to deliver new homes through the Council as well as the proposed new housing development company and a report will be brought back to this committee in April as relevant, in regard to these receipts.
- 3.8 It would be expected that the affordable housing capital budget would also secure funding from RTB receipts, developer contributions, land assets and external grant funding as appropriate to be able to deliver the 30 new affordable homes set out in the HAMP.
- 3.9 The affordable housing capital budget is sufficient to match fund the RTB receipts, as highlighted in the table above to 2020/21.

- 3.10 It should be noted that RTB sales in the current financial year will also need to be spent before the end of the HAMP period. First quarter 2018/19 RTB receipt incomes are lower than in previous two years and suggest a need to plan for around an additional £500k HRA affordable housing capital match funding to support RTB spending to the end of the HAMP period to March 2022. There would be sufficient funds within the affordable housing capital budget to allow for this.
- 3.11 Over the medium to long term we expect RTB receipts to form part of the mix of funding available to maximise investment in new Council Housing, for example, the development of new build Council homes on some of our land assets. However there is low probability that such a new housing development scheme can be completed before some of the highlighted RTB receipts require spending. We therefore need to consider options for RTB receipts in the interim.

#### **Options for the Use of Right to Buy Receipts in Melton over the Short Term**

- 3.12 There are three main options for the use of RTB receipts in Melton over the short term;

##### **OPTION 1: Do nothing and return the RTB Receipts to the Exchequer.**

This is not a recommended option, as the Council would incur an interest charge of 4% plus base rate on all funds that they would be required to return. This would result in a cost to the Council of over £66,500 over the next three years. In addition it would lead to the loss of RTB receipts that could have helped to increase the supply of social housing in Melton and provide additional rental income to the HRA.

##### **OPTION 2: Gift the RTB receipts to a housing association or other Registered Provider of social housing to acquire or build new housing to ensure that the RTB receipts are retained in Melton.**

It is the Council who has lost its asset from the RTB sale and (to ensure long term sustainability) the HRA needs to replace this loss. Gifting RTB receipts to a third party will make this harder to achieve. It is recommended that this option may be of interest in exceptional circumstances where either there is a strategic social housing development that the Council supports (which is not able to secure funding from other sources) or where the Council does not have sufficient funds to match the RTB receipt spending. Neither of these scenarios is applicable at present.

##### **OPTION 3: Include in the capital programme the supply of new affordable rented housing, whether through purchases or new build schemes, to the full value of the required 1-4-1 retained RTB receipt expenditure, so that the RTB receipts are retained in Melton and to the benefit of the HRA.**

As highlighted above, there is capacity to do so with the affordable housing capital budget which has been established to increase the supply of Council housing by 30 units over the next 5 years. Given the timescales typically involved in building new affordable housing, purchases of market housing will be required to ensure that all RTB receipts are spent within the deadlines identified above. This option is in line with the HAMP, which recognises that purchasing market dwellings is likely to be good value for money in some instances; this may include repurchasing some former Council properties. Priority for purchasing any market housing would be given to housing that will best meet local needs for affordable rented housing. However there will be a need to balance this against the housing which is available to purchase within the spending requirement deadlines and securing best value.

#### 4.0 **POLICY AND CORPORATE IMPLICATIONS**

- 4.1 Using RTB receipts to increase the provision of social rented housing in Melton will help to meet the well established local need for more rented affordable housing. It will assist in delivering our Corporate Plan priority to increase the availability of good quality homes which meet local needs.
- 4.2 Any new properties would need to be let in accordance with the Council's adopted Tenancy Policy. The Tenancy Policy states that the Council will usually seek an 80% affordable rent on new homes that they build or acquire and let these homes on a five year fixed term tenancy (where appropriate and subject to caveats to ensure property remains affordable to those with lower incomes).
- 4.3 Any acquisitions would need to have regard to the Council's Land Acquisition and Disposal Policy which provides a clear framework and guidance, in conjunction with the Capital Programme and Asset Management Plan for land disposals and acquisitions undertaken by the Council.

#### **Government Consultation on the Use of RTB Receipts**

- 4.4 On the 14th August 2018, the Government published a Social Housing green paper for consultation, this included proposals to alter how RTB receipts can be used. A consultation specifically regarding the use of receipts from RTB sales was also launched alongside the green paper. Proposals include;
- Allowing existing RTB receipts to be used over a longer 5 year period of time, however future receipts would still to be required to be spent within 3 years.
  - Retaining up to 30% cap for affordable rented housing, but allowing up to 50% of costs to be met from RTB receipts to provide housing for social rent (but only in areas that can demonstrate need for social and not affordable rent).
  - Allow combinations with affordable housing grant funding, but only up to relevant cap.
  - Restricting acquisitions, the preferred option would be to introduce a price cap per dwelling based on average build costs at Homes England and Greater London Authority operating area level, proposed at £132,000 for the Midlands area.
  - Allowing shared ownership affordable housing replacements in some circumstances.
  - Allow local authorities to gift land from the General Fund to their Housing Revenue Account.
  - Cautiously seeking views to allow the transfer of RTB receipts to a housing company or to an Arm's-Length Management Organisation.
  - Proposing a temporary suspension of interest payments for returned RTB receipts to allow those without development plans to return receipts without penalty.
- 4.5 A further report will be provided to this committee if there are any policy changes as a result of this consultation that affect the use of RTB receipts locally as recommended in this report.

#### 5.0 **FINANCIAL AND OTHER RESOURCE IMPLICATION**

- 5.1 There will be additional financial costs required to get any property purchases ready for a tenant, this may include revenue funded repairs or upgrades to get it to decent homes standard and suitable for letting. It would be expected that the need for any significant works would be reflected in the negotiated sale price of a property. Stamp duty costs may also apply to the purchase of property or land.

**6.0 LEGAL IMPLICATIONS/POWERS**

6.1 RTB 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.

**7.0 COMMUNITY SAFETY**

7.1 There are no direct community safety issues arising from this report.

**8.0 EQUALITIES**

8.1 There are no direct equalities issues arising from this report.

**9.0 RISKS**

9.1 The HRA is a high risk service account that the Council has a duty under the Local Government and Housing Act 1989 to ensure avoids being in a deficit situation. This requires that effective budget monitoring procedures are set in place to monitor HRA expenditure and income against the budget and careful consideration is given to determining the level of the working balance.

<b>L I K E L I H O O D</b>	<b>A</b>	<b>Very High</b>				
	<b>B</b>	<b>High</b>				
	<b>C</b>	<b>Significant</b>				
	<b>D</b>	<b>Low</b>		1, 4		
	<b>E</b>	<b>Very Low</b>		2		
	<b>F</b>	<b>Almost Impossible</b>		3		
			<b>Negligible 1</b>	<b>Marginal 2</b>	<b>Critical 3</b>	<b>Catastrophic 4</b>

**IMPACT**

<b>Risk No.</b>	<b>Risk Description</b>
1	Purchase of property is not able to complete within RTB receipt spending deadline
2	Insufficient suitable properties are available to purchase on the open market
3	Housing Prices increase significantly
4	Government introduces new rules on the use of retained RTB receipts that significantly limit the Council's ability to spend them

10.0 **CLIMATE CHANGE**

10.1 There are no direct climate change issues arising from this report.

11.0 **CONSULTATION**

11.1 No consultation has been undertaken in the preparation of this report.

12.0 **WARDS AFFECTED**

12.1 To varying degrees, most if not all wards are affected by the RTB sales and the provision of new social housing.

Contact Officer: Nicola Butcher  
Date: 28 August 2018  
Background Papers: [Melton Borough Council HAMP 2017-2022](#)  
[Reinvigorating Right to Buy and One for One Replacement Information for Local Authorities](#)  
[Government 2018 Consultation on Use of Receipts from RTB Sales](#)  
Reference: X: C'tees, Council & Sub-C'tees/Place/05-09-18