

**Cheltenham Borough Council**  
**Cabinet – 15<sup>th</sup> June 2021**  
**Housing Revenue Account – Shared Ownership sales and Staircasing policy**

<b>Accountable member</b>	<b>Councillor Mike Collins, Cabinet Member Housing</b>
<b>Accountable officers</b>	<b>Martin Stacy, Lead Commissioner Housing Services</b> <b>Dominic Stead, Head of Property and Assets</b>
<b>Ward(s) affected</b>	<b>Various</b>
<b>Key Decision</b>	<b>Yes</b>
<b>Executive summary</b>	<p>Cabinet is asked to approve the Shared Ownership Sales Policy (Appendix 2) and Staircasing Policy (Appendix 3), which outline the approach to the sale of shared ownership homes delivered, administered and managed by Cheltenham Borough Homes, (CBH) on behalf of the council (CBC).</p> <p>Working in partnership, CBC and CBH are progressing ambitious development plans to deliver a step change in the provision of new homes in the Borough across a variety of tenures. This includes a range of developments including land led developments on CBC owned assets, acquisition of land and development, and homes secured via S106 Agreements. As part of the development programme a number of schemes will provide shared ownership homes available for sale via the Government's 'Help to Buy' scheme, providing choice and promoting sustainable mixed communities.</p> <p>Shared ownership is an affordable tenure as defined by the Ministry of Housing and Local Communities (MHCLG) to help those who aspire to be homeowners, but who cannot afford to purchase on the open market. They can buy a share in their home (presently an initial equity share can range from 25% to 75%) and then pay the landlord (CBC via the HRA) a rent on the unsold equity.</p> <p>The CBH in-house leasehold team will ensure that properties are sold efficiently, effectively and in accordance with the Homes England (HE) Capital Funding Guide (CFG) requirements and CBC's requirements and policies, whilst maintaining excellent customer service.</p> <p>The Sales Policy sets out key stages of shared ownership sales, sales progression, staircasing and management. The recommendations of the report will ensure the effective delivery of shared ownership disposals.</p> <p>The Staircasing policy sets out the key stages and the HE requirements when a shared owner applies to increase the percentage share of the equity that they own at any time during the term of the shared ownership lease. The tranches in which additional equity may be purchased and any restrictions on staircasing are determined by the individual lease and the grant funding. The staircasing policy adheres to the CFG stipulations for staircasing.</p>

**Recommendations****Cabinet is recommended to:-**

- 1. Approve the Shared Ownership Sales Policy**
- 2. Approve the Shared Ownership Staircasing policy**
- 3. Delegate authority to the Lead Commissioner Housing Services, in consultation with the Cabinet Member Housing, to make necessary changes to the current policy in order to comply with government guidance until the policy is subject to a full review in three years' time.**

<b>Financial implications</b>	<p>The current and future pipeline of new build development opportunities includes a number of shared ownership homes. Full Council, at its meeting in February 2020, and in the Treasury Statement October 2019, approved sufficient budget to finance new supply within the HRA within the period up to 2025. The required financial parameters for ensuring shared ownership properties are financially viable within individual new build schemes are agreed and subject to analysis from the feasibility stage and at key stages of the development process. This includes seeking regular and updated valuations from RICS registered surveyors at key stages of the development to ensure the proposed open market values for the shared ownership properties are right and properties marketed accordingly. Based on sector experience, initial sales have been assumed at an average of 40% ownership. The subsequent annual rent is calculated at 2.75% of the value of the unsold share and is subject to annual indexation. As noted in the staircasing policy, in the event that shared owners request to increase their ownership of the property, or 'staircase up' or indeed 'staircase down' where they look to reduce the equity share owned, at this point in time the property is re-valued and any additional shares sold at the market value of the property at the relevant time, up to 100% outright ownership. The development of the HRA new build programme will require an ongoing review of resource availability to ensure the most effective and timely use of each funding stream. The choice of funding streams is delegated to the Executive Director- Finance and Assets.</p> <p><b>Contact officer: Gemma Bell, Head of Finance (Deputy 151 Officer), <a href="mailto:Gemma.Bell@cheltenham.gov.uk">Gemma.Bell@cheltenham.gov.uk</a>, 01242 264124</b></p>
<b>Legal implications</b>	<p>The Council has the power under s32 of the Housing Act 1985 (and the General Housing Consents 2013) to dispose of such properties on a shared ownership basis, subject to the limitations and conditions imposed by the section and the Consents from time to time in force (which would not, under the current Consents, adversely affect the Council's intentions under the proposed Policy).</p> <p>Further conditions may be imposed by Homes England if future developments were to be undertaken with the assistance of Homes England finance.</p> <p><b>Contact officer: One Legal, <a href="mailto:Legal.services@tewkesbury.gov.uk">Legal.services@tewkesbury.gov.uk</a>, 01684 272691</b></p>
<b>HR implications (including learning and organisational development)</b>	<p>There are no direct HR implications arising from this report.</p>
<b>Key risks</b>	<p>Please see risk assessment at Appendix 1 of this report</p>

<b>Corporate and community plan Implications</b>	By increasing the provision of new affordable housing, we will be supporting our key strategic objective of strengthening our communities. The proposals to include shared ownership homes supports the aspirations of the Place Vision for Cheltenham, approved in March 2018, to focus on housing delivery as a priority with the aspiration to increase the number of affordable, accessible, safe and secure housing, and to build strong, healthy and inclusive communities.
<b>Environmental and climate change implications</b>	New build homes provided for shared ownership tenure will, as a minimum, be required to meet the prevailing Building Regulations Standards at that time, which in recent years have been enhanced to focus on adopting a 'fabric first' approach to environmental performance. On new build schemes where CBC/CBH have direct control over the specification, for example, on land led sites that CBC owns and controls, the environmental performance of the new homes will be reviewed to determine if it would be appropriate (welcomed by prospective purchasers or financially viable for example) to enhance the performance of shared ownership properties to support the Council's aim to be carbon neutral by 2030. It is recognised that there will need to be a balance to ensure that the properties remain affordable for prospective purchasers.
<b>Property/Asset Implications</b>	<p>The provision of shared ownership homes adds to the affordable housing stock within Cheltenham and provides homes for a key target market, and to help meet housing need.</p> <p>The detailed shared ownership sales policy and staircasing policy will ensure that there are robust policies and procedures in place to deliver, administer and manage these homes via CBH.</p> <p><b>Contact officer: Dominic Stead, Head of Property and Asset Management, <a href="mailto:Dominic.Stead@cheltenham.gov.uk">Dominic.Stead@cheltenham.gov.uk</a>, 01242 264151</b></p>

## **1.0 Background**

- 1.1. The approved CBC Corporate Plan (2019-2023) aims to increase the supply of affordable housing in Cheltenham with a shared CBC and CBH aspiration of working towards a target of 500 additional affordable homes across a variety of tenures over the next 5 years to meet local demand. The 2020 Local Housing Needs Assessment (LHNA) outlines that 3,874 new affordable homes are required in Cheltenham Borough over the period 2021-2041 to meet the identified local housing need, with approximately 1/3 requiring a rented home (social or affordable rent) and the remaining 2/3 homes required to meet the needs of those aspiring to home ownership.
- 1.2. Shared ownership is an affordable tenure as defined by the Ministry of Housing and Local Communities (MHCLG) to help those who aspire to be homeowners, but cannot afford to purchase on the open market, to buy a share in their home. Presently an initial equity share can range from 25% to 75%. The occupier would then pay the landlord (i.e. CBC via the HRA) a subsidised rent on the remaining unsold equity.
- 1.3. Purchasing a share of a property requires a smaller deposit and mortgage, thereby making it a more affordable route to home ownership. Shared ownership properties are always leasehold and include the ability to buy further shares in a property over time (a process known as 'staircasing') until eventually attaining full ownership, when the freehold is usually transferred.
- 1.4. The Governments Affordable Homes Programme (AHP) 2021-26 via Homes England provides £11.5 billion grant funding over five years and is expected to deliver up to 180,000 new affordable homes. The Government expects that around half of these homes will be available for shared ownership.
- 1.5. CBH, on behalf of CBC, will look to secure affordable housing grant from Homes England as part of the 2021/26 (AHP) programme for a range of affordable tenures. This will include securing grant for the direct delivery of shared ownership homes on sites in CBC's control and ownership, for example on the sites at 320 Swindon Road and the Monkscroft School site development, to ensure sustainable, mixed communities are promoted.
- 1.6. CBC will also provide shared ownership homes via S106 Agreements. (These are delivered at nil grant, forming part of the subsidised affordable homes to be delivered on such sites). CBC, via CBH, has recently completed its first 3 homes delivered via a S106 Agreement on the site at 102 Prestbury Road with developer Newland Homes, comprising 2 x Affordable Rent and 1 x Shared Ownership home. Works are currently on site at Brockhampton Lane with Cotswold Homes, which will provide a further 7 new homes in the Autumn (5 x Affordable Rent homes and 2 x homes for Shared Ownership).
- 1.7. The Shared Ownership Sales Policy sets out how CBH, on behalf of CBC, will deliver, administer and manage shared ownership homes to help those who aspire to be homeowners but who cannot afford to purchase on the open market. The policy outlines the approach to allocating homes, the eligibility criteria and approach to the sale of shared ownership purchases which are compliant with the Capital Funding Guide (CFG) and relevant legislation set out by Homes England and local authority requirements. The CFG contains the rules and procedures that all providers delivering affordable housing must follow, relevant to both Homes England grant funded homes and those delivered at nil grant via S106 Agreements.
- 1.8. The Staircasing Policy outlines the approach for leaseholders who are looking to 'staircase', i.e. the process whereby a shared owner wants to buy more equity shares in their home. This policy is consistent with the Homes England guidance on shared ownership and the CFG. The terms of the shared ownership lease when dealing with an application to staircase will be adhered to. The Policy establishes an efficient, transparent, fair and effectively controlled basis for the acceptance and processing of applications for staircasing.

- 1.9. In Autumn 2020, Government announced proposed changes to the shared ownership model lease. These changes are yet to be enforced and CBC and CBH are keeping abreast of any key policy changes. An outline of the proposed reforms can be found at Section 4.

## **2.0 Further details**

- 2.1 The aims and objectives of adopting the approach to sales noted in the sales policy are as follows:
- Budgeted sales rates are achieved while working within grant-funding conditions and legal obligations.
  - That there is clear overarching guidance about how to assess prospective applicants.
  - Applicants are treated fairly and always assessed in line with Homes England (HE) Capital Funding Guide (CFG).
  - Applicants are financially assessed for affordability and financial risk is minimised.
- 2.2 CBC will provide shared ownership properties through CBH in line with the CFG, which contains the rules and procedures for all providers delivering affordable housing through one of Homes England's affordable homes programmes.
- 2.3 The policy states that CBH will allocate shared ownership homes to prospective purchasers who meet the shared ownership criteria and confirms that properties will be offered on a 'first come first served' basis. This approach is adopted by other Registered Providers responsible for selling shared ownership properties.
- 2.4 In order to ensure timely decisions and timely sales can be realised, in March 2021 delegated authority from the Leader of the Council to CBC Head of Property and Assets was secured to approve all decisions relating to shared ownership sales and staircasing.
- 2.5 CBH will market the shared ownership homes/development in advance of handovers to secure off-plan sales and minimise sales/void time. As noted in the sales policy, CBH will require prospective purchasers to pay a reservation fee to secure the property, and upon receipt of the reservation fee, CBH will remove the property details to confirm 'sold subject to contract' with the property no longer available.
- 2.6 CBH will first initially review the details of an applicant's eligibility, affordability, and sustainability for acquiring a shared ownership home in line with the Homes England shared ownership criteria and recommend acceptance or rejection of an applicant to CBC. Like other Providers and ALMOs providing shared ownership homes, CBH will work with a specialist mortgage broker to carry out affordability assessments using the HE affordability calculator. They will provide CBH with the mortgage offer for approval in turn from CBC's Head of Property and Assets.
- 2.7 The Head of Property and Assets will approve the mortgage offer received from a purchaser for CBC affordable shared ownership. The mortgage offer will be checked against the HE affordability assessment. The mortgage offer must contain the special requirements for shared ownership and match the agreed affordability determined by the HE calculator. This check will verify that the applicant is eligible for affordable home ownership and the property is sustainable.
- 2.8 Cash buyers will require approval from CBH via CBC. CBH will carry out the necessary Anti Money Launderings checks in line with the CBC Counter Fraud and Anti-Corruption Policy, the CBC Proceeds of Crime and Money Laundering Policy and the CBH Anti Money Laundering Policy.
- 2.9 CBC are to approve the legal documentation for disposal of new build shared ownership homes, with delegated authority granted to the Head of Property and Assets to carry out this function.
- 2.10 CBC are to approve a leaseholder's application to 'staircase', enabling customers to purchase additional equity in their home during the term of their lease. Gradual staircasing of 1% each year for 15 years will be available for shared ownership homes provided through the AHP 2021-2026.

When a homeowner submits a request to purchase additional equity of their home, the tranche is valued at current market value. This process is governed by timescales as determined in the shared ownership lease.

### **3.0 Reasons for recommendation**

- 3.1 CBC and CBH have a vision to make Cheltenham a better place to live by providing great homes and stronger communities and consider that shared ownership homes will contribute to this vision. In addition, CBH will work in partnership with the appointed Help to Buy Agent (South) to contribute to the national homeownership agenda to make it more affordable for our customers to buy a home.
- 3.2 CBH will adhere to the Shared Ownership Sales Policy and Staircasing Policy approved by CBC to process the disposal of affordable homes of this tenure and any subsequent staircasing request. These policies also comply with best practice, the Financial Conduct Authority requirements and stipulations of Homes England and the Capital Funding Guide.

### **4.0 The Government's proposed changes to the shared ownership lease**

- 4.1 In November 2020, the Government outlined a series of proposed changes to the shared ownership model lease. These include reducing the minimum initial share from 25% to 10%, and introduces a new gradual staircasing offer to allow people to buy additional shares in their home in 1% instalments with heavily reduced fees. It also introduces a 10 year period (post completion of a new build property) during which the shared owner will receive support from their landlord to pay for essential repairs.
- 4.2 CBC and CBH are currently reviewing the key changes that are going to be introduced by Government in relation to the new shared ownership model which is set out in the policy document. CBH has considered the financial implications to the changes and shared ownership remains financially viable under these new Government rules. As noted in the Policy documents, the policies will be reviewed every 3 years as a minimum or when there is a legal or regulatory change that may affect it, and they will be updated accordingly once the new model has been formally adopted by Government.

### **5 Alternative options considered**

Do nothing – not to pursue mixed tenure schemes to include shared ownership properties. This has been discounted on the basis it would not support CBC/CBH's shared objectives to create sustainable mixed communities and provide a range of affordable homes to meet customers needs.

### **6 Consultation and feedback**

- 6.1 The principle of CBC/CBH pursuing mixed tenure developments providing shared ownership properties is well established and agreed with Cabinet Members and Senior CBC/CBH Executive Members (via SHDG and OWG).
- 6.2 Officers within CBC and CBH support the need for timely sales transactions, as this is critical to enable shared ownership properties to be occupied as soon as possible.

### **7 Performance management - monitoring and review**

- 7.1 In collaboration with CBH, CBC will monitor and review the housing need within Cheltenham to support and shape future shared ownership supply and ensure that new developments meet this need.
- 7.2 CBH will review the policies formally every three years or whenever there is a legal or regulatory change that may affect it, and will seek any relevant approvals from CBC to capture any necessary changes.

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<b>Appendices</b>	1. Risk Assessment  2. Shared Ownership Sales Policy  3. Staircasing Policy
<b>Background information</b>	Leader allocation of functions – approved 19 <sup>th</sup> March 2021



The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likelihood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
1	If the new shared ownership model lease details are not adhered to, then this may have a resultant impact on our ability to secure future HE funding to support shared ownership.	Matthew Ward (CBH)	April 21	4	1	4	Accept	Ensure robust policies and procedures are in place; liaise with Homes England on an ongoing basis to keep abreast of key government policies.	May 21	Matthew Ward (CBH)	
2	If there is a reduction in demand for shared ownership homes, then this may have a resultant impact on the financial viability of a development scheme.	Matthew Ward (CBH)	April 21	3	1	3	Reduce	Undertake robust market analysis to ensure the properties for shared ownership are appealing to the market; seek regular and updated market research from registered valuers. Reduce or transfer option in the event that sales are not forthcoming; liaise with Homes England to determine if the tenure can be switched to a rented tenure.	ongoing	Matthew Ward (CBH)	
3	If we have slow and/or ineffective processes in place this may result in missed sales opportunities, which could lead to a more	Matthew Ward (CBH)	April 21	2	2	4	Reduce	Implement robust procedures and effective governance arrangements.	June 21	Matthew Ward (CBH)	

	protracted sales period (void properties and security considerations and lost income)										
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