Cheltenham Borough Council

Cabinet – 19 June 2012

Right to Buy – Scheme Changes and Agreement to Retain Receipts

Accountable member	**Cabinet Member for Housing and Safety, Councillor Peter Jeffries**
Accountable officer	**Director of Commissioning, Jane Griffiths**
Accountable scrutiny committee	**Overview and Scrutiny Committee**
Ward(s) affected	**All**
Key Decision	**Yes**
Executive summary	**This report gives details of Government amendments to the Right to Buy (RTB) scheme for Council Housing tenants and seeks Cabinet approval to enter into an agreement with the Department of Communities and Local Government DCLG) which will enable the local retention of additional receipts that may arise from the changes.**
Recommendations	**1. Note the changes to the RTB scheme for housing tenants.** **2. Approve the completion of an agreement with the Secretary of State enabling the retention of additional RTB receipts for investment in new affordable rented homes.** **3. Authorise the Director of Commissioning to enter into the agreement referred to in recommendation 2 above**

Financial implications	As contained in the report and appendices. **Contact officer: Mark Sheldon.** **E-mail: *mark.sheldon@cheltenham.gov.uk*** **Tel no: 01242 264123**
Legal implications	If the council wishes to retain RTB receipts for the provision of new affordable housing (as defined in s 68(1) (a) Housing and Regeneration Act 2008) then it must enter into the agreement referred to in this report. The agreement is a standard agreement made by the Secretary of State pursuant to s11 (6) of the Local Government Act 2003 (inserted by s174 of the Localism Act 2011). **Contact officer: Shirin Wotherspoon** **E-mail: shirin.wotherspoon@tewkesbury.gov.uk** **Tel no: 01684 272017**

HR implications (including learning and organisational development)	There are no direct HR implications arising from the report but should there be an influx of right to buy applications at any one time then additional resource in property and legal may be required, the cost of which would be paid for from the HRA. **Contact officer: Julie McCarthy** **E-mail: julie.mccarthy@cheltenham.gov.uk** **Tel no: 01242 264355**
Key risks	As outlined in Appendix 1
Corporate and community plan Implications	The ability to re-invest part of the receipt in further social housing assists in the council's objectives to deliver more affordable housing.
Environmental and climate change implications	Under the RTB scheme it would become the home owners responsibility to adapt their homes to address environmental and climate change issues. However any new homes funded through RTB receipts would be built to higher environmental standards than the older current stock.

2. Background

2.1 In March 2012, following a period of consultation, the Government announced final proposals for amendments to the RTB scheme for Council housing tenants.

2.2 The changes are designed to reinvigorate RTB - enabling more tenants achieve their aspiration of home ownership whilst using the receipts generated from additional sales to fund new affordable housing, replacing sold units on a one for one basis nationally.

2.3 In April the Government distributed marketing material designed to help Councils publicise the new scheme and on 12th May provided details of how local authorities can retain the additional receipts for local re-provision.

3. Details of the Changes

3.1 The key changes to the scheme, which came into force on 2nd April 2012, are:-

- An increase in the discount cap to £75,000 – this represents a £25,000 increase on the cap proposed in the original consultation document. In Cheltenham the previous cap was at £30,000.
- Local authorities will be able to retain the additional receipts for replacement housing – provided they can sign up to an agreement with Government that they will limit the use of the net Right to Buy receipts to 30% of the cost of the replacement homes and that sufficient expenditure is incurred within three years from the date of receipt.
- Councils will be able to deduct the necessary amount to cover the debt from the receipt but will not be required to use this part of the receipt to repay loans.
- Councils will now be able to deduct a higher amount from each sale to cover the costs of administration. Authorities will now be able to retain £2,850 in London and £1,300 in the rest of England. This recognises the costs incurred when dealing with withdrawn applications.

- The Buy Back provision will continue, allowing local authorities to fund up to 50% of the cost of re-purchasing a former council home, up to a maximum of 6.5% of any additional net receipts (i.e. receipts available to support one-for-one replacement).
- The cost floor has been retained and extended from 10 years to 15 years for new homes subject to RTB. Councils will continue to 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.

4. Calculation of the Council's share

4.1 The new scheme includes a complex calculation to determine the amount to be retained by the Council from future RTB sales. This recognises that the self-financing settlement assumed a base level of sales under the old scheme and an assumed income share for both the Council and HM Treasury (25%:75% after deducting administration costs).

4.2 The format of the calculation, which is most easily illustrated as an annual statement, is shown below:-

		£'000	**Assumption**	**Comments**
A	Total sales proceeds	1,000	20 sales @ £50,000	Value of receipt based on increased discount
B	Attributable debt on additional sales	-161	(20-6) @ £11,500	Retained by CBC, used to repay debt or other HRA purpose
C	Administration costs	-26	20 @ £1,300	Flat rate allowance retained by CBC for HRA purpose
D	Assumed income CBC	-116	Based on settlement, assumed 6 sales	Retained by CBC, assumed use for HRA investment in business plan, but can be any purpose
E	Assumed income HM Treasury	-278	Based on settlement	Paid to Government
F	Net receipt available to fund re-provision	419		Available to CBC subject to terms of agreement
G	Minimum programme of re-provision required to retain all net receipt	1,397	G = F x 100/30	Must be spent within 3 years of receipt
H	Additional sum retained by CBC	303	B+C+D	Available for varying purposes as detailed above

4.3 It must be stressed that all figures used in the above example are for illustration only with the exception of D & E.

5. Agreement to retain receipts for stock replacement

5.1 The Council has been asked by the Government if it wishes to enter into an agreement which would enable the retention of potential net receipts from RTB sales (item F in the illustration above) for local stock replacement.

5.2 The Secretary of State would allow those receipts to be retained if:-

- Those receipts are used to fund replacement stock
- Within 3 years of the date of receipt a sum of relevant expenditure is incurred which is sufficient so that the receipt is no more than 30% of that sum

5.3 Any receipts remaining unused after 3 years must be returned to DCLG with interest (at a rate of 4% above base rate). In March 2012 the Cabinet received a report from CBH on future new build identifying three potential schemes and they are currently putting together financial proposals for funding these schemes. Cheltenham is well placed to take advantage of the additional funding that may arise from sales and therefore there is little risk in having to return any unused receipts.

5.4 The Council is expected to fund the remaining 70% of expenditure on stock replacement from its own reserves or borrowing serviced by the anticipated rental income from the new stock. There is no requirement to replace stock on a one for one basis, the numbers provided can be more or less than the numbers sold as long as the 30% funding limit is not exceeded.

5.5 The Government favours the replacement through new build but the receipts can also be used to fund the purchase of existing units for conversion into affordable rent. It is also acceptable to fund new supply by grant funding another body such as a housing association (but not a body in which the Council has a controlling interest). The Council could contract with CBH to deliver the new homes but the stock must remain within the Housing Revenue Account.

5.6 There are no restrictions on the type, size, location or the rent that be must be charged on the new units. Rent rebate funding will be available for up to 80% of market rents.

5.7 The Council can apply for any new stock to be exempted from future pooling if sold under the RTB scheme – all the receipt could be retained locally if it is used to repay debt or invest in affordable housing or regeneration.

5.8 If the Council wishes to retain receipts from the first quarter, April to June 2012, the agreement must be signed and returned to DCLG by 27th June 2012.

6. Impact of the new scheme

6.1 The Government has estimated that up to 20,000 additional units will be sold in the first three years following the changes to the scheme. However it is impossible to gauge how those will be distributed nationally and to predict the type and value of stock that will be sold.

6.2 A number of factors may reduce the level of additional sales. These include:-

- The desire of tenants to purchase at a time of economic uncertainty
- The limited availability of mortgages
- Many of the more desirable properties have already been sold
- A change in tenant mix

6.3 The changes have already stimulated an increase in enquiries but how many of those will lead to completion has yet to be seen. It is essential that progress is monitored very closely to assess future impact on the HRA business plan and to determine the size of a re-provision programme.

7. Conclusion

7.1 The changes to the RTB scheme will undoubtedly increase the overall number of sales but will realise a significantly reduced receipt per unit than previously. The actual number of sales is difficult to predict and can only be monitored.

7.2 The Government is giving local authorities the opportunity to use sale receipts to fund replacement stock locally. In March 2012 the Cabinet received a report from CBH on future new build identifying three potential schemes. Cheltenham is well placed to take advantage of the additional funding that may arise from sales and it is recommended that Cabinet approve the completion of an agreement with the Secretary of State to retain such receipts.

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Appendices	1. Risk assessment
Background information	DCLG agreement Section 11(6) of the Local Government Act 2003 – copy placed in members room

Risk Assessment - Right to Buy

Appendix 1

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	**Risk description**	**Risk Owner**	**Date raised**	**I**	**L**	**Score**	**Control**	**Action**	**Deadline**	**Responsible officer**	**Transferred to risk register**
1.01	If the level of RTB sales increases significantly there may be a detrimental impact on the HRA business plan, in excess of the debt repayment available from the capital receipt	Jane Griffiths	June 2012	3	3	9	R	Close monitoring of RTB activity	Mar 2013	CBH through management agreement	
1.02	If the stock replacement programme is insufficient to enable the retention of available receipts they will be repaid to the Government with interest	Jane Griffiths	June 2012	3	3	9	R	Monitor progress of re-provision plans ensuring alignment to deadlines for use of receipts	Mar 2013	CBH through management agreement	