

Report to: **Housing Review Board**

Date of Meeting: 23 January 2020

Public Document: Yes

Exemption: None

Review date for release None



Subject: **Spending Right to Buy receipts 2020/2021 financial year**

Purpose of report: This report seeks delegated authority to continue the programme of property acquisitions in 2020/2021 using Right to Buy receipts and borrowing from public works loans board (PWLB). This report also considers the option for spending the receipts going forward and considers a number of options.

Recommendation:

- 1. To give delegated authority to the Strategic Lead – Housing, Health & Environment, Portfolio Holder for Sustainable Homes & Communities and Chair of Housing Review Board to approve purchases to meet the 2020/2021 spending requirements using Right to Buy receipts and borrowing from public works loans board together with any commuted sums that may become available.**
- 2. To consider the options put forward for spending right to buy receipts going forward and to pursue option 5, a combination of purchasing stock and to look at developing new build.**
- 3. To make note that paying back some right to buy receipts may be a possibility.**

Reason for recommendation: To ensure RTB receipts are spent on time and not returned to Government with interest. To meet the rising housing need in the district for affordable housing.

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Financial implications: The new homes development fund will be at 0 by the end of this financial year therefore the HRA will borrow the 70% contribution required to fund this expenditure. Historically this has been done through the Public Works Loan Board who are currently offering an interest rate of 3.15% inclusive of EDDCs certainty rate deduction.

This equates to an additional £190k per annum interest charge for a deferred principal repayment loan.

Please see the future considerations section of the 20/21 budget report for additional information.

Legal implications: Legal advice in line with all previous use and spending of RTB receipts. No specific legal implications within this report. Proposed delegations are in line with EDDC Governance arrangements.

Equalities impact: Low Impact

Climate change: Low Impact

Risk: Medium Risk

If the Right To Buy receipts are not spent in the time set out in our agreement with HM Government the Council will have to return them to Government with interest.

Links to background information:

Link to Council Plan: Outstanding Homes and Communities
Outstanding Council and Council Services

1.0 Background

Strategic Management Team agreed on the 27th January 2016 to support a number of options that help ensure RTB receipts are spent in accordance with various deadlines imposed by Government. Taking this support forward we entered into an agreement with HM Government and a report was presented to the Housing Review Board on the 12th January 2017, Cabinet and Council (8th & 22nd February respectively) which gave approval to purchase property from the open market using RTB receipts. This approval was then extended in a report taken to Housing Review Board on 15th June 2017 and again on 12th August 2019 which covered the 2019/2020 financial year. These reports, supported by Finance, set a budget from the HRA to be used for match funding RTB receipts to purchase property from the open market for a period of three years. This 3 year period will expire at the end of this financial year and further authority is sought for the next financial year 2020/2021.

Over the last two and a half years we have successfully managed to spend the Right to Buy monies without paying any receipts back to Government. This has added further properties into Council owned stock to sustain the Housing Revenue Account, which is being eroded by the sale of properties under the Right to Buy. In 2017/18 we bought 28 properties, in 2018/19 16 properties were acquired and to date in 2019/20 we have acquired 17 properties (including 12 flats at Sailors rest).

2.0 2020/2021 spending of Right to Buy receipts

The table below details the amount of receipts that need to be spent in the 2020/2021 financial year:

	RTB amount 30%	Contribution from PWLB 70%	Total Spend
Quarter 1	337,910	788,457	1,126,367
Quarter 2	369,658	862,536	1,232,194
Quarter3	328,121	765,615	1,093,736
Quarter 4	729,743	1,702,733	2,432,475
		Total	5,884,772

The level of spend significantly increases in the next financial year compared to the previous two years.

3.0 Options for spending right to buy receipts

Option 1: Buying from the open market

Over the last few years we have managed to spend all the receipts through buying suitable properties from the open market or in bulk from developers. However this is dependent upon the housing market.

Our concerns going forward are:

- Reduction compared to previous years on houses listed with estate agents (supply is down).
- Brexit – this is causing uncertainty in the market.
- Risk of chains – normally we only agree to purchase properties which are chain free. With a lack of properties to buy this increases the risk of chains.
- New build properties tend to have a premium and are expensive.
- We are competing with registered providers who are using Homes England funding to do the same.
- Buying from developers is dependent upon levels of building in the district. Most of the new sites are located on the edge of Exeter in strategic growth areas. Demand in these areas from East Devon residents is low and prices are expensive meaning rents will be higher.

Option 2: Building Council housing

One option is to consider building our own houses. Ideally we should do this on land that we currently own. However our land holdings in areas where more housing is needed is limited. We have numerous garage sites which we can consider. This has been done in the past, although little thought went into the need for housing in those locations. The garage sites will be difficult to develop mainly due to services running under the land, access arrangements, planning constraints with overlooking and parking requirements and the irregular site shapes. The only large land holding we own is in Axminster and demand here is very low. This is a large site and will require a joint venture approach. There are also other 'wants' with this site.

This option will be complex and the timing of delivery can be uncertain, which is not ideal given that these receipts have to be spent within strict deadlines. If the deadlines are not met, the receipts must be repaid to the government with interest.

Delivering new build affordable housing is complex. There are a range of issues that can affect the pace of delivery. These include:

- Negotiating with third parties over rights of access.
- Rehousing of tenants on sites where it is proposed that existing homes will be replaced with new
- Undertaking relevant approval processes such as Planning, along with the necessary tendering processes all need to be built into the timeframe.
- Contractor delays (labour and supplies following Brexit)

The rate at which Right to Buy Receipts are received, as well as the amount received over any given period is unpredictable. This adds to the complexity in timing their use in accordance with the projected delivery of new build. The result is additional uncertainty over whether the receipts will be spent within the required timeframe. There may some lenience with this if sums are committed to be spent but overruns slightly.

To secure planning permission on sites and to develop out sites will have funding and staffing implications.

Option 3: Use the receipts as grant to give to registered providers (RPs)

This option would involve giving the receipts as grant to registered providers for them to use to provide additional affordable housing. We explored this option in 2016/2017 and there was very little appetite from the registered provider's active in East Devon at that time. Since then a number of RPs have received large grant allocations from Homes England and are under pressure to spend this money. Therefore it is unlikely that this option would help to spend the required amounts in the timing required. The disadvantage with this option is that we would not increase our own housing stock.

Option 4: Return the receipts

Given the amount of receipts that need to be spent there is a real risk that we will have to return some/all of the receipts in some quarters.

The housing market is changing, and it's becoming increasingly hard to find suitable property to purchase.

Option 5: A blend of the above

The last option is to do a mixture of all of the above. We could continue to purchase suitable properties from the open market either individually or in bulk and also look to develop a few of our own sites. This option will ensure some of the receipt could be spent however it is likely it will still result in receipts having to be paid back. This option will also be dependent upon having the staffing to do the job and a budget for professional services to enable sites to be progressed from initial conception to securing planning permission, tendering and build.

Some reasons for continuing to replace stock are:

	Advantages	Disadvantages
Maintain income stream for HRA	Sustains HRA allowing us to meet our borrowing and make improvements to our stock	Tenants can still exercise their right to buy (although see note below*)
Affordable rents can be charged	Improves income to HRA	Higher rents for tenants. Often does not help those most in need.
Opportunity to acquire/build new houses	Reduces repairing obligation More energy efficient Better build standards	New build tend to have a premium when buying
Opportunity to replace stock in areas of need	Meets our housing need	Excludes rural areas

* Within the first 15 years after acquisition tenants would have to pay what the Council paid for acquiring the property including all costs. We can also keep all the receipts rather than pool them in the normal way.

4.0 Recommendation

- To give delegated authority to the Strategic Lead – Housing, Health & Environment, Portfolio Holder for Sustainable Homes & Communities and Chair of Housing Review Board to approve purchases to meet the 2020/2021 spending requirements using Right to Buy receipts and borrowing from public works loans board together with any commuted sums that may become available.
- To consider the options put forward for spending right to buy receipts going forward and to pursue option 5, a combination of purchasing stock and to look at developing new build.
- To make note that paying back some right to buy receipts may be a possibility in 2020/2021.