
REPORT FOR: CABINET

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| Date of Meeting: | 14 September 2017 |
| Subject: | Use of Retained Right to Buy receipts |
| Key Decision: | Yes |
| Responsible Officer: | Nick Powell, Divisional Director of Housing |
| Portfolio Holder: | Councillor Glen Hearnden, Portfolio Holder for Housing and Employment |
| Exempt: | No |
| Decision subject to Call-in: | Yes |
| Wards affected: | All |
| Enclosures: | Appendix 1: Retained receipts spend schedule Appendix 2: Draft form of Grant Agreement |

Section 1 – Summary and Recommendations

This report sets out proposals to enable the use of retained Right to Buy receipts to fund housing associations to develop social housing, which the Council would use for households in priority housing need.

Recommendations:

Cabinet is requested to:

1. Give delegated authority to the Divisional Director Housing Services following consultation with the Portfolio holder for Housing and Employment and Portfolio Holder for Finance & Commercialisation to use retained Right to Buy Receipts to support Registered Providers bringing forward social housing schemes to which the council will have 100% nomination rights, subject to the RP entering into a grant agreement with the council;
2. Create a capital budget of £5,000,000 for the purpose of recommendation 1 within the HRA Homes for Harrow programme, which will be fully funded from retained HRA Right to Buy capital receipts with no impact on General Fund or HRA revenue resources.
3. Approve the addition of the £5m capital budget to the HRA Capital Programme in 2017-18 and to recommend to full Council the additional capital budget be approved and added to the Capital Programme.

Reason: (For recommendations) To increase the supply of affordable housing for households in priority housing need.

Section 2 – Report

Introductory paragraph

2.1 The need for affordable housing has been well documented. In particular the Council faces increased demand due to the general unaffordability of private housing – whether to rent or buy, continued welfare reform, the existing small social housing stock in Harrow compared to other London boroughs and the additional statutory duties introduced by the Homelessness Reduction Act 2017. It is therefore imperative that all options and available funding for increasing affordable housing are implemented.

2.2 This report proposes using retained receipts to fund Registered Providers (RPs) to build new social housing to which the Council will have nomination rights, in addition to using the receipts to fund the Council's own new social house building programme and purchase of existing properties.

Options considered

2.3 The following options for the use of the retained receipts have been considered:

1. To support the direct delivery of new social housing by the Council. This option is already approved and being taken forward to develop new homes for rent on infill housing land;
2. To support other housing providers to bring forward social housing schemes. This option is recommended

3. To voluntarily hand back retained receipts to the Department of Communities and Local Government (DCLG) which they will invest in the provision of social housing. However in this case the social housing is not likely to be provided in Harrow and the Council is unlikely to receive the nomination rights. This option is not recommended at the present time.

Background

2.4 The Council entered into an agreement with Government on 26th September 2012 and varied on 10 July 2013 which, under s11(6) of Local Government Act 2003, permits the Council to retain an increased proportion of receipts arising from disposal of HRA properties under the Right to Buy (RTB), providing these proceeds are reinvested into replacement social or affordable rented housing within three years monitored via quarterly spend targets.

2.5 The retained receipts can form no more than 30% of the cost of the new housing, the balance funded from other resources. The payments can contribute to the Council's new build social housing programme or as a contribution to a development of new social housing by a third party, on condition this is of benefit to the Council. In the latter case a benefit will be granted if the Council has 100% nomination rights to the new homes. Retained receipts can also be used to fund the purchase of existing properties for letting as social housing, as long as they have not been previously owned by the Council or other social landlord.

2.6 The Council's infill new build programme is partially funded by retained RTB receipts and we have also funded a small existing property purchase programme (8 units) and the buyback of leasehold properties on the Grange Farm estate.

2.7 When the agreement with Government was signed the Council was already at its HRA borrowing cap so it could not borrow to fund the 70% of development costs not funded by receipts. However, it did have sufficient reserves and funding from S106 agreements to allow the new build programme to proceed. Subsequently the Government has introduced a 1% rent reduction over 4 years for all HRA properties which means we do not now have sufficient resources to fund additional new homes or purchase of additional properties because there are no further HRA resources to fund 70% of the costs. It is not possible to combine the use of receipts with other grant funding, for example from the GLA, on the same property as the total public subsidy must not exceed the 30% maximum of development cost.

2.8 Failure to spend retained RTB eligible expenditure within three years of the related disposals will, as a condition of the retention agreement, trigger repayment to Government with interest. Spending the receipts is made harder by the application of quarterly spend targets. This means that if a staged payment on a scheme is delayed by only a few days at the end of a quarter or a purchase completion is similarly delayed, then the requirement to repay with interest is triggered. This is at odds with most other grant programmes such

as the GLA's Affordable Housing Programme where spend targets can be up to 4 years.

2.9 Because of the strict criteria for the use of retained receipts, nationally local authorities have struggled to spend them with many having handed them back to central government.

2.10 To date, the Council has spent £2.2m retained receipts. It has repaid £464k with interest of £55k as a result of delays on staged payments on the infill programme and delays in property completions. The current position is shown in Appendix 1. Over the next 3 years we will have up to £15m retained receipts available to fund new affordable rented housing.

2.11 Although the Council would like to continue building its own affordable housing this is not possible without changes to the retained receipt spend rules, an increase in the HRA borrowing cap and relaxation of the 1% rent reduction. Alternative approaches are being explored including the setting up of separate companies outside the HRA.

2.12 The Council is also able to fund third parties such as Registered Housing Providers (RPs) to part fund their new build developments for social housing in return for nomination rights thereby alleviating the pressures on General Fund Homelessness costs. Any payments will need to be in line with the retention agreement and must, fundamentally meet the definition of eligible expenditure and be for the benefit of the Council. The Registered Provider will be asked to enter into a grant agreement, a draft of which is attached at Appendix 2 which will be revised where appropriate. Officers have met with a number of RPs who are reviewing schemes they may be able to bring forward. In view of the spend targets delegated authority is requested to enter into agreements with RPs for schemes that deliver nominations to additional social housing and to create a capital budget of £5m within the HRA Homes for Harrow programme, which will be fully funded from retained HRA Right to Buy receipts, with no impact on General Fund or HRA revenue resources.

Risk Management Implications

Risk included on Directorate risk register? No
Separate risk register in place? No

There are no risk implications of the proposed decision. The decision will assist in maximising the opportunities for spending retained receipts and assist in limiting any repayment of receipts with interest to the government.

Legal Implications

The Council entered into an agreement with Government on 26th September 2012 (as varied) which, under s11(6) of Local Government Act 2003, permits the Council to retain an increased proportion of receipts arising from disposal of HRA properties under Right to Buy (RTB), providing these proceeds are

reinvested into replacement social or affordable rented housing within three years. There are strict procedures for how the receipts are to be spent set out in the retention agreement.

In the agreement 'Social housing' means low cost rental accommodation as defined by section 68(1)(a) of the Housing and Regeneration Act 2008 and therefore includes Affordable Rent homes.

The authority may make payments to a third party, provided the Authority does not have a controlling interest in the third party, on the development costs associated with the provision of social housing for the benefit of the Authority's area. Social housing is provided for the benefit of the Authority where it is situated in the area of the Authority or the Authority has nomination rights in respect of the social housing.

The draft Grant Agreement attached at Appendix 2 will oblige a Registered Provider to spend the receipts paid to them in accordance with the retention agreement dated 26th September 2012.

Financial Implications

Retained receipts can only be spent in accordance with the signed retention agreement to provide affordable rented housing. This decision will increase the opportunities to enable the receipts to be spent and limit any repayment with interest.

Provision has been made within the HRA budget financial forecasts for 2017-18 for repayment of some receipts plus interest in 2017/18 should it not be possible to bring forward schemes. There is no impact on General Fund revenue or capital costs, and the expenditure will be financed entirely from HRA right to buy receipts which would otherwise have to be returned to Government with interest.

New affordable housing supply helps to mitigate General Fund Homelessness costs by avoiding costs that would otherwise be incurred in providing expensive temporary accommodation such as Bed and Breakfast.

The accounting treatment to be used would be Revenue Expenditure Funded from Capital Resources under Statute ("refcus").

Financial regulation B48 permits additions to the Capital Programme to be approved by Cabinet up to £500,000, where the expenditure is funded by external sources and there is no revenue impact.

As this sum is above £500,000 is being recommended to Council for approval.

Equalities implications / Public Sector Equality Duty

A specific Equalities Impact Assessment is not required for this decision. Any proposal to increase the availability of affordable housing is likely to have a positive impact on protected characteristics that are represented disproportionately in terms of priority housing need and homelessness.

Council Priorities

The Council's vision:

Working Together to Make a Difference for Harrow

This decision will directly support the following Council priorities:

- Making a difference for the vulnerable
- Making a difference for communities
- Making a difference for families

By providing additional affordable housing for the most vulnerable households in Harrow it will also contribute to the avoidance of costs associated with placing homeless households in expensive and lower quality temporary accommodation.

Section 3 - Statutory Officer Clearance

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| Name: Sharon Daniels | <input checked="" type="checkbox"/> | on behalf of the Chief Financial Officer |
| Date: 4 August 2017 | | |
| Name: Louise Middleton | <input checked="" type="checkbox"/> | on behalf of the Monitoring Officer |
| Date: 4 August 2017 | | |

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| Ward Councillors notified: | NO, as it impacts on all Wards |
| EqIA carried out: | NO |

EqIA cleared by:

Previous Equality Impact Assessments have demonstrated there is a positive impact on protected characteristics for proposals that increase the supply of social housing.

Section 4 - Contact Details and Background Papers

Contact: Alison Pegg, Head of Housing Regeneration, 020 8424 1933, alison.pegg@harrow.gov.uk

Background Papers:

Housing Strategy and Housing Strategy Equalities Impact Assessment -

http://www.harrow.gov.uk/info/200003/housing_policies_and_planning_for_housing/184/housing_changes/2

Retention Agreement

Call-In Waived by the Chair of Overview and Scrutiny Committee

NOT APPLICABLE

[Call-in applies]