

<b>Subject:</b>	<b>Home Purchase Policy</b>		
<b>Date of Meeting:</b>	<b>20 September 2017</b> Policy, Resources and Growth Committee - 12 October 2017		
<b>Report of:</b>	<b>Executive Director Neighbourhoods, Communities &amp; Housing</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Diane Hughes</b>	<b>Tel:</b> 01273 293159
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<b>Ward(s) affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE**

**1. PURPOSE OF REPORT AND POLICY CONTEXT**

1.1 The Housing service requires a policy on the purchase of homes funded by the Housing Revenue Account (HRA). This would enable the service to:

- Maximise the supply of affordable homes in the city in support of the Housing Strategy
- Meet housing need through the housing register
- Utilise retained Right to Buy receipts thereby avoiding the need to return capital funds to the government and reducing the impact on the HRA's borrowing headroom.

1.2 The council has statutory powers to purchase properties. The Executive Director Neighbourhoods, Communities and Housing has delegated authority to purchase properties up to £250,000 after consultation with the Chairs of Housing & New Homes Committee and Policy Resources & Growth Committee.

1.3 There is currently no policy framework that enables officers to decide whether to make offers to buy properties. This report and the accompanying draft policy at Appendix 1 seeks to fulfil this requirement and requests budget approval.

**2. RECOMMENDATIONS:**

That Housing & New Homes Committee:

2.1 Agrees the Home Purchase Policy at Appendix 1 which enables the HRA to purchase homes, both through the right of first refusal and on the open market (subject to business case).

2.2 Note that the policy allows the purchase of accommodation up to £250,000 subject to the purchase meeting the policy criteria.

- 2.3 Note that the scheme and future budget allocation will be reviewed as part of the HRA budget setting process for 2018/19.
- 2.4 Recommends to Policy Resources & Growth Committee to approve a budget of £1.000m within the HRA capital programme 2017/18 for the purpose of purchasing former council homes, to be funded from Right to Buy receipts (£0.300m) and HRA borrowing and/or reserves (£0.700m).

That Policy, Resources & Growth Committee:

- 2.5 Approves a budget of £1.000m within the HRA capital programme 2017/18 for the purpose of purchasing former council homes, to be funded from Right to Buy receipts (£0.300m) and HRA borrowing and/or reserves (£0.700m).

### **3. CONTEXT/ BACKGROUND INFORMATION**

- 3.1 The city wide Housing Strategy adopted by council in March 2015 has as priority one - improving housing supply with a commitment to prioritise affordable housing provision in the city. The city has an Affordable Housing Brief based on evidenced housing needs in the city and this brief reflects the very pressing need for affordable homes in the city.

- 3.2 A Home Purchase Policy which supports the purchase of the right property, for which there is demand, at the right price would support this priority. The properties could be used to help meet demand for temporary accommodation for homeless households in the short term. Longer term the accommodation could be used for general needs housing applicants where there is a duty for the council to house. There are a number of ways this could be achieved. These include:

#### **3.3 Buy back of properties sold under the Right to Buy**

The council has statutory powers under The Housing (Right of First Refusal) (England) Regulations 2005. Since August 2005 the council's Right to Buy leases have placed a legal obligation on the former secure tenant who exercised their right to buy and their successors to offer the council first refusal if they decide to sell within 10 years of the original purchase.

The council has not to date exercised this right as there is no policy or budgetary framework for the council to take this opportunity. In 2016/17 the council has been notified of 17 'first refusal' opportunities (15 of which were under £250,000).

The regulations require that offers are accepted or refused within 8 weeks, otherwise the owner can sell the property as they see fit. Delegated authority will therefore support the potential purchase of these properties enabling us to work to the timescales prescribed.

#### **3.4 Former council properties for sale on the open market**

Where there is no right of first refusal, there may still be good value opportunities for the council to buy former council homes back, when they come to our attention through estate agents or auctions.

### **3.5 Purchasing properties on the open market**

This would present a wider range of properties from which to meet housing needs, but would often attract higher values and would not provide the management benefits of properties already situated on housing estates.

### **3.6 Other opportunities**

Alongside the purchase of homes, other opportunities may become available to purchase properties or land for housing. These opportunities would need to be subject to business case approval by Housing & New Homes Committee with formal approval sought through Housing & New Homes, Planning and Policy, Resources and Growth Committee (as required).

## **4. Criteria for a Home Purchase Policy for the purchase of homes**

4.1 The decision to purchase properties will be dependent on a business case on a property by property basis but which would be determined by the following factors:

- The purchase price and availability of capital funds
- The cost of any refurbishment work required to bring the property up to the Brighton & Hove Standard (ideally to a maximum of 10% of purchase price)
- Whether on going maintenance costs are considered to be excessive (or greater than average stock levels)
- Whether the property is situated amongst existing Brighton & Hove City Council housing stock
- Whether there is a specific housing need for the type of property that is being offered, as established by the Housing Register
- Whether a purchase of a property would free up land or enable access to a site suitable for development of affordable housing
- Savings to the council through reduced need for temporary accommodation or specialist accommodation.

4.2 A budget of £1m is sought for 2017/18 to purchase properties funded by RTB receipts (£0.300m) and from HRA reserves and/or HRA borrowing of (£0.700m) depending on the rent levels set. In future years the budget will be set as part of the annual HRA Budget and Investment Programme report.

4.3 An initial viability study over 40 years of a cross section of ex-council properties on the market (Source: Right move at 5 June 17) is attached at Appendix 2. This details the viability of purchases applying both Local Housing Allowance level rent, living wage rent and social rent to demonstrate the impact of different rent levels on the amount of subsidy required.

4.4 The accommodation could be used for either temporary accommodation or general needs housing subject to demand and affordability. The viability of purchases is stronger when rents are set at Local Housing Allowance level rents supporting the use of these properties for temporary accommodation initially, with the longer term aim to add to the council's general needs stock at social rent if/when viable. These decisions will be taken on a case by case basis and rents will be set at a minimum of social rent to a maximum of LHA rent depending on

the use of the property. The future use of the properties will be considered as part of the review of the scheme after a year.

- 4.5 Initially using the properties for temporary accommodation will reduce cost pressures in the general fund because housing benefit (where applicable) will cover the rental costs. The shortage of supply of affordable accommodation in the city together with the implementation of further welfare reforms means that the pressure on the temporary accommodation budget continues for 2017/18, so any extra low cost units of accommodation will help mitigate the pressures.

## 5. ANALYSIS & CONSIDERATION OF OPTIONS

	<b>Option</b>	<b>Benefits</b>	<b>Risks</b>
Option 1	Adopt a Home Purchase Policy to purchase former council homes	<p>Increase supply of affordable housing</p> <p>Pressing housing needs are met</p> <p>Right to Buy receipts are spent and therefore not returned to the government and not incurring interest at 4%</p> <p>The use of Right to Buy receipts will free up some of the borrowing headroom</p> <p>The council has knowledge of the stock and there are cost efficiencies in management (because they will be on our estates)</p> <p>Good value purchase that meets a housing need.</p>	<p>Disappointment from vendors where the budget has run out for the year or if they do not meet the criteria</p> <p>The exercise of the Right to Buy and eligibility for a discount a second time in the case of the property being allocated under a secure tenancy. However, the discount would be reduced by the 'cost floor' rule. This applies if the home has recently been purchased or built or the council has spent money on repairing or maintaining it in the previous 15 years. The discount could be reduced to nil if the cost floor is more than the discount. The risk is also mitigated by a good value purchase that meets a housing need</p> <p>HRA borrowing to support this policy in future years may impact on borrowing headroom which could affect the councils new build programme.</p>

Option 2 (preferred option)	Adopt a Home Purchase Policy to include former council owned homes, homes which are not ex-council properties and other opportunities	Benefits as per option 1  A wider range of properties from which to meet housing needs  Ability to unlock and/or strengthen the viability of potential development sites  RTB receipts could be used to fund 30% of the purchase  The council has knowledge of the stock and there are cost efficiencies in management (because some will be on our estates).	Risks as per option 1  The non council properties may be 'unknown quantities' and expensive to maintain in the future  Reduced management efficiencies due to non council properties not being located on housing owned land/buildings  By purchasing flats in privately owned blocks, the council will become a leaseholder without the benefits of being a freeholder.
Option 3	Do nothing	The removal of the risks listed for option 1 and 2	Not taking advantage of opportunities to improve the supply of affordable housing  Inability to spend retained RTB receipts at the required level with repayment to the government with 4% interest  Not meeting housing needs identified in the city.

## 6. COMMUNITY ENGAGEMENT & CONSULTATION

- 6.1 Estate Regeneration Members Board considered this report on 4 September 2017.
- 6.2 Area Panels were consulted in September 2017. All panels were supportive about the introduction of the policy. Discussions were held about the Right to Buy process and repayment of discounts and the funds available for the first year and whether this should be more. A question was raised about whether there would be a 'bidding war' for the properties we wish to buy back. 4.5 of the policy outlines what would happen in the event that a valuation could not be agreed between both parties.

## **7. CONCLUSION**

- 7.1 The purchase by the council of additional affordable homes will help meet the council's strategic objectives to increase housing supply as set out in the council's Housing Strategy.
- 7.2 A Home Purchase Policy would be reviewed after a year to determine the success of the scheme and to inform future budget decisions.

## **8. FINANCIAL & OTHER IMPLICATIONS:**

### Financial implications

- 8.1 In June 2012, the council signed an agreement to retain Right to Buy (RTB) Receipts, which can be used to fund up to 30% of a new build development or purchase of a property. The agreement requires these amounts to be spent within 3 years of receipt otherwise the council will be required to repay them to the Government with interest at a rate of 4% above the base rate.
- 8.2 Since the agreement was signed in 2012, £18.745m in RTB receipts has been retained, requiring the council to spend £62.483m by 30th June 2020, either by building new homes, acquiring ex council properties from tenants, acquiring houses not being used as social housing or passing the receipts onto another affordable housing provider for them to utilise.
- 8.3 To date £5.780m of receipts has been used to fund the New Homes for Neighbourhoods (NHFN) programme expenditure of £19.332m. There have been no purchases of properties that have enabled the use of retained receipts and so currently there is just a reliance on the NHFN programme to spend the required amount by 30th June 2020. It is therefore important that there are other streams of expenditure in place, such as the Home Purchase Policy recommended in this report, to keep the cash flow moving whilst decisions are made on larger schemes. Otherwise there is a risk that the Council will have to pay back receipts, losing valuable resources for new homes as well as paying interest to the Government.
- 8.4 For 2017/18, a budget of £1.000m is recommended for this purpose, 30% or £0.300m to be funded by RTB receipts with the balance of up to £0.700m funded by the use of HRA borrowing and/or HRA general reserves. For 2018/19 and future years, this expenditure will form part of the HRA Budget and Investment Programme Report to Housing and New Homes Committee and Policy Resources & Growth Committee (PR&G). Future years' funding will come from RTB receipts and a combination of borrowing (up to the amount funded by new rental income) with any balance (subsidy) being paid for from direct revenue funding (current HRA income).
- 8.5 Appendix 2 shows some examples of indicative costs of buying back homes and calculates the subsidies/surpluses required from the HRA depending on rents being set at either LHA rates, Living Wage rents or social rent levels. The table shows that for all the examples given, if rents are set a social rent levels, a subsidy would be required from the HRA.

8.6 As at 1 April 2017 the HRA general reserves totals £8.159m (subject to audit of 2016/17 annual accounts). A minimum working balance of £3.000m is recommended leaving £5.159m available to use. PR&G have recently approved the use of £1.200m for the new Housing Management IT system leaving £3.959m of useable reserves. Any underspends on the HRA during 2017/18, that are not earmarked for specific purposes, will be added back to reserves to increase this balance. At month 4, the HRA is currently forecasting an underspend of £0.310m,

Finance Officer Consulted: Monica Brooks

Date: 29/08/17

Legal Implications:

8.7 The council has statutory powers under The Housing (Right of First Refusal (England) Regulations 2005 to buy back ex council properties that were sold post August 2005. An open market valuation would apply.

8.8 The council is allowed to exempt certain properties from the Right to Buy in the following situations:

- Dwelling houses let in connection with employment For e.g. a caretaker at a school who is occupying a house or flat for the purposes of his work would not be able to exercise the right to buy
- Certain dwelling-houses for the disabled - this exemption is very hard to meet as it has to be one of a group of homes with special facilities in close proximity.
- Certain dwelling-houses for persons of pensionable age are exempted. Living in temporary accommodation is not one of the exemptions contained within Schedule 5 of the Housing Act 1985. However, a person in temporary accommodation cannot be a secure tenant, unless the Council was to state to the contrary. In order to be able to exercise the right to buy you do need to be a secure tenant, so it is in effect an exemption. Schedule 1 of the HA 1985 specifies tenancies which are not secure.

8.9 The council has statutory powers under regulation 8 of The Housing (Right of First Refusal (England) Regulations 2005 to nominate 'first refusal' opportunities to private registered providers in the city.

8.10 The Council's constitution delegates to the Executive Director the power, after consulting the Chairs of Housing & New Homes and Policy, Resources & Growth Committees, to acquire or dispose of land for a consideration of up to £250,000.

Lawyer consulted:

Joanne Dougnaglo

Date: 11/09/17

8.11 Equalities Implications:

A Home Purchase Policy would support delivery of the city's Housing Strategy and an increase in housing supply will extend opportunities to accommodate households on the Housing Register who are on housing need.

8.12 Sustainability Implications:

Purchased properties will be required to meet the Brighton & Hove Standard and seek to be energy efficient, minimise carbon emissions and reduce water usage.

**SUPPORTING DOCUMENTATION**

Appendices:

Appendix 1: Draft Home Purchase Policy

Appendix 2: Viability results of the potential purchase of a cross-section of properties on the market in June 2017

Documents in Members' Rooms

None

Background Documents

None