

Subject:	Home Purchase Policy update		
Date of Meeting:	19 September 2018		
Report of:	Executive Director – Neighbourhoods, Communities & Housing		
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Ward(s) affected:	All		

1. PURPOSE OF REPORT AND POLICY CONTEXT

1.1 Housing & New Homes Committee agreed a Home Purchase Policy in September 2017 to enable the purchase of homes funded by the Housing Revenue Account (HRA). This enabled 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 committee agreed that a year long pilot should be undertaken, with a budget of £2m to purchase properties that have previously been sold under the right to buy and that the council has first refusal to buy back. It was agreed that for the pilot '75% should be general needs unless the case is not viable then 25% to temporary accommodation. To charge social rents up to living wage rents'. This would apply to General Needs stock. Local Housing Allowance rates would be charged for Temporary Accommodation stock.

This report seeks to provide an update on the pilot and to suggest amendments to the policy.

2. RECOMMENDATIONS:

That the Housing & New Homes Committee:

2.1 Notes the outcomes of the Home Purchase Policy pilot to date.

2.2 Agrees the revised Home Purchase Policy attached at Appendix 2 which broadens the range of properties which the council can purchase beyond just those which were formerly owned by the council.

3. CONTEXT/ BACKGROUND INFORMATION

3.1 The city wide Housing Strategy adopted by council in March 2015 has as priority 1 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 supports this priority. The policy outlined a number of ways that the purchase of homes can take place. For the purposes of the pilot it concentrated on the buy back of properties where the council had the right of first refusal to buy back former council homes. However it is proposed to utilise the other opportunities beyond former council homes which are explored in this report.

3.3 **Buy back of properties sold under the Right to Buy (Right of first refusal)**

The pilot commenced on the 1 November 2017. As at 20 August 2018 the council has received 17 offer notices and are aware of two further offer notices due to be received. Of these:

- 2 properties (1 x 2 bedroom flat ,1 x 3 bedroom house) have been purchased and have been let as general needs properties
- 3 properties (1 x 1 bedroom flat, 2 x 2 bedroom flats) have had offers agreed and are proceeding to sale. It is proposed two of these properties are used for general needs and one for temporary accommodation
- 2 properties (2 x 1 bedroom flats) have offers pending
- 2 owners withdrew their properties from sale
- 4 offer notices were declined due to the high value of the property (in excess of £250,000 threshold)
- 4 properties were declined due to not providing value for money

3.4 Details of the properties where offer notices have been received are included in Appendix 1. To date the pilot has shown us that there are a good number of opportunities coming through and the properties are typically in a very good condition. The council have also been able to achieve general needs units and not have an over reliance on temporary accommodation units, in line with the request from this committee last September. The threshold of £250,000 (the maximum purchase price) has not proved to be a barrier to this policy. However it is acknowledged that this threshold will mean that the council can usually only achieve the purchase of smaller properties (typically 1 and 2 bedroom properties). To date the council has spent £428,500 with a further £681,200 committed bringing the total spend to date to £1.1m (August 2018).

3.5 This pilot has demonstrated that the fluctuation in valuations often due to the location of the property does have an impact on the viability of purchases with properties in central locations typically representing less value for money. Four properties have been rejected on this basis. Each property being considered for purchase is assessed for its viability at a social rent and a 37.5% living wage rent (for general needs properties) and at Local Housing Allowance (LHA) levels (for temporary accommodation). To date no purchases have been viable at social rent but a number have been viable at a 37.5% living wage rent and at LHA level.

3.6 The pilot has also demonstrated that applying small subsidies (over 60 years) from the Housing Revenue Account in addition to rental income, where appropriate has allowed us to take advantage of more opportunities. It has also provided more flexibility to determine the rent levels and use of the property. It is proposed to formalise this within the revised policy criteria up to a maximum of £10,000.

3.7 **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. These were not included in the pilot year but it is proposed going forward that we give consideration to direct approaches from other leaseholders or freeholders. It is proposed that this would happen at specified times when we may wish to increase activity on the scheme. By limiting it to certain times will also ensure resources are used appropriately to manage enquiries and that leaseholders or freeholders are not unnecessary contacting the council wishing to sell their property. Appropriate advertising of the scheme can be done via the council's website, social media, the Leaseholders Action Group and through Homing in.

Other opportunities

3.8 Alongside the purchase of homes, other opportunities may become available to purchase properties or land for housing. Affordable Housing is required to be provided on site at all new housing developments providing more than 15 units (City Plan Policy CP20). These developer contributions providing affordable housing are typically known as S106 sites. Affordable Housing must be sold to a Registered Provider at a cost that allows them to use the properties as affordable rented homes or to sell them as Shared Ownership. Registered Providers are not able to receive grant funding from Homes England for units provided as planning gain policy as the costs are effectively already subsidised through the developer contribution. At present S106 sites are offered to our five partner Registered Providers in the city.

3.9 Recently schemes offering less than 15 affordable homes have been declined for purchase by our Registered Provider partners who have confirmed that their current risk management assessment does not allow purchase of small schemes. Although in such cases the council would receive a commuted sum payment in lieu of on site units – the on site provision is generally preferred given land restrictions in the city. In light of this it is proposed that the council considers purchasing these properties to add to its own housing stock. The Affordable Housing Brief, setting out guidance on the council's requirements for affordable housing within the city, will be revised to reflect this. The purchase of these properties could be carried out in two ways:

- Through a direct purchase from the HRA adding to the council's own housing stock
- Through a Wholly Owned Housing Company. This route would be required if there was an element of commercial activity, where to achieve a position which is financially viable properties need to be let out at a mix of LHA and market rent levels.

The purchase of these properties is supported in the 'other opportunities' section of the Home Purchase Policy.

3.10 The viability of each potential S106 site would need to be completed taking account of:

- The number of units and purchase price proposed
- Management viability e.g. would the units need to be in a separate block
- Financial viability of the property
- The viability of the purchase against rent levels as set out in the council's rent policy
- Timing of the purchase. An early discussion with developers would be essential, particularly if we propose to take forward affordable rented only units
- Planning considerations as we would only be seeking affordable rented properties at present
- There is a specific housing need for the type of property that is being offered, as established by the Housing Register
- The property/land is situated amongst existing Brighton & Hove City Council housing stock.

3.11 Each S106 site that the council may wish to purchase would need to be fully assessed. Individual sites would then be subject to business case approval by Housing & New Homes Committee with formal approval sought through Housing & New Homes and Policy, Resources and Growth Committees (as required).

4. Budget and resources

4.1 Expanding the scope of this policy will require additional capital and revenue funding. The scheme currently has £3m approved (£2m in 2017/18 and £1m in 2018/19). A further £2m has been provisionally agreed for both 2019/20 and 2020/21 bringing the total anticipated budget to £7m until the end of March 2021.

4.2 A fixed term officer will be recruited to oversee the continued operation of the scheme, with recruitment currently underway.

5. ANALYSIS & CONSIDERATION OF OPTIONS

	Option	Benefits	Risks
Option 1	No change: Continue to adopt a Home Purchase Policy to purchase former council homes only	Increase supply of affordable housing Pressing housing needs are met Right to Buy receipts are spent and therefore not returned to the government and not incurring interest at 4%	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

		<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>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> <p>Not taking advantage of all opportunities to increase housing stock</p>
Option 2 (preferred option)	Fully adopt the Home Purchase Policy to include both former council owned homes and other opportunities e.g. S106 sites (subject to business case)	<p>A wider range of properties from which to meet housing needs</p> <p>Good value purchase that meets a housing need</p> <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</p>	<p>The properties may be 'unknown quantities' and expensive to maintain in the future</p> <p>Reduced management efficiencies due to not being located on housing owned land/buildings</p> <p>By purchasing flats in privately owned blocks, the council will become a leaseholder without the benefits of being a freeholder.</p> <p>Raise expectations of all leaseholders/freeholders to sell their properties back to the Council within a limited budget</p>

		<p>of the borrowing headroom</p> <p>The council has knowledge of the stock and there are cost efficiencies in management (because some will be on our estates)</p> <p>Affordable housing is provided on site</p>	
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- 5.2 An option to increase the maximum purchase price from £250,000 (subject to value for money) for each property has been considered. This would either need to be agreed through a change in delegation or through member review. This is not being proposed at this time as the current level provides enough flexibility to purchase properties that are most in need. As at August 2018, 14,983 households were on the housing register of which 8,526 (57%) require a 1 bedroom property with 4,389 (29%) requiring a 2 bedroom property. The pilot has demonstrated that the threshold of £250,000 has allowed the purchase of both 1 and 2 bedroom properties.

6. COMMUNITY ENGAGEMENT & CONSULTATION

- 6.1 Area Panels considered a briefing detailing the outcomes of the pilot to date and proposals for expanding the scheme at their meetings in August and September 2018. All panels noted the briefing.
- 6.2 The report was considered by Estate Regeneration Members Board on the 10 September 2018 and future updates will be taken to this board.

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 will continue to be kept under review to determine the success of the scheme and to inform future budget decisions.

8. FINANCIAL & OTHER IMPLICATIONS:

Financial implications

- 8.1 In the report presented to Housing & New Homes Committee in September 2017 and subsequently to Policy, Resources & Growth Committee (PR&G) in October

2017 an initial budget of £2.000m was approved as part of the pilot home purchase policy. At 31st March 2018 £0.237m had been spent on purchasing the first property, with the remaining budget of £1.763m being re-profiled into 2018/19. The spend incurred up to 31 March 2018 was funded using a combination of Right to Buy (RTB) receipts of £0.071m and existing HRA resources of £0.166m. Sufficient resources were available so that HRA borrowing was not required.

- 8.2 A further £1.000m budget was approved for 2018/19 in the budget report presented at full council in February 2018, resulting in a total budget of £2.763m for 2018/19. To date, £0.165m of expenditure has been incurred, relating mainly to the purchase of the second property under the pilot policy. The current forecast is to spend this budget in 2018/19. The current proposal is to fund £0.829 from RTB receipts and the remaining £1.934m from HRA borrowing.
- 8.3 The budget report for 2018/19 included provisional budgets of £2.000m for 2020/21 and 2021/22. These will be reviewed during the budget setting process for 2019/20 to ensure they are set at an appropriate level to accommodate the widening scope of the Home Purchase Policy.
- 8.4 The approved budget of £3.000m and the proposed budget of £4.000m are included in the use of RTB receipts forecast. Any increase to the provisional budgets as a result of widening the scope of the scheme will increase the funding required from RTB receipts, therefore relieving some of the pressure to spend receipts within the 3 year time frame set by government.
- 8.5 The costs of the new member of staff to manage this programme mentioned in paragraph 4.2 can be met from the current HRA budget resources for 2018/19. If this post is required beyond 2019/20, this will be included as part of the HRA budget setting report for 2019/20 reported to Housing and New Homes Committee in January 2019.
- 8.6 Financial Viability modelling is undertaken on individual properties where the independent valuation falls within the £0.250 limit. The standard 60 year model currently used for new builds is used for these purchases. The model takes into consideration all associated costs of purchasing these properties, including the purchase price, Stamp Duty Land Tax, Agent fees, Legal fees and the potential cost of refurbishment.
- 8.7 Appendix 1 to the main report shows five purchases are considered to provide value for money to the council, and have been accepted by the vendor, four of which are to be let at a Living Wage rent for General Needs purposes and one to be let for Temporary Accommodation purposes. Only one of these purchases has an estimated subsidy of £0.003m. This level of subsidy is manageable within the overall resources of the HRA.
- 8.8 Paragraph 3.4 of the main report describes how the purchase price can fluctuate considerably depending on the location of the property in the city. This does result in some properties in the centre of town being non-viable. Allowing a purchase to be made with a subsidy of up to £0.010m will allow for some of these fluctuations. Any subsidy of up to £0.010m would be in the form of small amounts (up to a few hundred pounds per year for each case) to supplement the annual

rental stream to pay for the borrowing costs over the term of the borrowing. It is anticipated that the HRA can manage this small level of subsidy within its revenue resources and therefore these purchases would still be considered as providing value for money.

Finance Officer Consulted: Monica Brooks

Date: 07/09/2018

Legal Implications:

- 8.9 As noted in the revised Home Purchase Policy attached at Appendix 2, The Housing (Right of First Refusal) (England) Regulations 2005 requires an owner who has bought a property after 10th August 2005 under the right to buy scheme to offer back their property to the Council if sold within the first ten years of purchase. With regards to paragraph 5.1 and 5.2 of the revised Home Purchase Policy and the proposed other opportunities, the Council does have the power by virtue of section 17 of the Housing Act 1985 (as amended) to acquire land or properties for housing purposes.

Lawyer consulted: Joanne Dougnaglo

Date: 14/08/2018

8.10 Equalities Implications:

The Home Purchase Policy supports the 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.

8.11 Sustainability Implications:

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

SUPPORTING DOCUMENTATION

- Appendix 1:** Right of first refusal pilot – outcomes
Appendix 2: Revised Home Purchase Policy