CABINET
9 OCTOBER 2012

ITEM NO. ....

RIGHT TO BUY RECEIPTS

Responsible Cabinet Member - Councillor Veronica Copeland,
Adult Social Care and Housing Portfolio

Responsible Director - Richard Alty, Director of Place

SUMMARY REPORT

Purpose of the Report

1. To obtain Cabinet approval for the Council entering into an agreement with the Secretary of State to enable us to retain additional Right to Buy (RTB) receipts for investment in new affordable rented houses, subject to certain conditions.

Summary

2. The Secretary of State has invited all local authorities with Housing stock to indicate if they wish to enter into an agreement enabling us to retain some RTB receipts for the provision of new social housing.

3. Unfortunately the formula for calculating the potential receipts we would be able to keep is complex. However, it has been estimated that, as part of the self-financing settlement to end the Housing Revenue Account subsidy in March 2012, the Government would clawback the receipts from approximately the first 22 properties sold in 2012/13 and receipts from any further sales could then be used of up to 30% towards the cost of a replacement home. Currently we have sold two properties under the Right to Buy arrangements and are unlikely to reach the Government target. It is preferable however to retain capital receipts if possible, so by seeking member approval to sign up to the agreement now, it would put us in a position to respond quickly if an opportunity arose.

Recommendation

4. It is recommended that the Council enters into the attached agreement with the Secretary of State to enable us to retain additional Right to Buy receipts for investment in new affordable rented homes should this become financially viable in the future.

Reasons

5. The recommendation is supported to enable the Council to respond quickly if sufficient RTB receipts were generated to make investment in new affordable homes viable.

Richard Alty
Director of Place

Background Papers

No Background papers were used in the preparation of this report.

Pauline Mitchell : Extension 2505

S17 Crime and Disorder	It is not considered that the contents of this report have any such effect.
Health and Well Being	There are no issues relating to health and well-being which this report needs to address
Carbon Impact	The proposals will have a neutral impact
Diversity	There are no diversity issues
Wards Affected	Any potentially
Groups Affected	Not applicable
Budget and Policy Framework	The issues contained within this report do not represent change to Council budget or the Council's policy framework
Key Decision	This is not a key decision
Urgent Decision	For the purpose of the 'call-in' procedure this does not represent an urgent decision
One Darlington: Perfectly Placed	More affordable homes would assist in meeting current high demands
Efficiency	By signing up to this agreement the Council is best placed to maximise funding opportunities

MAIN REPORT

Information and Analysis

Background

6. As a result of changes in Right to Buy procedures, there is a need for local authorities to enter into an agreement with the Secretary of State (as attached at **Appendix 1**) in order to retain a proportion of capital receipts obtained from the sale of Council houses. By entering into the agreement we would be committed to notifying the Department of Communities and Local Government (DCLG) by the due date each quarter of the amount we intend to retain or hand over to them. If no return is made it will be assumed that we are retaining the maximum amount. Interest will be charged at 4% above the base rate on a day-to-day basis compounded with three monthly rests, that is, at the end of each three monthly period interest will start to accrue interest. Any receipts or interest returned to the DCLG will be

used to support the provision of new affordable rented homes elsewhere.

7. There is an expectation for all local authorities to indicate formally to Central Government whether they want in principle to participate or not. By making a formal decision now we would also be in a position to respond quickly if circumstances changed. Our only commitment would be to complete the appropriate paperwork every quarter.

8. So far in 2012/13 we have only sold two Council properties under the RTB scheme amounting to a total receipt of £85k and unlike some other parts of the country there continues to be very little interest.

Financial Implications

9. The Council loses annual income of (on average) £1,800 for each property sold under the RTB scheme so we are financially better off by retaining our stock. However, we have a statutory requirement to participate in the RTB scheme and there are opportunities to retain some of the capital receipts if we are able to comply with this new Government initiative.

10. The first problem in taking part in this scheme is that, before the Council can retain any extra RTB income it first has to pay a set amount to Government. This set amount was calculated as part of the arrangements to end the HRA subsidy system. The valuations used in calculating the self-financing settlement payments to end the Housing Revenue Account subsidy include a forecast of surplus income from RTB sales as shown in Table 1 below. Before the Council can take any new RTB income, it first has to pay the Government the amounts in the bottom row of Table 1.

Table 1: Forecast of Surplus Income from RTB Sales

Right to Buys	**2012/13**	**2013/14**	**2014/15**
Number of RTB in Self Financing Model	14	16	18
Total Assumed Capital Receipts	£626,000	£715,000	£791,000

11. This effectively means that after taking into account administration and transaction costs and the Treasury Gap, the Government will clawback the capital receipts from the first 14 properties we sell in 2012/13. In addition, as they have assumed an average receipt of £58,800 per dwelling and our actual receipts are averaging only £35,000, we will have to sell approximately an extra 8 properties to make up the shortfall. There is no requirement to pay the CLG's forecast surplus income unless we actually sell the properties in the first place but the clawback requirement applies to any properties we sell up to the assumed income target.

12. The second problem in taking part in this initiative is the number of homes which would need to be sold in comparison with the number of new ones that could then be built. Once we have reached our target we can retain any additional RTB receipts to fund the provision of replacement stock and have three years to invest these receipts. However, the receipts must not make up more than 30% of the total spend on replacement stock (and any unused

receipts have to pass to the Secretary of State with interest, payable at 4% above base rate). The remaining 70% of the cost of providing new houses has to come from the Council borrowing against the future income stream and any cross subsidy from our own resources. For example, if we were to sell a further 25 properties this year (after selling the initial 22 properties where clawback applies) we would receive around £336k of capital receipts for replacement homes. The £336k could be 30% of the cost of new homes, so the Council would need to borrow c.£700k towards a total cost of c.£1m. Assuming a build cost of around £100k per property we could build 10 properties charged at affordable rents.

13. It should be noted that it is also possible to use RTB receipts to cover part of the cost of buying back former Council homes. However, only 6.5% of the value of the RTB receipt can be used for this purpose.

Outcome of Consultation

14. No consultation has taken place in respect of these proposals although the Tenants' Board were involved in responding to the Government consultation on these proposals.

Conclusions

15. Using our current average receipts, the Council would need to sell approximately 47 properties in order to build 10 using the additional RTB receipts.

16. It is therefore unlikely, at the present time, that enough properties would be sold to generate enough receipts to build new properties.

17. Also with the values that exist in Darlington, the scheme would be valuable (if enough properties were sold) to help create an increase in the overall number of houses in Darlington, but it would result in a decrease in the number of affordable homes in Darlington.

18. It is unlikely, therefore, that it would be viable for the Council to use the additional RTB receipts. However, it is still appropriate to indicate that the Council would take part, so that we can quickly begin to retain receipts if the amount of RTB receipts began to increase sharply.