ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting**	**Cabinet Member for Safe and Attractive Neighbourhoods**
2.	**Date**	**26th November 2012**
3.	**Title**	**Right to Buy Receipts – Implications of New Rules**
4.	**Directorate**	**Neighbourhoods and Adult Services**

5. Summary

The increased £75k Right to Buy (RTB) discount cap and new rules regarding RTB receipts were implemented in April 2012. The new scheme assumes that the number of RTB sales will increase dramatically as a result of the higher discount cap, and therefore there will be more capital receipts overall, and the additional capital receipts (over and above what would have been generated under the previous discount rules) can be used to fund new affordable housing.

Government guidance refers to 'one for one replacement', implying that for every property sold under the RTB a new affordable house will be built. There will be no significant amount of additional resources for new housing in Rotherham until we are selling in the region of 80 properties every year, which is double what we predict for 2012/13. Even at 80 sales per year over a five year period, we could only deliver a maximum of 82 homes, which when compared with 400 homes lost over the period shows that we cannot achieve one for one replacement in Rotherham.

Two other key risks have come to light:

- Risk of not being able to fully fund Disabled Facility Grant works

- Risk that the costs associated with processing a higher number of unsuccessful and / or withdrawn RTB applications will exceed the allocated budget

The purpose of this report is to present these three risks and set out the actions being taken as a result.

6. Recommendations

- Note that one-for-one housing replacement in Rotherham will not be possible

- Note that funding for the Disabled Facility Grant programme is at risk if the number of sales falls below 29

- Agree that RMBC should raise with Central Government the issue of high costs associated with unsuccessful and withdrawn applications

7. Proposals and details

7.1 Background

The increased £75k Right to Buy (RTB) discount cap and new rules regarding RTB receipts were implemented in April 2012.

The formula for calculating discount RTB discount remains unchanged. Secure tenants of at least five years can apply to buy their Council house for a discount of 35% of the property's value plus 1% for each year beyond the qualifying period (five years) up to a maximum of 60%. (For flats: 50% plus 2% for each year beyond the qualifying period up to a maximum of 70%). However whereas previously, once the percentage discount had been calculated this was capped at £24k – the new cap is £75k.

The average RTB house price in Rotherham is £80k, and the average length of a tenancy is 15 years. The following table sets out three scenarios to show the minimum, average and maximum impacts the new rules could have on discounts:

	Example to show min. impact	Example to show ave. impact	Example to show max. impact
Property value	£60,000	£80,000	£130,000
Length of tenancy	5 years	15 years	30+ years
% Discount	35%	45%	60%
Previous discount	£21,000	£24,000 (due to cap)	£24,000 (due to cap)
New discount	£21,000	£36,000	£75,000 (due to cap)
Increase in discount	0	£12,000	£51,000

The guidance assumes that the number of RTB sales will increase dramatically as a result of the higher discount cap, and therefore there will be more capital receipts, and the additional capital receipts (over and above what would have been generated under the previous discount rules) can be used to fund new affordable housing. RMBC stated in its consultation response that if any additional receipts were available for new affordable housing, these should be controlled by the local authority rather than pooled nationally – to ensure Rotherham's people benefit from any new housing. RMBC therefore signed up to an agreement with Government in June 2012 to this effect, the main points being that:

- Any additional receipts must be spent on new affordable housing
- The RTB receipts must constitute no more than 30% of the total scheme costs
- Any receipts not used within a three year time limit must be returned to the Treasury, with interest

Government guidance refers to 'one for one replacement', implying that for every property sold under the RTB a new affordable home will be built. This will not happen in Rotherham. The guidance acknowledges that not all local authorities will be able to deliver one-for-one with the additional receipts and does not require them to do so, but it states that one for one will be delivered nationally.

Sector Housing and Consultancy Services were commissioned by RMBC Finance Officers to produce a detailed model and report, which were finalised in October 2012. The report provides useful contextual information and summarises the implications for Rotherham. The main headline is that until we are selling in the region of 80 properties every year (which is double what we predict for 2012/13), there will be no significant amount of resources to deliver new homes. Even at 80 sales per year, the number of new homes deliverable will fall dramatically short of the number of homes we will lose from the Council's housing stock.

We have also identified two other risks, regarding the funding of Disabled Facility Grant works and the high costs of processing applications that do not result in a sale. Each of the three points is considered below in further detail.

7.2 We will be unable to deliver one for one replacement in Rotherham

For comparison purposes, the cost per unit for new affordable housing is assumed to be £100,000. (It should be possible to deliver new housing at this price, albeit not to the same Code for Sustainable Housing level as the earlier 132 new build Council houses).

The Sector report show that if we sell 25 properties per year there will be no additional income for new homes.

At 60 sales per year over a five year period, there will be £139k for new homes, meaning total scheme costs of £464k, as RTB receipts can constitute no more than 30% of total costs. This would equate to only four or five properties, as opposed to 300 units (60 x 5) lost from the Council's stock.

At 80 sales per year, the amount of receipts accrued for new housing over a five year period jumps sharply. The total programme would be £8.19m, which equates to 82 houses, but when compared to the 400 homes sold during the five years, shows that we will only be able to replace approximately one fifth of stock lost.

(These figures are summarised in the table 2, section 8).

So far in 2012/13 we have had 13 sales and we predict between 35 and 45 in total this year. It is therefore fair to assume that there will be no additional receipts for new housing, since as shown above, 60 sales would be needed in order to generate the small sum of £139k, which would translate to approximately four or five new homes.

The figure estimated for the current financial year (35-45) may increase next year for the following reasons:

- It typically takes five to six months from application to sale – therefore many of the applications sent out recently will not complete until the new financial year
- National publicity campaign to promote RTB is to be launched imminently

It is therefore important that we continue to monitor RTB activity very closely.

7.3 There is a potential risk that the Disabled Facilities Grant programme will be under-funded if we do not sell enough properties

Historically, RMBC has used its 25% share of capital receipts to fund aids and adaptations to Council stock dwellings. The receipts generated during 2011/12 were held in reserve in anticipation of using them for the 2012/13 capital programme on private sector properties.

Currently, the 2012/13 budget for aids and adaptations in the private sector is £1.62m of which £588k is to be funded by RTB receipts (reserve of £258k).

In order to sustain this level of support, a higher number of sales will be required to compensate for the lower capital receipt (resulting from the higher customer discount). The average valuation for the properties sold during the first half of this year was £80,312, similar to previous years. The average discount was £41,735, i.e. over 50% (whereas previously discount was capped at £24k), which will clearly have an impact on capital receipts.

The model suggests that if we sell 29 properties per year (spread evenly through the year), £345,609 would be retained by RMBC which could be used for the aids and adaptations capital programme on private sector properties.

The provision of aids and adaptations is a responsive service and major / minor works are governed by a mandatory requirement to complete works within a six month period.

If RTB sales fall below the target figure, then alternative funding for the capital programme would need to be sought and this could potentially have an impact on Neighbourhoods revenue, or the programme would have to be scaled back. Ongoing monitoring of the RTB process and receipts received, along with closely monitoring the progress of the aids and adaptation on private sector properties capital programme should highlight problems at an early stage.

7.4 There is a risk that the costs associated with processing RTB applications will exceed budgets

Under the previous rules we could deduct accrued administrative costs from the gross RTB capital receipt, but we were not reimbursed for any of the costs resulting from unsuccessful applications. Costs include surveyors' fees, legal fees, administrative costs, staff time etc. Under the new system we are allowed to deduct a flat fee of £1,300 per completed RTB, which is higher than previously and intended to take account of the costs of failed applications. However, we may assume we will receive a higher number of failed applications – more people will be attracted by the new discount, but for various reasons some may decide against buying, which could lead to higher administrative costs than can be funded by the £1.300 allocated per sale.

The projected outturn for 2012/13 for internal re-charges to the HRA for valuations and survey fees is £50.5k. This is based on fees for 130 properties which can range between £300 and £950, with an average of £390 per property being charged to date. In addition to these fees a further £20k recharge in legal fees is predicted. This gives total anticipated expenditure on RTB fees of £70.5k. The outturn figures are based on known numbers of applications which are already progressing through the process.

It has been estimated that there will be 35-45 RTB sales in the financial year. The £1,300 per property we are allowed to deduct from the capital amount pooled will generate "income" of £45.5k if 35 sales are achieved. When this is offset against the cost of fees this would result in a pressure of £25k to the HRA. If 45 RTB sales were achieved this would result in "income" of £58.5k, resulting in a pressure of £12k.

This is a significant risk and detailed analysis is being undertaken to help us understand the scale of the problem. Other actions we could take to deal with this problem are:

- Provide information to all prospective applicants (via letter to accompany RTB packs and on the Council's website), requesting that they only apply if they intend to buy
- Raise Government awareness of the issue and request increase in the allowance from £1,300 to a higher amount, based on our experience in year 1 of the new RTB scheme

8. Finance

Although our prediction for 2012/13 (35-45 sales) is higher than recently experienced (23, 21 and 17 respectively in preceding three years), it is still well below what we have predicted in the HRA business plan. The business plan assumes 100 sales per year over five years – which means that the impact on future rental income will not be as hard-hitting as anticipated. The figure is also likely to be lower than the numbers of sales assumed by Government in respect of the self-financing settlement, which is positive in the sense that Rotherham's apportioned debt was lower as a result.

The financial implications for DFGs and the impact on the budget for RTB administrative fees are detailed in sections 7.3 and 7.4 respectively.

The new apportionment of RTB receipts is summarised in the following table, extracted from Sector's report:

Table 1: Apportionment of RTB Receipts (five years 2012/13 to 2016/17)

	25 sales per year (£)	60 sales per year (£)	80 Sales per year (£)
Total RTB Receipts	5,451,026	13,098,395	17,468,320
To the Council			
Transaction Costs	162,500	390,000	520,000
Allowable debt	0	732,676	2,456,136
Local Authority Assumed Income	1,556,205	3,483,037	3,541,689
Buy Back Allowance	0	0	0
To the Government			
Government Assumed Income	3,732,321	8,353,533	8,494,203
To the Council or the Government			
Money available for replacement homes	0	139,150	2,456,292

The second table shows when any additional receipts are generated and confirms that one for one replacement will not be possible:

Table 2: Required Development Expenditure

Required Cumulative Expenditure	25 sales per year £	60 sales per year £	80 Sales per year £
2012/13	0	0	0
2013/14	0	0	0
2014/15	0	0	0
2015/16	0	392,253	1,879,310
2016/17	0	71,581	1,651,314
2017/18	0	0	1,465,554
2018/19	0	0	1,493,248
2019/20	0	0	1,698,216

The figures represent total expenditure – i.e. the RTB receipts comprise only 30% of the total programme.

At 60 sales per year for the next five years – we will be able to spend £464k (of which £139k comes from RTB) on new homes. Four or five new homes compared to 300 homes sold.

At 80 sales per year for the next five years – we will be able to spend £8.19m (of which £2.46m comes from RTB) on new homes. 82 new homes compared to 400 homes sold.

9. Risks and uncertainties

The risks, highlighted throughout the report, are summarised in the table below along with other risks that have been identified and are being monitored by the RTB Finance Group.

Risk	Action
Uncertainty re. sales predictions	Continue to monitor closely
National publicity campaign to increase tenant awareness	Provide information to all prospective applicants on Council's website (see appendix 1)
Loss of housing stock	-Implement widescale programme of new Council housing (new build and strategic acquisitions) and increase and improve supply of affordable private rented housing in Rotherham -Closely monitor impacts on HRA business plan
Risk of generating an unexpectedly high level of receipts, and of being unable to spend these in accordance with the agreement, therefore having to pay interest to the Treasury	As shown in the report, this is virtually impossible. However if this scenario arose, actions we could take are: -Establish robust programme of new Council housing to ensure we have high quality information about what we can deliver, when, and the development costs -If we are aware of problems early enough we could opt to return receipts early, voluntarily, to avoid interest charges -We also have the option of terminating the agreement at any point
DFG programme	-Continue close monitoring -Identify other potential sources of funding

Risk	Action
RTB administrative fees exceeding budget	-Letter to prospective applicants (accompanying RTB pack) and information on Council's website, requesting that people only apply if they intend to buy -Raise issue with Government and request increase in the allowance from £1300

10. Policy and performance agenda implications

Increasing and improving the supply of affordable rented housing in Rotherham is a commitment in Rotherham's new draft Housing Strategy.

11. Background papers and consultation

- Reinvigorating Right to Buy and One for One Replacement – CLG March 2012
- Cabinet Member report 28th May 2012
- Detailed report by Sector Consultants

Consultation: The RTB Finance Group consists of finance officers including NAS Director of Finance and members of the Strategic Housing and Investment Service. All members have been consulted on the content of this report.

12. Contact details

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