

Item No	Classification Open	Date October 2005	Meeting Name Individual Member Decision – Executive Member for Housing
Report title		Proposals for a Southwark Cash Incentive Scheme	
Ward(s) or groups affected		All	
From		Strategic Director of Housing/DSM Strategy & Regeneration	

RECOMMENDATIONS

1. That the Executive Member for Housing agree the criteria set out in this paper for a Southwark cash incentive scheme as follows;
 - The aims of the scheme – para 19
 - Resourcing the scheme – para 20
 - Eligibility for the scheme – para 22
 - Limitations of the scheme – para 23
 - Means test/affordability – para 24
 - Amount of grant – para 25
 - Pre-sale inspections – para 26
 - Administering, advertising, prioritisation – para 27
2. That the Executive Member for Housing agrees to circulate the proposals in this paper to Tenant and Leaseholder Councils for information.
3. That the cash incentive scheme be reviewed after one year and a report on the review with any recommendations for changes to the scheme be submitted to the Executive Member for Housing in March 2007.

BACKGROUND INFORMATION

4. Southwark has not operated a cash incentive scheme since Government ring-fenced support for CIS schemes ended in 1999/2000. From April 2003 the Government no longer required local housing authorities to obtain Secretary of State consent to run a cash incentive scheme, giving authorities the freedom to determine best use of available resources to address local needs. The Council can operate a CIS scheme under Section 129 of the Housing Act 1988 and can determine the scheme criteria, grant levels and method of assessing eligibility.
5. The action plan in the Year 5 Update of the 1998-2005 housing strategy included a target to consider whether to introduce a Southwark Cash Incentive Scheme. Housing SMT 23 November 2004 received a paper from Leasehold Management Unit on proposals for a scheme. SMT asked that the proposals be further considered with the Strategy & Regeneration DSM. At a subsequent meeting chaired by the DSM it was agreed that Strategy & Policy would further consider the issues and the potential of any proposed scheme to contribute to delivering the emerging objectives of the new housing strategy, which at that time were out for public consultation, and report back to SMT. The new 5-year housing strategy was agreed by Council Assembly on 20 July.
6. In considering a local cash incentive scheme we need to be aware of other subsidised home ownership schemes available to council tenants:

7. **Right to Buy**

Tenant purchases the full equity in their council home at a discount. Maximum discount in London is set at £16,000. Under the Housing Act 2004, tenants whose tenancies started after 18 January 2005 have to be a tenant for at least 5 years to be eligible to exercise their RtB; for those whose tenancy started before that date the old rules of at least 2 year's qualifying tenancy apply.

8. **Homebuy**

In April 2005 the ODPM issued a consultation paper *Homebuy – expanding the opportunity to own*. The paper included proposals for an extension of Homebuy (Social Homebuy) enabling council and housing association tenants to buy a share in their home. In our response to this consultation paper we raised significant concerns about the Social Homebuy proposals. The consultation period ended 24 June and final full guidance on Social Homebuy has not yet been issued by ODPM. Homebuy will now have three strands, all of which are open to council tenants:

- *Open market Homebuy*: Purchase of at least 75% of a home on the open market with an equity loan from a housing association for the remaining share, the association can levy a small charge on the share they hold. The buyer has full ownership and is responsible for all management and maintenance costs. The equity loan is placed as a charge on the property, repayable on sale as an equivalent proportion of the sale proceeds.
- *New build Homebuy*: Purchasers can buy a minimum share of 25%, the remaining share owned by a housing association/developer who can levy a charge of up to 3% on their equity. The buyer will have full ownership of the home as a leaseholder, with the freehold retained by the developer who is able to require certain conditions through the lease (e.g. payment to a sinking fund), and is responsible for all management and maintenance costs. The buyer can staircase and buy further shares in the home. The developer has rights to buy back or nominate the next buyer at the point of resale. The developer's share of the equity is placed as a charge on the property and the loan must be repaid as an equivalent proportion of the sales proceeds.
- *Social Homebuy* –Tenants buy a minimum share of 25% of the home they live in, the remaining share held by the landlord, who can levy a charge of up to 3% on their equity – there will be flexibility in the precise terms of the scheme to enable providers to trial different products, but it seems likely that the buyer will be responsible for all management and maintenance costs. The buyer can staircase. The landlord will retain the freehold and can require certain conditions under the lease and will have rights to buy back or nominate the next buyer at the point of resale. Applicants will receive a share of the sale proceeds in proportion to their equity share when they sell the property. Councils would be expected to use capital receipts from Homebuy to repay debt on the property, and to provide affordable housing or regeneration.

9. Whether or not to operate a Social Homebuy scheme is not dealt with in this paper. This is a matter for individual councils and housing associations to decide

as the scheme is voluntary. The Council will need to make a policy decision as to whether to operate a scheme.

10. The Executive Member for Housing should note that our new five-year housing strategy includes a 2005/06 target to consider whether to implement a Southwark Cash Incentive Scheme (CIS). The Forward Plan includes an item on a cash incentive scheme to be considered by the Executive Member for Housing in October .

KEY ISSUES FOR CONSIDERATION

What other local authorities are doing

11. According to Housing Strategy Statistical Appendix (HSSA) 2004 returns, 14 London boroughs are currently operating a cash incentive scheme. All the schemes are funded from council resources, with annual funding ranging from £130k to £1 million. Further details were sought from 8 London boroughs operating cash incentive schemes. This illustrated their variety, though there are many common themes. Most have a sliding scale of grants depending on size of property being vacated and area of purchase. Most have arrangements for clawing back all or part of the grant if the purchased property is sold within a given time frame.

The advantages of having a local cash incentive scheme

12. Unlike the home ownership schemes identified above where parameters are set by Government, there is potential for a local cash incentive scheme to contribute to delivering priorities of our housing strategy and other local strategic priorities, depending on how the scheme is focused. Most notably, cash incentive schemes contribute to conserving the supply of affordable rented housing for future lettings streams in contrast to Right to Buy and Social Homebuy.
13. This is a major consideration in Southwark where demand for affordable housing will far outstrip supply for the foreseeable future. Our 2003/04 housing needs survey estimated a need for an additional 1,937 units of affordable housing per year over 5 years to deal with backlog and newly arising need. The London Plan sets an annual target for Southwark of 812 new affordable homes (50% of latest Housing Capacity figure of 1625). In 2004/05, 536 new affordable homes (74 of which were shared ownership units) were delivered in partnership with housing associations, at an average cost of over £100k per home, and the target for this year is 550 new affordable homes. With this gap between the number of additional affordable homes needed and the rate of new supply, clearly any measures to conserve the supply of social rented housing should be given serious consideration.
14. With average annual gross household income (excluding benefits) of £19,387 (Housing Needs Survey 2003/04) and relatively high house prices, there are limited opportunities for Southwark residents to buy a home in the borough without some assistance. Across London, only 4 boroughs have average house

prices which fall below the new stamp duty threshold of £120k. Our housing needs survey estimated that around half the households in housing need could afford some form of intermediate housing (i.e. something more than social rented housing and less than minimum market housing). The survey concludes that, in order to maximise the accessibility of an intermediate housing product, either it must be pitched at costs only a little higher than social housing rents, or else a series of separate products is needed covering the fullest possible range of affordability. A local cash incentive scheme could be one such product.

15. Our housing needs survey found that the majority of households indicating a need to move wanted to move within Southwark (58%) and 13% wanted to move elsewhere in Greater London. Most households stating a need to move in the next five years would like to buy their own home, though most expected to rent from the Council. A local cash incentive scheme may assist those who want to remain in Southwark, thus contributing to retaining economically active residents and sustainable communities. However, it is also possible that a local CIS could simply assist economically active households to move elsewhere – we would need to monitor outcomes to track where people move to. Given historic patterns of migration in London and the lower average house prices of the other boroughs in the South East London Housing Partnership, it is likely that some households taking up the scheme would move within the sub-region. None of our sub-regional partner boroughs run a cash incentive scheme (Note: Bexley and Bromley do not have any council stock) but there may be potential in future for considering a sub-regional scheme, with the focus on enabling moves within the sub-region.
16. In 2004/05, 1668 households were accepted as homeless, of which 832 were families with children. At the end of March 2005, 969 homeless households were in temporary accommodation and a further 370 were homeless at home. Net weekly costs of temporary accommodation (depending on type of accommodation and size of household and taking into account subsidy, rent due, collection rate and void rate) range from £4.58 to £39.12 per unit. Any scheme which increases the supply of available council lettings will have a positive impact on the costs of temporary accommodation.
17. Overcrowding in the council sector is a significant problem in Southwark. Our housing needs survey found that 13.3% of council households (6,196) were overcrowded and 14.1% were under-occupying (6,607). Overcrowding is particularly prevalent among Black African and Bangladeshi communities. The Council operates an under-occupation scheme offering a range of incentives to under-occupying tenants to move to a smaller home, in an effort to release much needed larger homes. The scheme is targeted at tenants in 3 bed or larger homes who are prepared to move to accommodation with 2 or more bedrooms less than their current home. Over the last 5 years 326 under-occupying households have moved under the scheme. The incentive scheme is currently being reviewed and recommendations for expanding the scope of the scheme and the incentives will be considered by SMT in September. Officers consider that there are households currently on the under-occupation scheme register (total register currently 130) who may be potential candidates for subsidised owner occupation. A local cash incentive scheme could offer an additional incentive for under-occupying tenants to move.

16. Officers have considered whether a local cash incentive scheme could also provide a useful additional option in housing regeneration schemes requiring demolition and decanting. There are usually a handful of tenants in such schemes that have difficult to meet needs which can result in delays in getting schemes on site – with significant resulting costs. However, available resources for a local cash incentive scheme are unlikely to be sufficient (see below) to offer the option to all tenants in a regeneration scheme and there are clearly equity (and perverse incentive) issues around targeting the scheme at only a few individuals. Officers have considered whether it would be feasible to earmark some of a regeneration scheme's allocated resources to running a cash incentive scheme for the programme but have concluded this may be socially divisive.
17. Finally, Key Lines of Enquiry number 12 (leasehold management etc) includes the KLOE *Sustainability and mixed tenure – how do RTB and home ownership policies support sustainability and mixed tenure?* An organisation delivering an excellent service makes incentive schemes available for its residents. An organisation delivering a fair service does not have a complete range of incentive schemes, marketing and sales policies for low cost home ownership.
18. *Arguments against having a CIS:*
- It diverts capital resources away from other priorities such as decent homes and new affordable homes.
 - The costs of advertising and administering the scheme have revenue implications, though these would be minimised if the scheme was a small one.
 - It could become an issue between the boroughs and the Mayor when he takes over responsibility for housing. See article Inside Housing 29 July, interview with David Lunts, Mayor's Executive Director of Policy and Partnerships. "Mr Livingstone is against giving first time buyers portable subsidy in the market place to go and effectively outbid other people who are already in the housing market. He is much more interested in using scarce public resources to boost the supply of new housing rather than to subsidise the demand for new housing".
19. On balance, officers consider that there are more arguments in favour of having a local cash incentive scheme. It is therefore proposed that the Executive member for Housing agree to pilot a local cash incentive scheme from 2006/07 with the following aims:
- Releasing family sized homes for re-letting
 - Increasing housing choice for council tenants who could not otherwise afford to buy a home of their own
 - Encouraging economically active households to remain in Southwark, in support of sustainable communities objectives

Resourcing the scheme

20. The issue of resourcing any proposed incentive scheme is of central importance, as assumptions about the scale of the programme are key to setting the parameters of the scheme, focusing publicity etc. Officers submitted a bid to CAPEX in December 2004 for capital funding from the centre of £250k for 2005/06 and £1 million per year for future years. The bid was not successful. A further bid has recently been submitted for £250k 2006/07 and £1 million a year £2007/08-2008/09.

It is further proposed that, in order to maximise take-up of the scheme in 2006/07, targeted advertising (see below) be commenced in January/February 2006. Costs of the advertising to be met from existing revenue budgets.

Proposed parameters of Southwark Cash Incentive Scheme

21. In proposing parameters for a Southwark cash incentive scheme, the intention is to keep the scheme as simple as possible, to minimise administration costs and to get maximum benefit from the limited budget while meeting the proposed aims of the scheme set out above. The proposed parameters have been informed by the proposals for the scheme set out in the LMU paper to SMT November 2004, current practice of other London local authorities operating incentive schemes and recent information on national, regional and local property prices in Southwark Housing Market Trends Bulletin No. 8 (Quarter 1 2005/06). Housing market information of particular relevance to the proposed financial thresholds includes:

- For the last 12 consecutive months house prices have fallen nationally, with national average house price down to £161,600 from a peak of £167,700
- Overall, sales prices are 93.5% of asking prices
- The average sale price in London has fallen by around £14k over the last 12 months, to £261,900. However, 23 London boroughs have average prices below this pan-London average, of which 11 are below £200k
- In Southwark, the weighted overall average sale price is £254,100 (having fallen 0.9% in a month). 19 London boroughs have average sale prices below Southwark's, including all the other boroughs in the South East London Housing Partnership.
- Looking at *lower quartile asking* prices in Southwark by postcode, there are several areas of the borough with prices well below the borough average. For example, the lower quartile asking price in SE15 for a 3 bed flat is £181,863 and in SE16 for a 2 bed house is £239,950.

22. Eligibility for scheme

- Secure tenants of the London Borough of Southwark residing in the property.
- Must have at least two years' continuous tenancy with Southwark Council prior to application
- Must be occupying a property with 2 or more bedrooms
- The property being vacated must be returned in a condition that does not require any work, cleaning or decorating and so can be let immediately
- Must give vacant possession of the property on purchase

- Must have no more than 5 weeks rent arrears on their account for 6 months prior to application and have cleared all Council debts before purchase, including any current and/or former rent arrears, council tax etc (checks will be made on application and immediately prior to completing the purchase)
 - Be unable to purchase a property on the open market without the cash incentive grant (this assessment to be based on a means test – see below)
23. In order to enable vulnerable persons to be assisted to move with the help of family members, it is proposed that purchasers of the property could include people who are not tenants of the council property to be vacated and who do not have to move to the new property. The means test will be applied to all parties to the purchase. In purchases involving other family/friends who are not part of the council household, it should be a condition of grant that a restriction be put on the title deeds of the property purchased which provides the tenant(s) leaving council property with lifetime security of the home being purchased. Proof of this would be required before the grant is released
24. Limitations on size, type, price and location of property purchased.
- Purchases within England, Scotland, Wales and Northern Ireland, but excluding Channel Islands and Isle of Man
 - Residential properties with vacant possession – ‘properties’ classed as mobile homes, houseboats etc would be excluded since it is difficult to secure finance for these type of homes and they are unlikely to hold their value. Timeshare would also be excluded
 - Purchase of full equity in the home – i.e. grants would not be available for shared ownership. We could have an exceptions policy that enables elderly/disabled to move to be with family if this can only happen by building extension etc. – this could be subject to discretion in administering the scheme
 - Properties that are below the maximum price. The maximum price to be £250,000 (the upper limit of the 1% stamp duty charge) for purchases in Greater London and £180,000 for purchases elsewhere in the UK.
 - CIS can not be used with any other assisted purchase grant, for example, Open Market Homebuy
 - Grant will not be given to purchase a property which is too small for the household and which would lead to overcrowding.
 - False declarations will result in any grant offer being withdrawn
25. Means test/affordability.
It is proposed that the scheme is a means-tested one which enables tenants who could not otherwise afford it to purchase a home in Southwark. However, it is also important to ensure as far as possible that those taking up the scheme have the potential to sustain home ownership and do not overstretch themselves in the purchase of a home, with the resulting risks of re-possession and homelessness.
26. If, as proposed, the cash incentive scheme is only to be available to tenants who could not afford to purchase without it, the Council will need to do some sort of initial means test and compare the resulting figure against a benchmark price. In order to facilitate purchases within Southwark, it is proposed that the benchmark price is based on the cost of relevant sized properties in Southwark. These would be calculated by a simple average of lower quartile *asking* prices in

the cheapest areas in Southwark for properties of a particular size. For example, SE15 is the cheapest area for both 2 bed flats and 2 bed houses; the average of the lower quartile price for both is £192,223. The benchmark prices for 2006/07 would be calculated from Q3 2005/06 MTB figures. For grant eligibility comparisons only, the household's bed need requirement would be assessed using the same criteria as for the housing register, although a family could purchase a larger property.

27. To assess eligibility for grant, a means test will be applied (based on evidence of income and savings of all parties contributing to the purchase) It is proposed that any savings below £10k are disregarded in the means test, to allow for associated costs of purchase (stamp duty, conveyancing etc) and removal. The in principle amount of mortgage that the household could afford would be assessed using a multiplier of 3 x gross income of the highest earner plus 1 x income of second earner. Any available savings will be added to this to assess the amount that the household could contribute to the purchase. The total would then be deducted from the benchmark price. If the total that the household could afford is more than £1k above the benchmark price, they would not be eligible for grant. Two examples illustrate how this would work.

EXAMPLE A	EXAMPLE B
Bed need – 2 bedroom	Bed need – 2 bedroom
Gross income of highest earner £40k	Gross income of highest earner £40k
Gross income of second earner £20k	No second earner
Eligible savings £30k	Eligible savings £5k
Calculation Benchmark price £192,223 LESS 3 x highest income £120k LESS 1 x second income £20k LESS eligible savings £30k Total £22,223 below benchmark price	Calculation Benchmark price £192,223 LESS 3 x highest income £120k LESS eligible savings £5k Total £67,223 below benchmark price
Eligible for grant	Eligible for grant

28. There are lenders in the market who will offer mortgages based on higher income multipliers. It is proposed that mortgage offers that seem unreasonably high compared to the council's calculation be subject to an affordability test of monthly income less mortgage payments + council tax + any other ongoing loan payments. If the deductions are more than 60% of monthly income then this would fail the affordability test and grant would not be confirmed for such a purchase on the grounds that it would be unlikely that the household could sustain mortgage payments and would be at risk of homelessness as a result. This would not be a good use of grant.
29. Amount of grant
The minimum level of grant should be slightly more generous than the maximum RTB discount of £16k. The amount of grant available would reflect the size of property being released and the location of the property being purchased. Figures are based on the levels of grant currently offered by other London boroughs.

Size of property released	Maximum grant	
	Purchase outside Greater London	Purchase <u>within</u> Greater London
2 bed	£18,000	£23,000
3 bed	£23,000	£28,000
4+ bed	£27,000	£33,000

30. It is proposed that the maximum grant is only given where it is required to fill the affordability gap in relation to the actual property being purchased, taking into account area of purchase and maximum prices. This would have the potential to enable more properties to be released for the given budget.

Using the examples above, to illustrate

EXAMPLE A	EXAMPLE B
Purchasing property inside Greater London – maximum price £250,000	Purchasing property outside Greater London – maximum price £180,000
Releasing 4 bed council property - maximum grant eligible £33,000	Releasing 4 bed council property – maximum grant eligible £27,000
Property price £200,000	Property price £147,000
Mortgage offer plus savings contribution £175,000	Mortgage offer plus savings contribution £120,000
Grant given £25,000	Grant given £27,000

31. Although it is unlikely, it is worth stating in the conditions that if the purchase price of the property is less than the maximum grant then only the purchase price will be given as grant.
32. It is proposed that a charge be placed on the property for the amount of grant given and that this be repayable on a sliding scale over 5 years from the date of completion (i.e. be reduced by 20% for every complete year from the date of completion) if the property is sold within that time, the calculation of the charge being linked solely to the absolute value of the grant awarded.
33. Pre-sale inspections
It is proposed that when an application for CIS is received the property to be vacated is inspected before grant is approved (assuming eligibility as calculated above). This will be to ensure that the property is returned to the Council in good enough condition to immediately re-let. Where necessary, the tenant would be given a list of repairs (those that are the tenants responsibility) /re-decoration that will be required to bring the property up to the necessary standard and a further check would be made to ensure the works had been done. Only then would the grant application be processed. If the works are not done the application would be withdrawn and the tenant would not be eligible to reapply within the financial year.
34. Once the purchase has gone through the property would be re-inspected and the tenant charged for any deterioration which has to be rectified by the Council and for costs of removal of any items left behind. The tenant would also be required to leave the property in a clean condition and would be charged the cost of cleaning if this condition were not met. £1,000 of the grant could be withheld pending release after the final inspection, with any costs deducted.

In view of the sum of money the tenant stands to receive in grant, it is considered that this would be a reasonable condition of grant.

27. *Administering the scheme, advertising, prioritisation*

It is proposed that Leasehold Management Unit would administer the cash incentive scheme as they have the necessary in-house knowledge and expertise to apply the relevant tests and support tenants through the process of purchasing a property. However, LMU would need to liaise with the relevant sections in housing as follows:

- On receipt of a CIS application and immediately prior to completion of sale, the rent account(s) and other accounts (e.g. council tax) would need to be checked to verify the grant conditions have been met
- On receipt of a CIS application and immediately prior to/after completion the condition of the property being vacated would need to be checked to ensure grant conditions have been met and vacant possession (it could be a condition of completion that the housing office must first verify receipt of all keys to the property and vacant possession)
- To advertise the scheme the LMU would need to liaise closely with the Under-occupation Team (see below) and the Marketing and Communications Team

28. With an assumed budget of £250k, the cash incentive scheme could only help 6-10 households a year. It would not therefore be cost effective to advertise the scheme widely.

It is therefore proposed that the scheme be initially targeted ONLY on households on the under-occupation register. Given the acute shortage of larger homes, it is further proposed that priority be given to tenants releasing 3+ bedroom homes if demand for grant exceeds available resources.

If the scheme continues beyond 2006/07, depending on take-up, waiting list and budget, the scheme could be advertised more widely.

Finally, it is proposed that LMU work with the legal department to incorporate all the conditions of the scheme into a legal agreement.

RESOURCE IMPLICATIONS

29. Capital costs (inv/ii/cmc-9Sep2005) – There is no identified budget in the 2006/07 Housing Investment Programme. Subject to SMT approval, £250k will be allocated for Cash Incentive Scheme purposes. This will divert this amount of funding from decent homes.
30. Revenue costs – LMU have confirmed that they have sufficient resources to run the scheme (see email attached). As the initial scheme is a small and highly targeted one, £3k-£5k is available from Strategy and Policy Team budgets for 2005/2006 for associated start-up advertising and printing costs (e.g. applications forms). However, if the scheme is expanded in future years, resource implications of advertising and related costs will need to be addressed.

COMMUNITY IMPACT ASSESSMENT

30. The proposed scheme is likely to have a positive impact on households in need of larger affordable rented homes, among which BME households are over represented. It also extends housing choice to those who could not otherwise afford to buy a home, including vulnerable people who may need to move be close to or to live with relatives.

Background papers	Held at	Contact
Details of other authorities' cash incentive schemes Market Trends Bulletin Correspondence with officers consulted	Regeneration Initiatives, 9 Larcom Street, SE17 1RX	Ann Pettifer, Principal Project Officer 020 7525 1218

Appendix A – Audit trail

Lead officer	Keith Broxup, Strategic Director of Housing Rachel Sharpe, DSM Strategy & Regeneration	
Report author	Ann Pettifer, Principal Project Officer (Strategy & Policy)	
Version	Final	
Dated	13 th October 2005	
Key decision?	No	
CONSULTATION WITH OTHER OFFICERS/DIRECTORATES/EXECUTIVE MEMBER		
Officer title	Comments sought	Comments included
Borough Solicitor & Secretary	No	No
Chief Finance Officer	No	No
Other officers Investment Strategy Manager Leasehold Management Unit Manager Principal Officer (Estate Regeneration) Housing Options Manager	Yes – all	No
Executive Member for Housing	Yes	No
Date final report sent to Constitutional Support Services		