

<b>Item No.</b>	<b>Classification:</b> Open	<b>Date:</b> August 12 2009	<b>Meeting Name:</b> Deputy Leader Executive Member for Housing
<b>Report title:</b>		Revised Cash Incentive Scheme	
<b>Ward(s) or groups affected:</b>		All	
<b>From:</b>		Head of Home Ownership	

## RECOMMENDATIONS

1. That the Cash Incentive Scheme (CIS) continues to operate subject to the available funding identified in paragraphs 5 and 10.
2. That minor revisions are made to increase the success of the scheme in accordance with paragraphs 8-11.

## BACKGROUND INFORMATION

3. In October 2005, the Executive Member for Housing agreed a policy for operating a CIS in Southwark in anticipation of a successful bid for £280k of grant from the GLA/LDA to assist in tackling overcrowding (Appendix 1) via the offer of grant to qualifying secure tenants to purchase on the open market and the vacant possession of their family-sized homes. The bid was successful and the policy was agreed and amended in November 2007 with an additional £80k of Council capital funding and with advice from the Home Ownership Unit (HOU) as administrators of the scheme.
4. The scheme became operational in January 2008 and has proved to be very popular and successful with a total of 238 expressions of interest and 86 applications. Five former tenant households have moved into affordable (as assessed by HOU) owner-occupation at an average cost of £23.2k per property. This is a fraction of what it would have cost to acquire or build identical units and much less than the cost of converting smaller units to family-sized ones. Furthermore, the properties regained via CIS are immediately re-lettable and there is no loss of rent or council tax in respect of them which is of concern where properties are vacant pending alteration works. Two of the properties regained were houses and therefore particularly suitable for families. All remaining grant monies have been allocated in principle and it is expected that all remaining applications will complete within the next two months.
5. In March 2009, the Executive agreed that monies from the sales of properties under Social HomeBuy (SHB) would be directed towards the operation of a CIS in the first instance as an approved use under SI 2006 521. The total capital receipt gained via SHB in 2008/9 was £333k and will allow approximately 8-12 completions, dependent on the size of property being released and in accordance with the current grant levels. See Appendix 2.
6. There is now freedom to alter elements of the scheme as it will not be delimited by the criteria of the GLA/LDA bid.

7. Although it is too early to determine as yet it is hoped that the release of a single property through this scheme will have a “domino effect” whereby subsequent re-lets are generated as tenants are progressively re-housed into accommodation more suitable for their needs.

## **PROPOSED REVISIONS**

8. It is not proposed that wide-ranging changes are made to the scheme. Increasing the supply of housing, particularly family-sized homes remains a key priority in Southwark’s Housing Strategy for 2009-2016 and it is proposed the CIS remain focused on the release of properties with three bedrooms and above. The changes proposed aim to make the scheme less restrictive, more attractive and encourage the release of more properties. Also it will increase the provision of options to access home ownership. The revised CIS seeks to address these two objectives and additionally will continue to assist in the re-housing of tenants affected by the council’s large-scale regeneration schemes where scarcity of vacant larger properties is causing delays to these schemes.
9. Since the Executive first approved the CIS in October 2005, the housing market and related industries have changed. Although the CIS has proved successful, its success has been dampened by the downturn in the housing market and mortgage availability. It is believed several minor but key changes can ensure its ongoing success and it is proposed that the Head of HOU be given the discretion to amend procedural matters including the following..
  - a. To open up the scheme to tenants of properties with two bedrooms where the household is deemed to be statutorily overcrowded as this would serve to reduce the number of households requiring re-housing in family-sized units. It is intended that this would be rolled out in the third quarter of 2009/10 but only in the event that there is insufficient interest from households with larger properties within this financial year. The grant offered in this circumstance would be the same as that offered to tenants of three-bedroomed units;
  - b. To allow the grant to go towards the purchase of intermediate housing (e.g. shared ownership or shared equity schemes) with reference to the key objective of this CIS being the target output of re-lettable family-sized accommodation (see paragraph 10);
  - c. To allow the purchase of properties of any value or size provided HOU officers have ensured that it is affordable and that the household will not be overcrowded, these changes being immediately implementable and also with reference to the key objective of this CIS being the target output of re-lettable family-sized accommodation; and
  - d. To remove the current requirement for the grant to be secured by way of legal mortgage (repayable on a sliding scale if the property purchased is resold within five years) if this is a barrier to releasing the target number of family-sized units, this change also being immediately implementable.

10. There is currently a double subsidy issue associated the implementation of paragraph 9b. HOU will liaise with the Strategy and Policy team partner Registered Social Landlord (RSLs), Department for Communities and Local Government (DCLG) and the Homes and Communities Agency (HCA) to seek ways in which this can be resolved. If a resolution can be found, this proposal will be immediately implemented. It is proposed that the existing monies gained from SHB sales in the last financial year is made immediately available to operate the revised scheme for the next financial year and any monies remaining in the budget for CIS at the end of any financial year is rolled on to the next financial year.
11. It is proposed that monies gained from the disposal of properties regained via forfeiture are also earmarked towards CIS. Other routes by which monies may be routed to the scheme will also be investigated and brought before the EMH in due course.

### **Community Impact Statement**

12. This decision has been judged to have a positive impact on local people and communities as per paragraphs 4, 7, 8 and 9. HOU's statistics show that the largest take up by far of Right to Buy is from BME groups which strongly indicates that subsidised owner occupation is in tune with Southwark's equalities agenda.

### **Resource Implications**

13. Within HOU's current staffing structure, the post for a Cash Incentive Officer (Hay 8) exists and has been budgeted for although is currently vacant. However, existing officers within HOU's SHB & Supply Group do operate the scheme on a daily basis and can continue to do so pending HOU's imminent restructure in the coming months. Normally, application numbers are large when the scheme commences but tail off during the course of the year. As with the last CIS, the Head of HOU may take a view to employ a temporary member of staff to assist SHB & Supply Group officers during the busy period.

### **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

#### **Strategic Director of Communities, Law & Governance**

#### **Legal comments**

14. Section 129 of the Housing Act 1988 ("the 1988 Act") enables a local housing authority in England and Wales, with the approval of the Secretary of State, to make a scheme to pay grants to certain tenants or licensees of the authority to assist them to buy a dwelling-house or to carry out works to a dwelling-house. The Secretary of State may require a scheme to contain particular provisions as a condition of his approval. However, The Regulatory Reform (Schemes under Section 129 of the Housing Act 1988) (England) Order 2003, which came into force on 1 April 2003), amended Section 129 of the 1988 Act by removing the requirement for the approval of the Secretary of State to a scheme, which is made by a local housing authority in England. Therefore the Council has the power to implement the scheme and impose whatever conditions it considers appropriate.

15. This matter is reserved to the Individual Executive Member for Housing under Part 3D, paragraph 6 of Southwark's Constitution and the recommendations at paragraphs 1 and 2 of this report may be approved.

### **Strategic Director of Regeneration & Neighbourhoods**

16. A cash incentive scheme, even operating at fairly modest scale, is an important component to meeting our strategic housing requirements. CIS offers housing choice to individuals who are in a position to take up the opportunity, and releases homes for reletting to households in need. It also constitutes good value in comparison with the cost of developing a new home or bringing back into use an unlettable unit. The incentive in the proposed scheme geared to release family sized accommodation is particularly welcome because it is those units that turn over slowest.

### **Investment Implications (inv/ii2333a/rjb)**

17. The housing investment programme includes £280k GLA funding for the CIS, which has either been spent or is allocated to further existing applications; plus a further £80k from housing investment resources approved for additional expenditure arising from a relaxation of conditions previously agreed, which it is anticipated will be required in 2009. The scheme now proposed under a further relaxation of conditions will be dependent on the availability of new resources through the SHB scheme as identified in paragraph 5. Expenditure will be contained within the level of resources available, as indicated in paragraph 10, and there are therefore no wider implications for the housing investment programme.

### **Finance Concurrent (PB/100709)**

18. This scheme is to be financed from the 2008-09 capital receipts of £333K gained via Social HomeBuy. All allocations made as part of this scheme will need to be contained within the available Social HomeBuy funds that have been committed. Any other associated costs involved with the implementation of this scheme will need to be kept within the current Home Ownership Unit budget. With the recent market downturn, further funding for this scheme from Social HomeBuy capital receipts (beyond 2008-09 funding received) will need to be clearly identified before allocations are made to ensure that no negative financial implications arise.

## APPENDICES

No.	Title
Appendix 1	Proposals for a Southwark Cash Incentive Scheme – IDM Report – October 2005
Appendix 2	Cash Incentive Scheme- Current Grant Levels

## AUDIT TRAIL

<b>Lead Officer</b>	Gill Davies, Strategic Director of Environment and Housing	
<b>Report Author</b>	Martin Green, Head of Home Ownership	
<b>Version</b>	Final	
<b>Dated</b>	August 12 2009	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Strategic Director of Communities, Law & Governance	YES	YES
Finance	YES	YES
Legal	YES	YES
<b>Executive Member</b>	YES	YES
<b>Date final report sent to Constitutional Officer</b>	August 12 2009	

## **Revised Cash Incentive Scheme**

### **Appendix 1**

#### **Proposals for a Southwark Cash Incentive Scheme – IDM Report – October 2005**

<b><u>Item No</u></b>	<b><u>Classification</u></b> Open	<b><u>Date</u></b> October 2005	<b><u>Meeting Name</u></b> Individual Member Decision – Executive Member for Housing
<b><u>Report title</u></b>		Proposals for a Southwark Cash Incentive Scheme	
<b><u>Ward(s) or groups affected</u></b>		All	
<b><u>From</u></b>		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:

### **Right to Buy**

7. 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.

### **Homebuy**

8. 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:
9. 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.
10. 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.

11. 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.
12. NOTE 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.
13. 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**

14. 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**

15. 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.



16. 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.
17. 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.
18. 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.
19. 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.

20. 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.
21. 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.
22. 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.
23. Arguments against having a CIS:
24. It diverts capital resources away from other priorities such as decent homes and new affordable homes.
25. The costs of advertising and administering the scheme have revenue implications, though these would be minimised if the scheme was a small one.
26. 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".

27. 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**

28. 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.

29. 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**

30. 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:

31. 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

32. Overall, sales prices are 93.5% of asking prices

33. 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

34. 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.

35. 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.

- 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)
36. 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
37. Limitations on size, type, price and location of property purchased.
38. Purchases within England, Scotland, Wales and Northern Ireland, but excluding Channel Islands and Isle of Man
39. 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
40. 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
41. 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.
42. CIS can not be used with any other assisted purchase grant, for example, Open Market Homebuy
43. Grant will not be given to purchase a property which is too small for the household and which would lead to overcrowding.
44. False declarations will result in any grant offer being withdrawn
45. Means test/affordability.

46. 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.
47. 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.
48. 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.

<b>EXAMPLE A</b>	<b>EXAMPLE B</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

49. 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.

**Amount of grant**

50. 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

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

51. 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.

52. 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.

### **Pre-sale inspections**

53. 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.
54. 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.
55. 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.

### **Administering the scheme, advertising, prioritisation**

56. 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:
57. 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
58. 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)
59. To advertise the scheme the LMU would need to liaise closely with the Under-occupation Team (see below) and the Marketing and Communications Team
60. 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.
61. 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.
62. If the scheme continues beyond 2006/07, depending on take-up, waiting list and budget, the scheme could be advertised more widely.

63. 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**

64. 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.

65. 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**

66. 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.

<b>Background papers</b>	<b>Held at</b>	<b>Contact</b>
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

<b>Lead officer</b>	Keith Broxup, Strategic Director of Housing Rachel Sharpe, DSM Strategy & Regeneration
<b>Report author</b>	Ann Pettifer, Principal Project Officer (Strategy & Policy)
<b>Version</b>	Final
<b>Dated</b>	13 <sup>th</sup> October 2005
<b>Key decision?</b>	No

<b>CONSULTATION WITH OTHER OFFICERS/DIRECTORATES/EXECUTIVE MEMBER</b>		
<b>Officer title</b>	<b>Comments sought</b>	<b>Comments included</b>
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		



**Revised Cash Incentive Scheme**  
**Appendix 2**  
**Current Grant Levels**

Beds	Basic CI	Moving costs (no sliding scale)	Total CI grant
5+ bed	£25,000.00	£3,000.00	£28,000.00
4 bed	£22,000.00	£3,000.00	£25,000.00
3 bed	£19,000.00	£3,000.00	£22,000.00