

Item No. 15.	Classification: Open	Date: 18 March 2014	Meeting Name: Cabinet
Report title:		Home Ownership, Voluntary Disposals and Non-statutory Acquisitions	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management	

FOREWORD - COUNCILLOR IAN WINGFIELD, DEPUTY LEADER AND CABINET MEMBER FOR HOUSING MANAGEMENT

The council offers its secure tenants two affordable, means-tested routes into home ownership through the discretionary Social Homebuy and Home Purchase Grant schemes. Both have been adversely affected by the government's 'reinvigorated' statutory Right to Buy scheme. The maximum Right to Buy discount currently stands at £100,000 and with further proposals from central government to increase the discount in-line with the Consumer Prices Index, the council's schemes need to evolve to avoid becoming redundant.

This report sets out the measures that need to be taken to make both schemes more viable in the face of this stiff competition from the Right to Buy. Importantly, the Home Purchase Grant scheme and the subsidiary 'Tenant Move Assistance' scheme proposed in the report have a specific role to play in increasing the supply of the number of lettable council homes needed as a result of welfare reform changes.

The report also provides an interim update on the progress of two recommendations adopted in the Home Owner Improvement Plan; those being the home owner buy back scheme and the sale of the council's freehold reversionary interests in blocks where all flats are sold on long leases

RECOMMENDATIONS

1. The Cabinet agrees that the maximum discount allowable under the Social Homebuy shared ownership scheme is increased on a pro rata basis to the current statutory maximum available under the Right to Buy Scheme for the reasons specified in paragraphs 12 to 16.
2. The Cabinet notes that the terms of the Social Homebuy lease precedents are to be updated and modernised on advice from the council's external legal practitioner.
3. The Cabinet notes the proposed increase in the Cash Incentive Grant levels as specified in paragraph 25 and agrees to pilot the small-scale 'Tenant Move Assistance' scheme detailed in paragraphs 27 to 29.
4. The Cabinet agrees that any future capital receipts from sales under the Social Homebuy scheme are used to fund Cash Incentive Grant expenditure

BACKGROUND INFORMATION

5. The power for local authorities to voluntarily sell housing stock to tenants (or others) is derived from Part 4, Section 32 of the Housing Act 1985 (as amended). There are certain 'general' circumstances under which local authorities may dispose of stock held for housing purposes and the government issues 'General Consents' under section 32 to allow this. For disposals not covered by the General Consents, local authorities are required to apply to the Department for Communities and Local Government for a 'Specific Consent' to dispose.
6. *The Housing General Consents 2013* issued by the Department for Communities and Local Government in March of that year have given local authorities a greater degree of flexibility and indeed self-regulation in determining how best to voluntarily dispose of housing stock.
7. The first iteration of the revised consents issued in May 2012 contained a number of drafting errors and there was a considerable delay on the part of the CLG in re-issuing them as the re-invigoration of the statutory Right to Buy (RTB) scheme had risen to the top of the government's agenda. Southwark Council and in particular, officers from Specialist Housing Services (SHS) were closely involved in the drafting of the final version of the consents throughout 2012.
8. The revised consents shape and direct a number of SHS areas of work, including ad hoc disposals of land, property and other legal interests, the Social Homebuy Scheme and consequently for reasons explained later in this report – the Cash Incentive (Home Purchase Grant) scheme.
9. **Social Homebuy**
 - i. The Social Homebuy Scheme has been in operation since 2006. Southwark was the first local authority in the country to offer the scheme and the first to complete a sale on Social Homebuy terms.
 - ii. The Specific Consent issued to Southwark Council by the Secretary of State links the maximum discount available under the scheme to the maximum Right to Acquire (RTA) discount in London, which is currently £16,000.00. The government has been very particular about the fact that they do not intend to increase the RTA discount to match the increases made to the Right to Buy discount.
 - iii. Local authorities wishing to sell properties on shared ownership terms to tenants that qualify for the Right to Buy no longer need a specific consent from the Secretary of State to do so in a way that suits them strategically. Local Authorities may now also offer a discount linked to the statutory RTB discount rather than the RTA discount
 - iv. The gulf between the statutory RTB discount and the statutory RTA discount makes the Social Homebuy scheme very unattractive, particularly as property prices in London have steadily increased over the last 24 months.
 - v. The purpose of this report is to set out the reasons for the recommendation to increase the discount under the SHB scheme to match the amount available under the RTB scheme, in proportion to the share being purchased.

10. **Cash Incentive Scheme**

- i. The Cash Incentive Scheme, known in Southwark as the Home Purchase Grant (HPG) Scheme has been in operation since late 2007. More than 40 units have been released through the scheme, with former tenants moving into private owner-occupation usually outside the borough.
- ii. Although the scheme has been successful there have been barriers to greater success and these have been detailed in the previous Individual Member portfolio reports appended to this report.
- iii. The latest threat to the success of the scheme comes again from the re-invigoration of the Right to Buy. The gulf between the statutory maximum RTB discount (£100k) and the average HPG grant (£24k) is vast and a number of HPG scheme applicants have withdrawn applications in favour of the Right to Buy their homes.
- iv. For the reasons explained in this report, the Cabinet is asked to note the forthcoming increase in the grant levels under the HPG scheme and the role the HPG scheme has to play in addressing some of the issues brought about by welfare reform changes.

11. **Buy Backs and Sale of Freehold Reversionary Interests (SOFRI)**

- i. This report will also provide an interim update on two key decisions made in October 2013 as part of the Home Owner Improvement Plan – the refresh of the Council's Buy back and SOFRI policies.

KEY ISSUES FOR CONSIDERATION

Social Homebuy

12. A firm belief in the necessity of rigorous affordability testing underpins the home ownership schemes delivered by Specialist Housing Services. The essential outcome of any purchase must be that it is affordable and that affordability is sustainable. This applies to tenants' first purchases under the SHB and HPG schemes as well as onward purchases of council property made by home owners affected by regeneration schemes (under the council's rehousing assistance policies).
13. Clearly, the increase in the maximum RTB discount to £75k (April 2012) then £100k (March 2013) has gone some way towards the government's goal, with applications and completions having increased hugely in the past 24 months.
14. What is of concern to this local authority is the extent to which the RTB scheme has been and continues to be marketed at the expense of balanced information about the financial obligations that are a natural part of home ownership and in particular, leasehold home ownership. The council has recently agreed to the re-introduction of a hardship repurchase scheme, because increasing numbers of council home owners are simply unable to sustain owner occupation.
15. The original financial incentive for local authorities to operate a Social Homebuy scheme was that they could keep 100% of the capital receipts from Social Homebuy sales (rather than pooling them along with RTB receipts to repay debt)

for the (re)provision of social housing.

16. Under an Individual Member decision dating from August 2009, capital receipts from SHB sales are used to fund the HPG scheme. With no new SHB sales since 2011, the HPG scheme has derived funding from a combination of carry-forward balances from previous years and receipts from the sale of leasehold properties where the lease has been forfeited. The recommendation made to Cabinet to agree to the increase in Social Homebuy discount will have two positive outcomes:
 - Specialist Housing Services will be able to proactively market an intermediate housing product to Southwark tenants, with assurances on affordability and sustainability. These features are currently missing in any meaningful way from the statutory RTB scheme.
 - Recyclable capital receipts from these additional SHB sales can be used to secure the longer-term future of the Home Purchase Grant scheme and the much needed release of lettable accommodation. This will be subject to the considerations concerning the Housing Capital Finance Regulations detailed in this report.

Cash Incentives

17. As with Social Homebuy, the popularity of the Cash Incentive scheme has suffered in the face of the re-invigorated RTB scheme.
18. On 29 May 2013, the Deputy Leader and Cabinet Member for Housing Management approved recommendations relating to the SMARTMOVE scheme. The recommendation of increasing the financial incentive available under the scheme had the express purpose of increasing the supply of larger homes, addressing overcrowding and increasing housing supply in light of welfare reform changes.
19. There has been considerable success to date with a total of 194 Smart Move moves completed between April and December 2013, and a total incentive payment amount of £352,400. Out of the 194 moves 156 of them were in working age households and 38 were applicants over 61 years and six months.
20. A subsidiary part of the report (paragraphs 30 to 35) specified that the HPG scheme administered by Specialist Housing Services also had a part to play in addressing welfare reform. Two suggestions were made in the report:
 - That the HPG scheme be opened up to two-bed properties boroughwide
 - That a pilot Tenant Move Assistance scheme (referred to using the colloquial term 'winkling' scheme) be offered, under-which a small part of the HPG budget would be set aside to offer modest incentive for tenants considering a move into public sector or private rented accommodation outside Southwark. An amount of £50k was considered sufficient to operate such a niche scheme.

Increasing Grant Levels and the GLA bid for “Building the pipeline” funding

21. One of the most straightforward ways of making the HPG scheme more attractive to tenants and therefore generating more re-lets would be to increase the grant amount payable and bridge the gap between the grant and the RTB discount. The power to determine grant levels was delegated to the Head of Specialist Housing Services in December 2011.
22. In May 2013 London Local Authorities were invited by the GLA to make bids for Tenant Incentive Scheme funding under their “Building the Pipeline” programme. The Housing Investment Board approved a Specialist Housing Services bid for £266k to be spent over three years (2013/14 to 2015/16). The £266k represented match funding of £14k per unit, with the total number of units to be released being 19 with Southwark Council spending £16k per grant. The GLA made it clear that they expected local authorities to put in the larger share if they expected to be successful in their bids. The narrative to Southwark’s bid stated that the purpose of the bid was threefold: (a) To enable the scheme to be opened to 2-beds with an increased grant of £30k (b) To address the shortage of 2 bed properties available for let (c) To increase the grant levels for 3, 4 and 5+ bed units.
23. The GLA wrote to Southwark in late August 2013 with the news that Southwark’s bid was successful, and that funding would be awarded subject to the council entering into a contract with the GLA. However, this contract was only received on 5 March 2014, with the GLA citing delays with their legal team as the main reason. This has meant that we have not been able to open the scheme to 2 beds believing it prudent (given that we have identified approximately 4000 properties that would qualify in principle) to exercise the utmost caution until we know the terms of the contract and whether this authority will be able to fully comply with them.
24. The GLA has been able to advise us that our successful bid will not be forward-funded, which means we will be required to spend and then claim our expenditure back from them. It is assumed that the contract will specify precisely how this will work in practice.
25. Specialist Housing Services proposes to increase the grant levels as follows:
 - 2beds – from £20k to £30k
 - 3beds – from £20k to £35k
 - 4beds – from £25k to £40k
 - 5beds – from £30k to £45k
26. It is anticipated that the majority of applications will continue to come from 2 and three bed applicants.

Tenant Move Assistance Scheme

27. Tenant Move Assistance schemes are schemes under which incentive payments are made to secure tenants (usually of retirement or close to retirement age) to assist with an out of borough move into private (or less frequently) public sector renting – not home ownership, often by the seaside.
28. Specialist Housing Services occasionally receives queries from tenants seeking

remuneration for relinquishing their tenancies, for example when moving away from the borough due to work or family commitments.

29. In taking a responsible approach to such requests, Specialist Housing Services would like to pilot a SHS administered Tenant Move Assistance scheme in Southwark. The broad terms of the scheme will be as follows:

- The incentive will match the payment available under the SMARTMOVE scheme i.e. £1k per bedroom released.
- The tenant must be moving outside the borough of Southwark
- The tenant must provide full details of the accommodation they are moving to, including the landlord's contact details, a copy of the tenancy agreement and so on.
- The scheme is not restricted to those of retirement age but full background checks, including identity and tenancy checks will be made on anyone applying for the scheme. The property being released must be re-lettable
- In rare circumstances, secure tenants may have come into ownership of a property (for example through inheritance) which they do not or have not been able to occupy as their only or principle home. In such circumstances, tenants deciding to then relocate and move from their council home to this property will be assisted with removals costs and the incentive payment will be capped at £1000.00.

Information items – Buy back scheme and SOFRI

30. The implementation of the buy back scheme, including the development of relevant procedures is moving forward towards the proposed start date of April 2014.

- The Capital bid for £500,000 funding has been submitted.
- Recruitment of a buy back officer (on a fixed term for twelve months) has been agreed by the Strategic Director of Housing and Community Services and is underway.
- Property Services will undertake valuations.
- The Southwark CAB have undertaken to make relevant referrals.
- An update report has been submitted to Home Owner Council to be heard in the March 2014 meeting.

31. The home owner demand for the scheme will exceed the available funding and those authorities that have operated buy back schemes in the past have done so as 'schemes of last resort'. Home owners must have examined all other payment options before making an application to be bought back

32. Consultation with Home Owner Council (HOC) on the SOFRI decision is required under the Home Owner Improvement plan and this consultation took place on 26 February 2014. HOC decided that leaseholders should be afforded the opportunity to formally approve or reject the sale of the council's freehold reversionary interest to an individual leaseholder, or group of leaseholders in their block. The opportunity to indicate this preference will be given in the standard documentation SHS will issue to leaseholders in blocks made up solely of leasehold flats.

Policy and financial implications: Social Homebuy and Cash Incentives

33. This report draws together the strands that link these two affordability- tested home ownership schemes. As previously stated, the disposal receipts from one scheme fund the acquisitions in the other.
34. The Housing Capital Finance regulations were amended in 2013 with the effect that capital receipts from shared ownership sales at an initial percentage of 51% or greater must be treated in the same way as Right to Buy receipts. In Southwark's case, this means that the receipts relating to initial share purchases over 50% (irrespective of the property value) are to be used to fund the one for one local delivery replacement model adopted in 2012. The finance regulations also impose the further stipulation that where the initial shared ownership purchase is less than 50%, but is followed by an additional share purchase within two years which takes the aggregate ownership above 50%, again the receipts are subject to being treated as RTB receipts.
35. Clearly, increasing the discount under SHB could mean that the capital receipts available to fund either the cash incentive scheme or direct delivery of new council homes will be reduced. However, to not increase the discount will mean the scheme is unattractive to potential applicants, resulting in fewer sales and fewer receipts overall to fund either initiative.
36. The majority of Social Homebuy sales have been at 25% and 50%. If the council is to now rely on the revised General Consent to continue to operate the scheme, it will not be possible to sell at 100% as this would not constitute a shared ownership agreement as defined in the consents. However, there is now flexibility to sell in increments other than 25% should we wish to do so. In order to maintain funding for the HPG scheme, it may also be prudent to include a clause in the shared ownership lease which precludes staircasing above 50% for a period of two years from first sale.
37. There are also a number of other amendments that need to be made to the standard social homebuy shared ownership lease precedents used by the council to bring them up to date with those used in the RP sector, particularly around mortgage protection.

Policy implications: Buy backs and SOFRI

38. The policy implications of the refreshed buy back scheme and proposals on disposing of Freehold interests are detailed in the Home Owner Improvement Plan.
39. A policy point to note at this stage of implementation is that SHS believes the Beacon valuation adjustment has potential to change in the near future as property prices are continuing to rise. It was the rapid rise in property prices in the mid 2000s, (exceeding the rise in local authority rents) which drove the adjustment percentage down to where it is now. This will be monitored by the Head of Specialist Housing Services and any adjustments to policy brought back to Cabinet at the relevant time

Community impact statement

Social Homebuy and Cash Incentive

40. The home ownership agenda at national level has swung back towards the statutory Right to Buy scheme, with further changes announced in January 2014 designed to further increase take-up. These changes include index-linking the maximum discount available so that it rises with consumer price inflation. The government has made some attempts to ensure applicants are better informed about the obligations of home owners and is setting up an advisory service to this end, however indiscriminate leafleting still continues.
41. The core tenet of the Social Homebuy and Home Purchase Grant schemes is that home ownership should be affordable and sustainable and that affordability testing should be a natural feature of applications to purchase.
42. Increasing the discount available under the Social Homebuy scheme will enable secure tenants in the borough to access affordable means-tested home ownership.
43. Increasing the grants available under the cash incentive scheme will increase the supply of homes available to let to residents affected by welfare reform changes.
44. The proposals along with the procedures the council has had in place to administer these schemes for some years address the council's equality duties and will positively impact those wishing to enter into home ownership irrespective of age, disability, gender, race, religion and sexual orientation.

Resource implications

Social Homebuy

45. The post of Social Homebuy Officer was restored as part of the SHS phase 5 restructure. The first round of recruitment was unsuccessful, however the second round is nearing conclusion and an officer is expected to be in post before the start of the next financial year.
46. The role of Social Homebuy Officer is an increasingly important one as the officer is responsible for both the pre-sales administration and the complex post-sales management of the shared ownership and shared equity portfolio. The portfolio will continue to grow if the recommendations in this report are agreed. There will also be a considerable number of shared ownership units being delivered through direct delivery on the East Dulwich Estate and in Maydew House. The Social Homebuy Officer will be responsible for post-sales management of these units. Post sales management is a specialist area and entails service charge and rent construction and collection, dealing with postponement of legal charges, staircasing, the right of first refusal and other matters specific to shared ownership arrangements

Cash Incentive Scheme

47. A full-time Cash Incentive Officer has been in post since 2009. No extra staff resources will be needed as a result of the recommendations in this report.

48. The Housing Investment Program budget for the cash incentive scheme is £276k for the current year and £232k for 2014/14 and 2015/16. Any underspend is to be carried forward and this budget is sufficient to increase the grant payments specified in paragraph 25 of this report.

Consultation

49. No additional consultation to be undertaken

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Legal Services

50. Section 1 of the Localism Act 2011 grants Councils a general power of competence whereby a local authority has power to do anything which individuals generally may do. However, that power does not enable a local authority to do anything which it is unable to do by virtue of a pre-commencement limitation. Section 32 of the Housing Act 1985 is a pre-commencement statute which imposes limitations on the Council's power of disposal
51. As the property falls within the Council's housing portfolio, the disposal can only proceed in accordance with section 32 of the Housing Act 1985, for which purposes the consent of the Secretary of State for the Department of Communities and Local Government is required.
52. A number of general consents have been issued under the general housing consents 2013. Consent A3.5.1 of the General Consent for the Disposal of Land held for the purposes of Part II of the Housing Act 1985-2013 states that where an Authority disposes of a shared ownership lease, the local authority may apply a discount to the amount of the premium payable, such discount to be calculated in accordance with paragraphs (a) and (b) below:
- (a) in the case of a secure tenant with a right to buy in respect of their current home, the discount of no more than;
the (purchase percentage) x (the RTB discount) x (the market value of the dwelling house); and
 - (b) in the case of a person who is not a secure tenant or a secure tenant who has not acquired the right to buy, a discount of not more than; the (purchase percentage) x (the minimum percentage discount available under section 129 of the Housing Act 1985) x (the market value of the dwelling house).

The purchase percentage means the percentage of the market value of the dwelling-house by reference to which the premium is calculated for the Shared Ownership lease.

53. Section 129 of the Housing Act 1985 sets out the basis of the discount entitlement
54. Consent A3.5.2 states that the discounts applied in 3.5.1 (a) and (b) must not reduce the price of the premium level to an amount less than the shared

ownership cap. The shared ownership cap is the amount set or prescribed under section 131 of the Housing Act 1985 multiplied by the purchase percentage. Section 131 limits the amount of discount that is payable to the extent that if the price before discount is below the amount determined by the Secretary of State, there shall be no discount.

55. Section 129 of the Housing Act 1988 as amended by The Regulatory Reform (Schemes under Section 129 of the Housing Act 1988) (England) Order 2003, which came into force on 1 April 2003, enables a local authority in England and Wales to make a scheme to pay grants to certain tenants or licensees of the authority to assist them to obtain accommodation otherwise than as a licensee or tenant of the authority by buying a dwelling-house or by carrying out works to a dwelling-house or both of those means . It is also provided that a scheme under this section shall contain such provisions as the local housing authority considers appropriate. The Council therefore has the power to implement the scheme and impose whatever conditions it considers appropriate.

Strategic Director of Finance and Corporate Services (FC13/096)

56. This report seeks cabinet approval to increase the maximum discount allowable under the Social Homebuy shared ownership scheme. It also seeks approval that that any future capital receipts from sales under the Social Homebuy scheme are used to fund Cash Incentive Grant expenditure. The financial implications are contained within the body of the report
57. The proposed increase in maximum discount for Social Homebuy (recommendation 2) is likely to encourage a small volume of tenants to purchase on that basis, providing smaller individual capital receipts than at current discounts but generating more in total. The amounts generated would be used to fund increased numbers of Cash Incentive Grants. Lease amendment may be required to restrict staircasing that might make receipts subject to retrospective pooling.
58. It is noted that the existing posts of Social Homebuy officer and Cash Incentive Officer are covered from current revenue budgets (paragraphs 45 to 47) and that current budget and GLA match funding will be sufficient to cover the proposed new Cash Incentive Grant levels, as specified in paragraph 25.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Home Owner Improvement Plan	Specialist Housing Services	Mark Maginn 020 7525 7431
Link http://moderngov.southwark.gov.uk/ieDecisionDetails.aspx?AllId=29462		
Review of under-occupation scheme	Specialist Housing Services	Mark Maginn 020 7525 7431
Link http://moderngov.southwarksites.com/ieDecisionDetails.aspx?id=3795		

Background Papers	Held At	Contact
Revised Cash Incentive Scheme	Specialist Housing Services	Mark Maginn 020 7525 7431
Link http://modern.gov.southwark.gov.uk/ieDecisionDetails.aspx?Id=710		

APPENDICES

No.	Title
None	

AUDIT TRAIL

Cabinet Member	Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management	
Lead Officer	Gerri Scott, Strategic Director of Housing and Community Services	
Report Author	Martin Green, Head of Specialist Housing Services	
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CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
	Officer Title	Comments Sought
	Director of Legal Services	Yes
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