



Report to:	Strategy and Resources Committee	Date:	11 April 2016
Report title:	Use of retained Right to Buy receipts		
Report from:	Mary Morrissey, Strategic Director, Environment Housing and Regeneration		
Ward/Areas affected:	Borough Wide		
Chair of Committee/Lead Member:	Councillor Ruth Dombey, Leader of the Council Councillor Jayne McCoy, Chair, Housing, Economy and Business Committee		
Author(s)/Contact Number(s):	Gill Daw, Housing Enabling Officer, 020 8770 5696		
Corporate Plan Priorities:	<ul style="list-style-type: none"> • A Fair Council 		
Open/Exempt:	Open		
Signed:		Date:	30 March 2016

1. Summary

- 1.1 A report was presented to the Strategy and Resources Committee regarding new build council housing – proposals for future development on 7th July 2014. Members authorised officers to take all necessary steps to ensure that re-investable (net) Right-to-Buy receipts are applied to new build council housing. This report updates Members on the issues surrounding the spend of those receipts and makes recommendations for future spend.

2. Recommendations

That the Strategy and Resources Committee:

- 2.1 Authorise the Strategic Director, Environment Housing and Regeneration, in consultation with the Strategic Director of Resources to enter into grant agreements with Registered Providers or other bodies to provide affordable housing in return for right to buy receipts.
- 2.2 Dispose of suitable Housing Revenue Account (HRA) sites to Registered Providers or other bodies to deliver new affordable housing.



3. Background

- 3.1 Sutton, in common with most stock owning authorities entered into an agreement with the Department for Communities and Local Government to use net Right to Buy (RTB) receipts to fund new social housing.
- 3.2 Under the terms of that agreement, RTB receipts have to be spent on new supply of affordable housing within 3 years of their arising or have to be returned to the Exchequer with penalty interest applied at 4% above base rate calculated from the day of receipt. The receipts can be used to deliver social housing in the following ways: development costs associated with the acquisition of dwellings to be used as social housing; the development costs associated with the acquisition of land for the construction of dwellings to be used as social housing; and the development costs for the construction of dwellings.
- 3.3 Since the scheme came into operation, there have been 560 applications received under the new policy. Of these 243 (43%) have been withdrawn, cancelled or denied. The number of completed RTB sales has reached 216 (35 in 2012/13, 65 in 2013/14, 75 in 2014/15 and 41 so far this year) and there are also 101 live applications in the system at present.
- 3.4 As a result, £2.1m of RTB receipts has accrued in 2012-13, £2.8m in 2013-14 and £4.2m in 2014-15 and it is estimated that £4.9m will accrue in 15-16 and £3.4m in 16-17. There are clear benefits to the Council to use the funding to deliver the policy of providing more social housing in the borough rather than passing the funding to the Government.
- 3.5 Members agreed at the Strategy and Resources Committee 16th December 2013 that the first £2m of net RTB receipts that accrued in 2012-13 should be applied to the redevelopment of the Orlit properties to support the Lavender Housing Partnership. This report considers options for spend of the remaining RTB receipts.

4. Issues

- 4.1 In addition to the 3 year restriction, there are various other restrictions applied to the use of net RTB receipts. They cannot be used for expenditure on dwellings which are social housing at the time of the expenditure or which replace demolished dwellings; they cannot be used where the scheme is funded wholly or in part by grant paid by the GLA and they cannot be used for low cost home ownership schemes. The receipts can be given to another organisation to deliver social rented housing but not to an organisation in which the Council holds a controlling interest.
- 4.2 Furthermore, the receipts used for council new build supply can only be used to fund up to 30% of the cost of any scheme, with the Council required to fund the remaining 70% of the capital cost of any scheme it develops.
- 4.3 The majority of rented social housing delivered in the borough to date has been funded through GLA social housing grant but indications are that future funding rounds will be used for the delivery of low cost home ownership options and there will be very limited funding for future rented units.



4.4 A solution would be to have our own development programme to deliver new supply, and following the reform of local authority financing in April 2012 which allowed local authorities to invest in housing locally by borrowing against their own assets (the ring-fenced HRA), Members approved a programme of new build housing across council-owned sites. However, the amount of borrowing available in the HRA to deliver the programme is capped by the Treasury and whilst the Council is able to deliver 93 units across 3 sites, it is unable to exceed the current headroom and enter into further borrowing to continue with the programme of new council supply beyond these sites. Furthermore, the impact of recent policy changes to sell off higher value council homes and reduce social rents by 1% each year for the next 4 years will have an impact on the housing revenue account budget. The RTB receipts therefore need to be used to ensure that there is a future programme of Affordable Rented units in the borough.

5. Options Considered

- 5.1 The first priority for spend of RTB receipts will be the new build Council house programme. Alternative ways to implement new supply of rented housing using the RTB receipts as a grant programme with a forward plan of spend are considered here.
- 5.2 Funding Registered Provider (housing association) schemes in the borough would provide affordable housing for Sutton residents without the need for the Council to fund the remaining 70% of development costs. Officers are working with our Registered Providers to establish what new rented supply can be delivered in return for nomination rights and will put appropriate compliance checking and grant agreements in place. With the second tranche of funding to be used, it is proposed to allocate a grant of £386K to Sutton Housing Society in return for nomination rights to 8 properties on their Suffolk House scheme which is nearing completion. Further funding could be allocated to appropriate sites as they come forward for development.
- 5.3 Some of the smaller underutilised garage sites or other HRA sites could be sold to Registered Providers for the delivery of affordable housing, with the contribution of RTB grant to supplement the development costs. A framework of interested Registered Providers and restricted tender options will be explored.
- 5.4 A programme of modular housing is also being planned and RTB receipts could be used to fund 30% of the development costs.
- 5.5 A programme of purchase and repair of open market or ex- council properties is being considered with suitable Registered Providers which will supplement the supply of rented accommodation and could be used for permanent or temporary accommodation.
- 5.6 With the launch of the Local Plan and the Town Centre Master Plan, the feasibility of council estate neighbourhood renewal needs to be considered and RTB receipts could complement a delivery model to ensure affordable rented accommodation.
- 5.7 RTB receipts cannot be applied to the newly formed Sutton Living Limited development company because it is wholly owned by the Council. A growing number of authorities are establishing subsidiary companies to pursue housing development activities, using the general power of competence in the Localism Act. For example, a new Community Benefit Society

company could be formed to enable RTB receipts to be granted to the company for new build which will sit outside local authority ownership and control. This option is being explored further.

6. Impacts and Implications

Financial

- 6.1 During 2012/13 the Council entered an agreement with the DCLG which set out the arrangement for the use of net right to buy receipts from the sale of council properties. Under this agreement sums received must be applied within three years from their initial receipt and can only be used to deliver additional social housing units. Any sums not used within the three years must be returned to DCLG including penalty interest at 4% above the base rate.
- 6.2 Since 2012/13 the Council has received total RTB receipts of £11.9m. The years in which these sums were received and the deadline for their application is shown in the table below. It should be noted that in each year there are quarterly deadlines for the application of RTB receipts. This is based on the quarter in which the sums were originally received. A full breakdown is shown in Appendix A.

Year	Sum Received £m	Deadline for applying RTB receipts	Sums Paid / Committed £m
2012/13	2.070	2015/16	2.070
2013/14	2.780	2016/17	0.4
2014/15	4.254	2017/18	0
2015/16 (up to end of Q3)	2.783	2018/19	0
Total	11.887		2.470

- 6.3 During 2015/16 a sum of £2m has been applied to the redevelopment of the Orlit properties as part of the Lavender Housing Partnership and £70k to Sutton Housing Society. During 2016/17 it is proposed that a further sum of £386k will be allocated to Sutton Housing Society in return for nomination rights for social housing units. This is the equivalent of the sum that needs to be committed by the end of Q1 2016/17. Plans are also being developed for a programme of local authority new build housing and temporary accommodation against which RTB receipts will be used to part fund the programme. However the first expenditure coming through on these schemes may not be until much later in 2016/17.
- 6.4 The Council must act quickly to develop firm expenditure plans against which RTB receipts can be applied otherwise sums not utilised will need to be returned to Government. This report



requests permission for the Council to enter into necessary agreements to prevent this happening.

7. Legal

- 7.1 Section 17 of the Housing Act 1985 allows Councils to acquire land for housing purposes and to dispose of land used for housing purposes to a person or organisation which intends to provide housing accommodation on the land or provide facilities which serve a beneficial purpose in connection with the requirements of persons for whom housing accommodation is provided.
- 7.2 The Council has powers under section 24(1) of the Local Government Act 1988 to provide any person with financial assistance for the purposes of, or in connection with, the acquisition, construction, conversion, rehabilitation, improvement, maintenance or management (whether by that person or by another) of any property which is or is intended to be privately let as housing accommodation.
- 7.3 Right to buy receipts must be applied in accordance with relevant legislation and guidance and particularly the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 (as amended) and the terms of any agreement reached under section 11(6) of the Local Government Act 2003 modifying the applicability of the regulations.

8. Appendices and Background Documents

Appendix Letter	Title
A	Right to Buy Receipts Spend Deadlines

Background Documents
None

Audit Trail		
Version	Final	Date: 30 March 2016
Consultation with other officers		
Officer	Comments Sought	Comments checked by
Finance	Yes	Lyndsey Gamble
Legal	Yes	Edward Broadhurst

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