

CABINET

28 June 2016

Title: Right to Invest - Tenant Shared Ownership Scheme	
Report of the Cabinet Member for Finance, Growth and Investment	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
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Accountable Operational Director: Hakeem Osinaike, Operational Director, Housing Management	
Accountable Strategic Director: John East, Strategic Director, Growth and Homes	
Summary: <p>This report follows up on the proposals set out in the Cabinet report of 9th March to establish a new and innovative Tenant Shared Ownership scheme in the Borough using existing housing stock. The scheme aims to provide an affordable home ownership option for tenants on lower incomes meeting their aspirations to become home owners. The scheme would be open to all tenants who meet qualifying requirements providing that they pass an affordability test.</p> <p>This scheme is intended to be part of a wider offer of affordable home ownership products provided or facilitated by the Council, the aims of which are to provide opportunities for those who live in the borough a chance to own and invest in their homes.</p> <p>At the Cabinet meeting on 9 March, the proposals for the introduction of a Tenant Shared Ownership Scheme were agreed, subject to statutory consultation and development of a policy. This report gives feedback on the outcome of the consultation and proposed policy details.</p>	
Recommendation(s): <p>The Cabinet is recommended to:</p> <ul style="list-style-type: none">(i) Note the outcome of the public consultation carried out in respect of the Tenant Shared Ownership Scheme as detailed in the report and summarised in Appendix 2 to the report;(ii) Adopt the Tenant Shared Ownership Policy as set out in Appendix 1 to the report;(iii) Authorise the Strategic Director Growth and Homes, in consultation with the Cabinet Member for Finance, Growth and Investment, to agree the implementation date of the scheme and related policy; and	

- (iv) Authorise the Director of Law and Governance, or an authorised delegate on her behalf, to negotiate and execute all necessary legal agreements and other documentation on behalf of the Council.

Reason(s)

This housing option would help the Council to achieve its vision of more stable and sustainable communities by enabling those on lower incomes to share with the Council in ownership of their home.

1. Introduction

- 1.1 The statutory Right to Buy (RTB) scheme is reducing the Council's housing stock. When a property is sold under the RTB, not only does the housing stock decrease but the Council's control over sub-letting is greatly diminished. The lease for a flat granted under a RTB can include a condition that requires a leaseholder to obtain consent to sublet. In practice the denial of this consent or any application to it of stringent conditions would be challengeable. As such a high proportion of ex RTB leased property is now privately rented. Over 42% of our managed RTB leases have an alternative billing/correspondence address and it is highly probable that these properties are sub-let.
- 1.2 The complexion of the housing market in Barking and Dagenham is in stark contrast to the national picture. Here, over the last decade, there has been a significant growth in the private rented sector. Owner occupation in Barking & Dagenham has fallen in the last fifteen years and at 44%, is the lowest level of owner occupation in London. Over the same period there has been a substantial growth in the private rented sector to around 16,000 tenancies which is proportionately the fastest growth in London.
- 1.3 The rise in private rental tenancies in the Borough has given rise to a growing transient population. This characteristic is an impediment to the development of a stable community and benefits that this can bring to the Borough. Families renting in the private sector can be faced with the unsettling reality of bringing up children in a cycle of short-term private lets, without the stability they need to put down roots and get on in life.
- 1.4 Rents for higher earning social tenants are to increase in 2017 to rent levels nearer to market rents. It is suggested that the implementation of the 'pay to stay' policy would make higher earners consider their housing options and the Tenant Shared Ownership scheme may not only provide an alternative affordable option for 'pay to stay' tenants, it could meet their longer term aspirations to own a property.
- 1.5 At a time when security of tenure and the right of succession are subject to major changes, tenant shared ownership would provide long term security of tenure with the ability to pass on the property through inheritance to family members so in the longer term they too may benefit from the property investment.
- 1.6 Under the proposed Tenant Shared Ownership scheme properties would be sold under a shared ownership lease with conditions that allow the Council to retain

equity in the property and gives it control over re-sales and sub-letting so that the property may be retained as a long lasting affordable housing option allocated according to the Council's priorities. Properties sold under this scheme would therefore remain part of the Council's housing stock in contrast to properties sold under the RTB scheme.

- 1.7 Cabinet (9 March 2016) agreed the scheme subject to a statutory consultation exercise being undertaken. This report sets out the action taken during the consultation process and the outcomes.

2. Consultation

- 2.1 In order to promote the consultation process and maximize the responses received a detailed communications plan was developed. The consultation exercise took place between 15 March and 29 April 2016 and was facilitated via the Council's corporate consultation portal.

- 2.2 Advertising and promotion of the scheme and related consultation consisted of:

- Dedicated Webpage created about which was referenced in all further communications <https://www.lbbd.gov.uk/residents/housing-and-tenancy/council-housing/right-to-invest/overview/>
- Web-banner placed on council's homepage (carousel) throughout the whole consultation period
- Two press releases on the scheme advertising the consultation were developed and issued (pre and post Cabinet) which were circulated to local, regional and trade media.
- Interview conducted with Time FM on 11 March with Cllr Ashraf and Thomas Hart.
- Social media campaign – Several posts placed over the consultation period on the Council's Facebook and Twitter accounts and the Leader's Facebook and Twitter. (John Healy – Shadow Cabinet Member for Housing re-tweeted these as well).
- Interview published between John East and Claire Symonds with Inside Housing on 4 March.
- Press Interview with John Healy and Barking & Dagenham Post when he visited the borough on 3 March.
- Press release in One Borough newsletter on 18 March.

- 2.3 In addition to the above, the consultation was advertised via SMS text message and e-mail sent to every Council Tenant for whom details are held. In total, over 12,000 SMS messages and 8,000 emails were sent promoting the consultation.

- 2.4 Unfortunately despite all of these efforts, only 17 residents responded to the consultation. However, it should be noted that this is significantly higher than previous consultations regarding Housing policies.
- 2.5 Overall 15 respondents agreed with the introduction of the Tenant Shared Ownership scheme. Though 2 respondents did disagree with the scheme, the reasons cited were:
- a. It is a more expensive scheme (in the long term) in comparison to Right to buy and
 - b. The introduction would further limit the social Housing stock.
- 2.6 With this in mind, the marketing and promotion of the scheme will need to be intelligently and appropriately planned to minimize the risk of adversely promoting the Right to Buy scheme. Marketing materials will need to make clear that one of the primary reasons for introducing the scheme is to offer an alternative to Right to Buy whereby, the Council retains ownership of a proportion on the asset.
- 2.7 13 respondents felt that Tenant Shared Ownership was an attractive alternative to the Right to Buy and 15 of the respondents asked to be contacted with further information if the scheme is approved.
- 2.8 A register of interest has now been formed and the residents who have expressed an interest will be contacted upon implementation of the scheme.

3. Policy and Implementation

- 3.1 Following approval of the proposed scheme at Cabinet (9 March 2016), it was also agreed that a Policy be developed for the scheme and re-presented to Cabinet for approval.
- 3.2 The attached Policy document has been produced taking into consideration the responses received during the statutory consultation. The Policy has also taken into consideration the options appraisal previously conducted and the recommendations from the Equality Impact Assessment.
- 3.3 The Policy has been developed by subject matter experts in collaboration with Finance and Legal. It is therefore recommended that Cabinet adopt the attached Policy for use alongside implementation of the scheme.
- 3.4 A project plan for the implementation of the scheme has been developed to manage the completion of the outstanding tasks:
- Marketing – Promotional materials have been developed and commissioned for publishing. A supporting communications plan has been developed.
 - ICT – A number of alterations and enhancements are required in order to facilitate the processing of Tenant Shared Ownership applications and associated leasehold / rent accounts. Elevate have prepared an implementation plan and this is being monitored closely. It is envisaged that the ICT enhancements will be completed well in advance of the proposed launch date.

- Procedures – Operational procedures have been developed, template letters have been agreed and all staff associated with the application process have been trained.
- Market testing – The mortgage-ability of the scheme is key to the success of the scheme. At the time of the last Cabinet report, three high street mortgage lenders had reviewed the proposed scheme and associated documentation and had agreed to offer mortgages upon implementation. Since then, consultation has been progressed with the Council of Mortgage Lenders (CML) which represents every major mortgage lender in the country (534 in total). Although at this time, no formal approval has been received, the CML were very positive towards the scheme and indicated that it is likely to be backed by them once approved by Cabinet.

3.5 If agreed, the proposed launch date of the scheme will be 4 July 2016. However due to the statutory obligations and lengthy legal process involved with purchasing property it is not anticipated that the first sale in the scheme would complete before December 2016.

4. Financial Implications

Implications completed by: Tasleem Kazmi, Finance Group Accountant

- 4.1 The introduction of the Tenant Shared Ownership scheme would have implications for HRA income, expenditure and capital financing. Due to the nature of the scheme, assumptions have to be made in respect of demand levels, level of initial share purchased, timing of staircasing purchases, property type and property value. The modelling of potential scenarios is being conducted alongside wider Business Plan modelling incorporating recent Government announcements that would significantly change the HRA Business Plan. As a result, this paper does not cover full Business Plan impact but sets out an indicative position.
- 4.2 The analysis below sets out an indicative position for a single dwelling based upon an initial purchase of 25% and 50% share. This is then multiplied to show the impact for 150 units on a full year effect basis. The analysis is based on actual RTB sales completed in the first 6 months of 2015/16:
- 4.3 103 sales were made with 56% houses and 44% flats. It is assumed that demand for the Shared Ownership scheme is in addition to current assumptions within the HRA Business Plan in respect of RTB sales.

	25% (single unit)	50% (single unit)	25% (150 units)	50% (150 units)
Loss of income	£1,200	£2,400	£180,000	£360,000
R&M saving	(£950)	(£950)	(£142,500)	(£142,500)
Net revenue pressure	£250	£1,450	£37,500	£217,500
Capital receipt	£21,000	£43,000	£3.19m	£6.38m

- 4.4 Rental income – The scheme would result in a growing reduction in rental income over time, though as a proportion of rent collected this is a small amount. As the scheme progresses and staircasing purchases take place, the level of income due

to the HRA would further reduce. Using the 2016/17 all stock average rent (£94 pw) as a guide, the loss of income for a single dwelling equates to £1,200 per annum based on the sale of a 25% share. The sale of a 50% share would result in £2,400 per annum loss of income. The full year effect of 150 sales would be £180k and £360k respectively. As staircasing purchases are made the level of income received would continue to reduce. However, the 70% ceiling on staircasing secures an ongoing income stream, albeit by forfeiting further capital receipts. Annual rent increases would mitigate part of the loss, however this would be marginal.

- 4.5 Service charges – there would be no effect on service charge income relating to day to day provision of services as shared owners would continue to pay service charges as leaseholders. Major works would be charged to the shared owner based on the percentage share they have acquired.
- 4.6 Expenditure – Once a share in a property has been sold, the property is treated as a leasehold property with responsibility for internal repairs and maintenance transferring to the shared owner. Using the repairs and maintenance budget for 2016/17 and total stock number, the indicative cost per dwelling is £950 per year. This would be a saving to the council from the initial sale of a share. When combined with the lost income the net position is a loss of £250 for a 25% share and loss of £1,450 for a 50% share. Based on 150 sales the full year effect would be in the region of £37.5k net pressure based upon 25% share and £217.5k for a 50% share.
- 4.7 Capital – in the first 6 months of 2015/16, the average value of properties sold through RTB was £169k with an average discount of £84k, resulting in average receipt of £85k. On this basis, the sale of a 25% share would yield a receipt of £21k and a 50% sale would yield £43k. Sales of 150 dwellings would result in a receipt in the region of £3.19m based upon 25% share and £6.38m for 50%. Capital receipts would continue to be received as staircasing purchases are made up to the 70% ceiling, however, would vary depending on mix of dwellings and share percentages. Movements in property prices would change the value of receipts received.
- 4.8 Capital receipts from shared ownership sales are not typically classed as RTB receipts. This provides greater flexibility over the use of shared ownership receipts providing that the shared owner does not purchase over 50% within the first 2 years. The Council has signed up to the national one-for-one RTB replacement scheme which requires us to use RTB receipts to fund new build spend with a significant Council match fund element. Guidance issued by CLG in this respect states “where the buyer receives an equity share that does not exceed 50% of the market value, then neither are these receipts treated as RTB, but instead the authority may retain them for any capital purpose. Furthermore, an authority that sold an equity share of 50% may sell off the remaining interest with no pooling implications provided that two years have elapsed since the initial sale.”
- 4.9 From a financial perspective, the cost of exceeding a 50% share by just 1% in the first two years for a single ‘average’ dwelling based on the numbers above is in the region of £60k. This would be the contribution the Council would have to make on top of the receipt to fund new build construction. By remaining under 50% the full receipt could be used more flexibly and the Council would not be obligated to match fund.

- 4.10 A specific reserve would be required in the event of down-staircasing and buy back. However, such cost is likely to be very low in the early years of the scheme.
- 4.11 It is proposed that capital receipts arising from this scheme should be used primarily for estate renewal funding with some set aside for a buy back contingency.

5. Legal Implications:

Implications completed by: Evonne Obasuyi, Senior Lawyer

- 5.1 Cabinet approval for scheme has been obtained as detailed in the report and legal implications were provided and are summarised below. There are no further legal implications.
- 5.2 Council has powers to enter into the proposed scheme pursuant to the General Housing Consents 2013 dealing with the disposal of land held for the purposes of part II of the Housing Act 1985 which describes the terms under which a local authority may sell property on a shared ownership basis. Council is advised to ensure that it fully explains the terms of the scheme to tenants seeking to acquire a shared ownership lease and consequences of the grant of a shared ownership lease resulting in loss of their right to buy.
- 5.3 The Legal Practice should be consulted to prepare and negotiate the form of shared ownership leases, deed of staircasing and other related agreements.

6. Other Implications:

- 6.1 **Staffing Issues for the Council** - The initial sales process for Tenant Shared Ownership would be administered by our experienced Home Ownership Team, together with Legal Services. Some additional resources may be needed to operate the scheme subject to demand.
- 6.2 **Property/Asset Issues** - There would be a partial loss of equity in our residential portfolio but we would retain certain rights and obligations over the property as defined in the lease.

There would be a reduction in repair and management costs particularly in regard to Tenant Shared Ownership for houses although this is dependent on how many choose to take up the scheme.

There would be ongoing management responsibilities regarding provision of services for shared ownership flats and houses including recovery of rent and also service charges for flats where applicable.

- 6.3 **Customer Impact** - Tenant Shared Ownership would increase housing options for our secure tenants and create a stock of more affordable homes for sale in the Borough.
- 6.4 **Equality Assessment** – An Equality Impact Assessment has been carried out and was included with the report to Cabinet on 9 March 2016.

- 6.5 **Contractual arrangements** - Some changes would be required to IT services to manage Shared Ownership and Officers are in dialogue with Elevate about this.
- 6.6 **Safeguarding Children** - Tenant Shared Ownership property can provide the basis for families to put down roots in the Borough providing a more secure and stable environment for the wellbeing of children.
- 6.7 **Corporate Policy and Impact** - This housing option is aimed at Encouraging Civic Pride by helping to create a more sustainable community.

Public Background Papers Used in the Preparation of the Report:

- Cabinet Report (9.03.2016) Tenant Shared Ownership Scheme:
<http://moderngov.barking-dagenham.gov.uk/documents/s100137/Tenant%20Shared%20Ownership%20Scheme%20Report.pdf>

List of appendices:

- Appendix 1 – Tenant Shared Ownership Policy
- Appendix 2 – Consultation Report