DECISION

RIBBLE VALLEY BOROUGH COUNCIL
REPORT TO HEALTH & HOUSING COMMITTEE

Agenda Item No. 7

meeting date:	THURSDAY, 31 MARCH 2016
title:	REGISTERING AS A REGISTERED PROVIDER
submitted by:	MARSHAL SCOTT – CHIEF EXECUTIVE
principal author:	RACHAEL STOTT – HOUSING STRATEGY OFFICER

1 PURPOSE

1.1 This report proposes that Ribble Valley Borough Council proceed to register as a provider of affordable housing with the DCLG.

1.2 Relevance to the Council's ambitions and priorities:

- Community Objectives – To assist in assessing affordable housing needs in the borough.
- Corporate Priorities – To continue to be a well-managed Council providing services based on customer need.
- Other Considerations – None.

2 BACKGROUND

2.1 At Committee in January 2016 it was approved that further investigation would be carried out into the merits of registering as a provider of affordable housing.

3 ISSUES

3.1 All investigative work into registering as a registered provider suggests that this will be a positive step for the Council and for the delivery of affordable housing. We visited Craven District Council and discussed their experience and that of Harrogate Council. This was useful and informative and all feedback was supportive of the process.

Delivery of s106 Affordable Homes

The majority of affordable housing is now built by private developers on mixed tenure sites and transferred on completion to one of the Council's partner housing associations, now known as Registered Providers (RPs).

Transfer prices are less than build cost which means that RPs are able to let homes to people at subsidised rents or sell them on a shared ownership basis to those on local incomes. No grant is generally payable on s106 sites.

Usually, the Council requires a split of 50% affordable rent and 50% shared ownership when negotiating the affordable housing requirement on a given site. Intermediate homes are typically for local working households who cannot afford market housing, often prospective first time buyers. Intermediate housing accords with the National Planning Policy Framework (NPPF) definition of affordable housing.

In Ribble Valley, the Council's RP partners, St Vincent's, Ribble Valley Homes, Adactus and Great Places have bought all s106 homes to date. It is now proposed that the Council considers buying some units along with its partner RPs and starts to acquire some s106 homes for onward sale as shared ownership housing. Increasingly, local authorities are buying s106 homes built by private developers on mixed tenure sites and making them available as shared ownership (or rented) affordable housing.

The proposal represents an opportunity for the Council to directly assist in providing intermediate housing to meet the needs of those first time buyers who live and work in the district, helping to support the local economy. The use of commuted sums represents another funding stream to displace RP borrowing that might otherwise have been used to purchase these homes, freeing it up to be spent on affordable housing elsewhere. It is also particularly important to maximise funding sources at a time when some RPs are nearing borrowing capacity.

Recently, the number of s106 opportunities across Ribble Valley has increased following an increase in applications prior to reaching the 5 yr supply. Sites are usually secured by an RP prior to building work starting however recently we have received applications to vary the agreement and convert units to discount sale because an RP cannot be secured.

Financial Implications

On s106 sites, purchasers will typically pay 40-50% of the value of shared ownership housing to buy a 40-50% share of the property. They may buy further 'tranches' until they own it outright (but can only buy up to 80% of equity in rural areas) and this must be at full market value.

Rent at 2.75% of the unsold equity is payable by the purchaser to the Council, however there is no management or maintenance liability on the Council. This rests fully with the occupier. The Council may however wish to take on responsibility for structural repairs and maintenance and recharge the cost of any such works, as it will hold the freehold of the property. The standard Homes and Communities Agency lease applies.

The Council can own up to 100 shared ownership dwellings without the need to open a Housing Revenue Account. Shared ownership housing is not subject to the Right to Buy, so there is no requirement to control the dwellings through a separate trading company.

The working example below illustrates how the purchase and sale of a shared ownership house on a s106 site works:

		£
1.	Market Value Property at time of build	160,000
2.	Approx RP purchase price	(66,500)
3.	On costs (legal and marketing)	(2,000)
4.	43% sold to Purchaser	68,500
5.	Balance for Rental 58%	91,500
6.	Rental @ 2.75% per annum	2,516
7.	Rental per month	209.69
8.	Purchaser wishes to acquire further 10% ownership 2 years	88,192
9.	Property Market Value (assumed 2% increase each year)	166,400
10.	Purchase price	16,640
11.	Balance for Rental 47%	78,208
12.	Rental @ 2.75% per annum	2,151
13.	Rental per month	179

For example, it is reasonable to expect that a site of 20 homes would deliver 30% affordable housing (8) and of those, 50% (4) would be intermediate sale. This would require £266,000 to make the initial purchase of four homes until these homes were sold; to which conveyancing and marketing on costs should be added.

Using the approach above there will be a requirement for upfront funding of £68,500 per unit until 43% of the equity in the dwelling can be sold. This capital receipt must be reinvested in affordable housing as any 'subsidy' released must be re-used for the provision of affordable housing. If not, the homes fail to meet the definition of affordable housing contained within Annexe 2 of the NPPF and will breach the requirements of the s106 agreement that binds them.

As the purchase costs are fixed, the Council does not carry the risks of cost overruns. In practice, the Council would aim to have identified a purchaser for the dwelling before completion in order to achieve a back to back sale, making funding requirements short term and fully recoverable. If there is a delay in selling the property, the Council may incur some council tax liability and will lose interest on its commuted sum used to fund the acquisition.

The Council's conveyancing costs may be added to the sale price and recouped by the Council. Shared ownership homes may be marketed through the HelptoBuy zone agent (Great Places Housing), but also via estate agents, Rightmove, local press etc.

The receipts from rent charged on the unsold equity can be placed into the general fund and do not have to be used for affordable housing. It is not yet clear whether there are restrictions on the use of capital receipts generated as purchasers buy further 'tranches' in the property at market value; i.e. whether they too should be recycled for affordable housing provision or can be used for any purpose. Clarification is being sought on this aspect from DCLG.

However there is no risk to the Council, as it will recoup its initial capital outlay plus on-costs on first sale of the property. It will then continue to receive rental income on the unsold equity, reducing as further tranches are acquired by the occupier, until such time as the property is sold outright.

The Council may use commuted sums to purchase affordable homes for intermediate (shared ownership) sales provided the terms of the s106 Agreement do not prohibit it.

The Council has the power to develop housing under Part II of the Housing Act 1985 which can be owned without the need for a HRA by requesting a s74 (3)(d) direction of the Local Government and Housing Act 1989. DCLG through this direction will restrict RVBC under Part II to own fewer than 50 fully owned houses or 100 shared ownership ones.

4 RISK ASSESSMENT

4.1 The approval of this report may have the following implications:

- Resources – Any investment would be through income from commuted sums of the affordable housing contribution from the site.

  There is a small risk that either there is insufficient demand or that lenders will not lend against this product. Some difficulties were experienced national with lenders during the period of economic decline when shared ownership was seen as a niche market. This was particularly the case with any rural shared ownership units because of the restrictions on outright ownership. The situation now is much improved with lenders and there is widespread acceptance now of the standard Government Approved Shared ownership Lease.

- Technical, Environmental and Legal – Legal advice will be required as part of the registration process. The Council may use commuted sums to purchase affordable home for intermediate sale providing the terms of the Section 106 do not prohibit it. The Council has the power to develop housing under Part 2 of the Housing Act 1985 which can be owned without the need for HRA by requesting a Section 74(3)(d) direction of the Local Government and Housing Act 1989. DCLG confirms whether the direction will be granted and this is part of the registration process.

- Political – Essential the Council maintain affordable housing delivery.

- Reputation – To maintain delivery of affordable housing in the borough is a priority and to seek a benefit for the local community from all new development sites.

- Equality & Diversity – No implications identified.

5 RECOMMENDED THAT COMMITTEE

5.1 Note the contents of the report.

5.2 Approve the Council proceed to register as a Registered Provider of affordable housing.

RACHAEL STOTT HOUSING STRATEGY OFFICER	MARSHAL SCOTT CHIEF EXECUTIVE

BACKGROUND PAPERS

None.

For further information please ask for Rachael Stott, extension 4567.

REF: RS/CMS/H&H/31 March 2016