

Leicester
City Council

WARDS AFFECTED
All Wards

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:
Housing Scrutiny Committee
Cabinet

20th October 2005
14th November 2005

THE HOMEBUY SCHEME

Report of the Corporate Director of Housing

1. Purpose of Report and Summary

- 1.1 This report gives details of the Government's proposals for Councils, on a voluntary basis, to offer their Housing Revenue Account (HRA) tenants the option to buy a share of their home, known as the HomeBuy scheme.
- 1.2 Since this scheme would increase the existing shortage of affordable housing in Leicester (see paragraph 6 of the 'Supporting Information' section of this report), it is recommended that the City Council does not offer the HomeBuy scheme to its tenants.

2. Recommendations

- 2.1 Housing Scrutiny Committee and Cabinet are recommended **not** to offer the HomeBuy scheme to tenants of Leicester City Council until such time as the scheme becomes compulsory.

3. Financial Implications (G Troup)

- 3.1 Offering a HomeBuy shared ownership scheme is likely to have substantial set-up and ongoing running costs. It is not known at this stage whether the entire administration costs can be charged against the capital receipts or, as with the Right to Buy (RTB) scheme, only the initial costs directly related to completed sales. In the latter case, a large part of the overall administration costs would be additional costs to the HRA.
- 3.2 The capital receipts from the partial sales would firstly be used to meet all or some of the administration costs as considered above, with the remaining balance being fully reusable to finance new affordable housing. Unlike the reusable parts of RTB or other housing capital receipts, these receipts would not be available to finance HRA capital expenditure.
- 3.3 Sales under the HomeBuy scheme would lead to reduced HRA rental income. It is not yet known what the impact on HRA subsidy will be.

4. Legal Implications (David Jones)

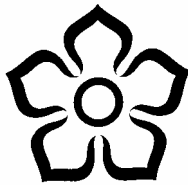
4.1 The introduction of such a scheme would involve the Council in legal costs and Land Registry fees in respect of each transaction, which it would be unable to recover. In the event of a purchaser of a portion of the equity subsequently making further purchase under the 'staircasing' provisions, further costs would be incurred by the Council for legal work. The introduction of the Home Information Pack Scheme under the Housing Act 2004 would require the Council to commission such a pack for each property. This would not only involve expenditure, but also give rise to liability to the purchaser in the event that the information was either incorrect or incomplete.

5. Report Author/Officer to contact:

Dave Pate, Principal Service Director (Housing Resources) Ext 6801
Graham Troup, Principal Accountant (HRA) ext 7425.

DECISION STATUS

Key Decision	Yes
Reason	Significant effect on one or more wards
Appeared in Forward Plan	Yes
Executive or Council Decision	Executive (Cabinet)



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SUPPORTING INFORMATION

1. Report

- 1.1 In April 2005, the Government published its consultation paper "HomeBuy – Expanding the Opportunity to Own". Among other things, the paper set out proposals for a new shared ownership scheme to allow Council tenants to buy a share of the home that they currently occupy.
- 1.2 Having considered the responses to its consultation, in September 2005 the Government set out details of a voluntary "HomeBuy" scheme, to be operational from 1st April 2006. This report gives details of the proposals for the scheme.

2. Eligibility for the Scheme

- 2.1 HomeBuy will be a voluntary scheme and Councils will be able to choose whether to offer it to their tenants.
- 2.2 The eligibility criteria will be the same as for the RTB scheme and therefore be available to those who have been Council tenants for a minimum of two years (or five years for tenancies granted after 18th January 2005). Councils will, however, have discretion to require longer qualifying tenancies.
- 2.3 Councils will also have discretion to run a HomeBuy scheme only in selected areas where, for example, this would be consistent with wider regeneration objectives. In such cases, the Council would be expected to publish its disposal strategy so it is clear which tenants live in homes eligible for HomeBuy.

3. Affordability and Charges

3.1 Initial purchase and 'staircasing'

The Government initially favoured the minimum initial purchase being 50%, but 'to ensure that the offer remains affordable and accessible' has now set this level at 25%. Buyers will later be able to increase their share of ownership in minimum 10% tranches,

based on the open-market valuation of the property at the time – this process is known as ‘staircasing’.

3.2 Discounts

Applicants will be offered a maximum discount equivalent to the RTB discount pro-rata to the size of the equity share they buy. If purchasers resell within five years they will be required to repay the discount on the same basis as the RTB scheme. It is not clear whether later ‘staircasing’ purchases will receive the discounts offered on the initial purchase.

3.3 Rent payable on the remaining equity

The Council can make an annual rental charge of up to 3% of the value of its remaining equity. The maximum limit on annual increases to this rental charge will be the Retail Price Index (RPI) + 0.5%.

3.4 Responsibilities of the buyer

The buyer will be responsible for all future management and maintenance costs. The Council will have discretion over whether to set up and require contributions to a ‘sinking-fund’ to help buyers manage their maintenance responsibilities.

3.5 Affordability checks

Applicants will be subject to a detailed series of affordability checks by those Councils offering the HomeBuy scheme, including consideration of ‘income multiples’, savings and overall outgoings. Also, the Council will have to provide the prospective purchaser with:-

- (i) details of initial costs, including legal, survey, mortgage and valuation fees; and
- (ii) details of ongoing costs, including mortgage repayments, insurance, council tax, utility charges and the costs of upkeep (including service charges and contributions to a sinking fund, where applicable).

4. Sales Arrangements

4.1 Buy Back Arrangements

Sales proceeds will generally be split in proportion to the equity shares at the time of the sale. Where the purchaser intends to sell the property, the Council will have the right to nominate a new purchaser (e.g. a Housing Association) or buy-back the property itself. This right of nomination or buy-back must be exercised within eight weeks of an occupier confirming their intention to sell, otherwise the occupier is free to sell as they wish. If the Council does buy-back properties, it will be able to use the proceeds from other HomeBuy sales to finance the purchase.

4.2 Staircasing downwards

In exceptional circumstances (generally if the purchaser is encountering financial difficulties), purchasers may be allowed to reduce their share of ownership or perhaps revert totally to renting the property, subject to the discretion of the council and mortgage-lender.

5. **Use of the Capital Receipts**

5.1 After deducting an amount from the capital receipts to cover applicable administration costs, the balance will be available to finance new affordable housing. This can be achieved:-

- (i) by new-build provision (probably by a partner-Housing Association);
- (ii) through the purchase of properties on the open market (this could be achieved at Leicester via HomeCome); or
- (iii) through mechanisms such as tenant incentive schemes to encourage tenants to free-up properties.

6. **Impact on affordable housing in Leicester**

6.1 In 2002 Leicester carried out a comprehensive survey to assess the level of need for affordable housing in the city. Housing need refers to households lacking their own housing or living in housing which is inadequate or unsuitable, who are unlikely to be able to meet their needs in the housing market without some assistance. The survey was carried out in accordance with the guidance set by the ODPM. The survey assessed an annual requirement for affordable housing for the next five years in order to reduce the backlog in housing need.

6.2 In 2003 this survey was updated using current income, house price/rental and lets data. The results indicated that property prices had increased by 23% from the time of the first survey. Over the same period there was an estimated 5% increase in household incomes.

6.3 In addition, the 2003 survey found that there were 14,447 households in Leicester living in accommodation that was unsuitable for their requirements. Using the approved affordability methodology, the survey estimates that there are 5,345 households in Leicester who are living in unsuitable housing and need to move to resolve their housing problems (and need to move within Leicester). Of these need to move households, 76.5% (4,090) cannot afford market housing. In addition to this there will be a further 2,833 new households (new households, households potentially in need, and in-migrants) falling into need each year.

6.4 While social and private rented lets will account for most of this need, the findings from the 2003 survey showed that **Leicester has a net shortfall of 546 affordable homes in the City per year.**

6.5 Each partial sale of a property under the HomeBuy scheme effectively results in the loss of that property to the affordable housing stock, with only a proportion of its value being available to fund its replacement in that stock. Therefore, even without knowing the take-up of any HomeBuy scheme to be offered by the City Council, it is certain that the scheme could have a significantly negative impact on the availability of affordable housing in Leicester and add to the overall problem facing the City.

7. Other Issues

7.1 The Government has not yet published its definitive guidance or regulations for the scheme, and it is not known how HRA subsidy will be affected by HomeBuy sales. It is certain that the HRA will lose rental income on the relevant proportion of the properties, and only receive a relatively low return of 3% on its remaining share.

7.2 Also, not all of the costs of administering the HomeBuy scheme may be chargeable against the capital receipts, with any un-recovered costs probably falling on the HRA and tenants' rent.

7.3 However, the capital receipts will not be available to fund HRA capital works towards achieving the Decent Homes Standard; but must instead be used in providing new affordable housing, which of course could be subject to future RTB or HomeBuy sales.

7.4 The administration requirements of the scheme are substantial (including detailed financial vetting and production of cost statements for applicants) with only a limited lead-in time for those Councils seeking to introduce the scheme by 1st April 2006, as intended by the Government.

7.5 It is because of these issues, plus the low level of rental income and the loss of scarce affordable housing, that officers are recommending that the scheme be not adopted at this time.

8. FINANCIAL, LEGAL AND OTHER IMPLICATIONS

8.1 Financial Implications

These are detailed in Paragraph 3 of the covering report.

8.2 Legal Implications

The introduction of such a scheme would involve the Council in legal costs and Land Registry fees in respect of each transaction, which it would be unable to recover. In the event of a purchaser of a portion of the equity subsequently making further purchase under the 'staircasing' provisions, further costs would be incurred by the Council for legal work. The introduction of the Home Information Pack Scheme under the Housing Act 2004 would require the Council to commission such a pack for each property. This would not only involve expenditure, but also give rise to liability to the purchaser in the event that the information was either incorrect or incomplete.

8.3 Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph Within Supporting information	References
Equal Opportunities	Yes	This report is concerned solely with the provision of social housing.	
Policy	Yes		
Sustainable and Environmental	Yes		
Crime and Disorder	Yes		
Elderly/People on Low Income	Yes		
Human Rights Act	No		

9. Background Papers – Local Government Access to Information) Act

- (i) “HomeBuy – expanding the opportunity to own” (ODPM Consultation Paper, April 2005).
- (ii) “HomeBuy – expanding the opportunity to own” – Government’s Response to Consultation (ODPM, September 2005).

10. Consultations

No other departments have been consulted.

11. Aims and Objectives

The overall Quality of Life Aim for the department is that “a decent home is within the reach of every citizen of Leicester”.

12. Report Author

Dave Pate, Principal Service Director (Housing Resources) – Ext 6801
 Graham Troup, Principal Accountant (HRA) – Ext 7425