STROUD DISTRICT COUNCIL

AGENDA ITEM NO

HOUSING COMMITTEE

27 SEPTEMBER 2016

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Report Title	**POOLED RIGHT TO BUY (RTB) RECEIPTS REPORT**
Purpose of Report	To inform the Committee of developments and options for pooled RTB receipts and recommend future action.
Decision(s)	**The Committee RESOLVES that:** 1. The Council not withdraw from the Pooled RTB agreement (at this stage). 2. Any new quarterly RTB receipts be repaid to the Department of Communities and Local Government (DCLG) at inception until there is a clear requirement for their application. 3. The expected utilisation of balances (currently £2m) be regularly reviewed and once further information is available, the desirability of repaying any sums from the balance be considered (on recommendation of the s151 Officer).
Consultation and Feedback	Tenant Services, Senior Management Team, Finance Team, Planning Strategy, Asset Management, Business Development Manager, KPMG, Capita, Corporate Team.
Financial Implications and Risk Assessment	Delay in repayment of funds to DCLG carries a risk of interest charges at 4% over base pa. This is equivalent to c. £100k for each year's receipts. Inappropriate action to utilise the receipts could involve net costs to the Council and potential disallowance on subsequent audit. Simon Wilkie, Interim Principal Accountant Tel: 01453 754344 Simon.wilkie@stroud.gov.uk
Legal Implications	The relevant agreement between the Council and the DCLG completed in June 2012 permits the Council to retain RTB receipts for expenditure on the provision of social housing units. The agreement can be ended by the Council on it giving 3 months' notice to the DCLG and subject to repayment of outstanding receipts and interest etc. It is apparent from the agreement that the Council may give the

	monies to another body for the purposes of "contributing towards the costs of providing social housing" providing that the Council ensures that the social housing is for the benefit of the district (i.e. situated in the district or, over which the Council has nomination rights). In practice taking account of other relevant legislation, there are limits on whom the Council may transfer the money to ensure that the receipts are expended within the 3 year time limit. For example, the money may only contribute up to 30% of the costs of providing the social housing; the Council must provide details of the number of starts on site of certain construction type works relating to the social housing upon which the money is being expended and this would still have to be done if the money was given to another body to provide social housing; failure to provide such returns (or for instance, failure of the body undertaking the works, to spend the money in time) would require the capital receipt to be paid by the Council to the government plus interest, such rates being punitive. Consequently, to avoid the Council still being liable for repayment and also the interest, the Council would need to be satisfied that the body to whom the monies were to be given was able to start works on site by the deadline for expenditure and of course also actually able to secure completion (and use as social housing) within a reasonable period. Further social housing is defined in the agreement as 'low cost rental accommodation' (i.e. not shared ownership) for those whose housing needs cannot be met on the open market. Thus it may include "affordable rent" as well as "social rent" properties. However, the Government guidance which refers to using RTB receipts only refers to providing "new affordable rent" properties. This is notable because the authorised providers of affordable housing are local authorities (which term does not for example include parish / town councils in this instance); or registered providers of social housing (in this case, statute sets out the various requirements which need to be met to become registered). Thus it would not appear possible to provide the RTB receipts to a body which is not a registered provider of social housing as they could not provide "affordable rent" housing. Karen Trickey, Legal Services Manager and Monitoring Officer

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Options	Unused pooled funds may either be held for the maximum of three years and returned or repayed earlier to avoid 4% interest pa.
Performance Management Follow Up	RTB status is to be updated and advised quarterly.
Background Papers/ Appendices	Appendices A and B

Note: This paper provides projections which are best estimates and subject to variation due to future occurrences.

Status overview

1. In June 2012 Stroud District Council entered an agreement with DCLG which allows SDC to set aside a part of the proceeds from RTB sales for investment in replacement units (whether by the authority directly or by passing on to Registered Providers – 'RPs'). Amounts not so applied have to be returned to DCLG if not used within three years. As the funds cannot be applied in any other way, the only budgetary impact of such repayment is any associated interest cost, as interest is charged at 4% over base pa.

2. The rules around the scheme are complex including that:
   - The receipts may only fund a maximum of 30% of the cost.
   - The units may not receive other grant.
   - It cannot be used to replace old social units which are demolished.

3. In common with other authorities, SDC is now finding that the retained amounts cannot be used, given the complex requirements of the scheme and the necessity of finding the remaining 70% of the costs in the challenging economic environment.

4. Initial projections provided to Housing and Development Panel earlier in the year were that repayment for 2016-17 would be around £25k. Unfortunately, this initial projection was incorrect for a number of reasons which only became apparent after a much more detailed analysis was undertaken and liaison with CLG, Capita and our external auditors (KPMG).

   - The projection made use of an incorrect assumption around qualifying expenditure on schemes,

- the data used in this projection contained errors in assessment of the actual level of funds,
- the projection incorrectly annualised the effect of repayment rather than paying quarterly

5. After adjusting for these the liability increased to £670k (including £82k interest). However, SDC has worked to revise development funding arrangements to increase the qualifying spend. This has reduced the projected repayment for the year to £325k (including £40k interest) as shown in Appendix A.

6. Apart from the repayable sums, SDC currently has c. £2m of available pooled receipts due for progressive repayment over the subsequent three years. These would fund £8.7m of development but the HRA does not have such additional headroom, so most of the receipts cannot be used by the authority. The main alternative would be to pass the funds to RPs as 30% of expenditure they incur with their own funds. The likely demand is still being assessed, but given the restrictions on using the funds and the economic impact of changes such as rent reductions it may not be possible to identify sufficient projects to use all the funds available.

Recommendations arising

7. As it is likely that there will be scope to apply at least a portion of the receipts in future, it is not recommended that SDC withdraw from the scheme at this stage. However, given the large pool of unused funds, it is recommended that new quarterly receipts be returned from October onwards until a requirement is established. This will avoid any interest charges on these funds but leave options open for future retention and use if any suitable opportunities are found. This could save £100k in interest costs each year compared to holding the funds for 3 years.

8. The return of quarterly receipts will not affect the existing pool of £2m of receipts. The projected take-up of these funds should be regularly reviewed and if evaluation does not identify sufficient opportunities for their use, SDC should also plan for early return of funds for which there is little prospect of application. This would reduce the potential interest liability (several hundred thousand pounds) over subsequent years should the funds fail to be applied.

Information on potential options

9. **Rescheduling of HCA grant**. 1-4-1 grant cannot be combined with HCA grant. However, if homes are eligible for 1-4-1 funding this funding can be more financially advantageous. Contact with the HCA was initiated by the Chief Executive and taken forward to agreement to reschedule £190k of HCA grant and substitute 1-4-1 funds on 9 units. This will be of significant benefit to SDC in reducing this year's liabilities.

10. Potential for funding social housing provision by RPs

Initial work with RPs found that open market purchases by RPs to be funded by 1-4-1 grant were not financially viable at local market prices. The option of combining 1-4-1 grant with land sales is now being tested and a potential take-up of £500k of grant (over a development lifecycle) has been indicated for the Fountain Crescent site.

Whilst figures will need confirmation, this is an encouraging initial indication of a demand for 1-4-1 grant, which would allow SDC to obtain incremental affordable rental units in the district without having to provide the balancing 70% of costs itself.

11. Heylo Housing Ltd The possibility of giving grant to Heylo has been considered. Heylo would purchase second-hand properties from the private sector and lease them back to SDC. Tenant Services and Finance advised against this option, in view of high costs, high rents, possible poor standards, resource demands and the adverse impact on HRA finances. (More information is provided in Appendix B)

12. **Provision of £1m additional funds from the General Fund** This option is also under consideration and there are varying options as to how this could be implemented to the greatest advantage, given that DCLG regulations prevent addition of 1-4-1 grant to revenue sourced funding.