

# **Supplementary Committee Agenda**



## ***Housing Scrutiny Standing Panel Thursday, 21st January, 2010***

**Place:** Committee Room 1, Civic Offices, High Street, Epping

**Time:** 7.00 pm

**Committee Secretary:** M Jenkins - The Office of the Chief Executive

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### **8.b Open Market Shared Ownership (Pages 3 - 10)**

(Director of Housing) To consider the attached report.

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## **Report to Housing Scrutiny Panel**

**Date of meeting: 21<sup>st</sup> January 2010**

**Portfolio: Housing – Cllr D. Stallan**

**Subject: Open Market Shared Ownership**

**Officer contact for further information:**

**Alan Hall – Director of Housing (01992 564004)**

**Committee Secretary: Mark Jenkins (01992 56 4607)**



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### **Recommendations/Decisions Required:**

- (1) That the Scrutiny Panel considers the possibility that no RSLs will be interested in working with the Council, at present, to provide the proposed Open Market Shared Ownership Scheme;**
- (2) That, in this event, an alternative recommendation be made to the Cabinet on the use of the existing £350,000 budget for the proposed Open Market Home Ownership Scheme; and**
- (3) That a report proposing the alternative recommendation be submitted to the Cabinet in advance of the meeting, based on this report to the Scrutiny Panel, with the text of the report agreed with the Chairman of the Scrutiny Panel, and that he presents the alternative recommendation to the Cabinet when he presents the Affordable Housing Group's report.**

### **Report:**

1. The Chairman has agreed that this Supplementary Agenda item should be considered by the Scrutiny Panel as a matter of urgency.
2. At its last meeting, the Scrutiny Panel considered the report of its Affordable Housing Group on possible ways of increasing the amount of affordable housing within the District. The Scrutiny Panel concurred with all of the Sub Group's recommendations, and the report and recommendations will be considered by the Cabinet at its meeting on 1<sup>st</sup> February 2010.
3. One of the recommendations to the Cabinet is that the £350,000 budget provision already agreed by the Cabinet to invest in an Open Market Shared Ownership Scheme should be retained within the Capital Programme, and that the Director of Housing should contact other Homebuy agents to discuss the possibility of an existing Homebuy Agent working with the Council to operate either the scheme previously proposed in partnership with Moat Housing, or an alternate scheme, similar to the Government's MyChoice Homebuy Scheme, but with the Council undertaking the role of the Homes and Communities Agency.
4. Since the meeting, the Director of Housing has approached two other Homebuy agents - Orbit and Aldwyck. However, both have said that they are not interested in operating such a scheme, since (as with Moat), they wish to concentrate on new build developments.

5. For this reason, the Director of Housing then approached the Council's remaining four Preferred RSL Partners to see if they would be interested in working in partnership on such a scheme. Two responded by saying that they would not be interested. The remaining two RSLs (L&Q and East Thames), both of whom have active shared ownership arms, are due to consider the issue at internal meetings. However, at least one of these meetings will not be held until 3rd February – after the Cabinet meeting on the 1<sup>st</sup> February 2010.

6. In view of the negative response from the three Homebuy agents and two of the Council's Preferred RSLs Partners, it is suggested that the Scrutiny Panel considers an alternative recommendation to the Cabinet on the proposed use of the £350,000 capital budget for the Open Market Shared Ownership Scheme, for the Chairman to present, in the event that the remaining two Preferred RSL Partners also decline the proposal.

7. Appendix 1 provides extracts from the Affordable Housing Group's report relating to:

- (a) The proposed Open Market Home Ownership Scheme;
- (b) The proposed provision of social housing grant to a housing association, for it to purchase 5/7 properties on the open market and to let them to Council nominees; and
- (c) The proposed extension of the Council's Home Ownership Grant Scheme in 2010/11, to provide 6 grants of £28,000 each to Council tenants, in order to enable them to gain access to home ownership - by them purchasing properties on the open market and vacating their Council properties to allow them to be let to Council housing applicants.

8. There appears to be the following main options available to recommend to the Cabinet:

- Option 1 Continue to seek an RSL that would be interested in operating the proposed scheme (or similar). This is not recommended, since the main interest is likely to be from Homebuy agents, and the three main ones in the East of England have said that they are not interested.
- Option 2 Withdraw the budget for a capital housing purpose, and allow it to be used by the Council for other purposes, or to retain in capital balances.
- Option 3 Use the budget *to fund* the majority of the required funding to meet the £375,000 cost of the Scrutiny Panel's proposal to the Cabinet, for the provision of social housing grant to a housing association.
- Option 4 Use the budget *to fund* the £170,000 budget required to meet the cost of the Scrutiny Panel's proposal to provide 6 Home Ownership Grants of £28,000 each to Council tenants in 2010/11.
- Option 5 Use the budget *to supplement* the proposed £375,000 budget for a housing association to purchase open market properties (as Option 3), which would enable a further 5/7 properties to be purchased, and allocated to Council nominees at affordable rents.
- Option 6 Use the budget *to supplement* the proposed £170,000 budget for the provision of Home Ownership Grants (Option 4), which would enable a further 12 Home Ownership Grants to be provided.
- Option 7 Use the budget *to supplement both* the schemes referred to in Options 3 and 4 with additional funding, and provide (lesser amounts of) both additional SHG and Home Ownership Grants.

- Option 8 Use the budget *to fund some of* the required funding for the provision of social housing grant to a housing association (Option 3) and/or Home Ownership Grants (Option 4) and *to supplement* the proposed budgets for property purchases (Option 5) and/or for Home Ownership Grants (Option 6).
- Option 9 Use the budget for some other housing purpose, to increase the amount of affordable housing in the District. However, it should be noted that neither the Affordable Housing Group nor the Scrutiny Panel were able to come up with any further proposals.

9. The only comment that the Director of Housing would make is that if the budget is to be used to supplement the current proposals, it is considered preferable to provide additional social housing grant to a housing association than to increase the number of Home Ownership Grants. This is because the provision of social housing grant to a housing association would increase the amount of affordable housing within the District, which could then be let to Council nominees both initially and subsequently, whereas the provision of additional Home Ownership Grants would not.

**Reason for decision:**

10. It is possible that no RSLs will be interested in working with the Council, at present, to provide the proposed Open Market Shared Ownership Scheme. In this event, it would be helpful if an alternative recommendation could be made to the Cabinet on the use of the existing £350,000 budget for the proposed Open Market Home Ownership Scheme.

**Options considered and rejected:**

11. All the options are set out in the body of the report.

**Consultation undertaken:**

None

**Resource implications:**

Budget provision: Use of the existing budget of £350,000 for an Open Market Shared Ownership Scheme.

Personnel: None

Land: None

Council Plan reference: Meeting Housing Need

Relevant statutory powers: Housing Act 1985

Background papers: Report of the Affordable Housing Group

Environmental/Human Rights Act/Crime and Disorder Act Implications: None

## Extracts from the Affordable Housing Group's Report on Ways to Increase the Amount of Affordable Housing in the District

### Open Market Shared Ownership

2.37 We noted that the Cabinet has made provision of £350,000 within the Capital Programme for one of the Council's Preferred RSL Partners (Moat) to operate a bespoke low cost home ownership scheme for Epping Forest, called Open Market Shared Ownership. Under the proposed scheme, housing applicants would be able to purchase a one-bedroomed property on the open market on a shared ownership basis ("part rent – part buy").

2.38 The benefit of this approach would be that, firstly, it does not rely on new developments coming forward by developers on Section 106 sites and, secondly, it would provide much greater flexibility to applicants than "NewBuild" shared ownership, since instead of being restricted to new-build opportunities that may arise on a specific new development in a specific location, applicants could choose the home they wish to purchase within a prescribed maximum purchase price.

2.39 We were advised that, under the scheme already agreed by the Cabinet, applicants would purchase a 50% equity share in a one-bedroomed flat that they select on the open market, which would be funded by the applicant through a mortgage and any deposit. The Council and Moat would purchase two remaining shares, totalling the remaining 50%. Based on the purchase of a flat valued at £190,000, Moat's share would be 21% and the Council's would be 29%. The applicant would pay Moat an annual rent, initially equivalent to 2.5% per annum of the value of the equity held by both Moat and the Council, which Moat would use to fund the cost of the loan required to purchase its share. The amount of equity that Moat could purchase would be directly dependent on the rental income received; the Council would then purchase the remaining equity. No rent would be payable to the Council for its equity share.

2.40 We noted that, under the proposed scheme, the shared-owner would be able to purchase additional tranches of equity from Moat and the Council, up to the full 100% equity (referred to as "staircasing"). The price for the tranches would be linked to the open market value of the property at the time of purchase. The proceeds from each tranche purchase would be split between Moat and the Council, according to the respective percentage equity holdings. Therefore, over time, the Council would recoup its initial investment, plus the increased value of its equity (provided property prices increase). It was proposed that the capital receipts received by the Council as a result of staircasing would be held by the Council and used to fund further purchases in the future, in the same way. Similarly, any net receipts received by Moat from staircasing (after repaying its loan to purchase the initial equity) would be kept by Moat in an interest-bearing account, ring-fenced, and used to supplement further equity purchases by the Council (or, at the discretion of the Council, to fund other affordable housing schemes).

2.41 However we noted that, soon after the Cabinet had agreed the bespoke scheme, the Government introduced a very similar new national scheme (through the Homes and Communities Agency - HCA), called "MyChoice Homebuy", which was more generous to applicants. Therefore, we noted that, in April 2008, the Housing Portfolio Holder decided that the Open Market Shared Ownership Scheme should be held in abeyance, and that no further work should be undertaken, until the demand and success of the new MyChoice HomeBuy Scheme could be assessed. However, we also noted that he had decided that the budget provision for the Scheme should be retained in the Capital Programme, and that a decision

on whether or not to implement the scheme - and continue to make budget provision within the Capital Programme – should be made at a later date.

2.42 We were advised that, in Autumn 2009, the Government closed the MyChoice Homebuy Scheme. This was because the Government wanted to shift the resources allocated to MyChoice Homebuy, to new-build affordable housing, to assist with the credit crunch and the stalled house-building industry.

2.43 We were interested to note that MyChoice Homebuy had proved to be a very popular, flexible, scheme to assist first time buyers and that the Director of Housing had therefore made contact with Moat to ascertain whether or not they would be interested in either introducing the Open Market Home Ownership Scheme previously agreed in principle, or discussing an alternate scheme based on the MyChoice Homebuy model, but with the Council taking the place of the HCA.

2.44 However, we were advised by the Director of Housing that Moat Housing Group had said that it was no longer interested in working with the Council on such a scheme, because it was now targeting its efforts on providing shared ownership schemes through new-build. The Director of Housing explained that, in view of this, he had recently made contact with Orbit Housing Group, which is the Homebuy Agent for another part of the Country, to ask if, in principle, Orbit would be interested in working with the Council on either;

- (a) The Open Market Shared Ownership Scheme already agreed by the Cabinet; or
- (b) An alternate scheme, similar to Moat's successful MyChoice Homebuy Scheme, but with the Council undertaking the role of the Homes and Communities Agency

2.45 However, subsequently, at the meeting of the Housing Scrutiny Panel in December 2009, the Director of Housing advised that Orbit had also declined the offer to work in partnership with the Council on this initiative. Therefore, the Director of Housing has approached Aldwyk Housing Association, the Homebuy Agent for Hertfordshire, to enquire of their interest. A response is currently awaited.

2.46 Subject to the outcome of the discussions with Moat Housing, it is likely that the £350,000 budget could fund the purchase of around 6 properties under the Open Market Shared Ownership Scheme, or around 5 properties under an alternate MyChoiceHomebuy Scheme. It should be noted, however, that this investment would not just fund one purchase since, when the applicant purchases additional tranches of equity - or sells their property – the Council would receive a capital receipt, which could be used to assist further applicants. Ultimately, the Council would recover its investment – which would be either more or less than its original investment, depending on whether the value of the properties purchased with the grant has increased or decreased in value.

2.47 After discussion, we concluded that we should recommend that the budget provision of £350,000 should be retained within the Capital Programme, but that no increase in the budget should be sought at this stage, in view of the current uncertainty of a provider.

### **Home Ownership Grants**

2.48 We recalled that, in October 2007, the Cabinet approved a pilot scheme for the provision of five Home Ownership Grants of £34,000 each, totalling £170,000, to be awarded to five Council tenants in 2008/9 (subject to them meeting an agreed criteria). The grants enabled secure tenants to purchase a property on the open market and give vacant possession of their Council property on the day of completion. Once their property was vacated, the Council then made this vacancy available through the HomeOptions Choice Based Lettings Scheme. The Scheme therefore assisted five tenants to enter home ownership, and a further five housing applicants to access Council housing. We noted that

the Cabinet also agreed that the Housing Portfolio Holder should review the Pilot Scheme after six month's operation, including whether the funding allocation was sufficient.

2.49 We were advised that, due to the successful promotion of the Scheme, 38 applications were received and that the Housing Portfolio Holder had therefore subsequently agreed a selection criteria to allocate the five grants; all five applicants completed their house purchase.

2.50 We further noted that, in March 2009, the Cabinet had reviewed the success of the scheme and, in view of the economic climate and the difficulties for first-time buyers to secure mortgages to purchase properties on the open market, had agreed to make capital provision of a further £170,000 in 2009/10, to fund a further five Home Ownership Grants.

2.51 We noted that the Scheme continues to be popular and successful and that, following a marketing exercise earlier in the year, 31 tenants had applied for Home Ownership Grants. Five had been shortlisted, who are currently in the process of finding homes on the open market.

2.52 There is currently no budget provision within the Housing Capital Programme to fund any further grants. However, at the Cabinet meeting in March 2009, it was agreed that the Housing Portfolio Holder should review the success of the Scheme's continuation after nine month's operation and reports to the Cabinet on whether or not the Scheme and associated funding should be continued into 2010/11.

2.53 We therefore considered whether or not we should recommend the continuation of the Scheme in 2010/11. We concluded that the Scheme should continue, since it assisted both first time buyers and applicants on the Council's Housing Register. However, in view of the relatively high interest shown in the grants by tenants, we felt that there may be benefits in reducing the individual amount of grant from £34,000 to £28,000, which would enable 6 grants to be provided within the budget of £170,000, instead of 5 grants.

2.54 The Assistant Director of Finance and ICT (Accountancy) explained that the Cabinet undertakes a full review of the Capital Programme in the Autumn each year. However, he further explained that the Capital Programme could be updated at any time during the year, and we therefore agreed to recommend that budget provision of £170,000 be made for the provision of 6 Home Ownership Grants in 2010/11.

2.55 We also decided to recommend that, in the first instance, all those unsuccessful applicants for the Home Ownership Grant Scheme this year should be contacted, to see if they are still interested in grants and, if so, that they should be selected in accordance with the established criteria. We felt that, only if there are insufficient numbers interested, should another marketing exercise be undertaken.

### **Purchasing Properties off the Open Market**

2.71 We were advised by the Director of Housing that the Homes and Communities Agency (HCA) no longer funds housing associations to buy properties off the open market, to let at affordable rents. This is because the HCA's priority is to use its resources to help with new house-building, and the purchase of existing properties does not benefit the house-building industry. However, such an arrangement would increase the amount of affordable housing in the District.



2.72 We noted that the Council has, in the past, provided significant amounts of Local Authority Social Housing Grant to housing associations to provide affordable housing in the District (around £8.1m since 1993). The last scheme to receive LA SHG (£1m) was the development of six former Council-owned sites by Estuary Housing Association, referred to earlier in our report. Generally, the Council has only funded those developments that, for various reasons, cannot be funded by the HCA.

2.73 Therefore, if the Council was willing and able to provide more Local Authority Social Housing Grant in the future, it could provide grants to one of the Council's Preferred RSL Partners to purchase properties off the open market and to let them at affordable rents. We learnt that grant would only be required for part of the cost; the housing association would obtain private finance for the remaining amount.

2.74 We understand that the provision of 2 and/or 3 bedroom houses could assist more people than smaller properties, since existing Council tenants could transfer into larger 2/3 bedroom houses, leaving their smaller accommodation available for other housing applicants. The amount of grant required would vary, depending on the value of the properties, but we were advised that, on average, a grant of £75,000 could be used to purchase a 2 or 3 bed roomed house, especially if the property was previously a Council property, sold under the right to buy.

2.75 After some discussion, we therefore agreed to recommend that budget provision of £375,000 should be made within the Capital Programme, to fund the purchase of around 5 or 6 two or three bed roomed houses within the District. We also agreed to a suggestion by the Director of Housing that a tendering exercise should be undertaken amongst the Council's Preferred RSL Partners to select an RSL that could provide the best value for money.

### **Relevant Recommendations**

- (1) That the £350,000 budget provision already agreed by the Cabinet to invest in an Open Market Shared Ownership Scheme be retained within the Capital Programme;
- (2) That the Director of Housing contacts other Homebuy agents to discuss the possibility of an existing Homebuy Agent working with the Council to operate either:-
  - (a) the scheme previously proposed in partnership with Moat Housing, already agreed by the Cabinet; or
  - (b) an alternate scheme, similar to the Government's MyChoice Homebuy Scheme, but with the Council undertaking the role of the Homes and Communities Agency; and
  - (c) that a further report be provided to the Cabinet setting out the outcome of discussions with the Homebuy Agents;
- (3) That the Home Ownership Grant Scheme be continued into 2010/11, to fund a further six Home Ownership Grants of £28,000 each (instead of the current amount of £34,000 each) and;
  - (a) That budget provision of £170,000 be made within the Capital Programme for 2010/11;
  - (b) That the existing Selection Criteria for applicants previously agreed by the Housing Portfolio Holder continues to be used; and
  - (c) That, in the first instance, all those unsuccessful applicants for the Home Ownership Grant Scheme in 2009/10 be contacted, to see if they are still interested

in receiving a grant;

- (7) That budget provision of £375,000 be made within the Capital Programme for 2010/11 to fund the provision of Local Authority Social Housing Grant to one of the Council's Preferred RSL Partners to fund the purchase of 5/7 two and/or three bedroomed houses off the open market to let at affordable rents;
- (8) That the Preferred RSL Partner to purchase these open market properties be selected through a competitive tendering exercise.