

**North East Derbyshire District Council**

**Cabinet**

**22 November 2017**

**1-4-1 Receipts**

**Report of Councillor P R Kerry, Portfolio Holder with Responsibility for Economy, Finance and Regeneration**

This report is public

**Purpose of the Report**

- To update Cabinet on the current position regarding 1-4-1 receipts.
- To seek Cabinet approval to grant the Housing Strategy Team the authority to work with registered providers who may be able to utilise 1-4-1 receipts.

**1 Report Details**

**Background**

- 1.1 In July 2012 the Council entered into an agreement with the Secretary of State that allowed the retention of capital receipts from right to buy sales to reinvest in new affordable housing. These are known as 1-4-1 receipts.
- 1.2 The rationale behind the 1-4-1 receipts retention agreement is to enable the building of as many new and affordable homes as possible, at least equal to the number sold under Right to Buy. The homes can be:
  - New build council homes
  - Newly acquired council homes including empty properties (i.e. existing homes bought on the open market but not homes owned by other Registered Providers)
  - Newly built/acquired social housing owned by a Registered Provider (RP) and grant funded by the Council (but not one in which the Council has a controlling interest such as Rykneld Homes).

The homes must be available for rent at social or affordable rent levels. The 1-4-1 receipts cannot be used for shared ownership homes.

- 1.3 The key to the agreement is that additional social housing is provided locally from the retention of the receipts and there are a number of explicit exclusions that prohibit use.
- 1.4 The agreement also states that in the case of regeneration schemes, 1-4-1 receipts can only be utilised for the additional homes being created. So, if 50 homes are demolished and 60 new homes built, 1-4-1 receipts can only be utilised for 10 homes.

- 1.5 Furthermore, the agreement states that 1-4-1 receipts can only comprise 30% of the total scheme costs. This means 70% match funding is required in each instance and the monies have to be defrayed not just committed in order to claim in the relevant period. Claims are made every quarter with each retention time limited to three years.

### **Current Position**

- 1.6 Since the agreement was entered into in July 2012, 1-4-1 receipts have been utilised within the confines of the agreement but the high number of RTB sales each year and the 3 year time constraint is putting pressure on the Council.

*To demonstrate this by way of example, the regeneration scheme at North Wingfield is demolishing more council homes than it is replacing so 1-4-1 receipts cannot be utilised. Whilst the overall scheme numbers are similar to the original number of homes some of the properties will be owned by Rykneld Homes who cannot benefit from 1-4-1 receipts. Therefore this scheme cannot benefit from a contribution of 1-4-1 receipts.*

- 1.7 As at October 2017, the Council has £2m in unutilised 1-4-1 receipts. To avoid repayment to the Treasury the spend profile is:

2018/19 £0.432m (requires £1.0m match funding from the HRA)

2019/20 £0.953m (requires £2.2m match funding)

2021/22 £0.615m (require £1.4m match funding)

This only accounts for the backlog of 1-4-1 receipts and on current levels of RTB sales a further £1.0m per annum will be generated requiring match funding of £2.3m each year.

### **Affordability**

- 1.8 The affordability of each stock purchase/build scheme in terms of the long term viability of the HRA has to be considered. This is likely to be an ongoing pressure whilst right to buy sales remain high.
- 1.9 The 1% rent deduction (in place until 2019/20) is having a detrimental effect on HRA balances as is the number of homes lost each year through right to buy. Pressure on rents will alleviate somewhat from April 2020 as the Government has recently announced plans to revert to CPI+1% from this date.
- 1.10 There are a number of ongoing pressures on the HRA that need to be considered. As part of the HRA self-financing settlement in 2012, the Council took on an additional £127m in HRA debt. The Council plans to repay this additional debt within thirty years so the HRA can benefit from lower interest charges longer term but this creates a cost to the HRA of £4.3m per annum. It is important that the Council continues to have plans to repay the additional self financing debt but due to prudent measures having been taken since 2012 the Council is in a position to meet the first repayment obligations in 2022.

- 1.11 As part of the self-financing settlement in 2012 the Treasury also enforced a debt cap on all housing authorities, which is the maximum that the Council is allowed to borrow for HRA capital expenditure at any given time. This debt cap cannot be breached. Any difference between actual debt and the debt cap is known as headroom.

The Council's debt cap is £179m and the current headroom is only £2.6m so there is very little capacity to borrow within the HRA. Actual repayment of debt to create further headroom is cost prohibitive until the loan term is close to maturity as the penalties for early repayment are too large to be viable.

### **Proposed way forward**

- 1.12 Councils can use 1-4-1 receipts as social housing grant awarding RPs (but not Rykneld Homes) who build/acquire new homes in the district up to 30% in funding. In this case the registered provider can be awarded 30% directly from 1-4-1 receipts by the Council and it is their responsibility to fund the balance. This would be a good way to utilise 1-4-1 receipts without putting an additional pressure on the HRA especially as the Council retains full nomination rights over the homes.
- 1.13 Housing Strategy has identified areas of the district using the SHMA, the draft local plan, local agents and Rykneld Homes Ltd bidding information to highlight areas of highest need across the district for social and affordable rented dwellings. Housing Strategy will be able to use this information to ensure that the 1-4-1 RTB receipts are used in the areas of the district that has the highest need for social housing.
- 1.14 Housing Strategy has built relationships with RPs through the RP Forum held every 6 months the D2N2 Housing Providers Strategic Forum (held quarterly) and the Sheffield City Region (SCR) More New Homes working group (also held quarterly). Housing Strategy can use these relationships to work with RPs developing housing in the District to support the delivery of affordable units where there is a viability gap. We will need to be clear that there is a viability gap or that if we provide a social housing grant we generate additional affordable housing units in North East Derbyshire.
- 1.15 As stated in 1.2 we could use the 1-4-1 RTB receipts to contribute to the purchase and regeneration of empty properties, these properties will typically need additional investment to bring it up to 'Decent Homes' standard. This work will again be targeted to the areas of highest need but also those areas where the empty properties are having wider impacts on the local community (ASB incidents etc) Bringing empty properties back into use also links to the Homelessness Reduction Act (coming into effect in April 2018) and the Sustainable Tenancy Project (STP) that is running in North East Derbyshire. The Homelessness Reduction Act will bring several new duties to Local Authorities in Homeless prevention but allow Homeless duties to be discharged if they have an offer of accommodation for 6 months. Working with our partner on empty properties we can use the 1-4-1 RTB receipts to bring empty properties back into use and refer our potentially homeless clients in them.

## **2 Conclusions and Reasons for Recommendation**

- 2.1 North East Derbyshire District Council has £2m in unutilised 1-4-1 receipts which requires £4.6m in match funding, with the current headroom in the HRA of £2.6m.
- 2.2 If current trends continue, the Council will generate an additional £1m in 1-4-1 receipts each year.
- 2.3 In summary, around £10m would need to be set aside over the next five years just to match fund the 1-4-1 receipts retained.
- 2.4 Within the rules of spending the 1-4-1 RTB receipts it can be used as grant funding on newly built/acquired social housing owned by a RP and we have relationships with the RPs who operate in our district.
- 2.5 There are a large number of empty properties in North East Derbyshire and the use of the 1-4-1 RTB receipts will complement the Empty Property Strategy 2015 – 2020.
- 2.6 The use of 1-4-1 RTB receipts will support the work of the Housing Options Team in discharging its Homeless duty and with STP the hard to serve people (singles 18-35) will be better supported in their housing needs.

## **3 Consultation and Equality Impact**

- 3.1 Consultation has taken place with Housing Strategy and Rykneld Homes about the Councils ability to directly deliver projects that utilise 1-4-1 receipts.
- 3.2 There are no equalities issues arising directly from this report.

## **4 Alternative Options and Reasons for Rejection**

### Repayment

- 4.1 1-4-1 receipts that are not utilised within three years of retention have to be returned to the Treasury along with an interest payment. Interest is incurred from the date of retention to the date of repayment and is charged at 4% + base rate. Due to the high sums involved, it would be costly to the Council to return the receipts unspent. Forgoing retention in any given quarter or repayment at the earliest opportunity is therefore permitted. This would equate to in excess of £40k per £1m of 1-4-1 receipts.

### Forgo Future Receipts

- 4.2 Council's can voluntarily forgo retaining 1-4-1 receipts in any chosen period to avoid the penalty of repayment at a later date. Following this option does not resolve the immediate problem of monies already retained and needing to be spent in the near future to avoid the accrual of interest. This is also counter to the Council's growth agenda and only a short term solution so not recommended.

## 5 Implications

### 5.1 Finance and Risk Implications

5.1.1 As set out in the main body in the report.

### 5.2 Legal Implications including Data Protection

5.2.1 As set out in the main body of the report.

### 5.3 Human Resources Implications

5.3.1 None directly other than officer time.

## 6 Recommendations

6.1 That Cabinet notes the content of this report.

6.2 That Cabinet agrees the principle of using the use of the retained 1-4-1 RTB receipts to act as a social housing grant for new build/acquire new homes in the district

6.3 That Cabinet will agree to receive future cabinet reports on individual schemes to use the 1-4-1 RTB receipts as a social housing grant.

## 7 Decision Information

<b>Is the decision a Key Decision?</b> A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: <i>BDC: Revenue - £75,000</i> <input type="checkbox"/> <i>Capital - £150,000</i> <input type="checkbox"/> <i>NEDDC: Revenue - £100,000</i> <input type="checkbox"/> <i>Capital - £250,000</i> <input type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i>	No
<b>Is the decision subject to Call-In?</b> (Only Key Decisions are subject to Call-In)	No
<b>District Wards Affected</b>	All
<b>Links to Corporate Plan priorities or Policy Framework</b>	All

**8 Document Information**

Appendix No	Title
None	
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Report Author	Contact Number
Assistant Director – Finance Revenues & Benefits Housing Strategy & Growth Manager	7658 7289

AGIN 6(b) (CAB 1122) 1-4-1 HRA Capital Receipts/AJD