

North East Derbyshire District Council

Cabinet

19 December 2018

Utilisation of 1-4-1 Right to Buy Receipts

Report of Councillor P R Kerry, Portfolio Holder for Finance

This report is public

Purpose of the Report

- To update Cabinet on the timetable for the use of 1-4-1 receipts and the options and implications for their future use or return.

1 Report Details

Background

- 1.1 In July 2012 the Council entered into an agreement with the Department of Communities and Local Government (DCLG) to retain capital receipts from right to buy sales to reinvest in new affordable housing.
- 1.2 The principle behind the agreement is to use the 1-4-1 receipts to build enough new affordable or social rent homes to replace those lost under the right to buy legislation. The homes can be:
 - New build council homes
 - Newly acquired council homes (i.e. bought on the open market but not from another registered provider)
 - Newly built/acquired social housing owned by a registered provider (but not one in which the Council has a controlling interest such as its ALMO).
- 1.3 Currently 1-4-1 receipts can only be used where additional homes are being created and they cannot be used where grant is already being utilised. Only 30% of the cost of build/purchase can met from 1-4-1 receipts. They have to be utilised within three years of retention or returned to the Treasury along with compound interest of 4% + base rate. In any given quarter 1-4-1 receipts can be voluntarily repaid to the Treasury without penalty. To retain 1-4-1 receipts then not utilise within the timeframe will subject the Council to costly interest payments which would have to be met from the HRA.

Current Position

- 1.4 Since the agreement was entered into 1-4-1 receipts have been utilised wherever possible but a shortage of appropriate schemes deliverable within the three year timeframe and the high number of RTB sales each year is putting pressure on the Council.
- 1.5 An additional barrier to spending 1-4-1 receipts is the need to match fund the remaining 70% of the cost of any scheme the Council wants to deliver itself. This would need to be funded from balances and /or additional borrowing putting additional pressure on HRA resources and potentially its long term viability. Match funding isn't required if the 1-4-1 receipts are awarded as social housing grant to a registered provider building or acquiring new social housing in the District.
- 1.6 Currently, having taken account of all known commitments, 1-4-1 receipts of £2.528m remain unspent. There are currently no schemes identified on which these can be utilised and very little interest is being generated from other registered providers due to the current generous grant levels being offered by external agencies.
- 1.7 Table 1 below shows the current position as at 30 September 2018:

Table 1

Year of Receipt	No. of RTB's	Receipts Retained (£000)	Receipts Spent (£000)	Receipts Remaining (£000)	Deadline for Spend	Amount (£)	Interest Due if Returned (£000)
2014/15	51	397	397	0	N/A		0
2015/16	60	631	631	0	N/A		0
2016/17	63	954	347	607	30/09/19	0	0
					31/12/19	92	13
					31/03/20	515	73
2017/18	80	1,370	0	1,370	30/06/20	193	28
					30/09/20	417	60
					31/12/20	135	19
					31/03/21	626	90
2018/19 to date	29	551	0	551	30/06/21	544	78
					30/09/21	8	1
Totals	283	3,904	1,375	2,528		2,528	363

- 1.8 If the unutilised amount of £2.528m was to be match funded from the HRA, additional resources of £5.899m would be needed over the next three years. If the receipts remain unspent they would be returned to the Treasury along with interest of up to £0.363m.
- 1.9 Interest has been calculated as at the deadline return date, should early repayment be considered then the cost would reduce. No interest is payable if receipts are voluntarily repaid during the quarter of receipt.

Future Use of 1-4-1 Receipts

- 1.10 In August, the Ministry of Housing, Communities and Local Government (MHCLG) issued a consultation paper recognising the limitations of the current agreements for utilising 1-4-1 receipts and proposing a number of options for reform. The consultation closed on 9 October and the Council is currently considering the proposals continued within. The key proposals to note are:
- To allow receipts currently held to be retained for five years rather than three. This will only apply to those held at a given date and not to future receipts
 - To allow the current funding cap of 30% to be increased to 50% but only in very specific circumstances.
 - To limit acquisition prices to that of new build costs in the region.
 - To allow 1-4-1 receipts to be utilised for shared ownership properties.
 - To consider the benefits of transferring receipts to local authority owned housing companies including ALMOs.
 - To allow more flexibility around returning of receipts before the deadline without incurring interest.
- 1.11 Should these proposals be adopted they will go some way towards helping to utilise 1-4-1 receipts by the deadline. However they will not address some of the key issues the Council is currently facing such as a shortage of deliverable schemes in the District and/or the resources within the HRA to fund them and also a lack of interest from registered providers in the District to utilise as social housing grant.

2 Conclusions and Reasons for Recommendation

- 2.1 The Council has been retaining 1-4-1 receipts since 2012. Receipts have been utilised wherever possible but a shortage of appropriate schemes and the high number of RTB sales each year is putting pressure on the Council's ability to utilise them.
- 2.2 1-4-1 receipts can be returned voluntarily in the quarter to which they relate without penalty. If they aren't returned until the deadline then considerable interest payments will be incurred.

- 2.3 The future utilisation of 1-4-1 receipts will be aided somewhat should the proposals in MHCLG's consultation proceed. However, the proposals do not address some of the key issues the Council is facing such as a shortage of schemes or resources to deliver them.

3 Consultation and Equality Impact

- 3.1 There are no consultation and equality impact implications from this report.

4 Alternative Options and Reasons for Rejection

- 4.1 To not utilise the 1-4-1 receipts, returning on the deadline. This option is not recommended due to the cost of interest that would be incurred.

5 Implications

5.1 Finance and Risk Implications

- 5.1.1 These are included within the report. Failure to spend 1-4-1 receipts by the prescribed deadline will mean considerable interest costs will have to be paid from the HRA.

5.2 Legal Implications including Data Protection

- 5.2.1 There are no legal issues arising directly from this report.

5.3 Human Resources Implications

- 5.3.1 There are no human resource implications arising directly out of this report.

6 Recommendations

- 6.1 That Cabinet note the current position regards 1-4-1 receipts
- 6.2 That Cabinet give delegated powers to the Head of Finance & Resources and Section 151 Officer to voluntarily repay 1-4-1 receipts during periods when schemes cannot be identified on which they can be utilised, provided no interest is payable on repayment, and that this be recommended to Standards Committee for inclusion in the Delegation Scheme in Part 4 of the Council's Constitution.

7 Decision Information

<p>Is the decision a Key Decision? 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: BDC: Revenue - £75,000 <input type="checkbox"/> Capital - £150,000 <input type="checkbox"/> NEDDC: Revenue - £100,000 <input type="checkbox"/> Capital - £250,000 <input type="checkbox"/> <input checked="" type="checkbox"/> Please indicate which threshold applies</p>	No
<p>Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)</p>	No
<p>Has the relevant Portfolio Holder been informed</p>	Yes
<p>District Wards Affected</p>	None directly
<p>Links to Corporate Plan priorities or Policy Framework</p>	All

8 Document Information

Appendix No	Title
<p>Background Papers (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)</p>	
None	
Report Author	Contact Number
Dawn Clarke – Head of Finance and Resources Jayne Dethick – Chief Accountant	01246 217658 01246 217078