

Executive

18 May 2017

Report of the Assistant Director of Housing and Community Safety

Portfolio of the Executive Member for Housing and Safer Neighbourhoods

Shared Ownership Affordable Housing Programme

Summary

1. This report outlines the capital grant funding awarded to the council under the Government's Shared Ownership and Affordable Homes Programme (SOAHP) 2016-21 that is administered through the Homes and Communities Agency (HCA).
2. The report recommends that the Executive gives approval for the council to accept the HCA grant allocation and approves Housing Revenue Account capital spend of £2.76m to match the HCA grant funding.
3. The bid to the HCA was made in September 2016 for funding to support the delivery of 65 Shared Ownership homes between 2017 and 2020 at a grant rate of £42,500 per home.
4. The 65 homes are proposed for delivery across two distinct programmes, however some flexibility on the numbers assigned to each programme may be available dependent on future market conditions:
 - i. 25 homes purchased in customer-led transactions on the open market
 - ii. 40 homes purchased "off the shelf" on new build residential developments
5. The scheme is complementary to the strategic partnership with the HCA approved by the council's executive on 16th March 2017. As

described in the proposal report, 'Strategic Partnership with the Homes & Communities Agency for the accelerated delivery of housing', this programme will accelerate housing development on a predominantly market-led basis.

6. The current Shared Ownership scheme proposal will support and complement the accelerated delivery programme by offering a targeted affordable home ownership product to households who are unable to buy a home in York on the open market.

Recommendations

7. The Executive are asked to:
 - i. Accept the Homes and Communities Agency (HCA) grant award of £2.76m, for the delivery of 65 Shared Ownership homes.
 - ii. Recommend to council a budget of £5.52m for the scheme funded from the HCA grant (£2.76m) and the HRA investment reserve (£2.76m)

Reason: so that the council can formally accept the HCA investment and deliver this affordable home ownership programme as part of the council's ambition to deliver a wider range of tenure products to meet the housing needs of the city.

Background

8. The Homes and Communities Agency (HCA) have for many years supported a programme of capital grant funding for the delivery of general needs and specialist affordable housing. Under the 2015-18 programme, for example, the council housing development at Le Tour Way, Acomb received £400k in funding.
9. A new round of funding called the *Shared Ownership and Affordable Homes Programme 2016-21* comprises three funding streams under which grant funding is available:
 - i. Rent to Buy
 - ii. Help to Buy: Shared Ownership
 - iii. Specialist Homes for older, disabled and vulnerable groups

10. When the HCA bid prospectus was launched in April 2016 around 95% of the national funding programme was prioritised to the first two products both of which support access to home ownership. This was a decisive shift from previous funding programmes and reflected the Government's priority to increase opportunities for home ownership especially to first time buyers.
11. The Government has made clear that housing and affordable home ownership is a key priority. The recent White Paper, 'Fixing our broken housing market' emphasises the contribution made by this programme towards the ambitious objective of enabling "over 200,000 people [to] become homeowners by the end of the Parliament."¹
12. The SOAHP provides an opportunity for the council to lever Government investment that will enable it to deliver additional affordable housing over the next four years. It is anticipated this programme would be complemented by the delivery of rented homes through planning gain, the council house building programme and the judicious use of affordable housing commuted sums. The programme will support the delivery of homes through council's 'Strategic Partnership with the Homes and Communities Agency for the accelerated delivery of housing' that was approved by the Executive in March 2017.
13. It is anticipated that expanding the opportunities for affordable home ownership will remain a government ambition in future investment programmes. It may therefore be possible to expend this scheme beyond 2020 should it prove successful and remains suitable for meeting the needs of households in the City at that time.

Help to Buy Shared Ownership

14. Shared ownership aims to help people that are in housing need but who cannot afford the cost of buying a home on the open market. Under a shared ownership lease the leaseholder buys a 'share' of the property and pays rent on the remaining share of the property (which remains in the ownership of the landlord). The leaseholder can buy further shares in the property at the market value of those shares at the time of purchase. Buying further shares is referred to

¹ <https://www.gov.uk/government/collections/housing-white-paper>

as 'staircasing'. When the leaseholder owns 100% they can acquire the freehold of the property. As the leaseholder buys further shares, the rent is reduced proportionately to reflect the fact that the landlord's interest in the property has reduced.

15. Shared ownership is a well established affordable housing product that can provide a stepping stone to home ownership for a wider range of households than Rent to Buy, Help to Buy equity loans and other schemes such as the Starter Homes initiative. The main elements of this shared ownership product are set nationally and include:
 - Initial shares sold to the buyers can be no less than 25% and no more than 75% of the market value.
 - The rental payment must be no more than 3% of the value of the unsold share and is expected to be 2.75% or lower. Rent can rise at maximum of RPI plus 0.5% per annum.
 - Over time the buyer can purchase additional shares in tranches of not less than 10% up to full (100%) ownership.
 - Anyone with a household income less than £80,000 is eligible, providing they are considered unable to meet their housing needs on the open market.
 - The only nationally defined prioritisation criteria are members of the armed forces who are given a higher priority.
 - The council is not permitted to set its own criteria (for example, on local connection), but can market the scheme in a targeted manner that raises awareness amongst people who live or work in the City of York.
 - There is no restriction on the number of bedrooms relative to current housing 'need'.
 - There is no restriction on existing shared owners selling their current home to purchase another that is better suited to their needs.
 - Help to Buy Agents that have been appointed regionally by the Government will be responsible for providing the initial eligibility checks for potential buyers but it will be for the local authority to verify these and carry out affordability assessments.
 - Marketing of the homes and maintaining a list of applicants is delivered by the Help to Buy Agent.

Proposal and Analysis

16. Members are asked to accept the HCA grant award of £2.76m for the delivery of 65 Shared Ownership homes, and authorise the match funded HRA capital expenditure, also totalling £2.76m.
17. The council's successful bid proposed two schemes for the Help to Buy Shared Ownership product, both at an overall grant rate of £42,500 per home:
 1. 25 homes purchased on a customer-led basis on the open market. It is expected that most of these will be on the 2nd hand homes, but purchasing new build homes can also be considered.
 2. 40 homes purchased on new housing developments as a 'top up' to the affordable housing provision agreed on these sites. This is most likely where financial viability appraisals demonstrate that the council's affordable housing targets cannot be met without public subsidy, but it could also be the purchase of additional homes over and above the affordable housing target on a development. Sites that the council bring forward under the accelerated programme of delivery in partnership with the Homes and Communities Agency could also be considered.

Open Market Purchase Procedure

18. The open market purchase programme will be driven by the customer, who begins the process by registering an interest in the scheme and being accepted onto it following verification. The customer would then identify a property that they would like to buy on a Shared Ownership basis through this scheme.
19. The detailed procedures for delivering the scheme are currently in development with advice from the regional Help to Buy agent and housing association partners who have experience of offering shared ownership homes.
20. Purchases will be made by the council on either on a freehold basis (for houses) or a long leasehold (for flats) and with a back-to-back sale of the Shared Ownership leasehold to the customer.

'Top up' Shared Ownership Funding for Planning Gain Affordable Housing

21. On qualifying private housing developments the council has a policy to negotiate a proportion of affordable housing without the use of public subsidy. In general this is currently 20% on brownfield and 30% on greenfield developments of 15 or more homes. If these targets cannot be achieved because of site viability then a reduced percentage of affordable housing can be agreed. Where this occurs public subsidy can be used to increase the percentage of affordable homes to meet or get closer to the target.
22. Developments without any affordable requirement, or where the affordable housing policy requirement is met in full, could also be considered for this "new build off the shelf purchase" element of the Shared Ownership scheme if additional affordable homes are purchased on these sites.
23. On developments which are unable to meet the affordable housing targets (on sites with high abnormal costs for remediation for example) this funding could be used to increase the quantum of much needed affordable housing across the city.
24. Through this scheme affordable homes will be delivered by negotiating a competitive price for the identified homes, which may be purchased at below the full open market price due to savings on areas such as marketing and other transaction costs. A marketing strategy would then be agreed with the developer and Help to Buy agent. The selection criteria would be applied to registered applicants for each property, to ascertain the customer who would be offered the opportunity to purchase the home.
25. Although the priority in this scheme is a council-led delivery of affordable homes which will also constitute an asset and provide rental income streams, there may also be opportunities to secure additional investment in the City of York from Registered Provider (RP) partners. This would be through re-allocating an element of the HCA grant to an RP that is already purchasing Social Rented and/or Discount Sale affordable homes on a development through a Section 106 agreement. Subject to HCA approval, the grant would be used to deliver Shared Ownership homes that are *in addition* to the Section 106 affordable housing requirement, which could enable the RP to achieve a competitive purchase price. Although

likely to be a small – if any – part of this programme, any RP use of the HCA grant funding will reduce the investment needed from the council and enable the HRA capital funding to deliver further projects.

26. A level of flexibility in the routes to delivering the stated outcomes will enable the homes to be provided in the most timely and cost-effective way, and to manage risk in the project as market conditions evolve.
27. The proposal meets an evidenced local need: the 2016 Strategic Housing Market Assessment for the City of York identified a need for 115 Intermediate tenure affordable housing properties per year.

Financial Modelling

28. Financial modelling under various property prices and share purchase scenarios is contained in Annex 1 (Tables 1-5). Individual purchases are shown as well as capital and revenue returns to the council across the whole scheme. The purchaser's share will depend on the property price, with more expensive properties requiring a higher customer purchase to maintain the HCA and council investment level.
29. Based on the £84,000 combined HCA and council investment the council is expected to receive approximately £2,070 rental per year per property net of management costs. This would reduce following any customer staircasing purchases and at that point the council would benefit proportionately from any uplift in the value of homes if they are subsequently sold outright or incrementally when a leaseholder buys more shares. Table 5 in Annex 1 models the potential return to the council when leaseholders staircase to 100% ownership.
30. If the leaseholder wishes to sell their share of the property, the council will have the opportunity to nominate another purchaser who meets the eligibility criteria of the Shared Ownership scheme. Alternatively agreement can be made with the leaseholder to sell on a "back to back staircasing" basis, with staircasing to 100% being carried out simultaneously with sale on an open market basis. The council would then obtain a capital receipt in accordance with the usual staircasing procedure.

31. The leaseholder is responsible for payment of a deposit and mortgage, applicable stamp duty, their legal costs of purchase etc. Leaseholders are also responsible for 100% of the outgoings relating to the property and to keep the property in good and substantial repair and condition. The council will be responsible for providing building insurance cover and will recover these costs through a service charge to the leaseholder.
32. An advantage of shared ownership is that the cost of purchasing a share in a property and paying a below-market rent on the un-owned share enables households on lower incomes to gain a foothold on the housing ladder with an option of increasing the share they own if and when their circumstances permit this.
33. An average purchase share of 50-60% is expected over the lifetime of the scheme, dependent on market conditions and individual customer circumstances. The government expects shared owners to buy the maximum share they can afford, so flexibility in the scheme will see some purchasers buying a larger initial share while others will be able to purchase a smaller initial share. Some illustrative examples of affordability for individual customers are contained in Annex 2.

Shared Ownership Schemes: Delivery

34. The selection criteria for the scheme will give priority to serving members of the Armed Forces and those who have recently left the Armed Forces, and their families, as required by the HCA.
35. Aside from this, the HCA do not permit any additional priority eligibility criteria to be applied. Where demand exceeds availability of funding, priority will be based on date order of registering interest in the scheme. Awareness raising will be carried out at an early stage to ensure people living or working in the City of York have the best opportunity to purchase an affordable home through this scheme.
36. Alongside more general local marketing activities publicity will be targeted at key areas for local recruitment such as York Teaching Hospital NHS Foundation and council social care and children's services including school staff. This is in line with the approach that has already been established within the report that went to the council's executive on 16th March 2017 'Strategic Partnership with

the Homes & Communities Agency for the accelerated delivery of housing’.

37. As customers will need to register with the Help to Buy agent to participate in the scheme, awareness raising will advise customers to apply to do this. The council will not maintain its own independent list, as this would entail duplication and potential confusion on the part of customers.

Timetable

- 38 The detailed procedures for delivery of this shared ownership programme will be worked up over the next two months ready for a launch of the scheme in the late summer. The table below presents an indicative timetable for delivery of the 65 shared ownership homes by 2019/20.

	Milestone	Total completions
May 2017	Executive approval granted for scheme	0
July 2017	All contracts with HCA and Help to Buy NEYH signed and internal procedures for delivery agreed	0
Summer/autumn 2017	Publicity produced and marketing activity launched	0
By end of calendar 2017	First completions of second hand scheme delivered	10
March 2018	Second hand scheme continues	15
2018/19	Further 40 completions across all schemes	55
2019/20	Scheme completes, lessons learned and future opportunities identified	65

Council Plan

39. The proposal to deliver 65 Shared Ownership homes will meet a number of the council’s corporate priorities 2015-19 including:

- Residents can access affordable homes while the greenbelt and unique character of the city is protected
- Everyone is supported to achieve their full potential

- All York's residents live and thrive in a city which allows them to contribute fully to their communities and neighbourhoods
- Every child has the opportunity to get the best possible start in life

Implications

40. Financial

41. The scheme requires the council to invest up to £2.76m of its resources to match fund the grant from the HCA. Of this, £65,000 (£1,000 per property) will be used towards the council's conveyancing costs. The rental figure from each property equates to £2,310 a year per property which could provide the HRA with additional rental income of up to £150k per annum.
42. In 2013 Members agreed to the creation of an investment reserve to support new affordable house building across the city. There remains £10.451m available for new initiatives although it should be noted that the approval to purchase and redevelop James House is anticipated to require minimum funding of c £5m from the reserve.
43. Should this scheme be approved the level available on the reserve will reduce to c £2.7m (subject to final James House funding requirement). There are further capital resources to support Housing initiatives including restricted Right to Buy receipts (£5m), affordable housing commuted sums (£0.7m) and other housing capital receipts (£4m).
44. Should homeowners purchase additional shares the council will receive capital receipts although rent levels would reduce. The HCA share of the receipt would need to be set aside to support delivery of affordable housing whilst the council share would be retained within the HRA to support future Housing initiatives.

45. Human Resources (HR)

46. Some additional administration work will be required in verifying applicants and making offers. This will be undertaken within existing staff and budget resources.

47. Equalities

48. The proposed scheme will widen opportunities for home ownership to groups who may be relatively disadvantaged and/or marginalised and to people who are in work but whose earnings are too low to purchase a suitable home on the open market.

49. Legal

50. Legal Services will advise on the terms of the HCA Grant Agreement.

51. Under s120 Local Government Act 1972, the Council has the power to acquire land and buildings by agreement.

52. Section 32 of the Housing Act 1985 requires that the consent of the Secretary of State (for Communities and Local Government) is obtained before the Council can dispose of any interest (including the grant of a lease) in property held for housing purposes.

53. Paragraph A3.1.1 of The General Housing Consents 2013 Order confers Secretary of State consent for disposal of housing property at market value. If the Council will be granting Shared Ownership leases for a price/consideration equal to market value then this general consent can be relied on and specific consent will not have to be sought from the Secretary of State. It is a condition of HCA funding that the Shared Ownership lease is granted at market value price.

54. There will also be conveyancing costs to the council for each home purchase and forward sale. It is proposed that an appropriate amount per property is set aside from the capital funding for this.

55. Crime and Disorder

56. There are no Crime and Disorder implications.

57. Information Technology (IT)

58. There are no IT implications.

59. **Property**

60. There will be a requirement for administration and checking of valuations and surveys that the purchaser has commissioned. There may be some need for Property Services to provide advice in the event of disputes.

61. **Other**

62. There are no other implications.

63. **Risk Management**

64. Customer demand: there is a risk that take-up from local residents is insufficient to deliver the required number of homes by 2021. This could result in being required to repay HCA funding and a breach of the HCA programme. Alternative uses would need to be found for the HRA investment funds allocated to the scheme.
65. Mitigation: Research undertaken in preparation for the bid showed a high level of demand for Shared Ownership homes in the City of York. Existing providers advise that new build and resale Shared Ownership opportunities tend to be over-subscribed, and 67 households are registered with the Help to Buy agent for a variety of Shared Ownership property types. Little marketing has been undertaken to promote this route historically, as most Shared Ownership development in the City is not currently advertised through the Help to Buy website.
66. There has been significant development of the mortgage provider market for Shared Ownership purchases in recent years, with interest rates becoming more competitive and loans up to 95% of the purchased share now common. The Help to Buy agent has advised that as many as 150 different mortgage products are now available, greatly enhancing customer choice.
67. Planned completions have been front-loaded to the first two years of the scheme, thereby building in time to identify alternative means of utilising the HCA grant funding and HRA capital investment should this prove necessary.

68. House price increases: If current house price trends continue the £168,000 average purchase price initially targeted for this scheme may become unrealistic in the later years of the programme.
69. Mitigation: Flexibility is built into the scheme in two respects: first, for purchasers to increase the initial share purchased above 50%; and second, to include a range of different property types which may be less expensive, e.g. apartments and smaller period terraces.
70. If due to continued price inflation or for any other reason insufficient properties can be identified for the “off the shelf” or customer-led schemes, alternative delivery routes will be considered. This could include mixed tenure developments in the council’s own build programme, and other future use of council-owned land. Ultimately there may also be an opportunity to switch the HCA funding to other rented or home ownership products.
71. Downturn in the housing market: There are risks with this investment including the impact of any downturn in the housing market soon after a purchase it made which would lead to a reduction in value of the purchased properties.
72. Mitigation: Evidence shows that most shared owners stay in their home for longer than five years and purchase additional shares over a longer period thus giving a longer time for any dips in the market to be smoothed over.

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Wards Affected:

All

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Background Papers

Strategic Partnership with the Homes and Communities Agency for the accelerated delivery of housing' Executive 16th March 2017

Annexes

Annex 1 – Financial Modelling
Annex 2 – Customer Affordability