



DERBY CITY COUNCIL

COUNCIL CABINET
13 JANUARY 2003

Report of the Director of Policy

Introduction of a cash incentive scheme for Derby City Council tenants

RECOMMENDATIONS

- 1.1 To approve the establishment of a pilot cash incentive scheme to assist council tenants purchase a property on the open market.
- 1.2 To run the scheme from February 2004 until March 2005 and then to review it.

REASON FOR RECOMMENDATIONS

- 2.1 The cash incentive scheme – CIS – would support eight households accessing home ownership with, as a consequence, eight council properties vacated to meet the needs of households on the Joint Housing Register. A previous similar scheme run by the Council between 1995 and 1999 was very successful.
- 2.2 In order to ensure the overall success of the scheme it is necessary to begin marketing and identification of suitable tenants in the current financial year. The expenditure to be incurred in 2004/05 will be included in the capital programme being presented to Cabinet in February.

SUPPORTING INFORMATION

- 3.1 The Council already supports the development of an increasing number of shared ownership properties each year. It is now proposed to expand home ownership options further by introducing a cash incentive scheme for council tenants.
- 3.2 Under this scheme, qualifying tenants would be eligible for a cash payment to set against the purchase price of a property in the private market. The actual amount of this payment would depend on the size of property they need, their income and savings and the size of council property they are vacating.
- 3.3 The Council successfully ran a cash incentive scheme between 1995 and 1999. At this time, however, additional resources were available from the government to fund the scheme. There are no longer special funds for such schemes, so the Council must fund the scheme from its own housing resources. Funds have been identified from the public sector capital programme, facilitation fund – an element of the private sector capital programme specifically set aside to promote access to affordable housing – to run a pilot scheme from March 2004. By devoting £100,000 to the scheme, it is estimated that around eight households will be assisted into home ownership. A small amount of the allocated budget will be used for marketing the scheme in 2003/04.

OTHER OPTIONS CONSIDERED

4. The option of not establishing the scheme and using the budget to finance other methods of providing affordable housing was considered, but the CIS was found to be better value for money.

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Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Proposed Cash Incentive Scheme Policy Appendix 3 – ODPM's scheme guidelines Appendix 4 – Findings of research into other authorities' schemes Appendix 5 – Worked example

IMPLICATIONS

Financial

- 1.1 The following funds have been identified to support the introduction of the cash incentive scheme:

Source	2003/04	2004/05
Facilitation Fund	£2k	£53k
Public Sector Capital Programme	£2k	£43k
Total	£4k	£96k

- 1.2 The grants may be properly classified as expenditure for capital purposes under section 40(4)(a) of the Local Government and Housing Act 1989 since they are grants given towards expenditure to be incurred on the acquisition of buildings.
- 1.3 In terms of value for money, the £100k allocated to this scheme could fund a housing association to build two new 2 bedroom / 4 person homes whereas, through the cash incentive scheme, it would support eight households accessing home ownership. And, as a consequence, eight council properties vacated to meet the needs of households on the Joint Housing Register.
- 1.4 As this is a discretionary scheme, the Council will not be required to make payments once the total budget for the scheme has been allocated.

Legal

- 2.1 Section 129 of the Housing Act 1988 gives the Council power, as a local housing authority, to make a scheme for the provision of grants to qualifying tenants to assist them with the purchase of a dwelling in the private sector. The Regulatory Reform (Schemes under Section 129 of the Housing Act 1988) (England) Order 2003 has removed the need to obtain the Secretary of State's consent to such a scheme.
- 2.2 The Act identifies a number of aspects which may be covered by the scheme including eligibility, amount of grant and terms upon which it is made. The ODPM has issued general guidance and examples of good practice for local authorities. Full details of the Council's proposed scheme are set out in Appendix 2.
- 2.3 As the grant is potentially repayable in certain circumstances, it will be secured as a legal charge on the property for the period of the grant conditions.
- 2.4 Approving the grant would be delegated to the Director of Policy.

Personnel

3. None arising directly from this report.

Corporate themes and priorities

- 4.1 The proposal comes under the Corporate Plan themes of fostering Derby as **a fairer society** and **a great place to live** with **safer and healthier communities**.

- 4.2 The proposal furthers the priority of **improving life chances for disadvantaged people and communities**. Specifically, it focuses on outcome 2.11 in the Corporate Plan, that is, to 'meet the needs of Derby's households who cannot afford to rent or buy a suitable home on the open market' by bringing home ownership within reach.

REASONS FOR CONSIDERING CASH INCENTIVE SCHEME, CIS, IN DERBY

In line with the Sustainable Communities Plan, Derby City Council wants to 'encourage social tenants to move into home ownership where they can afford to do so.' This is reflected in the Derby's Housing Needs and Market Study 2001 which showed that more people aspired to home ownership than actually would be able to afford to buy their next home. The Cash Incentive Scheme enables home ownership by providing a potential way of meeting housing needs through allowing tenants access to existing properties within Derby.

The Sustainable Communities Plan endeavours to empower Council's to assist tenants to move out of their rented accommodation and buy their own home. Since April 2003 a Regulatory Reform enables Councils to set up their own Cash Incentive scheme to comply with the government guidelines.

BACKGROUND INFORMATION

Available Council Housing and Housing Needs

The Housing Needs and Markets Survey - HNMS - revealed that there will be a need in the city for between 425 – 608 additional affordable lets or sales each year over the next five years. With the amount of Housing Corporation funding continuing to fall relative to the rising costs of house building, the Council has to develop new ways to secure additional affordable housing in the city. The CIS could be one way of providing much needed social housing as well as enabling existing residents to purchase properties that they otherwise could not have afforded.

House prices in Derby

According to the Halifax Price Indicator, the average purchase price for first time buyers in the East Midlands is £60,000. The 2001 review of housing prices we conducted revealed that the median house price was £65,250. Statistics from the ODPM suggest that the average dwelling price for a first time buyer in Derby is even higher at £89,154. House prices are still rising and the scheme will be reviewed annually to try and reflect the housing economy.

Historical situation in Derby

Derby has previously run a CIS. A pilot project was established in 1995 and led to a scheme being run between 1995 and 1999. In 1999, 24 grants were given and the average grant was £9,500. The scheme was popular among residents but was not means tested.

Eligibility of Derby City Council's Tenants for the Cash Incentive Scheme

The aim of the scheme are to promote home ownership to those tenants that otherwise would not be able to afford it and do not wish to buy their Council property through Right to Buy. An analysis of households in need was undertaken to make sure that the scheme would be fair and not exclude an unreasonable number of households. This will enable the scheme to be appropriate to meet both existing tenants' aspirations as well as new tenants housing needs.

	% of council tenants who could not benefit from the CIS if conditions were placed on the scheme	
Length of tenancy:	In LA accommodation	In LA or RSL accommodation
Less than a year	10.1%	9.55%
Less than 3 years	26.97%	25.28%
Less than 5 years	36.5%	33.14%
Receiving housing benefit	58.7%	
Property lived in had 2 or more bedrooms	24.6%	
Type of accommodation:		
Exclude older people's accommodation	2.9%	
Exclude flats	22%	
Exclude maisonettes/bedsits	3.2% / .3%	
Include only Houses	36.3%	
Household Income		
More than £5,000	15%	
More than £9,999	50.4%	
More than £14,999	78.3%	

Other CIS schemes

Good practice has been reviewed by looking at 27 other councils' schemes and the proposed scheme for Derby has been designed to maximise the effect that it can have in helping existing tenants into home ownership.

Appendix B details information from other local authorities that has been reviewed to produce policy and procedure guidelines for Derby's Cash Incentive Scheme.

PROPOSED CIS POLICY

In line with the OPDM guidelines, these are the details of the proposed scheme.

Tenant Criteria

Tenants should demonstrate an ability to manage their finances before they take on the responsibility of home ownership. So, there would be a requirement for applicants to have had a clear rent account for at least six months and not be receiving Housing Benefit. The tenant should also owe no other money to the Council in the form of Housing Benefit over payments or Council Tax, and these would have to be cleared prior to the tenant being confirmed eligible for a grant. This would be again checked prior to completion of the grant, and any outstanding debt would stop the grant from being paid to the solicitor. Tenants have no mandatory right to a grant.

Tenancy length

The length of tenancy required to qualify for a grant would be in line with the tenancy length for Right to Buy, that is to be eligible they must have been a tenant for at least two years. This would include all appropriate tenancies in line with the Right to Buy legislation.

Grant

The grant will be aimed at enabling households to purchase the average priced property that meets their requirements. The level of grant given will be decided through a means test. It will be necessary to decide on a maximum amount given to tenants.

The maximum grant will be dependent on the size of the property being vacated and will be related to a proportion of the median prices¹ for different size properties.

The maximum grant will be no more than 80% of the maximum Right to Buy discount. The current Right to Buy discount for Derby is £24,000 giving a maximum grant of £19,200.

The grant will be set in a sliding scale with the maximum grant available for the largest property – with the highest housing need, that is leaving a 4-bedroom or larger council property. The scale will be in line with grants equivalent to the Housing Corporation's Homebuy and Voluntary Purchase Grant schemes. The maximum grant amounts would be:

Bedsit/ Maisonettes	1 bed	2 bed	3 bed	4 bed +
8,000	10,000	12,000	15,000	19,200

The grant available for tenants cannot exceed 20% of the agreed contractual purchase price of the property being acquired.

Council property criteria

The property eligibility criteria are governed by housing need. Housing need within Derby is mixed and often depends on the housing area. The HNMS reveals that there is currently the greatest need for 2-bedroom and 1-bedroom properties, but also high demand for larger family houses. The need for property size can differ from area to area and any criteria established would be flexible enough to differentiate between the different needs in different areas. From time to time, certain housing market areas in Derby would be targeted to try and free up much needed affordable housing.

Only tenants occupying properties eligible for Right to Buy would be eligible for CIS so this would exclude sheltered provision.

There is virtually no demand to release bedsit accommodation, therefore tenants in bedsits would only be considered for the scheme when there are no applications from tenants in one to 4-bedroom properties that could be supported.

Means testing

The CIS grant needs to be means tested in order to make sure that it provides value for money, and to maximise impact. This is in line with government guidelines. The means test needs to establish that the applicant cannot afford to purchase a property without the grant and that the applicant can maintain a property without council support. The means

¹ The median price was used as this prevents some of the very expensive luxury houses in the city centre from skewing the cost of buying a house. Also it is reasonable to expect that those benefiting from the cash incentive scheme will be looking at entering the two lowest quartiles of the market.

testing would be based on salary levels and would also take savings into account. The baseline would be set as three times the main income plus one times the secondary income to assess a reasonable mortgage. This would be offset from the desired property price to determine if the applicants would be unable to purchase the property. Any savings will be included in the means testing. The grant levels given are a maximum and a lower level of grant may be appropriate down to a minimum level of £2,000. The grant cannot exceed 20% of the agreed purchase price of the property.

Restrictions on the property bought

The price of the property purchased should be capped to prevent people taking on houses that they cannot afford and from paying the grant to people who could afford a more modest property without the aid of the grant.

The price ceiling should be regionally specific to allow people to move away from Derby. The price ceiling could be based on the Halifax house price indicators for the regions of the UK either split into 69 counties or 12 areas but this would be very complex and we believe it will be more understood by residents if we set maximum house prices for each size of property.

The proposed scheme would limit the price of the house bought in relation to the number of bedrooms as set through Homebuy regulations and Total Cost Indicators by the Housing Corporation. These maximum prices would be set for the year and would not differ owing to location within the UK. Any property price agreed above this limit would not be eligible for inclusion within the CIS scheme.

The maximum house price limits for Derby tenants are:

1 bed	2 bed	3 bed	4 bed
£58,000	£67,200	£82,400	£93,000

Other limits are that:

- the property is structurally sound
- it is permanent
- it is freehold or long leasehold
- it is purely for residential purposes
- it is immediately habitable. Properties that are not immediately habitable will be excluded. This will be determined through the surveyor's report
- all members of the existing households move in, that is, the existing Council home is vacated. This prevents people from becoming homeless, and makes sure the grant is used purely to satisfy housing need
- the grant will not be available for residents to extend or adapt existing properties.

It is possible to restrict people to moving only within Derby – but this is not felt appropriate in Derby as this would exclude 17.9% of those council tenants who, when questioned in the HNMS, stated that they wanted to or had to move in the next three years and would be looking to move out of Derby.

Housing association or other RSL properties will be excluded from the scheme as this is set by the Housing Corporation to limit double subsidy.

Tenants would be unable to apply for the Right to Buy their council house and the CIS, and would need to decide which option they were pursuing to save wasted time and expense.

Publicising the scheme

The scheme will be publicised in the same way as other low cost home ownership schemes in Derby, this will be through leaflet and posters at appropriate offices, mail outs to eligible tenants, publicity through newsletters and other appropriate media as determined through discussions with the Council, Derby Homes and appropriate partners.

Timescales

In order to free up properties as quickly as possible and also to ensure that applicants use the grants allocated to them or their allocation is returned to the pot it is sensible to implement a timescale for purchasing a property. This timescale however would be flexible enough to accommodate unforeseen circumstances. In order to keep a close eye on how the process is going, the timescales would be agreed with the applicant but would be limited by funding availability in the financial year. Applicants would be considered on a first come first served basis.

Re-letting available property

All properties vacated would be re-let through Derby Homefinder.

Eligibility for grant payment

The grant has to be used to pay off the mortgage on the house purchased with the grant. It is only being given when the council is satisfied that the tenant has moved out off their council home and into their new property. The solicitor would release the grant on the day of completion. The grant would not be available to use as a deposit on the exchange of contracts.

An inspection of the tenant's home would be carried out to ensure that they could undertake necessary repairs to the property prior to vacating. If the property is unsatisfactory the grant would be withheld until the works had been put right. If the works were extensive funding would be withheld from the grant on the completion day.

Claw back

In line with Right to Buy, a legal charge would be placed on the property in order to discourage tenants from moving within 3 years. The standard legal charge placed on the property is to recoup 100% of the money if the tenant moves within the first year, 66% if the tenant moves within the second year, 33% if the tenant moves within the third year and then the charge is removed after this period of time.

The start date of the scheme and its proposed duration

The scheme should start from the date of approval for the scheme and is available until the funding is exhausted. This would be in line with cash forecasting targets through the HIP returns. It is anticipated to make £36,000 available in 2003/04 and £100,000 in 2004/05. The scheme would be reviewed before the end of 2004/05 with a decision then being made for further allocations.

Expenditure

It is anticipated that the average grant will be approx £12,000 and, therefore, in 2003/04 the maximum number of grants will be in the region of three.

Value for money

The maximum range of grants available in Derby for CIS will be between £10,000 and £19,200. These grants will be below the maximum grant available for Right to Buy and below the average grant available through Social Housing Grant to provide a new build property by a Registered Social Landlord. For example, grant for a new build rented flat for 2003/04 ranges from £31,095 to £43,686. It is thus a very cost-effective way of promoting home ownership and meeting the needs for rented properties.

Monitoring the scheme

The scheme will be monitored through the HIP returns and internal monitoring returns. The council auditors would review the scheme to make sure that it provides value for money. The scheme would be reviewed annually to amend any terms that need to be changed. This is to make sure that the scheme reflects any changes in line with legislation such as Right to Buy, Housing Corporation guidelines and costs, delivers the maximum number of affordable properties to meet housing needs as well as keeping abreast of economic factors such as incomes and local house prices.

CASH INCENTIVE SCHEME – GOVERNMENT GUIDELINES

Legislation

The Regulatory Reform (Schemes under Section 129 of the Housing Act 1988) (England) Order 2003 came into effect in April 2003. This removed the requirement for local authorities to seek approval from the ODPM for their schemes under Section 29; but there is still the requirement to show that the scheme represents value for money. It is up to each local authority to decide whether to run a scheme and tenants have no mandatory right to a grant.

The ODPM has released the following guidelines on the contents and running of cash incentive schemes (CIS):

1. The date of commencement of the scheme and its proposed duration.
2. The total expenditure proposed and maximum number of tenants to be assisted.
3. The amount to be offered to individual applicants and rules for determining eligibility. This will be at the discretion of the local authority.
4. LAs can determine the grant level but need to justify this in relation to the local housing market.
5. Tenants can only use Cash Incentive Scheme (CIS) grants to secure permanent accommodation so they will not become homeless in the foreseeable future.
6. A limit on the price of the property to be bought to be determined by the local authority according to the local property market.
7. LAs should state if it intends to make grants available for the extension or adaptation of existing accommodation (see Section 129(1) (b)).
8. LAs should limit grants to tenants who wish to purchase a property within the European Union.
9. LAs should state whether grants are to be restricted to the local authority area, authorities running restricted purchase schemes should allow exceptions for compassionate reasons - e.g. to move nearer to family.
10. LAs should have arrangements for publicising the scheme using different media.
11. LAs must have proposals for monitoring the operation of the scheme.
12. It is up to local authorities to have a robust means test to ensure funds are spent appropriately. The means test employed by local authorities should ensure that:
 - a grant is not awarded to a tenant who could afford to buy without assistance;
 - and that recipients of assistance have the resources to cope with owner-occupation once they have moved into the new home.

Funding

There will be no Supplementary Credit Approval so the scheme will have to be funded through the LA resources only.

FINDINGS OF RESEARCH INTO OTHER AUTHORITIES' SCHEMES

In 2000/01, 827 grants were given through the cash incentive scheme; the majority of these were given by local authorities in London, South East, South West and parts of the East of England region, where there is a strong demand for social housing. The average CIS grant in England in 2000/01 was £13,466, which represents good value when compared to the average cost of a new build housing association dwelling, which was over £100,000 in 2002/01.

Twenty-seven councils who gave a large number of CIS grants in 2000/01 were surveyed. The information they gave was correct as at January 2003. Of these 27 councils, two had since transferred their housing stock and a further five had completely stopped running the scheme due to lack of interest or lack of funds.

The ODPM's own review of CIS, which ran from 1994 to 1997, was also examined and information from this has been included where it is appropriate.

Budgets

The average expenditure of the councils surveyed for 2001/2002 was £391,000. However, the actual expenditure ranged from £0 to £1,183,000 in Barnet.

Publicity

Authorities publicised the grant by posting flyers to tenants, advertising in newspapers, advertising on posters and billboards and highlighting the scheme in home ownership leaflets.

Grant

The average maximum grant was £25,500 however this hides the range of the grant. The maximum grant offered by councils varied from £6,000 to £37,000. As would be expected, the higher grants tended to be given by the London councils and those in the south.

Many of the councils offering lower grants are examining their maximum grant limit and considering raising it in order to keep abreast of house price increases.

Qualifying criteria

The size of the grant actually given was generally dependent on the length of tenancy and the size of the property being vacated; a minimum of two years tenancy and a minimum property size of two bedrooms were often set. Tenants also had to have a clear rent account and owe no other monies to the council to qualify.

Means testing

The majority of grants were means tested. Generally, the amount of grant given was calculated by subtracting the mortgage that the household could be expected to afford from the cost of new housing. The mortgage amount and price of new housing were calculated in different ways by each authority.

Even if the tenant wasn't means tested to determine the size of the grant, many authorities checked that they would be able to maintain the mortgage on the house that they wanted. Only a few authorities made no enquiries into tenants' financial circumstances.

Targeting

Nearly half the councils questioned were targeting the scheme at certain types of properties and almost all the councils gave a larger grant to those in bigger properties. The type of property targeted depended on the particular needs of the council's housing market although it was common to target larger homes. Targeting took the form of advertising the grant to specific types of housing, prioritising the processing of the grant application form or offering larger grants.

Characteristics of purchasers

The ODPM investigated the success of the cash incentive scheme between 1994 and 1997. The review found that the gross average income of grant purchasers was £15,980 in 1994 this rose to £16,139 in 1996. Half the households taking advantage of the grant in the time period reviewed were small families.

Property released

All councils reported a quick turn around time on the property once it had been vacated. The properties vacated rarely needed any work carrying out as it was often a condition of receiving the grant that the house was vacated in a state of good repair.

However, the length of time taken by the tenant to vacate varied considerably. Some councils had taken measures to try and speed up the moving process by offering advice on finding accommodation, mortgages etc, offering further incentives to those who moved quickly or requiring the household to find a mortgage and property before they could apply for the grant.

The review of the cash incentive scheme running from 1994 – 1997 commissioned by the ODPM found that just under half of the properties released by the scheme were large with three or four bedrooms. This proportion remained fairly constant over the three years reviewed.

House bought with the grant

All the councils capped the price of the property that could be bought with the grant. The price ceiling often varied depending on the size of the house required by the household and the area to which they were moving. Many of the authorities in London reported that the price ceiling prevented people from moving within the local area as it failed to keep pace with the area's high house prices.

Almost all councils placed conditions on the type of property that could be bought with the aid of the grant. Common restrictions included: the property had to be structurally sound; immediately habitable; suitable for the household's needs; must be a permanent structure; not for business purposes; freehold or there must be a long lease remaining on any leasehold properties; and in the UK.

Process

The process of acquiring a grant differed greatly between councils. Some authorities required that the tenant had already found a house and mortgage before they applied for the grant. Other councils offered a strict timetable of events where failure to meet a deadline resulted in the grant application being negated. A third option operated by some councils was to operate a first come first served policy, whereby tenants were encouraged to apply in April/May when the money to operate the grant was received and those who completed first received the grant money.

Grant payment

The grant itself was always released to the solicitor rather than the tenant. This usually took place on or near the day of completion. Some authorities held money back until the empty council house had been inspected or vacated.

Clawback

Most councils placed a legal charge against the property to make sure that the grant money or a percentage of the grant could be clawed back if the grant recipient were to sell the property or were to present as homeless within an agreed time period. In reality, few of the councils had ever taken this action. Instead, the officers recommended ensuring that the tenant would be able to maintain the mortgage and fully understood the responsibilities of home ownership during the application process.

Grant take up

The number of applications dealt with by the councils in a year varied considerably from zero to more than forty.

The success of the CIS was often dependent on the local housing market of the area with many authorities reporting that the rise in house prices prevented many people from buying in the private housing market. The schemes, which received a lot of applications, as opposed to enquiries, generally had a high success rate of applications obtaining grants and moving house.

Many councils reported that the right to buy scheme still outstripped the cash incentive scheme in terms of popularity as it offered a greater discount.

Problems

It was felt by many of the councils that people were not always honest when filling out the application form and would hide savings etc in order to obtain a larger sum of money.

The scheme had to be regularly reviewed as otherwise the price ceiling and the amount of money offered became out of date very quickly.

The main activity of the scheme had to be concentrated in April and May as this was when the money for the scheme was received and thus applications were encouraged before the money ran out. Lewisham have tried to prevent this by splitting the money so that half of the money is allocated in April and half in November.

Applicants would often try to find the highest priced house allowed by the scheme, in order to take maximum advantage of the grant.

WORKED EXAMPLES

Example 1

Family living in a 3-bedroom council house in Derby for three years. Looking to purchase a 4-bedroom house, around £92,000. Have a clear rent account and no housing benefits.

Eligible – would be eligible for grant up to maximum of £15,000 - this does not exceed 20% rule. Would be dependent upon mortgage achievable from joint income.

Example 2

Family living in a 3-bedroom council house in Derby. Looking to purchase a 4-bedroom house, around £110,000.

Not eligible – as purchase price exceeds maximum price.