

Right to Buy (RTB) Clawback Agreement

1. Purpose of report

- 1.1 The purpose of this report is to formally request that the Council reappraise the current RTB Clawback arrangement with Yarlington Housing Group. In doing so, it is hoped that future RTB clawback receipts would be reinvested in order to replace the homes sold across the district. Additionally, we ask that the reinvestment of sales receipts be ring-fenced to Yarlington Housing Group in order to guarantee a one-for-one replacement within South Somerset.

2. Background

- 2.1 In 1999, following an option appraisal, South Somerset District Council sold its housing stock to Yarlington Housing Group (then called South Somerset Homes). Under the terms of the sale the Council and South Somerset Homes agreed that the backlog of major repairs and refurbishment would be completed within a subsequent fifteen year period. The purchase price paid by South Somerset Homes to the Council was **£69,301m** reflecting the condition of the stock and the income stream generated from the rent roll.

3. Right To Buy

- 3.1 Right to Buy was introduced in 1980 under the Housing Act (Chapter 51). This allows all secure tenants of Local Authorities and non-charitable housing associations and assured tenants of registered providers to buy their home at a discount of the full market value.
- 3.2 Preserved Right to Buy applies to Yarlington residents who were a secure tenant of SSDC before the stock sale occurred. The amount of discount a tenant can have to purchase their property is dependent on the number of years they have been a public sector tenant, up to the maximum discount of £77,900.
- 3.3 There are exceptions to Preserved RTB; specifically sheltered accommodation, and accommodation that has been altered for those with additional support needs.

- 3.4 The Right to Buy Agreement for South Somerset is located in an addendum to the transfer papers between SSDC and South Somerset Homes (Fifteenth Schedule Part 1).

It states:

“In principle, the Right to Buy and Shared Ownership Clawback Agreement provides that any capital receipts arising on preserved right to buy sales (for 30 years after completion) are to be apportioned between the Council and the company in accordance with agreed formulae.

The formulae have been negotiated within the Company’s and the Council’s lead consultants to ensure that the Company should not be financially prejudiced as a result of any of its properties being sold under Preserved Right to Buy.

The formulae briefly provide for the Company to retain from each sale an amount which reflects its lost income from the property sold together with an amount in respect of the Company’s administration, legal and valuation costs. The amount by which a sale price exceeds the amount which the company can retain is to be paid to the Council. If the formula produces a negative figure then the Council will pay such amount to the company. All calculations are to be undertaken annually with payments no later than the end of April following the end of each financial year (31st March).

All calculations under the formula are to be certified by the Company’s auditor by 30th September following the end of the financial year and any excess or under payments are to be rectified within one month of the auditor’s certification.”

Under the RTB clawback agreement, Yarlington retain on average just £27.5k for each house sold under Right to Buy and on average SSDC receives in excess of £44,000 (2015/16 figures).

- 3.5 Since 1999, Yarlington has paid SSDC a total of **£25,249,459** in Right to Buy receipts. SSDC has reinvested **£7,996,972** back into Yarlington in order to support the re-provision of affordable housing. Unfortunately we were unable to determine the total amount re-invested back from SSDC to alternative housing providers (a request was made but unfortunately this information was not available). Whilst it is clear that SSDC has been supporting specific housing developments, due to lack of information it is not clear where and how much of the additional **£17,252,487** has been invested in the direct replacement of homes.

4. Yarlington’s contribution to South Somerset economy

- 4.1 Since 1999, Yarlington has secured significant private investment in order to improve the quality of the former Council housing stock and thereafter building new properties to service the local demand on the waiting list.

- 4.2 **Headline Investment:**
- Since 1999, we have raised private finance totalling **£247.5m**.
 - Yarlington has subsequently invested **£147m** in capital improvements since 1999 in order to achieve and maintain decent homes standard, thus honouring the “promise” made to the local council and the community.
 - We have invested a further **£194m** into building new homes.
- 4.3 Since 1999, Yarlington has built 1,211 new rental homes and a further 306 low cost home ownership properties across the South Somerset district.

Investment in SSDC Area by Yarlington since 1999

Construction Value: £165.5m

Direct Employment: 1,471 jobs

Indirect Employment: 637 jobs

Economic Output: £27.3m GVA¹ p.a. into the local economy as a result of jobs created during the construction.

YHG estimated spend in the local economy

First Occupation² Expenditure: £7.6m

Total spend by household: £23.4m per annum.

Retail spend by household: £9.8m per annum

Leisure spend by household: £4.9m per annum

- 4.4 Since 1999 over 40,000 South Somerset citizens have been housed by Yarlington. These residents have further benefited from the significant additional services that Yarlington uniquely provide at its discretion, namely the provision of employment, training and educational services for local people.
- 4.5 The additionality of our service means that we have provided significant levels of funding to support local organisations, including the Council and the wider voluntary sector. As an example, over the last 4 years £3.6m has been provided to fund community investment activities in South Somerset. This has resulted in 526 local people supported into employment and 1,567 benefitting from training or education. In addition, our social enterprise Inspired to Achieve has engaged with 1,209 people needing support and assistance.
- 4.6 Since our inception over 850 local people have benefitted from employment within Yarlington.
- 4.7 Our calculations suggest that the 850 people generates a GVA for the local economy of approximately £11m per annum.

¹ GVA: Gross Value Added measures the contribution to the economy a product or service provides.

² The amount of money a household will bring into the local area upon first moving in (new products/services).

5. Housing Grant Funding Reforms

- 5.1 Up until the 1980's practically all social rented housing was provided through significant levels of public sector subsidy. After the election of the Government in 1979 there followed a re-appraisal of the provision of social housing.
- 5.2 This re-appraisal aimed to reduce public borrowing, increase efficiency and expand the role of private finance. Following the re-appraisal, expenditure on housing by central government fell sharply.
- 5.3 Additional pressure to find alternative funding methods followed the introduction of Right to Buy for Local Authority tenants (Housing Act 1980). Under the scheme, tenants could purchase their homes at substantial discounts. The scheme changed the landscape for low cost home ownership. Since 1980/81 over 2.2 million homes have been bought under the right to buy.
- 5.4 As "independent bodies" (pre-ONS reclassification), Housing Associations stood outside public borrowing and the accounting regime. We were therefore able to leverage private finance without it being classed as public borrowing.
- 5.5 The Housing Act 1988 paved the way for the large scale introduction of private financing for housing associations. Whilst grant levels have significantly diminished since its inception, the regime has endured.
- 5.6 The Act allowed for HAs to combine their privately leveraged private finance with grant, allow development risks to be carried by the HA, and enabled lenders to take a charge over the housing assets.
- 5.7 Introduction of the Affordable Rent Model further progressed the mixed-funding development regime. The foundation of this model was that whilst grant was substantially reduced, HAs were now able to charge up to 80% of the market rent. The aim of the model was to enable the increased borrowing capacity generated by a larger rental income stream to compensate for lower grant per unit.

6. Demand for Affordable Housing

- 6.1 Active applicants on the housing waiting list in South Somerset currently sits at 2,054. However, demand for homes of all tenure exceeds 5,000 families in South Somerset alone.
- 6.2 The Land Registry released their annual House Price Index in March 2016. This states that the average house price in Somerset is £177,871 (South West is £197,085). ONS Average Survey of Hours and Earnings shows that the average full time earnings in South Somerset is £24,284 a year, with the average house price at £177,871 this is 7.3 times the average salary.

7. Our Offer: Additionality beyond the development programme

- 7.1 Yarlington's vision and mission is to build communities, we see it as critical to provide the desperately needed housing South Somerset requires. Demand far outstrips supply and we are therefore "sweating" our financial plan to ensure we provide as much high quality, economic housing as is possible.
- 7.2 Under the current RTB clawback arrangement, approximately £1m per year is returned to SSDC. That £1m could be used by Yarlington as additional capacity to borrow against in order to fund up to 30 new properties per year (up to 120 over the next 4 years).
- 7.3 The Council's stated aims and objectives ("Tackling the Challenge") looks to "Enable housing to meet all needs", "Working with partners to enable the provision that meets the future and existing needs of residents and employers".
- 7.4 In order to achieve our shared goal we believe it imperative that the receipts from selling Yarlington assets under Right To Buy be directly reinvested into replacement of new homes.
- 7.5 We therefore respectfully ask that the annual RTB receipts paid to SSDC are, (as a minimum), ring fenced for the provision of new affordable replacement accommodation.
- 7.6 We further ask that the receipts are directly invested into Yarlington with the expectation that we raise our commitments and build additional properties (above and beyond our expected development commitments) commensurate with the additional reinvestment.
- 7.7 We hope our paper demonstrates the value Yarlington has brought to South Somerset and our commitment to respond to our ongoing local housing challenge.