

Meeting date: 27 MARCH 2019
Report to: CABINET MEMBER FOR ENVIRONMENT & HOUSING



Subject/report title: DO IT YOURSELF SHARED OWNERSHIP – PILOT SCHEME

Report from: Director of Managed Growth and Communities

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Wards affected:

- All Wards | Bickenhill | Blythe | Castle Bromwich | Chelmsley Wood |
 Dorridge/Hockley Heath | Elmdon | Kingshurst/Fordbridge | Knowle |
 Lyndon | Meriden | Olton | Shirley East | Shirley South |
 Shirley West | Silhill | Smith's Wood | St Alphege

Public/private report: Public

Exempt by virtue of paragraph: N/A

1. Purpose of Report

- 1.1 To approve a 'Do It Yourself Shared Ownership' (DIYSO) pilot scheme and receive a further report on the outcomes of the pilot.

2. Decision(s) recommended

- 2.1 The Cabinet Member is asked to,
- (i) Approve the introduction of a Do It Yourself Shared Ownership pilot scheme as set out in Appendix A
 - (ii) Receive a further report on the operation of the pilot scheme.

3. What is the issue?

- 3.1 Affordability of housing is a significant challenge in Solihull. At March 2018 the median house price in the Borough was £260,000, and the median workplace earnings £33,454 resulting in a house price to earnings ratio of 7.77. This compares to a ratio of 6.60 for the West Midlands region.
- 3.2 A report elsewhere on your agenda provides an update on the approved plan for 'Strengthening the Delivery of and Access to Housing. One of the Actions/Projects

within this is to promote pathways to affordable home ownership. The proposal in this report helps contribute to this.

- 3.3 The Council has an established record of promoting new build shared ownership. These opportunities are provided through 'section 106' planning agreements and direct new build developments by Solihull Community Housing (SCH) on behalf of the Council and by Registered Providers. DIYSO uses the existing housing market to promote shared ownership opportunities.
- 3.4 The proposed pilot scheme is set out in Appendix A. In summary it sets out,
 - Personal eligibility criteria
 - Prioritisation of eligible applicants
 - Eligibility criteria for properties that can be purchased under the scheme.
- 3.5 Appendix B sets out how the DIYSO scheme will work. Once a person has been assessed and authorised to go ahead by SCH they will be able to choose a property for sale on the open market. Their intended offer must be approved by the Council's valuer to ensure that it is reasonable. Once approved, the Council purchases the property and sells a share back to the person on a shared ownership lease.
- 3.6 As they have done for new build shared ownership schemes, it is intended that SCH will work with Waterloo Housing. Waterloo has a specialist team for assessing the financial suitability of applicants for shared ownership. Waterloo's role in the process satisfies the requirement that applications are assessed by an Independent Financial Advisor.
- 3.7 It is proposed that the pilot be available to Solihull Council tenants in the first instance. Council tenants choosing to use the DIYSO scheme will vacate a Council property thereby making it available to a homeless household or one on the Housing Register.
- 3.8 Where more than 10 Council tenants apply and are eligible they shall be prioritised according to date of application. Once approved, people will have 3 months to agree with the Council/SCH on a property that they can make an offer for. This time period may be extended at SCHs discretion.
- 3.9 If after 6 months there have been less than 10 approvals or completions the pilot will be widened to households who the Council has a duty to re-house under homelessness legislation, other social housing tenants in Solihull, those on the Council's Housing Register, regular service personnel of the British Armed Forces and all other eligible applicants.
- 3.10 The shared owner has responsibility for repairs and maintenance obligations. This is the standard requirement for shared ownership properties. There will be restrictions in the lease advising that any extensions must have the Council's approval.

4. What options have been considered and what is the evidence telling us about them?

4.1 DIYSO is a local, voluntary, initiative and so there are no specific external rules relating to how the Council makes the scheme work.

4.2 The proposed scheme provides an opportunity for the Council to invest in the local housing market and provide another pathway for local people into home ownership.

4.3 On the basis that a DIYSO pilot be introduced, there are many options for how the scheme could operate. The main options are,

- Personal eligibility criteria – the proposed scheme is available to people with a ‘local connection’ to Solihull. The Council’s approved Housing Allocation scheme determines eligibility to joint the Housing Register and these criteria have been used to define this. The proposals on household income, deposits and minimum share purchases are designed to achieve a balance between ensuring that people are able to afford shared ownership while also not making it available to people who could successfully meet their needs in the housing market
- Prioritisation of applicants - Council tenants are given first priority in recognition of the value of securing a property for reletting to a household in need
- Property criteria – the maximum price aims to avoid high value properties being purchased while not being too limiting in the local market. The other factors reflect the fact that the Council has an interest in the property and therefore needs to be content with what is purchased.

4.4 Windsor and Maidenhead District Council operate a DIYSO scheme. Their scheme requires people to buy further shares in the property (‘staircase’) and either own it outright after 25 years or have sold their share and moved on. It is not considered necessary to make this a feature of Solihull’s pilot scheme.

4.5 It is proposed that a rent will be charged on the equity held by the Council at an annual rate of 2.49%. This means, for example, that if the equity held by the Council was £75,000, the annual rent would be £1,867.50 or £155.62 per calendar month. Windsor and Maidenhead charge a rent on the unsold equity of 2.75% and the maximum percentage that can be charged under new build Homes England funded schemes is 3%. The proposed rent charge at 2.49% is therefore comparatively low and helps to promote affordability for the purchaser.

5. Reasons for recommending preferred option

5.1 The benefits of the scheme are summarised in the table below. The analysis takes the example for a three bedroom house in two areas of the Borough.

	North Solihull	South Solihull
Open Market Value	£140,000	£230,000
50% ownership	£70,000	£115,000
Monthly Mortgage payments	£283.90	£466.41

(5 year fixed, repayment & 10% deposit)		
Monthly Interest on unsold equity – Paid to the Council (2.49%)	£145.25	£238.63
Total monthly cost to household	£429.15	£705.04
Average monthly Private Rent (30% percentile – Local Housing Allowance)	£572.00	£748.00
Estimated household income needed where housing cost takes up 30% of gross income	£17,166	£28,202

- 5.2 Beyond its potential to make existing social rented housing available, DIYSO can therefore help people into home ownership on relatively modest household incomes, at lower housing costs than private market rents and can help tackle 'generation rent'. It also provides another housing option for people in other circumstances such as home owners following relationship breakdown.

6. Implications and Considerations

- 6.1 Delivery of key themes in the Council Plan:

How will the options/proposals in this report contribute to the delivery of the key themes in the Council Plan? *(select which themes apply and briefly state how the options / proposals in this report contribute to their delivery):*

- Improve Health and Wellbeing -
- Managed Growth – Strategic Housing Framework
- Build Stronger Communities -
- Deliver Value -

- 6.2 One of the Key Programmes supporting the implementation of the Council Plan 2018-2020 is the development and initial delivery of a 'strategic housing framework'. One of the priorities of this is to meet local housing needs. A DIYSO scheme whereby the Council can determine the eligibility and priority criteria helps contribute to this goal.

- 6.3 Implications for children and young people, vulnerable groups and particular communities:

- 6.3.1 No direct implications as a result of this report

6.4 Consultation and Scrutiny:

This proposal has not been directly considered by Scrutiny Board. The Action Plan (see paragraph 3.2) was developed with the assistance of Scrutiny Board and in November 2017 the Board reviewed progress against it.

6.5 Financial implications:

6.5.1 DIYSO does not qualify for Homes England capital grant funding. This is because their priorities are focused on additional housing delivery whereas DIYSO converts an existing market sale property into shared ownership tenure.

6.5.2 The pilot therefore needs to be funded from the Council's financial resources. It is proposed that the pilot scheme be funded from HRA Reserves. The 2019-20 Housing Capital Programme elsewhere on your agenda makes provision for this.

6.5.3 The proposed capital budget for the pilot is £1.0m. Depending on the value of properties purchased and the share that each applicant acquires, this can be expected to fund 10 households in the pilot period.

6.5.4 Shared owners will be required to buy the maximum initial share that they can afford. This, and subsequent 'staircasing' sales, will return capital to the Council's HRA. Dependant on future Council decisions, this can either be reinvested into the DIYSO scheme or used for other agreed purposes.

6.6 The pilot scheme will also incur some revenue costs, summarised below. These will be met from the rent received on the unsold equity.

- SCH shall administer the scheme and be responsible for publicity and communications.
- Waterloo housing association will receive applications and assess their financial suitability
- The Council's Strategic Land and Legal Services teams will complete the property purchases.

6.7 The Council will insure the properties purchased under the scheme with the cost reimbursed by the shared owner.

6.8 As discussed in paragraph 4.5, the annual rent charge will be 2.49%. Future rents will be set as part of HRA estimates and rent increases report that is considered annually by Cabinet.

6.9 Legal implications:

6.9.1 No immediate Implications as a result of this report. SCH, working with the Council's Legal Services Team, have an established procedure for purchasing open market housing.

6.10 Risk implications:

6.10.1 The risk of operating the pilot are very low,

- Funding has been identified and is available
- The Council and SCH have an established procedure for purchasing properties
- SCH have managed shared ownership since 2010 and therefore have good experience of managing it
- For properties purchased under the scheme, the Council will share in any house price increase on 'staircasing' sales but also share the risk should house prices fall
- The properties will have building insurance under the Council's corporate policy. This will eliminate risk to the Council from losses such as fire and flood.

6.11 Statutory Equality Duty:

6.11.1 No immediate implications as a result of this report.

7. List of appendices referred to

7.1 Appendix A: DIYSO – Draft Scheme Proposal

7.2 Appendix B: DIYSO – Proposed Process

8. Background papers used to compile this report

8.1 None.

9. List of other relevant documents

9.1 None.