London Borough of Hammersmith & Fulham

Cabinet

Cabinet Member's Decision

LEADER (+REGENERATION, ASSET MANAGEMENT AND IT)

CABINET MEMBER FOR HOUSING

REINVIGORATING RIGHT TO BUY (RTB): RETENTION OF RECEIPTS FOR REPLACEMENT HOUSING

Ward(s):

ALL

The London Borough of Hammersmith and Fulham (LBHF) has welcomed Government's recent increase in Right To Buy discounts up to £75,000. The Government is committed to ensuring that part of the receipt on every additional home sold under the Right To Buy (RTB) is used to fund, on a one for one basis, a new replacement home for affordable rent.

In the related consultation paper Government asked if there was a preference for relevant RTB receipts being pooled with the Homes and Communities Agency or GLA in London, or alternatively being retained by the local housing authority. In response to the consultation LBHF argued strongly that the available receipts should be retained by the local housing authority. As a mechanism for achieving this, the Government is offering Councils the opportunity to retain RTB receipts for replacement housing, in exchange for signing up to an agreement which places certain conditions on the use of such receipts. LBHF proposes to enter into one of these agreements.

Prior to this change the maximum RTB discount in LBHF was £16,000 and LBHF was only able to retain 25% of RTB receipts, the balance having to be paid over to Central Government.

CONTRIBUTORS

EDHR
EDFCG
DLDS

HAS A EIA BEEN COMPLETED? YES

HAS THE REPORT CONTENT BEEN RISK ASSESSED? YES

Decision made by Cabinet Members on: 25 June 2012

That approval is given to the Executive Director of Housing & Regeneration to enter into an agreement with Secretary Of State to enable the Council to retain the net receipts from disposals of RTB properties to spend on replacement homes for affordable rent.

AUTHORISED BY: ....

The Cabinet Members have signed this report...........

.DATE: 25 June 2012………………….

1. BACKGROUND

1.1. From 2nd April 2012 the cap on RTB discounts increased to £75,000, having previously been £16,000 in London. Additionally this change means that:

- It is Government's intention that every home sold under Right to Buy will be replaced by an additional new home with receipts from sales being recycled towards the cost of replacement.
- Local authorities are able to retain the receipts for replacement housing provided they sign up to an agreement with the Government that they will limit the use of the net Right to Buy receipts to 30% of the cost of a replacement home.
- Councils can deduct the amount necessary to cover debt from the receipt but will not be required to use this part of the receipt to repay loans
- The amount able to be deducted for the administration of applications is fixed for London at £2,850 per successful sale, this includes an allowance for withdrawn transactions.
- The buy back provision has been retained. Councils will be able to fund up to 50% of the cost of re-purchasing a former council home, up to a maximum of 6.5% of any net receipts available for one for one replacement. This could be used to provide a contribution to the cost of buy backs at Earls Court.
- The cost floor has been retained and extended to 15 years to ensure that the purchase price of the property does not fall below what has been spent on building, buying, repairing and maintaining it over that period.
- Government will continue to allow Councils to apply for exemption from pooling arrangements and therefore one for one replacement for new social homes built after 2008.
- It should be noted that the Governments impact assessment suggests the policy will be reviewed in 2015.

1.2. On 15 May 2012, the Government issued the final terms on which it is inviting the Council to enter into an agreement with the Secretary of State that will enable the retention by the Council of additional RTB receipts for investment in new affordable rented homes. In order to retain receipts with effect from the quarter ending 30th June 2012 the agreement must be signed and returned to the Department of Communities and Local Government (DCLG) by Wednesday 27th June 2012.

2. THE AGREEMENT

2.1 In summary, the key terms of the agreement require the Council to adhere to the following:

i. to use the receipts for the provision of affordable[1] rented homes (newly built/acquired Council homes, or provided via local authority grant to housing associations);
ii. to utilise the receipts to the extent that they will constitute no more than 30%[2] of the total investment in such homes (net of any contribution from another public body);
iii. to repay with interest at 4% above base rate any receipts unused after three years
iv. the agreement provides the Council with the option to repay the receipts early should the Council desire to do so to save interest costs if under-utilisation of the net receipts is anticipated.

2.2 A copy of the letter from DCLG and proposed agreement is attached at Appendix A for reference.

2.3 The agreement with DCLG is intended to be "light touch" and there are no conditions on the number of new homes that must be built or acquired, their type, size, location or the rent that must be charged on them save that it must be below market and is made available to people whose needs are not served by the commercial market.

The 30% benchmark

2.4 The Government considers that on average, no more than 30% of the cost of the new homes will need to come from the RTB receipt[3]. It is central Government's expectation that the funding gap will be made up from borrowing against the net affordable rent income stream from the new property, and cross-subsidy from the landlord's own resources[4].

Three years

2.5 The Council will not be required to have completed the building of any new home within the three year period, merely to have incurred sufficient spend to allow the utilisation of the net RTB receipts. For example if the Council received £100k of net receipts in quarter 2 of 2012/13 the Council would need to have spent £333k[5] on re-providing affordable rented accommodation within 3 years in order to be able to retain the receipt.

Interest

2.6 Government has created an incentive to invest in new homes as quickly as possible by charging interest at 4% above the base rate on any unutilised receipts. The Council will have the option of repaying

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[1] Specifically as social housing defined as low cost rental accommodation as defined by section 68(1) of the Housing and Regeneration Act 2008 which is as set out in section 69 of the act that Accommodation is low cost rental accommodation if: it is made available for rent; the rent is below the market rate, and the accommodation is made available in accordance with rules designed to ensure that it is made available to people whose needs are not adequately served by the commercial housing market.
[2] Note this excludes any allowance for the provision of land by the Council.
[3] based by the Government on evidence from the 2011-2015 Affordable Homes Programme
[4] landlords will not be permitted to generate cross-subsidy by converting existing social rented homes to affordable rent, however capital receipts can be used
[5] £100k is 30% of £333k, as noted previously no more than 30% of the cost of the new affordable rented homes can come from the net RTB receipts

retained receipts early (and therefore incurring less interest) in the event of slippage.

Investment Options

2.7 In addition to new build, Government has agreed that receipts can be legitimately used under the agreement to buy existing properties for conversion into affordable rent, or to fund new supply by grant funding another body, such as a housing association.

Receipts passed to the Secretary of State

2.8 Receipts passed to the Secretary of State will be given to the Greater London Authority for investment. There is nothing to stop a local authority that has entered into an agreement from having access to funding from this body as well.

Buyback

2.9 The Council may also utilise up to 6.5% of the net receipts to finance up to 50% of the cost of re-purchasing a former council home. This option could be utilised to assist with buybacks at Earls Court, should the Conditional Land Sale Agreement proceed.

Development Costs

2.10 The provision of land already owned by the Council in any development scheme will not count as expenditure for the purposes of calculating the 30% benchmark. Part 6 of Appendix A expands upon the definition of development costs which can legitimately be counted as qualifying expenditure under the agreement.

Affordable Rent

2.11 There is no restriction on the Council charging a rent at up to 80% of market levels, and these rents would be exempt from rent rebate subsidy limitation, which places a cap (the limit rent) on the amount of Housing Benefit payable for council homes.

3 THE CALCULATION

3.1 In calculating the net receipt available for replacement housing, a series of deductions are required as follows:

i. an amount to cover the housing debt supportable from the income on the additional RTB sales
ii. transaction and administration costs
iii. an amount which reflects the income the Council might have expected from RTB sales prior to the new scheme
iv. an amount payable to the Government for the income which the Treasury expected from RTB sales prior to the new scheme

3.2 The net receipt available is then required to comprise no more than 30% of the investment in new provision of social housing.

3.3 An example has been provided in Appendix B by way of illustration.

4. ASSUMED RATE OF RTB SALES, DELIVERY PIPELINE IMPLICATIONS AND LETTING ASSUMPTIONS

4.1 Over the last 9 years RTB sales within LBHF have been as follows:

Year	Number of RTB Sales
2011/12	7
2010/11	7
2009/10	2
2008/09	7
2007/08	34
2006/07	43
2005/06	116
2004/05	215
2003/04	226

4.2 Following Government's announcement a number of Right To Buy Roadshows have been held which have generated significant interest. As a result of the this pessimistic and optimistic scenarios suggest a range of RTB sales over the next 3 years of between 20 and 30 per annum.

4.3 Officers are currently working through detailed delivery planning options having regard the Council's Housing Development initiative and the use of retained receipts will be the subject of a report back in due course. It is anticipated that all new lettings arising from this initiative would be in line with the draft Housing Strategy currently out to consultation, which proposes the granting of fixed term tenancies, with a priority given to working households and those that have otherwise made a community contribution e.g. former members of the armed services.

5. RISK MANAGEMENT

5.1 The key risk to the Council relates to the Government's incentive within the agreement to invest in new homes as quickly as possible by charging interest at 4% above the base rate on any unutilised receipts.

5.2 Based on the scenarios set out in Appendix B, the maximum potential financial risk to the Council would be £405,000 in the form of an annual interest charge.

5.3 However, this situation is not anticipated to arise because officers will manage the projections on use of the receipts to ensure that the Council repays any retained receipts which are not likely to be used early thereby minimising any interest charge. Additionally, a further mitigating factor relates to the fact that the agreement provides for a three year window to match receipts to investment expenditure.

5.4 This risk will be incorporated within the Housing & Regeneration department's section of the corporate risk register as a new risk to the department's business

6. EQUALITY IMPLICATIONS.

6.1 As set out in this report, the Council is able to retain the net receipt and to re-provide stock at government prescribed rental levels not higher than 80% of those on the open market. In doing so, the Council will be discharging its functions, and as such this requires the Council to give due regard to S149 of the Equality Act 2010 in a relevant and proportionate way.

6.2 It is likely that a more mixed provision of housing stock will impact positively on those who struggle to afford full market rent or to buy their own property. Through the work that the Council has been engaged with already to address this imbalance, it is likely that re-provision of stock at rental levels up to a maximum of 80% of those on the open market will be of relevance to applicants on the Council's housing registers.

6.3 It is possible that a more mixed provision of housing stock will mean that those who are not able to afford rents above the level of current Council housing rents may not able to access this kind of housing provision. However, those secure tenants who are currently in Council housing, who are more likely to be represented within protected groups, will not be affected as for those people, there will be no change as a result of this use of RTB receipts. As such, the overall impact will be neutral because those people will experience no change.

6.4 It is likely that a more mixed provision of housing stock will mean that those who are on the Council's housing register list for Council housing and who are eligible for that housing, would be unlikely to afford rents of up to 80% of open market rates. This group contains a higher proportion of individuals with protected characteristics than the general population. However, the extent to which rents are affordable and available for this group is dependent on the level at which rents are set in each instance of new provision, and the level at which housing benefit rates are set. The Council will need to be mindful of the potential impact of the current Housing Benefit caps and the implementation of the Universal Credit regime from October 2013 onwards. The Council will continue to offer housing advice and assistance to these groups as set out in the Council's housing and related strategies.

6.5 Overall, there are some positive and neutral effects arising from this decision as set out above. The Council intends to monitor the process to ensure that any potential negative impact will be mitigated.

7. COMMENTS OF THE EXECUTIVE DIRECTOR OF FINANCE AND CORPORATE GOVERNANCE

7.1 Initial modelling indicates that the Council would generate additional funds for investment in replacement social housing once the level of RTB disposals exceeds approximately 16 in total. Appendix B sets out the expectation that additional funds would be of the order of £716,000 and £3,003,000 at RTB sales levels of 20 and 30 respectively. After deducting 6.5% for potential buy back costs, this leaves £670,000 and £2,807,000 at the same sales levels respectively.

7.2 In addition in these examples, the Council would retain an allowance of £57,000 and £86,000 to cover the cost of managing the RTB process, and between £304,000 and £489,000 for debt repayment at RTB sales levels of 20 and 30 respectively. Further, an amount of £1,154,000 would be retained by the Council at sales levels of both 20 and 30 units in recognition of the level of receipts that would've been retained under the previous system of pooling (25% of the receipt would normally have been retained by the Council and not pooled).

7.3 On this basis, it is recommended that the Council signs the agreement. Essentially, this gives the Council the right to retain receipts, funding which would otherwise not be available for housing investment, but allows for the receipts, or a proportion of the receipts to be returned to central Government should the Council at any point in time choose to do this.

7.4 Officers will ensure that the necessary procedures and arrangements are put in place in order to safeguard the Council from financial risk and ensure that opportunities to replace the housing stock are maximised.

7.5 The key steps will include:

- establishing a monitoring regime to forecast the level and timing of receipts expected, and align these with plans to invest in re-provision of social housing to minimise the potential loss of funding and interest penalties;
- providing regular updates through the Council's capital monitoring regime;
- ongoing identification of funding sources to add to the RTB disposal receipts which are capped at 30% of the total investment; the extent to which expensive void disposal receipts could provide funding for housing investment (together with the possible call to fund Earls Court buy backs) has been modelled, this will need to dovetail to proposed schemes as they come forward;
- reporting regularly to central Government;
- continual assessment of the potential impact on the Housing Revenue Account 30 year business plan as the level of RTB receipts and re-provision becomes apparent.

7.6 With regard to the risk set out in section 5, this will be mitigated as part of the monitoring regime set up within the Housing & Regeneration department and monitoring via the Council's Capital monitoring regime.

8. COMMENTS OF THE DIRECTOR FOR LEGAL AND DEMOCRATIC SERVICES)

8.1 If the Council wishes to retain receipts for the provision of replacement housing at affordable rents, the Council will have to sign the agreement under section 11(6) of the Local Government Act 2003 (as inserted by section 174 of the Localism Act 2011). Under this, the authority would be able to retain receipts, provided that it ensures that a sufficient amount of resources are spent on the provision of social housing within a set period of time.

8.2 The Secretary of State can terminate the agreement, on three months' notice. If he does exercise this right, the amounts that are already retained by the local authority under paragraph i of Part 1 of the agreement can continue to be retained, subject to the existing conditions of the agreement.

8.3 The full legal implications are set out in the draft Agreement in Appendix 1. It is assumed the Agreement cannot be amended.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Cabinet Paper from 21st May 2012; Building a ladder of opportunity incorporating: Draft Housing Strategy, Draft Tenancy Strategy, Draft Scheme of Allocations, Draft Homelessness Strategy	Aaron Cahill Ext 1649	Housing & Regeneration
2.	CLG paper: Reinvigorating Right to Buy and One for One Replacement: Consultation - Summary of Responses, and Government response to consultation	Aaron Cahill Ext 1649	Housing & Regeneration
CONTACT OFFICER:		**NAME: Kathleen Corbett EXT. 3031**	

Appendix A

Communities and Local Government

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15 May 2012

All Chief Executives
English stock holding local authorities

cc Housing Directors

Dear colleague,

RIGHT TO BUY: RE-INVESTING RECEIPTS IN NEW AFFORDABLE RENTED HOMES

1. I am writing to invite your authority to enter into an agreement with the Secretary of State that will enable the authority to retain additional Right to Buy receipts for investment in new affordable rented homes. If you wish to retain receipts for the quarter ending on 30 June 2012, **we must receive your signed copy of the agreement no later than noon on Wednesday, 27 June**.

2. As you know, the Government increased the cap on Right to Buy discounts to £75,000 on 2 April 2012. We expect this to lead to an increase in the number of Right to Buy sales. The Government is committed to ensuring that the additional receipts which result from the increase in sales are reinvested to provide replacement homes.

3. In announcing the final scheme on 12 March, the Government indicated that it would be prepared to enter into an agreement with any local authority which wished to retain receipts to reinvest in new affordable rented housing. Following a technical consultation, Ministers have now agreed the final form of the model agreement which we are offering to authorities.

4. Please find attached:

    i. an unsigned agreement made under section 11(6) of the Local Government Act 2003;
    ii. technical guidance for your finance officers;
    iii. a worked example; and
    iv. a simple explanation of the process (which you may find useful in sharing with others).

Department for Communities and Local Government Tel
zone 1/J10
Eland House
Bressenden Place
London SW1E 5DU

5. In short, the Secretary of State is prepared to agree that your authority should retain additional Right to Buy receipts, on condition that your authority agrees:-

    i. to use those receipts for the provision of affordable rented homes;
    ii. that those receipts will constitute no more than 30% of total investment in such homes (net of any contribution from another public body);
    iii. that if, after three years, any of those receipts are not used as set out above, it will pay the un-used sums - plus interest - to the Secretary of State.

6. The agreements are designed to be ‘light touch’; there are no conditions on the number of new homes that must be built or acquired, their type, size, location or the rent that must be charged on them. These are decisions for your authority to make.

7. It is current Government policy that any new council homes built since July 2008 are eligible for exclusion from the provisions in the pooling regulations relating to Right to Buy sales; this includes any new homes built or acquired using receipts covered by these agreements. This means that, if these replacement homes were subsequently sold under the Right to Buy, the authority would be able to retain the whole receipt (provided it is spent on affordable housing, regeneration, or paying down housing debt).

8. As soon as you are able clearly to identify such homes, you should contact us to make sure they are excluded.

<u>The 30% benchmark</u>

9. Drawing on evidence from the 2011-2015 Affordable Homes Programme, we are satisfied that it should be possible to fund new homes let at Affordable Rent levels, with *no more than* 30% of the cost of the new homes needing to come from the Right to Buy receipt (the total pot of money, not each individual sale).

10. As in the Affordable Homes Programme, the remainder of the cost will come from borrowing against the net rental income stream from the new property, and cross-subsidy from the landlord’s own resources. (However, unlike the Affordable Homes Programme, landlords will not be permitted to generate cross-subsidy by converting existing social rented homes to Affordable Rent.)

<u>Three years</u>

11. The Government wishes to see replacement homes provided as quickly as possible. Our original proposal was that two years was a sufficient timescale in which to invest. However, in response to comments raised in our technical consultation, Ministers have agreed to extend this by a year to maximise the opportunity for local authorities keen to participate.

Interest

12. Interest will be charged at 4% above the base rate compounded with three monthly rests. It is important that these receipts are invested in new homes as quickly as possible. We therefore wish to create a disincentive to hold onto the receipts until such time as it becomes necessary to pay them over to the Secretary of State. Given the extension to the period within which authorities must re-invest – set out in paragraph 11 above - we are satisfied that authorities should be in a position to avoid having to pay any interest to the Secretary of State.

13. Equally authorities will have the option of re-paying retained receipts early (and therefore incurring less interest) if they decide that they would not be able to incur sufficient investment within the time period.

Other Investment

14. Our intention is to encourage an increase in the supply of new housing: new build should always be the favoured option. However, this does not exclude these receipts being used to buy existing properties for conversion into affordable rent.

15. It is equally acceptable to fund new supply by grant funding another body, such as a housing association - but not a body in which your authority has a controlling interest. There is nothing to prevent you contracting with a subsidiary (for example, your ALMO) to deliver the homes, but such homes must be in the ownership of your local authority and sit within the Housing Revenue Account.

Receipts passed to the Secretary of State

16. Receipts passed to the Secretary of State will be given to the Homes and Communities Agency or, where receipts have arisen in London, the Greater London Authority for investment by them (further details on the process for accessing such funding will follow in due course). There is nothing to stop a local authority that has entered into an agreement with us from having access to funding from the these two bodies as well.

Rent Rebate Subsidy Limitation

17. Where an authority increases its average weekly rent above a limit set in England by the Secretary of State, when it submits its final subsidy claim form to the Department for Work and Pensions (DWP) it will receive subsidy on rebates only up to a limit and will have to fund the cost of the additional rebates above the limit rent itself. However, this does not apply to properties in this Right to Buy Scheme.

18. Up to 80% of market rents may be charged. If your authority can meet the 30% benchmark and still charge social rents, it is free to do so, but charging an Affordable Rent (i.e. up to 80% of market rents) is likely to maximise your investment.

19. My colleague, Peter Ruback, wrote to you in July 2011, setting out a process we had agreed with our colleagues in the Department for Work

and Pensions (DWP) for local authorities to charge Affordable Rents: i.e. rents above the Limit Rent.

20. We have agreed with DWP to adopt a similar process for homes built using Right to Buy receipts. In this case, it will be necessary to show your auditor a copy of this agreement, plus a statement signed by your section 151 officer confirming that the home in question had been built or acquired using Right to Buy receipts in line with the conditions set out in the agreement. (Because the 30% benchmark will ensure a maximum return on the investment of Right to Buy receipts, it will not be necessary to engage with the Homes and Communities Agency or the Greater London Authority.)

Bringing the agreement into effect

21. If your authority wishes to enter into an agreement with the Secretary of State, would you please
    i. insert the full formal name of your authority at the head of the agreement
    ii. have it signed by someone in your authority with the appropriate delegated authority to do so (an electronic signature is acceptable)
    iii. return it (we are happy to accept scanned copies) to the Department.

22. Signed copies should be sent to Henry Boye, 1st Floor, Eland House, Bressenden Place, London SW1E 5DU. Henry.Boye@communities.gsi.gov.uk. .

23. If you wish to retain receipts for the quarter ending on 30 June 2012, **we must receive your signed copy no later than noon on Wednesday, 27 June**. If you fail to meet this deadline you will not be able to retain receipts arising in quarter 1 of 2012/13 (i.e. April, May and June). These receipts will immediately be passed on to the Homes and Communities Agency or the Greater London Authority for investment.

24. Once we receive a signed copy, we will arrange to have it signed by a Senior Civil Servant and a copy returned to you.

25. We recognise that your authority may not wish to enter into an agreement at this stage. If this is the case, we would be happy for you to respond to this invitation at a later date, but it would be very helpful to have written confirmation that you do not wish to pursue at this stage.

26. If you have any questions on the detail of this letter please contact stephen.biddulph@communities.gsi.gov.uk or ross.buchanan@communities.gsi.gov.uk.

27. I have copied this letter to your Director of Housing

Yours sincerely,

GRAHAM DUNCAN
Deputy Director – Affordable Housing Regulation and Investment

Agreement – Section 11(6) of the Local Government Act 2003

This agreement is made pursuant to section 11(6) of the Local Government Act 2003.

Parties

The Secretary of State for Communities and Local Government ("the Secretary of State") and

………… …………………… ("the Authority").

General

1. In this agreement :

   "the due date", "quarter" and "the relevant quarter" have the same meaning as in the Regulations;
   "receipts" means the receipts to which Schedule 1 to the Regulations applies;
   "retained amount" means the amount calculated in Part 1;
   "the Regulations" mean the Local Authority (Capital Finance and Accounting) (England) Regulations 2003;
   "social housing" means low cost rental accommodation as defined by section 68(1)(a) of the Housing and Regeneration Act 2008;
   "the sub-liability" means the sub-liability calculated under Schedule 1 to the Regulations;
   the terms "A", "E", "F","G", "J" and "K" used in this agreement have the same meaning as in Schedule 1 to the Regulations.

2. This agreement applies to receipts received on or after xxx 2012 ("the commencement date").

3. The Authority is not required to pay to the Secretary of State such portion of the sub-liability calculated in accordance with Part 1 of this agreement provided the Authority complies with the conditions set out in this agreement.

4. The Authority must use the retained amounts for the provision of social housing. Any amounts not used for this purpose must be paid to the Secretary of State and interest will be payable calculated in accordance with paragraph vi of Part 1.

5. The Authority must provide the information set out in Parts 1 and 4 of this agreement to the Secretary of State at the times and in any format the Secretary of State may request.

6. This agreement may be terminated by the Secretary of State by giving notice of one quarter.

7. This agreement may be amended by agreement.

Part 1 - Calculation of the portion of the sub-liability that the Authority may retain.

i. Where in any quarter –

A is more than (3.39847729 x G) + E + F + J

the Authority may retain an amount (“the retained amount”) up to–

K less (2.398347729 x G).

ii. The Authority must inform the Secretary of State of the following by the due date of the relevant quarter-
(a) the value of K less (2.398347729 x G);
(b) the retained amount; and
(c) any amount not retained by the Authority.

iii. Where the Authority has informed the Secretary of State (under paragraph ii(c)) that an amount will not be retained, the Authority must pay that amount to the Secretary of State by the due date of the relevant quarter.

iv. Where the Authority has informed the Secretary of State that an amount will not be retained and fails to pay that amount on the due date of the relevant quarter, interest is payable and incurred from the due date until the Authority pays that amount to the Secretary of State.

v. Where the Authority does not inform the Secretary of State of the amount it will not retain by the due date of the relevant quarter, it will be assumed that the retained amount for that quarter is the full amount the Authority may retain and where an amount is not retained and is paid to the Secretary of State, interest will be payable and incurred from the due date until the date the Authority pays that amount to the Secretary of State.

vi. The Authority may pay any part of the retained amount to the Secretary of State and where it does so, interest is payable and incurred from the due date of the relevant quarter in which the retained amount was retained by the Authority until the date it is paid to the Secretary of State.

Part 2– Return of retained amounts

i. This Part applies where 9 quarters have expired since the commencement date.

ii. In this Part :
“the reckonable quarter” means the quarter 8 quarters prior to the relevant quarter;

“quarter 1” means the quarter in which the commencement date falls;
A is the total of the retained amounts for all quarters from quarter 1 to the reckonable quarter;
“the total amount spent on the provision of social housing” is the amount spent on the provision of social housing from quarter 1 to the last day of the relevant quarter;
R is the total of the returnable amount calculated under paragraph v of this Part and amounts paid to the Secretary of State under paragraph vi of Part 1 for all the quarters from quarter 1 to the reckonable quarter.

iii. The total retained amount is calculated as follows –

$$A – R.$$

iv. Where on the last day of the relevant quarter, the total retained amount exceeds 30% of the total amount spent on the provision of social housing, the Authority must pay to the Secretary of State the portion of the total retained amount in excess of 30% of the total amount spent on the provision of social housing (“the returnable amount”).

v. Where the Authority must pay a returnable amount to the Secretary of State under paragraph iv of this Part, interest is payable calculated and incurred from the due date of the reckonable quarter until the date the returnable amount is paid to the Secretary of State.

Part 3 - Calculation of interest

Where interest is payable under this agreement, it will be calculated at a rate of 4% above the base rate on a day to day basis compounded with three-monthly rests and “base rate” has the same meaning as in the Regulations.

Part 4 - Provision of information

On the due date of each relevant quarter the Authority must provide to the Secretary of State the details of the number of starts on site since the commencement date.

“Start on site” means the earlier of commencement of the following by the Authority or other body to which the Authority has paid all or part of the retained amount for the purpose of providing social housing:

(a) excavation for strip or trench foundations or for pad footings;

(b) digging out and preparation of ground for raft foundations;

(c) vibrofloatation, piling, boring for piles or pile driving; or

(d) drainage work specific to the buildings forming part of the scheme.

Part 5 – The amount spent on the provision of social housing

i. The amount spent on the provision of social housing is the amount spent by the Authority or by a body to which the Authority has paid some or all of the retained amounts (such body must not be a body in which the Authority holds a controlling interest) on the development costs associated with the provision of social housing for the benefit of the Authority's area.

ii. Where the Authority has paid all or some of the retained amounts to a body for the purpose of contributing towards the cost of providing social housing, the Authority must ensure that only retained amounts provided by the Authority have been used by such body for the provision of social housing for the benefit of the Authority.

iii. Social housing is provided for the benefit of the Authority where it is situated in the area of the Authority or the Authority has nomination rights in respect of the social housing.

iv. The amount spent on social housing includes the following:

(a) the development costs associated with the acquisition of dwellings to be used as social housing;
(b) the development costs associated with the acquisition of land for the construction of dwellings to be used as social housing;
(c) the development costs of the construction of dwellings to be used as social housing.

v. In this Part "development costs" means the costs set out in Part 6.

Part 6 – Development costs

Development costs means the costs relating to the development of social housing in respect to the heads of expenditure set out below.

Heads of expenditure

1 ***Acquisition***

1.1 *Purchase price of land/site.*

1.2 *Stamp Duty Land Tax on the purchase price of land/site.*

2 ***Works***

2.1 *Main works contract costs (excluding any costs defined as on costs).*

2.2 *Major site development works (where applicable). These include piling, soil stabilisation, road/sewer construction, major demolition.*

2.3 *statutory agreements, associated bonds and party wall agreements (including all fees and charges directly attributable to such works) where applicable.*

2.4 *Additional costs associated with complying with archaeological works and party wall agreement awards (including all fees, charges and claims attributable to such works) where applicable.*

2.5 *Irrecoverable VAT on the above (where applicable).*

3 ***On costs***

3.1 *Legal fees and disbursements.*

3.2 *Net gains/losses via interest charges on development period loans.*

3.3 *Building society or other valuation and administration fees.*

3.4 *Fees for building control and planning permission.*

3.5 *Fees and charges associated with compliance with European Community directives, and the Agency's requirements relating to energy rating of dwellings, Eco-Homes certification and Housing Quality Indicators.*

3.6 *In-house or external consultants' fees, disbursements and expenses (where the development contract is a design and build contract) (see note below).*

3.7 *Insurance premiums including building warranty and defects/liability insurance (except contract insurance included in works costs).*

3.8 *Contract performance bond premiums.*

3.9 *Borrowing administration charges (including associated legal and valuation fees).*

3.10 *An appropriate proportion of the Grant Recipient's development and administration costs.*

3.11 *Marketing costs – for sale schemes only.*

3.12 *Post-completion interest - for sale schemes only.*

3.13 *Irrecoverable VAT on the above.*

Appendix B

Input	Amount	Source
Assumed sales in settlement	13	Self-financing settlement
Assumed Debt (C)	67,007	Capital Finance regulations
Attributable debt on sales per property (F)	18,530	Based on Self-financing settlement for modelling
Estimated gross receipt after discount	250,000	Based on past performance less discount
Transaction costs (H)	2,850	Fixed (£2,850 for London)
LA share cap (G)	1,154,000	Capital Finance regulations
Government assumed income (K)	2,769,000	Capital Finance regulations

Scenarios	A	B	C
Projected number of sales under new RTB (I)	10	20	30
Gross receipt	2,500,000	5,000,000	7,500,000
Less: transaction costs (HxI)	28,500	57,000	85,500
Less: debt on additional sales ((I x F) - C)	118,293	303,593	488,893
Available to meet LA/Government share	2,353,207	4,639,407	6,925,607
Less: LA share (G) (ie 25% currently retained)	692,226[6]	1,154,000	1,154,000
Less: Government share (K)	1,660,981[7]	2,769,000	2,769,000
Available for re-provision	0	716,407	3,002,607
Buy back allowance (J) (6.5% of amount available for reprovision)	0	46,566	195,169
Available for reprovision after use of buyback allowance		669,841	2,807,438
Summary	**A**	**B**	**C**
LA retains (potentially usable for reprovision outside the 30%)	839,019	1,514,593	1,728,393
Government receives	1,660,981	2,769,000	2,769,000
Available for re-provision	0	716,407	3,002,607
Gross receipt	2,500,000	5,000,000	7,500,000

[6] This figure is the result of an apportionment of the total amount available between the LA share cap and the Government share because the total amount available is lower than the LA share cap and the Government share.

[7] This figure is the result of an apportionment of the total amount available between the LA share cap and the Government share because the total amount available is lower than the LA share cap and the Government share.