

EXECUTIVE - 1 FEBRUARY 2018

EARN YOUR DEPOSIT SCHEME

Executive Summary

This report proposes the introduction of an Earn your Deposit Scheme to help those who rent properties from Thamesway to “earn” a deposit to enable them to buy their first home.

The aim of this approach is to give hope to many young people that they can get onto the property ladder. This will be of benefit to people from all socio-economic backgrounds so that those without the benefit of parental support can still make inroads to owning their own home. The approach also helps protect properties to rent as people do not have the right to buy the home they occupy but can earn a deposit to go into the private sector and buy their own home, leaving the rental property available to other people in need of affordable homes.

Whilst this proposal will only apply to the Council’s arms length company, Thamesway Housing Limited, the Leader of the Council has asked the Government for permission to substitute the Right to Buy with this approach in the Housing Revenue Account to stop the continuing loss of affordable homes to rent.

Reasons for Decision

To instruct Thamesway Housing Limited (THL) to introduce an “Earn your Deposit” Scheme to enable people who rent from THL to earn a deposit and move to a home they can own.

Recommendations

The Executive is requested to:

RECOMMEND to Council That

Thamesway Housing Limited introduces an “Earn your Deposit” scheme, as outlined in the report.

This item will need to be dealt with by way of a recommendation to the Council.
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Background Papers:

None.

Sustainability Impact Assessment
Equalities Impact Assessment

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1.0 Introduction

- 1.1 The need for affordable housing in the Borough continues to be acute despite the Council's success in providing 430 new homes, at the equivalent of social rent, in the past three years; some 58% of the total housing (743) provided over that period. Delivering more affordable homes remains a priority for the Council, both through Thameswey, for which resources have been allocated and work is in hand, and in the Housing Revenue Account (HRA) where there is the potential for some 200 homes on existing land owned by the Council if the government will remove the HRA Borrowing Cap.
- 1.2 However there remains an equally significant challenge for those that aspire to own their own homes due to a lack of affordable homes to buy combined with the challenge, particularly for young renters, to save enough money for a deposit to enable them to acquire an affordable home to own.
- 1.3 The problem of affordable homes to rent or buy is complex and it is unlikely that there is one simple solution. One key issue is that more homes need to be built to rebalance supply and demand. Whilst demand continues to exceed supply prices will continue to increase. This point of lack of supply is also true for affordable homes to rent due to the substantial reduction over the last thirty years in the availability of social rent equivalent properties.
- 1.4 The Right to Buy (RTB) has been a 'Curates Egg' (good in parts). For those wishing to own a home it was excellent and at the outset discounts were moderate. However the system has been abused with some people across the country understood to have manipulated the RTB scheme to assemble 'Buy to Let' portfolios with substantially higher rent. For Woking, and many other parts of the County, the availability of affordable housing, of any kind, has therefore fallen dramatically over the last 30 years. In 1981, 21% of the housing stock in Woking was classified as 'affordable', by 2011 that had reduced to 13%.
- 1.5 For those young people and families on modest and mid market salaries achieving a home that they can afford to rent or buy is now more of a challenge than it has been for previous generations.
- 1.6 This report proposes a contribution to resolving this challenge for those that aspire to own their own home but in a way, unlike the Right to Buy, it does not reduce the available affordable homes to rent. The proposal in this report relates to the Council's arms length housing company, Thameswey Housing Limited. The Leader of the Council has already asked the Secretary of State, the Housing Minister and the Chancellor to consider allowing the Council to apply the scheme to its HRA properties instead of Right to Buy so as to allow the Council to deliver more Social Rent homes.
- 1.7 It should be noted that the proposals contained in this report do not cover tenancies, which may be granted by Thameswey Housing Limited, of properties to be built in the Sheerwater regeneration area. This is because the Council has consulted with secure tenants on the proposed terms of the new tenancies (under Section 105 of the Housing Act 1985). This consultation sought the views of secure tenants on a number of matters, including the possible introduction of an Earn your Deposit Scheme. The Council will need to consider the responses to the consultation before deciding what should apply to the Sheerwater tenancies. A report on the consultation is due to be presented to Full Council on 8 February 2018.

2.0 Earn your Deposit

- 2.1 It is proposed that the Council directs Thamesway Housing Limited to introduce an Earn your Deposit Scheme for all its Assured Shorthold Tenancies. The scheme will be available to "Good Tenants" who pay their rent on time, look after their homes and gardens and do not cause a nuisance to neighbours. It will enable a tenant to "Earn" a monetary value each year dependent upon the size of property they rent and for that sum to be accumulated and available to them, after a qualifying period, to use as a Deposit for their first owned home.
- 2.2 The amount of Deposit that can be earned is linked to the increase in value, over the long term of properties that are owned by Thamesway. Looking back over many years, despite property recessions, depressions and other periods of poor economic performance property prices have, on average increased by more than 3%+ per annum.
- 2.3 The proposal enables the tenant to share a proportion of the likely future property value uplift. It is proposed that the Company retains about two thirds and that about one third is available for the tenant. The tenant may only access these funds for the purchase of their first home; it is not available to "investors" or people seeking second homes or those who already have homes including those on a "Buy to Let" basis. Whilst intended only for "first time buyers" it is recognised that some exceptions will be necessary, for example when a couple who previously owned a home splits up and either party have to rent for a period before being able to buy another home.
- 2.4 The table below indicates an assessed "average value" of different properties of the type owned by Thamesway and the Council, by bedroom size. This takes account that rents will be at different levels ranging from full open market down to the equivalent of social rent. It is this table that it is proposed will form the start of the Earn your Deposit Scheme. As with any proposal it is necessary to start somewhere and these values and amounts that the tenant can earn are considered reasonable. However the process will need to be kept under review as, whilst the past is a fair indication of the future, no one can be certain of what will happen to values when the UK leaves the EU.
- 2.5 Proposed "Earn Your Deposit" Table:-

Property Size	Deposit Earned Annual
	£
Studio	1,600
1 Bed	2,100
2 Bed	2,400
3 Bed	3,000
4+ Bed	3,600

- 2.6 For Thamesway it will mean setting aside part of its annual uplift in property values. For example it will show in its revaluation reserve that a property previously valued at £200,000 has gone up by £6,000 (3%) but it will also set aside a reserve for the liability to pay out £2,000 (one third) when the tenant qualifies and seeks to buy a home. None of this is a cash transaction until the tenant leaves.
- 2.7 The proposal envisages that a tenant will need to be a Thamesway qualifying assured shorthold tenant for two years prior to the Deposit being available for release. Whilst earning the Deposit from the proposed qualifying start date of 1 April 2018 the first payments would not be made until 2020; it is however more likely those tenants will stay longer in order to generate a larger deposit.

- 2.8 It is considered appropriate to place a maximum on the amount of Deposit a tenant can earn and to keep that maximum under review. It is proposed that at the outset the maximum should be £80,000, reflecting a significant term of tenancy to accumulate such a sum. It is important that there is an incentive for those who can afford to move to a home they own to do so and thereby keep rented property available for new tenants, hence after a period they will not earn more deposit. The maximum of £80,000 takes account of the maximum RTB discount, currently £78,600.
- 2.9 To enable Thamesway to release the Deposit it will be necessary for the Council to underwrite replacement financing by way of Loan. As the replacement Loan is not generating new income for Thamesway it is proposed that only a margin, for administration, of 0.25% is charged on the Loan above the cost of Council borrowing. The timing of the Loan, to avoid excess administration, should be by one annual advance, at the start of the year following the year in which the Deposits have been paid out.
- 2.10 Thamesway will need time to prepare the necessary contractual documentation and adjust Assured Shorthold Tenancies accordingly. Whilst this will start in 1 April it will be transitionally introduced during 2018, so that by 31 December 2018, all tenants are transferred to the new tenancy arrangements. Any tenants not willing to change will not qualify for Earn your Deposit. Thamesway will produce guidance to be issued to tenants so that they know what they need to do to ensure eligibility and how to claim when they have qualified. At the end of each year Thamesway will notify the tenant of the level of Deposit they have earned.
- 2.11 Importantly a tenant needs to be a 'Good Tenant' to qualify for the Deposit and Thamesway will set that out with simple standards that are easy to understand. A breach of the standards would mean that for that year the tenant would not earn the Deposit but previous earnings would be unaffected. An appeal system will be introduced to ensure natural justice as, for example, non payment of rent for a short period may have been due to circumstances beyond the control of the tenant and against the normal behaviour of that tenant. However it will ultimately be Thamesway's discretion reasonably applied that will determine whether or not the Deposit is earned.
- 2.12 Arrangements will be made for shared tenancies which will recognise that it may be necessary to split the Deposit when tenants leave to set up different homes. In addition provision will allow tenants to upsize and downsize and take their accumulated Deposit with them as long as there is no break in tenancy with Thamesway. It is inevitable that there will be circumstances which arise where particular tenancy arrangements will need, at the outset, to agree how the Deposit will be apportioned; it is important that it is earned by the person(s) responsible for the tenancy and the payment of rent.

3.0 Implications

Financial

- 3.1 The proposed scheme means that Thamesway will forego a proportion of its uplift in value of its properties. The modest approach taken by this proposal means that the risk of financial harm to Thamesway is limited. However it will be important to keep the table of Deposits to be earned under review at least every three years; there may be justification to increase future amounts but for the time being the levels proposed are prudent but beneficial to those needing to rent prior to buying their own home.
- 3.2 To ensure Thamesway's financial stability the Council would need to guarantee that it will provide Loan Finance the year following the deposits are paid. This is to ensure there is not a significant adverse cash flow implication for Thamesway. Equally Thamesway does

not have a new Asset it is simply refinancing an existing one so it is not considered appropriate to apply the normal interest margin. Instead it is proposed to apply a 0.23% margin above the Council's cost of borrowing over such time period as Thamesway reasonably requests but not exceeding 50 years.

- 3.3 It is envisaged that the volume of tenants taking the Deposit they have earned will be low in the early years. Accordingly there is no need to adjust the Council's Borrowing Limits.
- 3.4 If the scheme is approved by the Council a formal request will be submitted to the Chancellor of the Exchequer to treat, for personal tax, the Earned Deposit, from income tax, in the same way that Help to Buy and Right to Buy are excluded.

Human Resource/Training and Development

- 3.5 No implications.

Community Safety

- 3.6 No implications.

Risk Management

- 3.7 The proposed triennial review will seek to manage the risk associated with the potential longer term risk of property prices falling by reviewing property values and then adjusting the level of deposit earned accordingly. This may cause the level of deposit earned to fall but could also result in it being increased if the trend of property value increases exceed 3%.

Sustainability

- 3.8 It is considered that the proposal will increase the economic sustainability of Woking by enabling younger people to stay in Woking both as tenants and as home owners, although it will be possible for a Deposit to be used outside of the Borough.

Equalities

- 3.9 No implications.

4.0 Consultations

- 4.1 The Leader of the Council and Executive Members have been consulted. The Chairman of Thamesway and Thamesway Housing Limited and the Thamesway Chief Operating Officer have been consulted.

REPORT ENDS

EXE18-006

APPENDICES

Equality Impact Assessment

The purpose of this assessment is to improve the work of the Council by making sure that it does not discriminate against any individual or group and that, where possible, it promotes equality. The Council has a legal duty to comply with equalities legislation and this template enables you to consider the impact (positive or negative) a strategy, policy, project or service may have upon the protected groups.

		Positive impact?			Negative impact?	No specific impact	What will the impact be? If the impact is negative how can it be mitigated? (action) THIS SECTION NEEDS TO BE COMPLETED AS EVIDENCE OF WHAT THE POSITIVE IMPACT IS OR WHAT ACTIONS ARE BEING TAKEN TO MITIGATE ANY NEGATIVE IMPACTS
		Eliminate discrimination	Advance equality	Good relations			
Gender	Men					X	
	Women					X	
Gender Reassignment						X	
Race	White					X	
	Mixed/Multiple ethnic groups					X	
	Asian/Asian British					X	
	Black/African/Caribbean/Black British					X	
	Gypsies / travellers					X	
	Other ethnic group					X	
Disability	Physical					X	
	Sensory					X	
	Learning Difficulties					X	

	Mental Health					X	
Sexual Orientation	Lesbian, gay men, bisexual					X	
Age	Older people (50+)					X	
	Younger people (16 - 25)					X	
Religion or Belief	Faith Groups					X	
Pregnancy & maternity						X	
Marriage & Civil Partnership						X	
Socio-economic Background						X	
Carers						X	

The purpose of the Equality Impact Assessment is to improve the work of the Council by making sure it does not discriminate against any individual or group and that, where possible, it promotes equality. The assessment is quick and straightforward to undertake but it is an important step to make sure that individuals and teams think carefully about the likely impact of their work on people in Woking and take action to improve strategies, policies, services and projects, where appropriate. Further details and guidance on completing the form are [available](#).

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Sustainability Impact Assessment

Officers preparing a committee report are required to complete a Sustainability Impact Assessment. Sustainability is one of the Council's 'cross-cutting themes' and the Council has made a corporate commitment to address the social, economic and environmental effects of activities across Business Units. The purpose of this Impact Assessment is to record any positive or negative impacts this decision, project or programme is likely to have on each of the Council's Sustainability Themes. For assistance with completing the Impact Assessment, please refer to the instructions below. Further details and guidance on completing the form are [available](#).

Theme (Potential impacts of the project)	Positive Impact	Negative Impact	No specific impact	What will the impact be? If the impact is negative, how can it be mitigated? (action)
Use of energy, water, minerals and materials			X	
Waste generation / sustainable waste management			X	
Pollution to air, land and water			X	
Factors that contribute to Climate Change			X	
Protection of and access to the natural environment			X	
Travel choices that do not rely on the car			X	
A strong, diverse and sustainable local economy	X			
Meet local needs locally	X			
Opportunities for education and information			X	
Provision of appropriate and sustainable housing	X			
Personal safety and reduced fear of crime			X	
Equality in health and good health			X	
Access to cultural and leisure facilities			X	
Social inclusion / engage and consult communities			X	
Equal opportunities for the whole community			X	
Contribute to Woking's pride of place	X			