

Report of	Meeting	Date
Director of Partnerships, Planning and Policy (Introduced by the Executive Member for Homes and Business)	Executive Cabinet	22 November 2012

## **LOW COST HOME OWNERSHIP (LCHO) SCHEMES – POLICY AMENDMENT TO ALLOW OWNERS TO RENT OUT THE PROPERTY ON A TEMPORARY BASIS**

### **PURPOSE OF REPORT**

1. To obtain approval to allow owners of Low Cost Home Ownership (LCHO) properties to be able to rent out the property with certain conditions attached.

### **RECOMMENDATION**

2. Give delegated authority to the Executive Member for Homes and Business to consider each application on its merits to allow LCHO owners to rent out their property at an 'affordable' rent until either their personal circumstances change to allow them to return to the property to take up residence or until market conditions improve and they are able to sell the property. If approved LCHO owners renting out their home will need to meet the conditions listed in section 8 below.

### **EXECUTIVE SUMMARY OF REPORT**

3. Currently there are 11 LCHO schemes in the borough representing 120 properties. The option of deed of release i.e. the owner is able to buy out the discount is available on 2 of the 11 schemes. Currently, there is no option for the owner to rent out the property on any of the 11 schemes.
4. Due to market conditions some owners are having difficulty selling their property and are asking if the Council would be willing to change the policy rules to allow them flexibility to either buy out of the scheme or rent out the property. In reality it is unlikely that many owners will be able to afford to buy out the discount but a number will be able to rent out the property which will ease the hardship they are experiencing.

<b>Confidential report</b>	Yes	<b>No</b>
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<b>Key Decision?</b>	Yes	<b>No</b>
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### **REASONS FOR RECOMMENDATION**

5. To give owners of LCHO properties the option to rent out the property with the intention of easing hardship until market conditions improve.

## ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

6. Retain the status quo, this option has been rejected because of the level of dissatisfaction with the terms of the scheme and the difficulties owners are having selling their home.
7. Allow owners to be able to buy out the discount on their home and sell the property at a future date without any price restriction i.e. at open market value .The Council would reinvest the proceeds from the buyout in affordable housing elsewhere in the borough. This option has been rejected because it is unlikely that any LCHO owners will be in a position to buy out the remaining equity in the property.
8. The option of renting out the property will allow LCHO owners to obtain some income to be able to continue to pay the mortgage and move elsewhere for reasons of employment or because of a change in their circumstances.

## CORPORATE PRIORITIES

9. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	√
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	√

## BACKGROUND

10. Across the borough there are 11 LCHO schemes whereby individuals who meet certain criteria i.e. are first time buyers and have total income of less than £60k per annum can buy properties at a discount. The discounts vary and are between 16% and 40%, the most common being 20% discount on open market value.
11. Owners who have bought in the last 4/5 years have, in some cases, seen the value of their home reduce. Others are having difficulty selling because of difficulties in buyers obtaining mortgages, by not having sufficient deposit. In addition there are a large number of new properties available across the borough with developers offering deals, for example, discounts, carpets and white goods. There are also a number of properties available with government assistance through schemes such as First Buy.
12. Because none of the LCHO schemes allow owners the option of renting out the property owners feel trapped and are unable to move on when circumstances change, for example, one LCHO owner is in the army and is having to spend long periods away from home, he would like the option of renting out the property until his tours of duty end or he is discharged from the army. Another owner emigrated to Australia in January having had his property on the market since August 2011. Despite having reduced the price by £5k there has been very little interest in the property.

## CONDITIONS

13. LCHO owners who apply to rent out their property will be required to provide full details of their circumstances and reasons why they are requesting approval to rent out the property on a temporary/ interim basis. If approved in order that the property remains affordable the gross rent which the LCHO owner is able to charge will be capped at the level of the Local Housing Allowance (LHA) for the area and prospective tenants would be limited to those earning a total of £30k or less per annum household income. Most of the LCHO properties are in the area of Chorley covered by the LHA rate for Central Lancashire which is £110.77 per week for a 2 bedroomed property and £126.92 for a 3 bedroomed property. LHA rates

are set annually in April by the Rent Service and are used by the Council to calculate the amount of Housing Benefit applicants are entitled to.

14. The above conditions would be included in an agreement with the owner so that the situation could be monitored in terms of rent charged and the time the property is let out. Each application would be presented by a member of the Housing Strategy team to the Executive Member for Homes and Business. Approvals would be given for a particular period determined by the Executive Member but generally no less than 12 months, with the possibility of extending the period according to the individual circumstances of the LCHO owner. It is anticipated that less than 10 LCHO owners per annum will apply to rent out their home.

### IMPLICATIONS OF REPORT

15. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	X	Customer Services	
Human Resources		Equality and Diversity	
Legal	X	Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

### COMMENTS OF THE STATUTORY FINANCE OFFICER

16. There are no financial implications to the Council if the recommended policy of allowing LCHO owners to rent out their properties at affordable rents. In previous years, buy out of the LCHO discount has been permitted in a limited number of cases, and the proceeds have been used to increase the housing capital programme. However, this alternative option is rejected because of there being little likelihood of owners being able to buy out the discount at present.

### COMMENTS OF THE MONITORING OFFICER

17. There are no legal restrictions on entering this arrangement. The LCHO element is by covenant on the property and CBC can choose not to enforce this by exception. I have some concerns that this arrangement will enable LCHO owners to pay for the capital element of a mortgage on the property with rental income (the property becomes self-financing). However, the monitoring of a more prescriptive scheme would be prohibitive and it is unlikely that the properties will realise sufficient rental income per year to make this an issue.

LESLEY-ANN FENTON  
DIRECTOR OF PARTNERSHIPS, PLANNING AND POLICY

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Kath Knowles	5320	26 <sup>th</sup> October 2012	KK/Reports