

To: Chief Executive
Date: 22 April 2021
Report of: Stephen Clarke, Head of Housing Services
Title of Report: The setting of rent levels for shared ownership properties at Rose Hill owned by Oxford City Council.

Summary and recommendations	
Purpose of report:	To enable the council to take the urgent decision to set the amount of rent for the shared ownership properties being delivered at Rose Hill
Key decision:	No
Cabinet Member:	Councillor Ed Turner, Deputy Leader and Cabinet Member for Finance and Asset Management Councillor Mike Rowley, Cabinet Member for Affordable Housing,
Corporate Priority:	Deliver More, Affordable Housing
Policy Framework:	Housing & Homelessness Strategy
Recommendation(s):	
1. That the Chief Executive, in consultation with the cabinet members for Finance and Affordable Housing, use her urgent powers to make the decision to set the rent levels for the 25 shared ownership properties at the two development sites at Rose Hill at 2% of the value of the unsold equity share, which will be followed by report to Cabinet in June to determine the rent policy for future shared ownership schemes.	

Appendices
None

Introduction and background

1. The City Council in the coming months will take ownership of a number of shared ownership homes in Oxford, the first to be directly owned by the Council. These homes are being built by the City Council's housing company, Oxford City Housing Ltd. (OCHL), and will then be taken into ownership directly by the Council's Housing Revenue Account (HRA). In order to advertise and sell these properties a decision is required on what rent level to set on the unsold equity of each property.
2. Increasing the delivery of different forms of affordable accommodation to meet the affordability challenges of the Oxford housing market is a key priority for the City Council. This aim was set out in the current Housing and Homelessness Strategy 2018-21, and reaffirmed in the Corporate Strategy 2020, within the priority of Delivering More, Affordable Homes. Central to this aim is the delivery of affordable rental properties, in particular at social rents, but other intermediate affordable housing products were also recognised such as shared ownership properties, with a variety of options needed to meet the different circumstances of the city's population.
3. The shared ownership units currently being developed by OCHL will be the first of this tenure type owned by the council. There are 25 units being developed, a mixture of 1-2 bedrooms, at two sites in Rose Hill. The City Council through its HRA will own and manage the properties once they have been handed over. OCHL has developed the properties, and will market them on behalf of the Council. The homes are intended to be handed over to the Council in June, and are being marketed now. As part of this marketing exercise the Council and OCHL need to tell prospective buyers what the purchase price will be, alongside ongoing rent and service charges. This is to inform the purchaser, but also to allow for the necessary affordability checks.

Setting Shared Ownership Rent

4. Buyers of shared ownership properties will buy an initial share of the property they own, which would normally be covered by a mortgage, and then pay a rent on the remaining unsold share of the property to the landlord, who in this case will be the City Council. There will also normally be a service charge.
5. The City Council owes a number of properties within its HRA, which have different rent formulas to determine the rent charge, such as social rent, and affordable rent. Many rents are initially determined or influenced by government formula, such as with social rent. Within this framework of certain nationally prescribed rent setting rules, rents are then set and adjusted each year through the Council's annual budget, as outlined in paragraph 18.8 of the Council's Constitution.
6. Shared Ownership rent is not covered by one of the existing rent formulas the Council operates, so therefore has not been included in the normal annual review of rent levels agreed by Cabinet and Council. Shared ownership rents are determined at the point a Red Book (RICS) surveyor determines the value of a property, and then the landlord sets a percentage of the value of the unsold share of the property as the rent, which is then outlined in the tenancy

agreement. The fact the council does not currently have a rent setting policy for shared ownership creates a problem for the marketing and sale of the new properties.

7. While the Council doesn't currently have a set policy on shared ownership rent levels, the rent levels that the council suggests should be set are covered in the City Council's Tenancy Strategy 2018-23. The strategy establishes guidelines and best practice for all social landlords when setting their approach to tenancies and rent levels in Oxford. The Tenancy Strategy draws attention to the affordability challenge for many in the city in affording shared ownership, and as a result sets the guidance that rent levels in shared ownership should not go above 2% of the unsold share, unless there are viability issues. This would be below the industry norm which is typically 2.75% to 3%.
8. With the first handovers set for June, and the marketing on the properties underway, the Council as landlord needs to set rent levels for these properties. The normal way for this to be done is for Cabinet and Council to agree to the rent policy, in line with paragraph 18.8 of the Council's Constitution. Unfortunately current urgent timescales mean the rent levels for these first shared ownership properties will need to be agreed prior to the next scheduled meeting of Cabinet and Council. Therefore an urgent decision by the Chief Executive needs to be made on the rent levels for the 25 initial units to allow for marketing and sale to avoid delay.
9. The original financial assumption was that the rent level for the unsold share would be 2.75% of the value for the properties at Rose Hill, but this would make the properties more difficult to afford and would not be in line with the 2% suggested by the Tenancy Strategy. Therefore it is recommended that the rent level for these 25 units be set at 2%. Viability calculations and consideration on the financial impact on the HRA, show for these 25 units that 2% would not have a significant impact. If we make the assumption that a 25% ownership share is taken out on each unit, we can estimate the 2% rent charged on the unsold shares would generate an annual rent of £102,224, which is £38,334 less than if the council instead charged 2.75%. It is not the policy of the council to charge 2.75% on shared ownership properties, so this difference in rental income is a correction to our financial assumptions.
10. This urgent decision will permit for a rent to be set for these shared ownership properties, allowing OCHL to move forward with the marketing with the risk of later changes to the advertised rent removed, creating certainty for buyers, and increasing the likelihood of timely sales.
11. Alongside this urgent decision setting the rents for the 25 initial units at Rose Hill, a report will follow to June Cabinet and then Council seeking to establish a clear policy position for the City Council on how it sets rents for its shared ownership properties in the future. This rent level will then be part of the annual budget process, which will consider the annual uprating of shared ownership rents alongside other rents the council sets.
12. Alternatives to this urgent decision were explored. These include an emergency Cabinet and Council called in April or May, but this was felt to be impractical, especially during an election period. An alternative was to go ahead and market the properties at 2% rent, but this would carry risk that ultimately a different rent

may be agreed which would cause reputational damage to the council, and cause sales to fall through, with sales ultimately not able to be completed until a decision made anyway.

Risk

13. There is considerable risk in not taking this decision to set a rent for the shared ownership properties, with financial implications on the HRA with marketing and sales unable to proceed until a rent is agreed, and reputational damage on the organisation.

Equalities impact

14. Due to timescales, an Equalities Impact Assessment has not yet been completed, but will be completed as part of the establishment of a rent setting policy position for shared ownership properties which will go to June cabinet.

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Background Papers: None