CAB2317 (HSG)
FOR DECISION
WARD(S): ALL

CABINET (HOUSING) COMMITTEE

4 APRIL 2012

CHANGES TO THE RIGHT TO BUY

REPORT OF HEAD OF LANDLORD SERVICES

Contact Officer: Richard Boardman Tel No: 01962 848447

RECENT REFERENCES:

CAB 2296 (HSG) : Reinvigorating the Right to Buy: Government Consultation

EXECUTIVE SUMMARY:

This paper sets out changes to discounts to be allowed to Council tenants wishing to buy the properties in which they live, under the national Right to Buy policy, the treatment of proceeds from additional sales as a result of increased discounts, and outlines options for the achievement of the aim for replacing properties sold by building new housing units for let at Affordable Rents.

RECOMMENDATIONS:

1 That the impact of the new policy in terms of numbers of applications for the Right to Buy, and completed sales, is reported to future meetings of the Committee

2 That choices available to the Council in terms of funding the construction of replacement units following additional property sales are considered by the Committee once further detailed information is available.

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DETAIL:

1 INTRODUCTION

1.1 Following its earlier consultation exercise, completed in February and considered by this Committee in report CAB 2296 (Hsg), the Government has now implemented changes, with immediate effect, which increase the maximum discount allowed to tenants wishing to buy properties in which they live to £75,000. This compares with the main option considered in the consultation, which was for a maximum discount of £50,000. The previous limit for Winchester City Council tenants was £38,000.

1.2 The higher amount of discount is expected to lead to more sales, but the aim remains that properties will be replaced by new build at a national level, achieved through a system of local agreements between local authorities and National Government. Principles for achieving this are set out, but much of the detail remains to be agreed.

2 THE CHANGES

2.1 The maximum discounts available to eligible tenants (those who have been secure public-sector tenants for a minimum of five years) are increasing from £38,000 to £75,000. There is a sliding scale, from 35% to 60% for houses, and from 50% to 70% for flats, of the market price, based on the length of tenancy, but in Winchester most tenants will qualify for the full £75,000 discount, or something close to it.

2.2 The new discounts will be at least superficially attractive to many tenants, and an increase in applications, which carry no cost or obligation for tenants, may be expected.

2.3 Receipts from Right to Buy sales are shared with Government. This continues to be the case even with the change to Self-Financing, which ends the annual payment of negative Housing Subsidy after a one-off payment supported by borrowing.

2.4 The Self-Financing settlement assumed a certain level of receipts from Right to Buy sales, shared between councils and Government. During the period of the current Spending Review receipts resulting from the previously expected number of sales (i.e. baseline receipts) are shared broadly in a 75/25 ratio between Central and Local Government respectively. The Treasury aim for the National Government share of the baseline receipts is to use them towards reduction of the Central Government deficit. The aim of one-for-one replacement applies only to additional sales as a result of the new policy, by comparing total actual sales in the next few years with the amounts assumed within the Self-Financing settlement.

2.5 Such additional receipts are to be used as follows:

(1) To offset borrowing assumed under Self-Financing for units sold. The actual amount will vary according to the type and size of property, but the average debt in Winchester will be £33,000 per property. The Council may choose not to make an actual loan repayment, but retain the funds as a balance for other use within the Housing Revenue Account.

(2) To offset against administrative costs for all Right to Buy sales, including abortive applications as well as sales actually completed. The allowance will be £1,300 per application.

(3) Any balance will be either pooled, i.e. paid to Central Government to fund replacement homes at the national level through grants, or may be used to deliver locally additional units, provided that funding from this source does not exceed 30% of the total cost of additional units (including the value of any land provided). Retention of such funds for a locally-managed programme will require agreement with the DCLG, and the likely details of such agreements are still to be announced.

2.6 It follows from the 30% limit above that sales receipts will fund only a small proportion of replacement homes. Land, provided free, but carrying a notional value, may be applied towards the total cost of a project for replacement homes, and a landlord (Council, acting within its borrowing limits, or a Housing Association) is expected to borrow against future rental income, which is assumed to be at “affordable” rents. Affordable rents are higher than current social rents, but still represent a saving in Housing Benefit terms compared with the cost of rental housing in the private sector.

2.7 One-for-one replacement, whether through pooling, or retention of funds locally following agreement with the DCLG, is supposed to be at a national level (in this context, England), but the Government accept that it may not work at a local level, due to insufficiency of funds, planning constraints and the demand for particular sorts of housing.

2.8 With one-for-one replacement, the Government envisages that new homes provided, funded to a large extent by further borrowing (which, for the public sector, will be limited) will be at “affordable” rents. These are up to 80% of market rents, rather than social rents, which are around 50% of market rents. For tenants paying their own rents, affordable rents are still expected to offer better value for money than private sector rents, which would be the alternative in an environment where housing waiting lists remain long and resources to build new properties to let at social rents are very limited.

2.9 50% of the cost of buying back ex-Council properties may be deducted from sale proceeds before any pooling, but an additional cap is being applied, limiting the total spend on buy-backs to 6.5% of the additional sale receipts (ie resulting from sales that exceed the figures incorporated into the Self-Financing settlement). The reason for this cap is that Government wishes to encourage economic growth through support of the construction industry, and as with support for mortgage guarantees and changes to planning regulations, wishes to encourage the construction of new homes, rather than reversing diversity of tenure on estates that the Right to Buy policy has brought.

3 OTHER CONSIDERATIONS:

3.1 The one-for-one replacement programme may or may not be incorporated within the Council’s own new-build programme, within the Housing Revenue Account Business Plan. The Plan currently assumes new homes being let at social rents. However, an early consideration when development the Council’s New Build strategy will need to review scope for new properties being let at Affordable Rents. This could provide additional resources for re-investment and help ensure the programme is sustainable in the long term, but will result in new homes being significantly more expensive to rent than current Council stock.

3.2 Details of the requirements for allowing local retention of additional sale receipts are still to be announced. For Winchester City Council to provide any new properties itself other than at social rents would be a significant change of policy. Locally operating Housing Associations already have significant experience and expertise in developing properties for letting at market or affordable rent, as well as for shared ownership.

3.3 The Government acknowledges that any increase in sales completed under the Right to Buy rests on a number of factors, not just the level of discount given. The availability of credit on competitive terms and confidence around job security are likely to be at least as significant. Recent memories of problems arising from “Sub-prime” mortgage lending in the United States will not encourage British lenders to lend to Council tenants. The more financially secure will have already bought their properties, and the remainder are likely to be perceived as more marginal in terms of security, particularly in an environment of static or falling property prices.

3.4 If there is a significant increase in the number of Right to Buy completions, and the Council does decide to retain funds to support local replacement, this will need to be considered in the context of the wider local plan and planning framework and future proposals for the Council's own new build programme.

3.5 As there are a number of factors involved, it is difficult to predict the timing of the availability of sale proceeds. Increased discounts will almost certainly lead to an increase in enquiries and applications, but until economic confidence increases and credit restrictions ease there may be little immediate impact in terms of completed sales. Opportunities may arise for the Council in terms of land availability, but it could be many years before funding through Right to Buy sales receipts actually materialise. In the longer term, as the supply of land is limited, increased economic confidence is likely to lead to an increase in house prices. As the discount is capped in monetary terms, as previously the net price payable would increase disproportionately, leading again to a reduction in further Right to Buy sales.

4 <u>SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS</u> (RELEVANCE TO):

4.1 Relevant to the priorities set out in the Active Communities Change Plan.

5 <u>RESOURCE IMPLICATIONS</u>:

5.1 National publicity about increased discounts could lead to an increase in applications, and administrative effort in Landlord Services, Estates and possibly Legal Services.

5.2 The impact on the Housing Revenue Account Business Plan will be mitigated by funds being available to repay debt assumed under Self-Financing, which should be adequate compensation for the effect of property sales on future cash flow.

5.3 Significant sales of flats may require a review of resources available in the longer term for leasehold management, as the Council will continue to own and maintain the blocks in which sold flats are situated.

6 <u>RISK MANAGEMENT ISSUES</u>

6.1 Timing of sales and availability of resources to secure replacement of properties sold depend on a number of factors and cannot be predicted with any degree of certainty.

6.2 Replacement of additional units sold as a result of higher discounts is expected to be at Affordable, rather than social rents. This is likely to increase the demand for, and pressures on, the remaining stock of socially-rented properties, and could potentially lead to an increased demand for the Homeless service.

7 TACT COMMENT

7.1 Due to the timing of Government announcements, it has not been possible to share this report with TACT. The Acting Chair of TACT has reviewed the paper and has discussed it with members of the TACT Management Committee.

7.2 TACT has long expressed their concern with the previous proposals for Right to Buy and contributed to the February debate on the consultation paper.

7.3 Whilst it is accepted that we have no choice over the new rules, TACT hope to see the Council build up the stock of new homes at a faster pace than properties are lost through the Right to Buy process.

7.4 TACT also seek assurances that older persons properties can remain exempt from the Right to Buy process.

BACKGROUND DOCUMENTS:

"Reinvigorating Right to Buy and One for One Replacement" – Instructions for Local Authorities http://www.communities.gov.uk/documents/housing/pdf/2102589.pdf

"Reinvigorating Right to Buy and One for One Replacement"- Impact Assessment

http://www.communities.gov.uk/documents/housing/pdf/2102753.pdf