

Subject: Review of Right to Buy Sales 2017-2019

Report to: ELT, 3 June 2019

Housing & Neighbourhoods Committee, 20 June 2019

Report by: Housing Director

SUBJECT MATTER / RECOMMENDATIONS

This report provides a case study of the financial and other impacts of the sale of homes through the Right to Buy in 2017/18 and 2018/19.

Housing & Neighbourhoods Committee are recommended to note the report and approve the following variations to the Use of Retained Right to Buy Receipts Policy:

- 1. To introduce a new price limit of £350,000 for acquisitions of homes which will meet specific needs for adapted or adaptable homes and for the acquisition of homes with 4 or more bedrooms**
- 2. To amend the payback period for these acquisitions from 30 to 40 years.**

1. INTRODUCTION

- 1.1 The Right to Buy was introduced through the Housing Act 1980 (as amended by the Housing Act 1985) creating a statutory right for most secure tenants to buy their home at a discount. When the Right to Buy was reinvigorated in 2012, government (via the now Ministry of Housing, Communities and Local Government (MHCLG)) allowed councils to enter into an agreement through which they could retain a larger proportion of the receipts from Right to Buy sales than had previously been the case as well as providing a specific ring-fenced amount of retained receipts. The retained receipts can only be used to support the delivery of additional affordable housing. The retention of more of the Right to Buy receipts was also designed to provide some mitigation of the negative impact on HRA business plans of increased sales, as HRA business plans had been based on previous (lower) levels of sales when the self-financing arrangements went live in 2012.
- 1.2 A requirement of the new funding agreement means that the Council must spend the retained Right to Buy receipts within three years and any unused

receipts are required to be paid to government with interest. This report uses the 2017/18 and 2018/19 financial years as a case study of the Right Buy.

2. RIGHT TO BUY SALES IN 2017/18

- 2.1 During 2017/18, there were 47 Right to Buy sales. The table below shows the types and sizes of homes sold.

Property Type	Number of Bedrooms				Total
	1	2	3	4	
Flat		6	1		7
Bungalow					0
House		8	29	3	40
Maisonette					0
Total	0	14	30	3	47

3. RIGHT TO BUY SALES IN 2018/19

- 3.1 During 2018/19, there were 50 Right to Buy sales. The table below shows the types and sizes of homes sold.

Property Type	Number of Bedrooms				Total
	1	2	3	4	
Flat	2	8			10
Bungalow	1	1			2
House		12	24		36
Maisonette		1	1		2
Total	3	22	25	0	50

4.0 Receipts from Right to Buy Sales

- 4.1 The 47 sales in 2017/18 generated a total receipt of £2,526,890. In accordance with the Council's agreement with MHCLG this receipt is split and used in a number of ways:

Total receipt from sales	£2,526,890
Admin fee (£1,300 per home)	£61,100
Debt allowance	£966,816

Assumed income allowance	£149,599
Payment to MHCLG	£365,289
Retained Right to Buy receipt	£984,086

- 4.2 The 50 sales in 2018/19 generated a total receipt of £2,630,332:

Total receipt from sales	£2,630,332
Admin fee (£1,300 per home)	£65,000
Debt allowance	£969,041
Assumed income allowance	£151,095
Payment to MHCLG	£365,289
Retained Right to Buy receipt	£1,079,907

The admin fee, debt allowance and assumed income allowance are retained by the Council and are used to support the Council's HRA capital programme. The payment to MHCLG relates to 75% of the receipt from the number of Right to Buy sales of homes expected when the self-financing arrangements were introduced.

- 4.3 The average receipt per property received by the Council was £53,763.62 in 2017/18 and £52,606.64 in 2018/19. The slightly lower average receipt in 2018/19 reflected an increase in the percentage of flats and maisonettes sold in this year.
- 4.4 In 2018/19, the average discount was £57,393 representing an average discount of 54%. For 12 of the sales, the maximum discount of 70% was applied, of which one discount was capped at the maximum discount of £79,800.

5 Spending the retained Right to Buy receipts

- 5.1 The Retained Right to Buy receipt for any year is made of receipts received in each of the four quarters in the year. The three years period for spending or committing the receipts on delivery of additional affordable housing is directly linked to the quarter in which that part of the receipt was received. The Council therefore closely monitors the spending of the retained receipts to ensure that the required spend is achieved for each quarter.

- 5.2 As the purchase of homes on the open market or the construction of new homes can be delayed this did mean that in 2017/18, £80,656.89 of retained receipts were not spent in time and had to be paid to MHCLG along with interest of £13,438.83. The applicable rate of interest charged on any receipts paid to the MHCLG is base rate plus 4%. The applicable rate is currently 4.75%. This level of interest is above the average rate of return made across the Council's investments. Interest is charged by the MHCLG to act as an incentive for authorities to pay any receipts it expects to be unable to spend to the MHCLG before the end of the three years. During 2018/19, the Council "overspent" the retained receipts requirement by fully committing the spend of retained receipts received in 2015/16 and bringing forward the spend of some receipts received in 2016/17. This flexibility helps the Council to manage the uneven pattern of when retained receipts are received and mitigates any impact from an acquisition or new build being delayed.
- 5.3 On 6 September 2018, Housing and Neighbourhoods Committee agreed the Use of Retained Right to Buy Receipts policy. This policy sets the framework for how the Council will spend the retained receipts within the following priority areas:
- Development of new homes by the Council
 - Provision of grants to Registered Providers
 - Acquisition of homes by the Council.
- 5.4 In developing new homes or acquiring existing homes on the open market, the Council can use retained Right to Buy receipts for a maximum of 30% of the costs of construction or acquisition and refurbishment costs with the remaining 70% of costs funded from other HRA sources. As the Council's reserves are being used to contribute to the improvement of the condition of the Council's housing stock, borrowing is used to match fund retained receipts. The borrowing used to support retained receipts expenditure has been affordable as it is borrowed over the short term at low rates (around 1%). Over time, these loans will need to be repaid or consolidated into longer term loans. If the Council chose to use all of the 2017/18 and 2018/19 retained receipts to replace homes lost through the Right to Buy by acquiring or building new affordable homes it will need to borrow £4,816,076 to match fund the available retained receipts.

- 5.5 If the Council chooses to use the retained receipts to give grants to Registered Providers for the provision of affordable homes, the Council can spend the retained receipts without increasing its borrowing. However, the additional affordable homes provided as a result will be owned and managed by the Registered Provider.

6 The use of retained Right to Buy receipts in 2017-18 and 2018-19

- 6.1 During 2017/18 and 2018/19 the Council spent £1,013,365 of retained Right to Buy receipts. In addition, the Council has borrowed £2,364,518 resulting in a combined spend of £3,377,883. No grants were provided to Registered Providers to deliver affordable housing, recognising the preference to spend the receipts to provide additional Council homes and the fact that currently Registered Providers can access higher levels of grant from Homes England and Registered Provider activity in the borough was limited across the two financial years.

- 6.2 The spend of £1,013,365 of retained receipts has resulted in the delivery of the following affordable homes:

2017/18 – Acquisition of 5 affordable homes.

2018/19 – Acquisition of 7 affordable homes and construction of 1 home.

It should be noted that the expenditure noted at paragraph 6.1 above includes expenditure on new build homes and acquisitions which were not completed in the same financial year.

- 6.3 The affordable homes were delivered were:

2017/18

Property Type	Bedrooms			Total
	1	2	3	
Flat				0
House		2		2
Bungalow		1	2	3
Total	0	3	2	5

The average cost of the homes acquired in 2017/18 was £178,017, with the most expensive property a 3-bedroom bungalow at £249,995 (new build).

When the costs of purchase and refurbishment are taken into account, the average cost of an acquisition was £199,720.

2018/19

Property Type	Bedrooms			Total
	1	2	3	
Flat		1		1
House		1	2	3
Bungalow	1		3	4
Total	1	2	5	8

The average cost of the homes acquired in 2018/19 was £149,571 including the flat. Excluding the flat and one-bedroom bungalow, the average price paid was £165,400. When the costs of purchase and refurbishment are taken into account, the average cost of the 7 acquisitions was £171,441.

- 6.4 Across 2017/18 and 2018/19, acquisitions have been the main route to spending the retained receipts with a focus on purchasing empty homes, Right to Buy “Buy Backs” (where a property is offered back to the Council for purchase during the first 5 years after purchase, as in such cases retained receipts can be used for up to 50% of the costs of purchase subject to a limit on total spend on such purchases) or occupied homes market homes. Acquisitions have been targeted at homes which meet specific housing needs which cannot readily be met in the existing affordable housing stock. The Use of Retained Right to Buy Receipts Policy sets a limit of £250,000 on the maximum purchase price for an acquisition and this limit is impacting on the ability to purchase larger homes and increasingly homes which can be or are already adapted to meet the specific need for adaptable homes which includes the need for wheelchair accessible homes. This cap is compounding the lack of supply of larger homes and accessible homes within the Council’s own housing stock and wider Registered Provider stock and contributing to significant waits for families who require a larger and/or accessible home. It is therefore recommended that this cap is increased to £350,000 for homes with 4 or more bedrooms and for homes with 2 or more bedrooms which are or can be adapted to meet the specific need for adaptable and accessible homes. Where the cap is increased, the overall cost of purchase and refurbishment should be considered over a 40-year payback period, reflecting the additional social value these homes provide.

7 Impact of Right to Buy sales

- 7.1 Over the two financial years the Council sold 97 affordable homes let on social rents through the Right to Buy and generated a total receipt of £5,157,222 of which £2,063,993 is within the retained receipts budget for future years spend. Across the 2 years, 13 additional affordable homes were acquired or built. Overall the net impact is a reduction of 84 homes.
- 7.2 The Council is unable to replace the homes it sells through the Right to Buy on a one for one basis due to the costs associated with new provision or acquisitions. Whilst the Council retains more of the receipts from Right to Buy Sales as a consequence of the agreement with MHCLG, the level of sales being experienced from 2013/14 at a minimum of 40 sales per annum means the Council will only be able to replace lost homes on a one for one basis by significantly increasing the spend on new affordable homes beyond the level which can be supported by retained receipts.
- 7.3 With sales at current levels, the impact is twofold, firstly the inability to replace sold homes on a one for one basis is reducing the supply of affordable homes overall and the number of relets available each year to meet housing need. Secondly, the reduction in the number of homes owned and managed by the Council has a negative impact on the average cost of managing and maintaining the Council's homes.
- 7.3 It will always be preferable for the Council to use retained receipts to seek to maximise the number of replacement homes within the Council's own stock. However, the requirement to use borrowing to fund 70% of the cost of replacement homes remains an issue despite the removal of the borrowing cap. The cost of borrowing must be affordable within the rental income generated by the Council's housing stock, income which is declining as a result of the number of sales. Current low interest rates have been beneficial and allowed the Council to afford the cost of borrowing to match fund the spend of retained Right to Buy receipts. However, the continued need for capital investment in the Council's housing stock and potential costs associated with the Middlegate estate improvements are factors which may mean that using retained receipts to provide grant funding to Registered Providers will at times, be a more affordable and appropriate option. To mitigate this risk and ensure that the Council can continue to deliver new build homes, it will enter into discussions with Registered Providers who are

developing 100% affordable or mixed tenure schemes in the borough to discuss the option of purchasing completed affordable homes as this may deliver the types of homes required at a reduced cost reflecting the economies of scale possible when larger schemes are delivered.

8 FINANCIAL IMPLICATIONS

- 8.1 As a consequence of the 97 Right to Buy sales in 2017/18 and 2018/19, the Council received a net receipt of £5,157,222 of which £2,063,993 represents the Council's retained Right to Buy receipts. If the Council chose only to use these retained receipts to directly build or acquire new affordable homes for rent, it would be required to borrow £4,816,076 to meet the remaining 70% of the cost of replacement homes. The remaining £3,093,229 was used to support the HRA capital programme.
- 8.2 During 2017/18 and 2018/19 the Council used £1,013,365 of retained Right to Buy receipts and borrowed £2,364,518 to match fund this spend. As a consequence of this total spend of £3,364,518, a total of 13 additional homes were added to the Council's housing stock, with other spend related to completions of homes in other financial years.

9 RISK IMPLICATIONS

- 9.1 The sustained level of Right to Buy sales continues to impact on the Council's ability to meet to meet housing need as a result of the reduction in homes available each year to meet housing need. This impact continues to be mitigated as much as possible by targeting the use of retained receipts on homes for which there is the highest need – reflecting both housing need and the supply of homes available to meet that need.
- 9.2 The need to increase the maximum price which can be paid to acquire larger and adaptable homes will ensure that more such homes can be purchased, however, it will potentially reduce the number of homes which can be built or acquired overall using the available retained receipts. This risk will be mitigated by ensuring that delivery of new homes is matched carefully to housing need and by continuing to deliver good value for money for all acquisitions or new build contracts.

- 9.3 The significant increase in the sale of flats in 2018/19 has increased the number of leasehold homes managed by the Council. As the Council is currently part way through a significant investment in its housing stock, there is a risk that some leaseholders will not be correctly billed for works to their home. This risk is being mitigated through appropriate procedures which will ensure timely notification of works to leaseholders and accurate billing which is supported by ongoing discussions with GYN about the capital programme.

10 CONCLUSIONS

- 10.1 The Right to Buy has allowed many tenants to buy their home with sales increasing over the last few years to the current peak of 50 sales in 2018/19. This impact of these sales on the Council is an ongoing reduction in the number of homes owned and managed and consequential negative impact on the Council's ability to meet housing needs. As a consequence of the 97 sales across 2017/18 and 2018/19 the Council accumulated £2,063,993 of retained receipts to part fund the costs of directly replacing sold homes in its own stock or to provide as grants to Registered Providers to deliver new homes over the next three years. Across 2017/18 and 2018/19 the spend of retained receipts received in 2014/15 and 2015/16 resulted in 13 new homes being built or acquired. Whilst the use of retained receipts is targeted at homes for which there is the greatest housing need, the ability to acquire larger or adaptable homes is being constrained by the current limit on the maximum price which can be paid for an acquisition. It is therefore recommended that the Council increases the price limit for acquisitions of homes with 4 or more bedrooms and for homes which are adapted or can be adapted to meet the specific need for adaptable and accessible homes.

11 RECOMMENDATIONS

It is recommended that Housing & Neighbourhoods note the report and approve the following variations to the Use of Retained Right to Buy Receipts Policy:

1. To introduce a new price limit of £350,000 for acquisitions of homes which will meet specific needs for adapted or adaptable homes and for the acquisition of homes with 4 or more bedrooms.
2. To amend the payback period for these acquisitions from 30 to 40 years.

12 BACKGROUND PAPERS

None

Areas of consideration: e.g. does this report raise any of the following issues and if so how have these been considered/mitigated against?

Area for consideration	Comment
Monitoring Officer Consultation:	Management Team/ELT
Section 151 Officer Consultation:	Management Team/ELT
Existing Council Policies:	Corporate Plan
Financial Implications:	Covered in report
Legal Implications (including human rights):	N/A
Risk Implications:	Covered in report
Equality Issues / EQIA assessment:	Recommendation sees to improve equality by amending the Use of Retained Right to Buy Receipts to facilitate the acquisition of accessible and large family homes.
Crime & Disorder:	N/A
Every Child Matters:	N/A