

7/2018 Consultation on use of receipts from Right to Buy sales



15/8/18

Key Points

- MHCLG is consulting on reform of the arrangements for use of receipts from Right to Buy sales; the consultation is open until 9 October 2018.
- The consultation paper proposes:
 - To allow local authorities to hold receipts they currently retain for up to 5 years; future receipts would continue to have to be used within 3 years;
 - To increase the cap on the use of receipts from 30% to 50% of build costs for homes for social rent in “high demand” areas;
 - To allow local authorities to “top-up” insufficient Right to Buy receipts with funding from the Affordable Homes Programme of up to 30% of build costs for affordable rent or, in “high demand” areas, 50% of build costs for social rent;
 - To set an upper limit based on to average build costs on the price of dwellings acquired using receipts;
 - To allow authorities to use receipts to provide homes for shared ownership;
 - To allow authorities to gift General Fund land to the HRA for use for new housing provided it has been held in the General Fund for a number of years;
 - To allow a short window of three months during which local authorities could return receipts without incurring interest;
 - To replace the current target of one-for-one replacement of “additional” homes old under the Right to Buy with a wider measure covering net additions to the social housing stock held by both local authorities and housing associations.
- The consultation paper also invites views on whether there are circumstances under which it would be appropriate to allow local authorities to transfer receipts to ALMOs or Local Housing Companies and on other flexibilities that would help local authorities to use receipts more effectively to build new homes.

Background

In a written Ministerial statement on 29 March 2018, accepting that the current restrictions around the use of Right to Buy receipts are a barrier to delivery of more homes, the Government said it would consult with the sector on more flexible arrangements. The promised consultation paper was published on 14 August; views on its proposals are invited by 9 October.

The current arrangements were introduced in April 2012 as part of Government measures to reinvigorate the Right to Buy. Local authorities were enabled to enter into an agreement with the Government to retain receipts above the baseline assumed in the self-financing settlement (“additional receipts”) to fund the provision of replacement stock. The agreement specifies that receipts are to be used within 3 years and cannot fund more than 30% of the cost of a replacement unit. Receipts not used within 3 years must be returned to MHCLG together with interest of 4% over base rate.

The Government is consulting on several changes to these arrangements.

Timeframe for using receipts

The Government is not minded to extend the three-year deadline for all receipts, but is considering allowing authorities to hold receipts they currently retain for up to 5 years to give them longer to spend the receipts they already have. Receipts after a future date to be specified would continue to be required to be used within 3 years.

Cap on expenditure per replacement unit

Right to Buy receipts can currently be used to fund no more than 30% of the cost of a replacement home and cannot be topped up with Affordable Homes funding. The balance is assumed to be funded from borrowing repaid from rents. The 30% limit was set on the assumption that these would be affordable rents. The Government believes that this should be feasible for authorities in “typically higher-demand areas”, but accepts it may be problematic for authorities in such areas which are close to their borrowing cap and so unable to borrow, and for authorities in lower-demand areas where rents are too low to repay the necessary borrowing. It also recognises that homes let at social rents require a greater subsidy than 30%.

The consultation paper proposes:

- a. To increase the cap to 50% of build costs for homes for social rent in areas where authorities meet the eligibility criteria of the Affordable Homes Programme and can demonstrate a clear need for social rent over affordable rent;
- b. Allow local authorities to “top-up” insufficient Right to Buy receipts with funding from the Affordable Homes Programme of up to 30% of build costs for affordable rent or 50% of build costs for social rent where authorities can demonstrate a need for social rent, with bids for top-up to be submitted to the Affordable Homes Programme.

The June 2018 Addendum to the Affordable Homes Programme Prospectus makes it clear that only the local authorities which are eligible to apply for additional borrowing approval are eligible to bid to provide homes at social rent.

Use of receipts for acquisition

Local authorities can currently use Right to Buy receipts for the acquisition of existing properties as well as for new build. The Government is concerned that some acquisitions represent poor value-for-money compared with new-build and is considering two options for restricting their use:

- a. Introducing a price cap per dwelling based on average build costs at Homes England and Greater London Authority operating area level; this is intended to deter acquisitions in London and other high-value areas;
- b. Allowing acquisition in certain areas only, for example, where average build costs are more than acquisition costs.

The Government’s current preference is for option a.

Tenure of replacement home

Housing built or acquired by local authorities using Right to Buy receipts currently has to be let at affordable or social rents. The Government is considering whether to allow local authorities additionally to use receipts to provide homes for shared ownership.

Changing the way the cost of land is treated

Land already owned by the local authority is not currently counted as part of the scheme expenditure. Where such land is currently held in the General Fund and local authorities want to transfer it to the Housing Revenue Account in order to build on it they are expected to compensate the General Fund. The effect is that the authority is unable to use receipts to fund even 30% of the actual costs of providing the new housing.

The Government is considering allowing local authorities to gift land from their General Fund to their HRA, provided such land has been held in the General Fund for a number of years. Views

are invited on what number of years would be appropriate. It is also considering whether this flexibility should be restricted to previously undeveloped land or whether it should also include land with derelict buildings.



Transferring receipts to a Local Housing Company or ALMO

Instead of building or acquiring homes themselves, local authorities are currently able to use receipts to grant-fund a housing association to do so, but not a company they wholly own, such as a Local Housing Company or ALMO. While the Government believes affordable housing should continue to be provided predominantly in the HRA, it is considering whether there may be circumstances where it is appropriate to provide it through a company, and is inviting views on what these might be.

Temporary suspension of interest payments

The Government is considering whether to allow a short period of time (three months) during which local authorities could return receipts without added interest, to provide the opportunity for a realistic appraisal of the feasibility of spending receipts within the required timescale (which might be 5 years rather than 3 for existing receipts).

Other Issues

The consultation paper includes an invitation to suggest other flexibilities that would make it easier for local authorities to deliver replacement housing.

Reforming the replacement commitment

As part of the reinvigoration of the Right to Buy in 2012 the Government committed to ensuring that for every additional council home sold as a result of the increased discounts, a replacement home would be provided nationally through acquisition or newbuild. This commitment has not been met in the last two quarters and is unlikely to be met, under current rules, in future. The consultation paper argues that the target as it currently stands is not well-focused on the underlying policy objective of increasing the net supply of social and affordable housing. It considers only a proportion of the social homes lost through sale, and only a proportion of those added through acquisition or development. Specifically, it does not include:

- Homes sold by councils within the baseline forecast for Right-to-Buy sales from 2012
- Homes sold under the preserved Right to Buy
- Council homes sold other than through the Right to Buy
- Homes built by local authorities with grant and other funding
- Affordable homes built by housing associations.

The consultation paper asks whether the Government should drop the current target in favour of a wider measurement of the net increase in social and affordable housing.