

Bath & North East Somerset Council

MEETING:	Housing & Major Projects Policy Development & Scrutiny Panel
MEETING DATE:	24th July 2012
TITLE:	Reforming the Right to Buy Scheme
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: None	

1 THE ISSUE

- 1.1 The Government, with effect from 2 April 2012, amended the Right to Buy Scheme. The change was implemented by the "Housing (Right to Buy) (Limit on Discount) (England) Order 2012" and Department of Communities & Local Government (DCLG) guidance for local authorities, referred to as "Reinvigorating Right to Buy and One for One Replacement, Information for Local Authorities" published in March 2012.
- 1.2 The changes can be usefully grouped into: increasing the discount cap to £75,000; a new affordable home for each one sold statement; and a range of technical changes to how stock owning Councils calculate admin costs and proportion the proceeds between the Treasury and local Councils. As Bath & North East Somerset does not own stock it is only the first point, the raising of the cap that is directly relevant.

2 RECOMMENDATION

The Housing & Major Projects Panel is asked to:

- 2.1 Note the contents of the paper.

3 FINANCIAL IMPLICATIONS

- 3.1 These changes will affect the right to buy (RTB) receipts received by the Council when former Bath & North East Somerset tenants with preserved rights exercise their RTB through Somer/Curo. Broad brush financial modelling suggests that property sales will need to increase by between 44%-61% to maintain current levels of RTB receipts.
- 3.2 The DCLG suggest that the increased discount cap should increase sales by 250%. This would increase Bath & North East Somerset capital receipts by between 55% and 80% depending upon the value of the property sold. Over the last 5 years this would have increased receipts by an average of £615,000 p.a. However, Somer/Curo state that so far there has been no significant increase in RTB applications. If there is no increase in sales then capital receipt income will fall between 30% and 38%. Over the last 5 years this would have reduced receipts by an average of £285,000 p.a.

4 THE REPORT

- 4.1 The Right to Buy (RTB) scheme was introduced by the Housing Act 1980 and gives qualifying local authority tenants the right to purchase their home at a discount. As a general rule assured tenants of housing associations do not have this right. However, when the Council undertook the transfer in 1999 of its 9,827 council dwellings to Somer Community Housing Trust the existing Council tenants, with a few exceptions, were given preserved RTB status. Subsequent tenants do not have this right, but instead have a less generous Right to Acquire status. There are around 3,000 former Council tenants of Somer/Curo who still have preserved RTB status.
- 4.2 Since being introduced over 2 million properties have been sold under RTB, nearly 50% of the then total. The recession, tighter rules on discounts and the fact that the most desirable properties have been sold has caused the volume of right to buy sales to fall away considerably in recent years. In 2010/11 just 2,730 sales were completed nationally compared to 92,858 in 2003.
- 4.3 The local picture has mirrored the national position with receipts falling from over £8m in 2003/4 to only £413,000 in 2010/11. When the properties of preserved RTB status tenants are sold the income, less administration costs and loss income, is receipted to the Council.
- 4.4 In October 2011 the Prime Minister said he wanted to “raise Right to Buy discounts to a level which will make the scheme attractive again and rejuvenate the housing stock” The Government’s Housing Strategy for England, Laying the Foundations (November 2011), included a commitment to “reinvigorate the Right to Buy”. The change was formally implemented by the Housing (Right to Buy) (Limit on Discount) (England) Order 2012 and in March 2012 the DCLG published guidance for local authorities, referred to as Reinvigorating Right to Buy and One for One Replacement, Information for Local Authorities.
- 4.5 The changes can be usefully grouped into three: increasing the discount cap to £75,000; a new affordable home for each one sold statement; and a range of technical changes to how stock owning Councils calculate admin costs and

apportion the proceeds between the Treasury and local Councils. As Bath & North East Somerset does not own stock it is only the first point, the raising of the cap that is relevant.

4.6 “Qualifying tenants” are those who have been tenants for 5 years. The discount is calculated as follows:

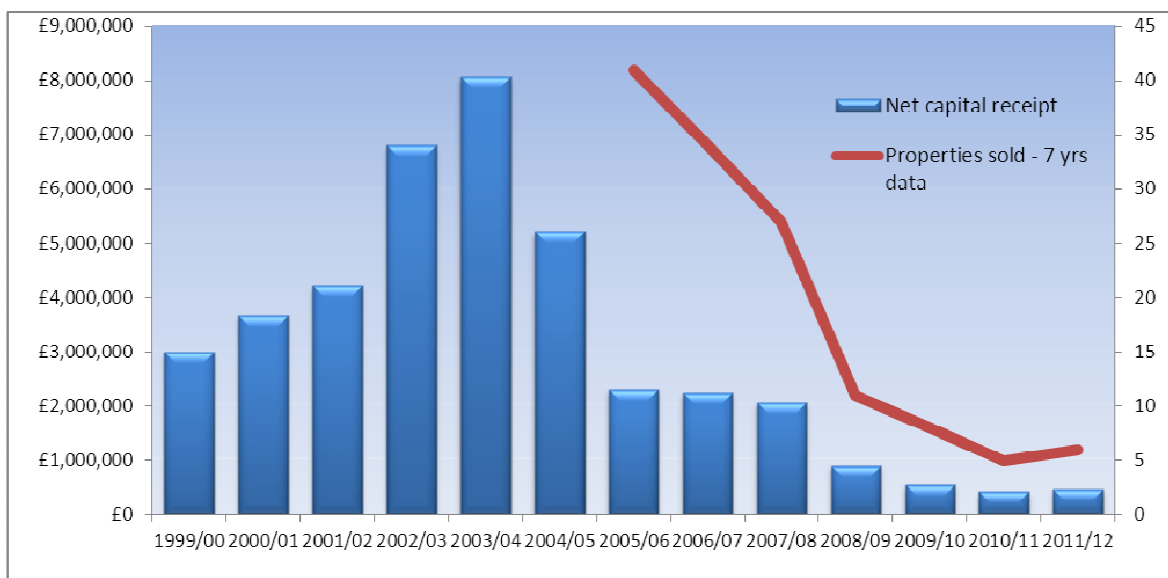
- (1) For house: 35% plus 1% for each year beyond qualifying period up to a maximum of 60%;
- (2) For flats: 50% plus 2% for each year beyond qualifying period up to a maximum of 70%
- (3) Discounts are also subject to an overall “cap”, which has been raised from between £16,000 and £34,000 (depending upon location) to £75,000 with effect from 2nd April 2012.

4.7 It should be noted that the South West cap was reduced from £50,000 to £30,000 in 2005. However, Somer/Curo tenants with preserved RTB status were protected on the higher cap. As such the increased cap will have less effect in Bath & North East Somerset than in other parts of the Country.

4.8 The Right to Acquire scheme, which is open to Somer/Curo tenants who do not have preserved RTB status, is similar in design to RTB but with a significantly lower discount cap of £11,000. Somer/Curo advise that this scheme generates few sales with only a single sale in 2011/12. Somer retain these receipts for re-investment.

4.9 The Government anticipates that some “20,000 additional RTB sales will take place over the next three years as a result of the restoration and increase in the national maximum discount cap”. The DCLG guidance suggests that the new scheme will increase RTB sales by 250%.

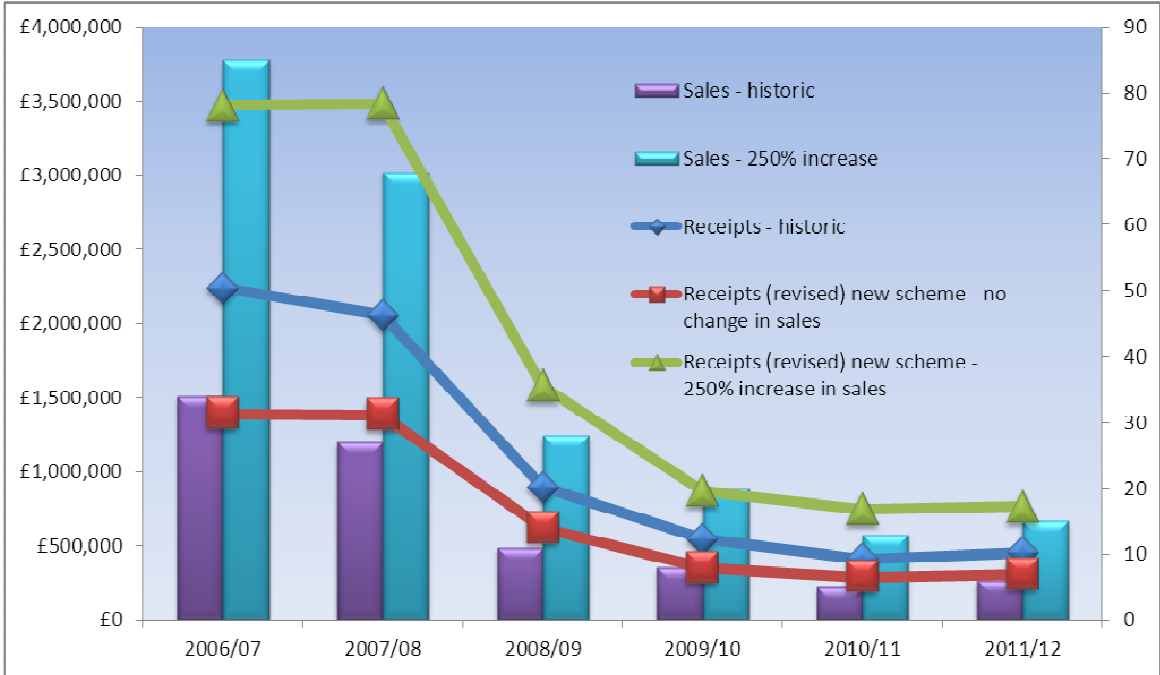
4.10 The chart below shows the capital receipts from preserved RTB Somer Community Housing Trust properties being sold and the number of sales. In relation to sales only 7 years of data is shown.



4.11 The potential implications of these changes are two-fold for this Council. Firstly, if the RTB scheme is reinvigorated there will be a further and increased loss of properties within the social housing stock. However, even the DCLG predicted 250% increase in sales is unlikely to have a significant impact on the existing stock. For example over the last 5 years there have been 57 RTB sales. An increase of 250% to 142 sales would equate to a loss of around 1.2% of the entire Bath & North East Somerset social housing stock over 5 years. It should also be noted that over the last 5 years the Council has secured an additional 556 new affordable housing units for rent.

4.12 The second implication for the Council relates to capital receipts, which are received from RTB sales. Given the high value of properties locally the discount cap of £50,000 has been the limiting factor in all recent sales. With the cap being increased to £75,000 the effective discount has been enhanced, thus reducing the capital receipt per unit. By making some reasonable assumptions, such as all RTB sales being eligible for the maximum discount and using average sales figures it is possible to do some broad financial modelling on the effects of the increased cap. These show that if the DCLG is correct and RTB sales are increased by 250% the capital receipt, based upon the past 6 years of data, would be increased by between 55% and 80%. The exact figure is dependent upon the type & value of properties sold within that year. Conversely should RTB sales remain unchanged then the capital receipt would be reduced by 30% and 38%. On historic data RTB sales would need to increase by between 44% and 61% for capital receipts to be unaffected by the increase in discounts.

4.13 The chart below demonstrates the potential effects of the increased cap using the last 6 years of historical data.



Having contacted Somer they confirm that whilst there has been an increase in enquires there has been no significant increase in applications. It is still at an early stage though it appears that sales are unlikely to increase significantly in the short term without further additional stimulus, such as a more positive economic outlook or additional scheme publicity. At present neither Somer nor the Council

have publicised the changes, which could be a future joint project if thought appropriate.

5 RISK MANAGEMENT

5.1 A risk assessment related to the issue and recommendations has not been undertaken as no decision is required.

6 EQUALITIES

6.1 An Equality Impact Assessment (EqIA) has not been completed as this Government Regulation. However, the changes will assist low-income tenants to access home-ownership. It will also negatively impact upon the availability of social housing for those in need.

7 CONSULTATION

7.1 Staff; Section 151 Finance Officer; Monitoring Officer.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 Not applicable as no decision.

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

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Background papers	None
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