CIH response to the consultation on Use of receipts from Right to Buy sales

Chartered Institute of Housing

About CIH

The Chartered Institute of Housing (CIH) is the independent voice for housing and the home of professional standards. Our goal is simple – to provide housing professionals and their organisations with the advice, support and knowledge they need to be brilliant. CIH is a registered charity and not-for-profit organisation. This means that the money we make is put back into the organisation and funds the activities we carry out to support the housing sector. We have a diverse membership of people who work in both the public and private sectors, in 20 countries on five continents across the world.

Further information is available at: www.cih.org

CIH contact:

John Perry, CIH policy adviser
john.perry@cih.org

Summary of our key points

CIH has been concerned about the increase in right to buy (RTB) sales since the scheme was 'reinvigorated' in April 2012. The rate of replacement of stock sold is a particular concern. In 2015, we published (jointly with LGA and NFA) the report Keeping Pace: Replacing right to buy sales. Unfortunately the present proposals only go a small way towards meeting the shortfalls identified in that report and which have since grown still further.

On the current consultation, our key points are:

- We believe the government should suspend the RTB, given the acute shortage of affordable rented homes and the need to maintain the supply of social rented units in particular. Alternative ways of promoting homeownership could replace it, as explored in the CIH paper Selling Off the Stock.
- Failing this, the government should at least review the uneconomic current levels of discounts.
- While welcome, the proposed changes in ability to use RTB receipts will not go far enough to ensure one-for-one replacement. We urge the government to consider allowing 100% retention of receipts by local authorities.
- The change in the time limit is welcome and should preferably be five years for all RTB receipts.
- The flexibility around the receipts cap is welcome, but is a very limited reform that is unlikely to deliver a step-change in output.
- CIH supports more freedom and fewer restrictions on use of receipts generally, always with the proviso that they are used within the HRA.

For ease of reference, the specific consultation questions are used as headings in the text.

Overall comments

CIH's overall position is that RTB should be suspended. The urgent need to maintain and increase the supply of affordable housing in general, and of social rented housing in particular, makes the suspension of RTB a necessity (as the Scottish and Welsh Governments have already recognised). The first chart shows the extent of the real gap, for local authority sales and new build alone (i.e. excluding sales via the preserved RTB). Since discounts were increased in April 2012, 66,647 homes have been sold while only 17,911 have been started or acquired to replace them (up to April this year).

Right to buy sales and replacement starts or acquisitions, England

Year	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Sales	5,944	11,261	12,304	12,246	13,427	11,465
Replacements	581	1,751	3,460	2,405	4,770	4,944

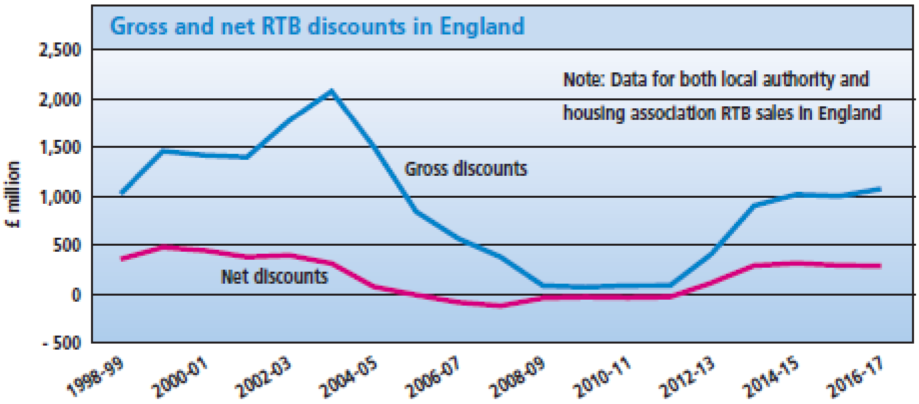
Source: MHCLG, Right to Buy Sales in England: January to March 2017-18. Note: Local authority sales only.

Greater Manchester has been reported as 'ready to rebel' over RTB as it was revealed that more than 5,000 council houses had been sold across the city region for some £27 million since 2012 – with not a single home built to directly replace them despite government promises of 'one for one' replacement, because of the inadequacy of capital receipts.

CIH analysis shows that we lost more than 150,000 social rented homes across England between 2012 and 2017 due to right to buy and other factors such as conversions to Affordable Rent, and that figure could reach 230,000 by 2020 unless we take action now. In addition, in the order of 40% of RTB sales are subsequently traded into the PRS, and are associated with higher rents and with poor quality landlords, often causing management issues in estates and requiring enforcement action.

The Grenfell disaster has also highlighted the problems of leaseholds in high-rise buildings and dealing with the costs of remedial work. This has served to emphasise the unsuitability of RTB in blocks of flats, where multiple ownerships make proper fire precautions and remedial work both complicated and expensive.

Failing the suspension of RTB, CIH believes that the uprating of discounts in April 2012 should be reviewed. CIH has published evidence in the annual *UK Housing Review* showing that discounts above a level of about 32% are uneconomic. As the chart shows, in recent years 'net discounts' (the level after deducting a fair amount to reflect the sale being with a sitting tenant) have been running at about £300 million a year, a cost to the Treasury which is very difficult to justify in the current climate of scarce resources. If this £300 million were made available at typical levels of grant for affordable homes, it would produce an extra 12,000 units annually.



Source: *UK Housing Review 2018*, Table 60 and author calculation.

In terms of the detail of the paper, while it is pleasing to see some movement on time limits for reinvesting receipts and on the 30% limit, as these are both barriers that CIH has highlighted previously, the proposals fall well short of what is required to achieve genuine one-for-one replacement.

It can legitimately be argued that the setting of rules/regulations around RTB receipts is contrary to the spirit of the 2012 self-financing settlement. Local authorities took on £13 billion of additional gross debt in order for the HRA to be self-sufficient and exercise autonomy over its spending. Management of RTB receipts should remain with local authorities to use as necessary at a local level without government restrictions on time or value of receipts to be used. The scheme for local authorities should, in such respects, certainly be no more restrictive than is the scheme for housing associations.

Question 1: The time limit for spending right to buy receipts

We have previously asked for the deadline to be extended from three to five years, so this proposal is welcome. We regard three years as a typical time for a project to get on site anyway, and for councils that have not been developing at any kind of scale for a very long time the timescale may be longer.

We also believe that five years should be the standard deadline for all receipts.

Question 2: Increased flexibility around the cap on use of receipts

CIH is disappointed that the cap is being maintained. We believe that it should be removed entirely. It is an unnecessary constraint on councils' ability to manage their own resources and CIH research showed that, for councils in high-value areas, it was perhaps the biggest obstacle to them building replacements.

Fundamentally, RTB receipts are not the same as grant and so government does not need to apply the same kinds of value for money rules to them. Housing associations would always be allowed to make their own decisions about how best to reinvest money raised via the sale of an asset and so, if the government wants councils to become major house builders again, they have to give them the same kinds of freedom.

The notion that a proportion of RTB receipts is somehow 'owed' to government is in any case flawed. Councils have, since April 2012, been self-financing, and have taken on significant debt which has been paid across to the Treasury. They have therefore 'paid their dues' on their own housing stock and, like housing associations, should be able to retain the proceeds of any sales.

While the government argues that the retained RTB receipts have not yet been fully applied by landlords, a recent LGA/Savills report, Sustainability of Right to Buy, underlined why this is the case. Fundamentally, about half of all receipts are remitted to central government, and given that average discounts are now well over 40 per cent (43 per cent for local authorities and 49 per cent for housing associations in 2016/17) this leaves landlords with a useable receipt of only some 25-30 per cent of the gross value of the property sold.

Savills also found that the borrowing caps for many councils prevented them from raising the money required to match the limited RTB receipts, and that over the next five years this constraint is set to worsen significantly, potentially reducing the achievable replacement rate to as little as one in six. They also found that the proscriptive rules on the ratio between the use of receipts and borrowing were not viable in all parts of the country.

The flexibility around the receipts cap is therefore welcome, but is a very limited reform that is unlikely to deliver a step-change in output.

Question 3: Restricting the use of right to buy receipts

CIH is opposed to the suggested restrictions as we believe local authorities should have as much freedom as possible to use their own receipts. Authorities, especially those in high-value areas, need the flexibility to replace RTB sales through (lower cost) acquisitions. Any restriction would risk the gap between sales and replacements getting even larger.

Question 4: Allowing local authorities to use receipts for shared ownership

In principle, this should be a local decision, although CIH would not want receipts to be moved outside the HRA.

Question 5A: Transfer of land from the General Fund to the HRA at zero cost

This is welcome, but should be optional for authorities.

Question 5B: How many years land should have been held before transfer?

It is difficult to see why there should be any restrictions relating to time periods or land-use.

Question 6: Transfer of RTB receipts

CIH has previously asked for councils to be able to share receipts with an ALMO. However, we have reservations about transfers to a housing company if this means use of receipts outside the HRA.

Question 7: Short-term suspension of interest payments

This is a welcome but very modest reform; it should be seen in the context of our other comments above.

Question 8: Other comments on use of receipts

CIH reiterates its disappointment that the consultation does not suggest allowing councils to keep all of the money from sales. Our previous research shows quite clearly that this is a major issue for councils in low value areas, who are sometimes keeping little or nothing by the time that discounts and the Treasury's share are deducted from the value of the property. *Inside Housing* research showed that the Treasury have kept £920 million of receipts since 2012, money which could have been reinvested in new homes.

CIH research shows that borrowing caps remain a severe constraint on reuse of receipts. Extra borrowing capacity would definitely help some councils to lever in the additional funding required to supplement their retained receipts. The government's original proposal (for flexibility in borrowing caps) fell short of what is required, only applying to a limited number of councils. We look forward to seeing the detail of the broader relaxation of borrowing caps announced by the prime minister.

Cost floor rules require councils to sell a new build council house at cost or at market value – but homes are often built in low-value council housing estates, so the cost of building a new home could well be above its market value. Nottingham City Council has recent examples of having to sell new council homes below the cost of construction. Reform of this rule is urgently required, so that the higher of the two values applies.

Question 9: A wider measurement of the net increase in supply?

CIH believes that there is some merit in moving to a wider measurement, as the current target is no longer viable. As it excludes homes that would have been likely to have been sold had discounts remained at pre-2012 levels, it would be possible for government to meet this target without actually achieving anything like true one-for-one replacement. A wider measure that looked at the net gain or loss of social housing overall would therefore be preferable.

However, CIH is concerned about the proposal to add output for social rent, affordable and shared ownership all in together. For many households, social rent is the only affordable option and so it is really important to maintain a distinction between these. We would argue strongly that, where social rented homes are being sold, government should at least measure and report on the numbers that are being replaced on a like-for-like basis.