

Executive

Right to buy and Council House Sales Item no: 4

Report by: Simon Keal **Job title:** Principal Policy and Project Officer (Housing and Planning team)

Date: 23 June 2015

Contact Officer: Simon Keal

Telephone: 020 7934 9508

Email: simon.keal@londoncouncils.gov.uk

Summary This report sets out the new government's proposals to extend right to buy discounts to housing association tenants. The government proposes to help fund the policy by requiring councils to sell their 'high-value' housing stock. The report discusses the potential impact of the two policies on local authorities.

Recommendations The Executive is invited to:

- Discuss the impacts of the policies on London local authorities and agree potential policy activity in response to the government's proposals
- Note and comment on any of the issues raised in this report.

Right to buy and council house sales

Introduction

1. The new government plans to introduce a housing bill in the coming months which will extend the right to buy to housing association tenants, with the policy subsidised by the sale of 'high-value' council housing stock.
2. This report gives further detail on the two policies and on the available information with regard to their implementation. It goes on to discuss the implications for London boroughs and to update leaders on London Councils' activity in relation to this policy.
3. Highlighted in particular in the report are: the potential loss of affordable housing in the capital, the implications for new borough housing investment through the Housing Revenue Account, and the distinctive circumstances of London which may mean that the policy leads to a loss of housing funding to the capital.
4. The Executive is invited to consider the details of the government's proposals as they affect London's boroughs.

Background

5. The May 2015 Queen's Speech stated that "legislation will be introduced to support home ownership and give housing association tenants the chance to own their own home". Key proposals to support this objective are:
 - To enable the extension of Right to Buy levels of discount to housing association tenants
 - To require local authorities to dispose of high-value vacant council houses, which would help fund the Right to Buy extension and the building of more affordable homes in the area.
6. There are also associated proposals to support new housing on brownfield land and discounted homes for first time buyers.
7. Some housing association tenants are already eligible for the 'right to acquire' their homes, with relatively small levels of discount of up to £16,000. By comparison, eligible council housing tenants in London are able to buy their homes with a discount of up to £103,900. The only other housing association tenants currently eligible for the right to buy are those

whose homes have been subject to a stock transfer from a local authority landlord. These tenants are eligible for the 'preserved' right to buy on the same basis as council tenants.

8. The government is proposing that housing association tenants will be able to purchase their homes on the same terms as council tenants, with equivalent levels of discount. A DCLG press release indicated that a Housing Bill would "include a comprehensive range of measures to offer England's 1.3 million housing association tenants... significant discounts to buy their home".¹ The supporting notes for the Queen's Speech state that the legislation will "enable the extension of right to buy levels of discount to housing association tenants".
9. It is thought that housing associations will be compensated by the government for the discounts on homes sold through the new right to buy. This compensation will be funded in part by requiring local authorities to sell homes which rank among the most expensive third of all properties of that type in their area as they become vacant.
10. It has not yet been decided how the area will be defined in setting value thresholds to define 'the most expensive third' of properties. The assumptions made by the Conservative Party in support of its manifesto were that areas would be defined at a regional level – in the context of London, with a single threshold across the capital for each bedroom size. The Institute for Fiscal Studies' pre-election analysis² of the proposals reported that consultation would be undertaken before determining thresholds.
11. In addition to helping fund the replacement of Right to Buy homes, the government intends that the remaining receipts from high-value council house sales will also be used to support its proposed Brownfield Regeneration Fund, a £1 billion scheme to support local authorities in remediating and supporting the development of new homes on brownfield sites. A proportion of the receipts will also be set aside to secure the 'one-for-one' replacement of the sold homes in the same area they were sold in.
12. Prior to the election there were estimates that the high value sales policy would raise approximately £4.5 billion nationally. This was based on a calculation that around 210,000 homes would meet their definition of 'expensive' and that around 15,000 would fall vacant each year.

Potential impact

¹ [Over a million more people given the chance to own their own home](#), Department for Communities and Local Government, 26 May 2015

² [Extending Right to Buy: risks and uncertainties](#), IFS Briefing Note BN171, April 2015

13. The National Housing Federation has conducted an early analysis³ of the potential impact of the right to buy on housing associations. This found that around 850,000 new households would be eligible for the extended right to buy, of which it estimated that around 221,000 would be able to afford mortgage costs. In London, it estimates that around 23,500 homes could be impacted by the policy, with a potential total discount cost of just over £2bn. These figures represent the upper bound of potential sales through the scheme so it may be that overall sales and discount costs are ultimately lower than these figures.
14. The housing association right to buy policy may also have a notable impact on local authorities. If homes sold through the policy are not replaced even in the short term, the reduction in social housing lets would affect the ability of boroughs to meet their housing obligations. Some housing associations are also highly leveraged and it is possible that the extension of right to buy will affect their capacity and willingness to invest in new housing delivery, which would compound the problems of undersupply in the affordable housing sector.
15. London Councils is currently gathering evidence to establish the potential impact of the high value stock sales policy across the capital. Officers are particularly seeking information on existing high value stock levels, vacancy rates and the likely impact of the policy on HRA business plans and new housing investment programmes. This analysis will be used to inform further policy development on the subject.
16. A group of north London boroughs (Camden, Enfield, Haringey and Islington) recently undertook their own study of the potential impact of the policy on their stock levels. This found that around 3,500 new homes were likely to be sold across three of the boroughs in the first five years of the new policy (one borough – Enfield – had no stock that was likely to fall above a regional market value threshold). The study also found that some boroughs would have difficulty in identifying suitable land to build replacement homes, and that at least some replacement homes may have to be built outside of the original local authority area.
17. The four boroughs' study also found that there was a 'strong likelihood' of an increase in requirement for temporary accommodation as a result of the policy, along with increases in overcrowding and, potentially, reductions in vacancy rates as people choose to stay in existing accommodation given increasingly limited alternative options for social housing in their borough.

³ [Right to Buy extension estimated to cost £12 billion](#), National Housing Federation, 14 April 2015

18. The IFS analysis⁴ stated that the calculations assume that ‘high value’ homes sold were intended to be replaced by the same properties on a ‘one for one’ basis in the same area. If value thresholds were set at a regional level, this may cause problems for local authorities in high value areas in securing replacements which did not themselves fall within the high value threshold.
19. The IFS also notes⁵ the detail of the proposals means that local authorities will be required to support replacement homes with substantially less capital than the value of the homes they are replacing. This means that, in practice, they may be required either to borrow against their own resources to finance new construction, or to build cheaper properties most likely in lower value areas. This could have implications for the way that different London boroughs may seek to work together in meeting their housing responsibilities and implementing strategies. Alternatively, they could transfer the receipts to housing associations, who may be able to call on greater borrowing resources to finance the construction of replacement homes.
20. Based on the estimate of 15,000 high value properties being made available for sale each year, and on the finance required to support the existing Affordable Homes Programme (AHP), the IFS estimates⁶ that the up-front finance required to replace these homes annually would be around £300 million nationally.
21. While not opposing the principle of the scheme, the Mayor of London has stated that the policy would only be workable if it ultimately delivered more affordable homes in the capital. He also opposed the notion that the proceeds of council home sales in London should be used to build more homes elsewhere in England.
22. A spokesman for the Mayor has said that the policy “must deliver” an overall increase in housebuilding in London and that all of the money generated from selling London homes is retained in the capital to increase the supply of new housing, in particular affordable housing.
23. The geographical impact of the government’s proposals will differ significantly depending on how thresholds for ‘high value’ council stock are calculated. If (as many analyses have assumed) the thresholds are determined at a regional level, London impacts are likely to be significantly concentrated in higher-cost areas, particularly in inner London.

⁴ IFS 2014, op. cit.

⁵ Ibid.

⁶ Ibid.

24. If thresholds are defined more locally the distribution of stock sales is likely to be more even, with relatively lower impacts in the highest-value boroughs but much larger impacts in lower value areas compared to the effects of a regional threshold. The latter may be far less affected by a regional threshold while some boroughs in the highest value areas could be required to sell a majority of their stock as it became vacant. Unless higher value boroughs were able to finance replacement homes in the same area, this would lead to a gradual diminution of council housing in the more expensive parts of London, with an impact on the overall social mix of the city.
25. As well as the direct financial impact on local authorities from the requirement to sell high-value stock, the impact on wider borough approaches to asset management and in relation to issues such as overcrowding and housing mobility should also be considered. This would include:
- how boroughs deal with tenants in rent arrears
 - schemes such as Housing Moves which encourage mobility within and out of the social rented sector
 - support for tenants who are under-occupying accommodation and who may wish to downsize, and the availability of larger accommodation for families in overcrowded households
26. In each of these cases, the potential impact of the government's policy could be to require the sale of homes where boroughs were proactively seeking to manage stock in the interests of their residents.
27. The policy will need to be carefully calibrated to ensure that perverse incentives are not created to discourage proactive asset management, and that boroughs are able to manage their stock in a way which meets their obligations to residents and helps support delivery of new homes.

Policy response

28. The key issues for boroughs raised by this policy include:
- The importance of swift one-for-one replacement of homes sold through the right to buy and stock sales policies to ensure that there is no overall reduction in affordable housing in London
 - The need to ensure that the proceeds of any sales retained by local authorities are sufficient to replace sold homes in the same area and deliver additionality

- The question of rent levels in replacement homes, with suggestions that these will be delivered at the 'affordable rent' rate of up to 80% of market rent
- The consequences for boroughs in managing their homelessness duty and keeping households in temporary accommodation if there is net loss of affordable housing at any stage
- To consider the disproportionately significant impact on stock levels in higher value boroughs if there is a London-wide value threshold, and implications for London's social mix
- To consider how local authorities in high value areas could replace sold stock locally without the new homes themselves falling within the threshold for sale
- The need for London to retain the proceeds of housing sales to ensure that they can be reinvested in new homes in the capital, not used to subsidise right to buy sales or new homes elsewhere in England
- The need to maintain boroughs' ability to manage their stock in a way which helps meet local needs, supports mobility and addresses issues such as overcrowding
- The impact of a potential reduction in housing association rented stock on the ability to of boroughs to meet their obligations to residents in housing need

29. Options for policy proposals in response to the government's initiatives include:

- Securing a commitment from government that their policies lead to an overall increase in affordable housing in London and no loss of housing income from London
- Making the case for additional funding or borrowing capacity to ensure the adequate replacement of lost stock in the council and housing association sectors, and to supply additional homes as needed
- Making the case for all housing sale proceeds to be retained in London, and for London boroughs to be adequately compensated up-front through alternative mechanisms
- Making the case for flexibility on replacement homes where it is impossible to replace stock locally
- Alternative proposals for efficient housing asset management in London based on existing council activity to maximise investment and delivery
- Alternative options for compensating housing associations to fund the right to buy replacements

Conclusion

30. Officers are currently gathering more detailed evidence on the impact of the policies. The timetable for primary legislation and associated regulations is not yet clear. Consultation is

likely on the technical details of the proposals (such as the thresholds for high value stock) and London Councils will respond to any consultation subject to the agreement of the Executive and leaders to its broad policy positions.

31. There is also scope for London Councils to work with other stakeholders in London such as the GLA to discuss issues of mutual interest raised by the two policies and, where appropriate, to agree coordinated submissions to the government in response. Officers will explore the potential of any joint approach in the coming weeks.

32. The Executive is invited to offer its perspective on the issues raised above and on how London Councils might best respond to them.

Recommendations

The Executive is invited to:

- Discuss potential policy and lobbying activity in response to the government's proposals
- Note and comment on any of the issues raised in this report.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None