

SLOUGH BOROUGH COUNCIL

REPORT TO: Overview & Scrutiny Committee **DATE:** 17th January, 2012

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WARD(S): All

PART I **FOR COMMENT AND CONSIDERATION**

GOVERNMENT PROPOSALS ON THE COUNCIL HOUSE RIGHT TO BUY SCHEME AND ITS EFFECT ON SLOUGH

1. **Purpose of Report**

To inform members of the latest central Government position on the right to buy scheme for council housing and the effect that this may have on Slough Borough Council.

2. **Recommendation**

Members are recommended to note and comment on this report and receive a future report on the changes to the Right to Buy scheme as those changes and the implications of them on Slough become clearer.

3. **Community Strategy Priorities**

Housing, and people's access to housing has been shown to be a significant factor in the health, education and general welfare of communities. Changes therefore that effect the ability of those wanting to become home owners to do so, and those who need access to high quality rented accommodation to be able to achieve that access will have significant impact accros all of the council's strategic priorities

4. **Other Implications**

(a) **Financial**

There are considerable implications to the potential use of future right to buy capital receipts and the treatment of housing debt contained within the proposed changes. This is particularly the case from the intended commitment to replace housing units lost via right to buy on a one to one basis.

It is too early to give a detailed report on the financial effects of these changes, but some things are already clear:

- It is likely that the proposed changes will result in a renewed interest in right to buy among tenants
- Increased sales will result in reduced rental income to the HRA

- Capital receipts from sales in excess of those already projected will be available to pay off housing debt and help provide replacement housing units
- It is unlikely that the net capital receipts alone will finance the one to one replacement and additional council borrowing and use of existing resources - particularly land for building, will be required.
- There will be a delay between sale and replacement which will put additional strain on housing waiting lists, temporary accommodation, action against homelessness and rough sleeping etc.

(b) Risk Management

Members are being invited to simply note this report, there are therefore no significant risks associated with the recommendation. However, there are risks associated with the proposals and it is important that the corporate management team and members consider these risks in detail when the proposals are more certain

(c) Human Rights Act and Other Legal Implications

The right to buy scheme has been in operation since 1980. The government proposals are to change the financial arrangements applied to the scheme. There are therefore no new Human Rights or Legal implications resulting from the proposals

(d) Equalities Impact Assessment

Similarly as this report refers to changes to an existing national policy, there are no new equalities impacts arising from it

(e) Workforce

The council will continue to be able to offset its sales administrative costs against the housing sales receipts. There are therefore no immediate workforce implications arising from this report.

5. **Supporting Information**

- 5.1 late last year the Government announced that it intended to change the rules applying to the existing Right to Buy scheme to stimulate sales. The move had already been trailed in the Government's Housing Strategy document previously.
- 5.2 The publicity last year has been followed up by a consultation document: *"Reinvigorating the Right to Buy and one for one replacement"* this document is available on the Communities and Local Government website by following the link below. The consultation period is running from 22 December 2011 until 2nd February 2012. This is half of the normal 12 week consultation period, and spanned the Christmas holiday. The Government however has justified this by the fact that the change is to an existing scheme and was trailed earlier in the housing strategy. The document says that the shorter consultation period on the changes, *"will enable their introduction as soon as possible, subject to the outcome of the*

consultation and Parliamentary approval of the changes to secondary legislation
Government plans to implement the changes from April 2012.

5.3 The current Right to Buy (RTB) scheme has evolved since its original introduction in 1980, the qualifying period has been changed from 2 to 5 years and the discount percentage and cap have been changed several times. Currently the scheme requires that a potential purchaser has been a public sector tenant for 5 years to be eligible – this qualifying period does not need to have been in the property being purchased, or even with the same landlord. Once eligible, the discounts available are, for houses, 35% of the property's value, plus 1% for each year beyond the qualifying period, up to a maximum of 60%. And for flats, 50% plus 2% for each year beyond the qualifying period, up to a maximum of 70%. In addition there is a financial cap that is set on a regional basis. This was introduced in 1999 and set the South East regional discount cap at £38,000. This was reduced again for 41, mainly London authorities to £16,000 but remains at £38,000 for Slough.

5.4 The most widely publicised aspect of the proposed changes, was that of a move to a single national discount cap of £50,000. In fact the consultation document details 5 options:

Option 1: Maintain existing discount ranges with £50,000 cash cap

Option 2: Maintain existing discount ranges with £75,000 cash cap

Option 3: 40% Headline Right to Buy Discount and no cash cap

Option 4: 50% Headline Right to Buy Discount and £75,000 cap

Option 5: 50% Headline Right to Buy Discount and no cash cap

Though the tenure of the document indicates the clear preference for option 1.

5.5 The Council can currently offset the administrative cost of sales against the capital receipt. The new proposals continue to support this principle, The council currently have to make a detailed retrospective claim for these expenses, but in order to reduce the overall bureaucratic burden, the proposals consider a flat, "per unit fee" for the admin, likely to be between £800 and £1000 the proposal also recognises that there is work involved in administering RTB applications that subsequently do not result in a sale and is considering making an additional allowance for these duties.

5.6 The most contentious aspect for councils of the current RTB scheme, is the treatment of the capital receipts. After accounting of allowable costs, 75% of the net receipt is paid to central Government. The new proposals make significant changes to this arrangement in order to facilitate its stated commitment to a "one for one" replacement of those units sold. To be clear, the current self financing settlement and the Governments national deficit reduction strategy, already takes into account projected sales and therefore it is only sales over and above current projected sales that will be subject to the one for one replacement aspiration and only sales over and above the projected levels, for which the council will be able to retain all of the net capital receipt. To illustrate this The projected level of sales for 2010/2011 was 8 units. In fact 16 units (8 houses, 7 flats and 1 maisonette) were sold. Under the proposed changes, the "one for one" replacement commitment would apply only to the 8 properties that were sold in excess of the 8 already projected.

5.7 The consultation document is full of provisos and assumptions. This may be understandable given that there are so many aspects of the scheme that are beyond the control of either Government or local authorities. For example it is difficult to predict in Slough how many additional properties may be sold by increasing the discount from £38,000 to £50,000. With an average 2011/12 sale price of almost £114,000 this would still leave the purchaser £64,000 to secure the purchase. In a climate where lenders are increasingly cautious and peoples' ability to repay loans is coming under increasing scrutiny, this still may be difficult for may to achieve. There may be those who can call on financial support from family, and the obligation to repay the discount if they re-sell too soon will still exist, though this is primarily to deter companies who offered cash incentives to tenants to exercise their right to buy in exchange for selling the property on to the company soon afterwards.

5.8 There are also financial and practical difficulties with the "one for one" replacement aspiration. The document provides several examples of the way the new scheme would work, one of which is:

Projected sales 10 dwelling houses	
Actual sales 16 dwelling houses	
Receipt per dwelling house = £50,000	
Additional sales = actual sales - projected sales = 16-10 = 6 additional sales	
Receipts = actual sales x receipts per dwelling house = 16 x £50,000	= £800,000
Less	
Attributable housing debt on additional sales = 6 x £17,000	= £102,000
Transactional costs on all sales = 16 x 1000	= £ 16,000
Net receipts	= £682,000
Government assumed income	= £420,000
Council assumed income	= £170,000
Balance available for replacement homes	= £ 92,000

Clearly it would be unlikely to be able to procure and build 6 new properties for this figure, even if the land were already in council ownership. The Council would therefore have to borrow against future rental income to part fund the replacement costs.

5.9 The practical difficulties also are that a council cannot procure the housing replacement on a "one off" one for one basis, It would be difficult to procure and manage a building contract to achieve this, similarly, consideration would need to be given to the kind of accommodation that is re-built. This would need to be based on housing demand projections for individual councils. For example a council may decide that though it regularly sells 3 bedroom houses, the local social housing demand is geared much more toward one or two bedroom flats and it therefore may want to build one flat to replace one house sold. This produces its own difficulties as of course it is impossible to build a single flat in isolation.

5.10 A replacement rebuilding programme would therefore need to be closely linked to the council's housing demand projections and local housing strategy, rebuilding in a planned and well procured manner to ensure the council obtains the best possible value for money from the projects. While being the most effective way to secure replacement housing, this will inevitably result in not inconsiderable delay between the sale of a housing unit and the replacement of it via rebuild.

6. **Comments of Other Committees**

None.

7. **Conclusion**

Though the proposals are currently only for consultation, the Government is clear that this is a firm intention and will be implemented in April this year. However there are still too many unknowns within the proposals to make any firm predictions of how the changes will effect Slough directly.

8. **Background Papers**

1 The Government's consultation document
"Reinvigorating the Right to Buy and one for one replacement"

<http://www.communities.gov.uk/publications/housing/reinvigoratingrighttobuy>

2 The Government's impact assessment document on the RTB proposals

<http://www.communities.gov.uk/publications/housing/reinvigoratingrighttobuyia>