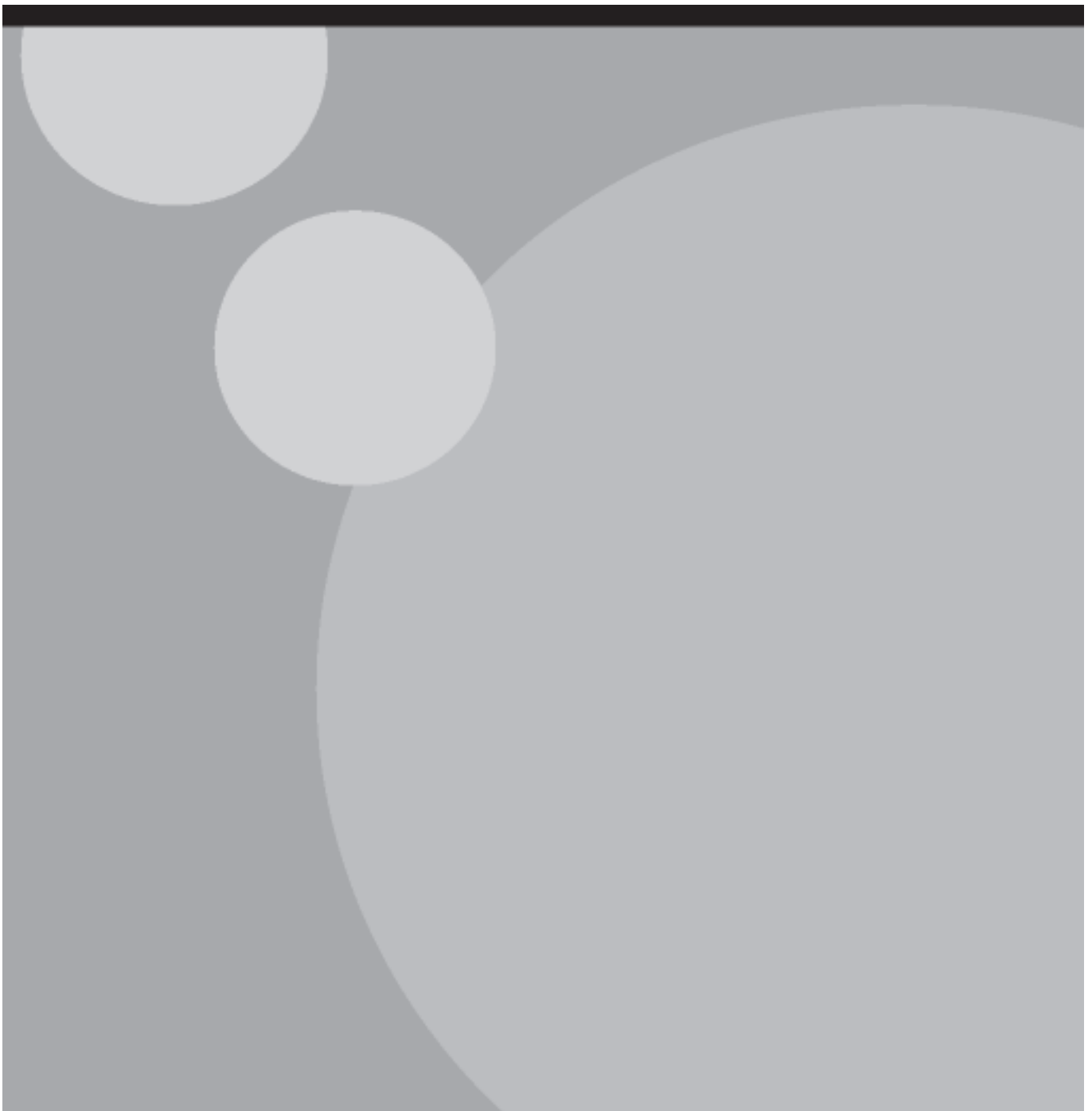




# Reinvigorating Right to Buy and One for One Replacement

Information for Local Authorities





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March 2012  
Department for Communities and Local Government

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## **Summary**

The Right to Buy scheme was introduced in 1980 and gives qualifying social tenants the right to buy their home at a discount. The scheme is open to secure tenants of local authorities and non-charitable housing associations, and to those assured tenants of housing associations who have transferred with their homes from a local authority as part of a housing stock transfer.

In *Laying the Foundations: A Housing Strategy for England*<sup>1</sup>, the Government announced its intention to increase the caps on Right to Buy discounts to enable more tenants to achieve their ambition for home ownership. It also set out the Government's commitment to ensure that the receipts on every additional home sold under the Right to Buy are used to fund its replacement, on a one for one basis, with a new home for Affordable Rent. In December 2011, the Department for Communities and Local Government published a consultation<sup>2</sup> setting out proposals for how this would be achieved and seeking views.

The Government has now announced its planned changes to the Right to Buy scheme, with details of how one for one replacement will work. Subject to Parliament, these changes will take effect from 2 April 2012.

This document sets out the changes in more detail and aims to address common questions. Further information is available at <http://www.communities.gov.uk/housing/homeownership/righttobuy/>.

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<sup>1</sup> Published on 21 November 2011 – see

<http://www.communities.gov.uk/publications/housing/housingstrategy2011>

<sup>2</sup> <http://www.communities.gov.uk/publications/housing/reinvigoratingrighttobuy>

## **Key points**

- We have **increased the discount cap to £75,000** – a £25,000 increase on the cap proposed in the consultation document, allowing an even greater number of people to realise their aspiration of home ownership.
- For the first time, **every additional home sold under Right to Buy will be replaced by a new home for affordable rent**, with receipts from sales recycled towards the cost of replacement.
- **Local authorities will be able to retain the receipts for replacement housing** – provided they can sign up to an agreement with Government that they will limit the use of the net Right to Buy receipts to 30% of the cost of the replacement homes.
- **Councils will be able to deduct the necessary amount to cover the debt** from the receipt but will not be required to use this part of the receipt to repay loans.
- For the first time, **councils will be able to deduct a certain amount from the receipt for the cost of withdrawn applications**. We have increased that amount in response to evidence provided in the consultation, from 25% to 50%. Authorities will now be able to retain £2,850 in London and £1,300 in the rest of England to cover the costs of administration.
- We have decided to **retain the Buy Back provision**, following representation from councils. **Local authorities will be allowed to fund up to 50% of the cost of re-purchasing a former council home, up to a maximum of 6.5%<sup>3</sup>** of any additional net receipts (i.e. receipts available to support one-for-one replacement).
- In response to consultation, we have decided to: **retain and extend the 'cost floor', from 10 years to 15 years**; and continue to **allow councils to apply for exemption from pooling arrangements** (and therefore one-for-one replacement) for Right to Buy receipts from new social homes built after 2008. Without these changes, we recognise there could be a financial disincentive for local authorities to provide new affordable rented homes in future.

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<sup>3</sup> 6.5% is around the average level of Right to Buy receipts retained by local authorities for Buy Back over the last three years.

## Key Changes

| Policy                                     | Current Policy   | From 2 April 2012  |
|--|--|--|
| <p><b>Discount Rates &amp; Cap</b></p>     | <p>Current discount rates are:</p> <ul style="list-style-type: none"> <li>• for houses: 35% of the property's value plus 1% for each year beyond the qualifying period up to a maximum of 60%;</li> <li>• for flats: 50% plus 2% for each year beyond the qualifying period up to a maximum of 70%.</li> </ul> <p>Tenants must have been public sector tenants for 5 years before they qualify for the Right to Buy</p> <p>In practice, most Right to Buy discounts are limited by caps. These currently range from £16,000 in most parts of London to £38,000 in parts of the South East (full details at Annex A).</p> | <p>We will increase the discount cap to <b>£75,000 across England</b>.</p> <p>Discount rates will not change and tenants will still need to have been public sector tenants for 5 years.</p>   |
| <p><b>Use of Right to Buy Receipts</b></p> | <p>Subject to the deductions mentioned below, 75% of the receipts are paid to HM Treasury ("the poolable amount") and the remaining 25% are retained by local authorities.</p>   | <p>After calculating transaction costs and compensating authorities for loss of income above what has been covered in the self-financing settlement, <b>HM Treasury and local authorities will receive the amounts they would have expected to receive</b>, had the policy on Right to Buy remained unchanged. (See Annex A of <a href="http://www.communities.gov.uk/documents/housing/pdf/2053578.pdf">http://www.communities.gov.uk/documents/housing/pdf/2053578.pdf</a>)</p>  |
| <p><b>Administration Costs</b></p>         | <p>For the purposes of calculating the poolable amount, local authorities may deduct the actual transaction costs of successful sales from Right to Buy receipts, but there is no allowance for costs relating to Right to Buy applications which do not result in a sale.</p>   | <p>We will introduce flat rate allowances for London and the rest of England, set with regard to the 40<sup>th</sup> percentile of costs achieved by councils over the last 3 years, and – for the first time - with a 50% uplift for withdrawn applications. In our consultation, we proposed allowances of £2,360 for London and £1,070 for the rest of England. In light of consultation responses, we have decided that <b>allowances will be fixed at £2,850 for London and £1,300 for the rest of England</b>.</p> |
| <p><b>Preserved</b></p>                    | <p>As Housing Associations are</p>   | <p>We propose a number of <b>measures to</b></p>   |

| Policy              | Current Policy   | From 2 April 2012   |
|---------------------|--|---|
| <b>Right to Buy</b> | independent organisations, we do not intend to mandate what they do with any receipts from Preserved Right to Buy sales – but our assumption is that receipts will be recycled into new affordable homes or other programmes with public benefits.                                     | <b>incentivise Housing Associations to reinvest receipts:</b> <ul style="list-style-type: none"> <li>• For providers who are not developing under the main Affordable Homes Programme, the Homes and Communities Agency will offer to broker working with an investment partnership.</li> <li>• Associations recycling their own receipts into new affordable housing will be prioritised when we consider any bids for Right to Buy receipts which have been returned to the centre.</li> <li>• We will also consider bids for additional freedoms and flexibilities for Housing Associations, where this would help ensure funds were recycled into new affordable housing</li> </ul> |
| <b>Buy Back</b>     | Councils may Buy Back former council properties and claim around 50% of the costs from their total Right to Buy receipts.  | We will retain the <b>Buy Back facility, allowing councils to claim up to 50% of the value of each property bought-up to a total of 6.5% of the value of net Right to Buy receipts</b> (after administration costs, debt and assumed income). 6.5% is around the average level of Right to Buy receipts retained by local authorities for Buy Back over the last three years  |
| <b>Cost Floor</b>   | Section 131 of the Housing Act 1985 (the cost floor) limits the Right to Buy discount to ensure that the purchase price of the property does not fall below what has been spent on building, buying, repairing or maintaining it over a certain period of time (relevant expenditure). | We will increase the period of time the cost floor covers from <b>10 to 15 years</b> for new homes subject to Right to Buy, bringing rules for councils into line with those for Housing Associations and protecting initial investment in the housing. We will also <b>retain the option for councils to apply for an exemption from pooling receipts</b> for new homes built in future.   |

## **Questions and Answers**

### ***What is the new discount?***

The discount cap will be raised to £75,000 - quadrupling the discount across London and tripling it in much of the rest of the country. This will allow a greater number of social tenants to exercise their Right to Buy and meet their home ownership aspirations, support social mobility and help create and sustain mixed communities.

### ***Why have the discount rates not changed in percentage terms, or regionally?***

The simplest and most immediate way of improving the Right to Buy offer is to raise the cap. While there is an argument for introducing a disparate approach across the country, we want to communicate a clear message to tenants of what is being offered. In practice, most tenants will still be limited by the discount rates according to their length of tenure.

### ***Have the criteria for who can qualify for Right to Buy changed?***

No. To qualify for Right to Buy or Preserved Right to Buy, tenants must have spent five years as public sector tenants.

### ***How will one for one replacement be delivered?***

Local authorities will be able to retain the receipts for replacement housing – provided they can sign up to an agreement with Government that they will limit the use of the net Right to Buy receipts to 30% of the cost of the replacement homes. The way this will work is explained in a bit more detail below.

After discussion with local government, the Government has decided that receipts from Right to Buy sales will in future be applied as follows:

- the council may deduct certain costs, namely: an amount to cover the housing debt supportable from the income on the additional Right to Buy sales; transaction and administration costs; and an amount which reflects the income the council might reasonably have expected from Right to Buy sales prior to the new scheme;
- The council must also pay the Government an amount which reflects the income which the Treasury expected from Right to Buy sales prior to the new scheme;
- Once these costs are deducted, the remaining receipts (the 'net receipts') are available to fund (and must be applied to) replacement affordable rented homes.

The Government expects that, if it were to retain the net receipts from Right to Buy sales, it would be able to provide – at a national level - one-for-one replacement affordable rented homes, while restricting the contribution made from the net Right to Buy receipts to 30% of the cost of the replacement homes. Where a local authority is satisfied that it can match this rate (in other words, apply the remaining receipt to new affordable rented housing, while



restricting the contribution made from the net Right to Buy receipts to 30% of the cost of the replacement homes), the Government will be prepared to enter into an Agreement that the authority may retain the remaining receipts. We will publish further details of the way in which this will operate shortly. Where authorities do not wish to enter into such an Agreement, the remaining receipt will be returned to the Department for Communities and Local Government, and re-distributed for new affordable rented housing by the Homes and Communities Agency (or, in London, the Greater London Authority).

***Why has the 'local model with agreement' been adopted, rather than the national or purely local?***

As the consultation paper made clear, the Government is seeking a solution that supports the localist agenda while achieving one-for-one replacement (for England as a whole) and ensuring value for money. Against these criteria, Ministers have concluded that the best option is a version of the 'Local Model with Agreement'. Of the other models: the 'Local' and 'Local with Direction' models do not give sufficient assurance of one-for-one replacement for England as a whole; and the 'National' model does not support the localist agenda.

***How can you replace the additional homes sold on a one-for-one basis? Surely, the remaining receipt won't be large enough to cover the cost of a new home?***

Drawing on evidence from the 2011-2015 Affordable Homes Programme - for which most agreements have now been signed - we are clear that that it should be possible to fund new homes let at Affordable Rent levels, with no more than 30% of the cost of the new homes needing to come from the Right to Buy receipt. As in the Affordable Homes Programme, the remainder of the cost will come from borrowing against the net rental income stream from the new property, and cross-subsidy from the landlord's own resources, including (in some cases) land.

So, for instance, for a new home costing £140,000 to build, the Right to Buy receipt would contribute up to £42,000. The Right to Buy receipt would not need to cover the full cost of the new home, just as Government grant only provides a minority of the funding for Affordable Rent in the Affordable Homes Programme. (A worked example is included at annex B.)

The only way in which the funding for Right to Buy replacement differs from the main 'Affordable Rent' model is that cross-subsidy from converting re-lets of existing social rented homes to Affordable Rent will not be permitted. The 30% maximum contribution takes this into account (in the Affordable Homes Programme, Government grant only contributes around 20% of the cost of the new homes).

***In our area, the remaining receipt will not be sufficient to fund one-for-one replacement. Must a council commit to delivering one-for-one replacement, to be allowed to retain the remaining receipt?***

No. As we set out in our consultation paper, our aim is to deliver one-for-one replacement nationally. We recognise that the remaining receipt will not be large enough to fund one-for-one replacement in some areas, and we are not

requiring councils to do so. If a council wishes to retain the remaining receipt, all it must do is spend that receipt on new affordable rented homes, making sure that no more than 30% of the cost of the new homes comes from the Right to Buy receipt. It can provide the new homes itself, or contract with another social housing provider.

***Will councils be required to pay down the debt related to the sold property?***

No.

***What do these changes mean for rural areas?***

The Government proposes to retain the current restrictions on the resale of homes sold under the Right to Buy in rural areas. We understand concerns about the ability to replace homes sold under the Right to Buy in rural areas but the Government's decision to allow receipts to fund up to 30% of replacement costs will reflect any increased costs in the development of new affordable homes in rural areas.

***What about the impact on housing in National Parks?***

The Government is not minded to add National Parks to the list of exemptions of Right to Buy, which would require changes to primary legislation. However, we welcome additional evidence of any impacts that the changes to Right to Buy have on affordable housing levels in National Parks.

***What is being done to communicate the changes?***

The Government is producing a set of materials to support local authorities in communicating the changes. This includes a template letter which local authorities can personalise and a new "summary guide" to the Right to Buy for prospective purchasers.

***What is being done to prepare the financial sector for an increased up-take in Right to Buy applications?***

We are in dialogue with lenders and the Financial Services Authority to ensure that appropriate advice and information on mortgage products is available for prospective purchasers. We have issued a fact sheet to help ensure lenders are ready for implementation in April. This is available at <http://www.communities.gov.uk/housing/homeownership/righttobuy/>. The Government is also working closely with the Money Advice Service, independent financial advisors and lenders to ensure that potential Right to Buy purchasers can access independent financial advice on their options.

***What will you do to prevent the system being abused or people being given the wrong advice?***

The Government does not intend to make any legislative changes to the Right to Buy to require financial checks or limit purchase with family members at this time but, as set out in the consultation document, we plan to keep the potential for any abuses under continual review.

***What about transitional arrangements?***

Where a tenant has already applied for the Right to Buy, but hasn't yet bought their home, they will automatically receive the increased discount. This means

they will be able to take up the higher discount without making a new application to their landlord. And it will minimise additional administration for landlords.

***Where can tenants get more information?***

Tenants looking to exercise the Right to Buy can find useful information on the Directgov website<sup>4</sup>.

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[http://www.direct.gov.uk/en/HomeAndCommunity/BuyingAndSellingYourHome/HomeBuyingSchemes/DG\\_4001398](http://www.direct.gov.uk/en/HomeAndCommunity/BuyingAndSellingYourHome/HomeBuyingSchemes/DG_4001398)

## Annex A

### Maximum Discount Limits under the current Right to Buy scheme

| Area                                    | Discount Limit  |
|---|---|
| South East                              | £38,000<br>(unless home is in the local authority areas of Chiltern, Epsom & Ewell, Hart, Oxford, Reading, Reigate & Banstead, Tonbridge & Malling, Vale of the White Horse and West Berkshire where the maximum discount is £16,000) |
| Eastern                                 | £34,000<br>(unless home is in Watford where the maximum discount is £16,000)  |
| South West                              | £30,000   |
| North West, West Midlands               | £26,000   |
| Yorkshire and the Humber, East Midlands | £24,000   |
| North East                              | £22,000   |
| London                                  | £16,000<br>(unless home is in Barking and Dagenham or Havering where the maximum discount is £38,000)   |

**Worked example on one-for-one replacement**

*Nb. This is for illustrative purposes only – actual figures will vary within each locality. The example assumes each home sold supports the same level of debt and produces the same receipt.*

**Assumptions:**

|   |                  |
|---|------------------|
| Projected sales in Housing Revenue Account settlement | 10 homes         |
| Local Authority assumed income                        | £165,000         |
| Government assumed income                             | £420,000         |
| Assumed debt under self-financing                     | £170,000         |
| Attributable debt on each home sold                   | £17,000 per home |
| Transaction costs allowance                           | £1,300 per sale* |
| Receipt per home sold under new discounts             | £50,000          |

\*£2,850 in London

25 homes sold under new discount, equivalent to 15 additional sales

**Receipts:** 25 x £50,000 = £1,250,000

**LESS**

|  |                |                |
|--|----------------|----------------|
| <b>Costs:</b> Attributable debt on 25 units: | 25 x £17,000 = | £425,000       |
| Less assumed debt                            |                | £170,000       |
|  |                | £255,000       |
| Transaction costs:                           | 25 x £1,300 =  | <u>£32,500</u> |
|  |                | £287,500       |

**NET RECEIPTS**

**Net Receipts:** £1,250,000 - £287,500 = £962,500

|                                       |  |                     |  |
|---------------------------------------|--|---------------------|--|
| Government assumed income<br>£420,000 | Local Authority assumed income<br>£165,000 | Buy Back<br>£24,538 | <b>Money available for replacement homes</b><br>£352,962 |
|---------------------------------------|--|---------------------|--|

## **Terminology**

**Projected sales:** number of projected Right to Buy sales calculated per authority based on self financing assumptions.

**Government assumed income:** assumption made by the Office for Budget Responsibility of income to central government from Right to Buy receipts – calculated per authority.

**Local authority assumed income:** assumption made by Government of income to local authority – calculated per authority.

**Assumed debt:** means the level of debt for which allowance has already been made in the self-financing settlement based on projected sales.

**Buy Back:** receipts the local authority may (if it wishes) retain from net receipts to finance up to 50% of the cost of re-purchasing a former council home.

**Attributable debt:** debt attributed to a unit of Housing Revenue Account housing derived from the self-financing calculations.

**Transaction costs:** costs attributable to the sale of the Right to Buy home and withdrawn applications.

**Receipt per home under new discounts:** Amount of money left over after the discount has been applied.