CIPFA BRIEFING

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housing associations right to buy

Right to Buy was introduced in the 1980's and allowed local authority tenants to buy their properties at a discount.

The Government has announced plans to extend Right to Buy to housing associations.

Housing associations are private, non-profit making, organisations that provide social housing and commonly fund investment through a blend of rental income, market funding and government grants. They are not able to access the government's Public Works Loans Board (PWLB) and are required to use their assets to secure loans for development. They are regulated by government. The Government has announced that the cost of discounts for the Right to Buy scheme will be met from the sale of high value vacant local authority properties, estimated by the government to be worth £4.5bn. Any additional money raised will be used to support replacement build and the development of a brownfield regeneration fund.

This briefing explores the potential impact of the government's plans.

CIPFA The Chartered Institute of Public Finance & Accountancy

Introduction

The introduction of Right to Buy into the housing association sector will potentially have wide reaching implications not just for housing associations but also local authorities and the wider public finances.

Work carried out by the National Housing Federation in April 2015 suggested that around 850,000[1] housing association tenants may be eligible to purchase their own home. Whilst only a small proportion of these properties will be bought it gives a strong indication of the extent of additional homes that could be removed from the social housing market.

This briefing paper takes a look at the possible consequences of this policy.

Local authority Right to Buy

Since its introduction in 1980 almost two million households have exercised their Right to Buy. Prior to the 2012 changes sales were running at around 2,600 a year. Following the Government's 'reinvigoration' of Right to Buy total sales in 2014-15 were 12,304 compared to 11,261 in 2013-14. In March 2013, the Government further increased the maximum discount available for tenants living in London boroughs to £100,000 and local authorities in London accounted for 34% of sales in 2014-15, Q4[2].

Legislation requires the capital receipts received from the sale of homes under Right to Buy to be shared between local and central government, according to the legislation:

- receipts arising from Right to Buy sales may be retained to cover the cost of transacting the sales and to cover the debt on the properties sold, but a proportion of the remainder must be surrendered to central Government.
- receipts arising from all other disposals may be retained in full provided they are spent on affordable housing, regeneration or the paying down of housing debt (each of which is defined in the regulations).

As part of reinvigorated Right to Buy legislation in 2013, the government committed to ensuring that councils reinvest the receipts from the increased volume of sales in building or acquiring new affordable housing, to replace the homes lost on a 'one-for-one basis'.

DCLG statistics from February 2015 show that while 11,261 properties where sold under Right to Buy, only 2,712 replacements have been created to date. Shelter in March 2015[3] reported that for every eight Right to Buy sales in London only one replacement had been delivered.

Local authorities are also permitted to retain an amount to cover the administrative costs of sales from the capital receipt received for Right to Buy. There has been a move away from actual administration and transaction costs to a flat rate sum. This flat rate is based on the 40th percentile of costs incurred by councils in that region over the last three years[4]'.

Housing associations Right to Buy

Right to Buy will be a new scheme for housing associations and will have a considerable impact on their future planning, operating models and financing.

Having negotiated directly with the Government, on 2nd October housing associations announced they had voted in favour of accepting a voluntary arrangement for Right to Buy. CIPFA understands that the voluntary nature of the scheme means that housing associations will have some discretion over property sales. In addition, in order to meet the requirement for replacements, where the receipt would be insufficient to develop a new home it will be possible for housing associations to buy another one or bring an empty home into use. It also allows them to retain their independent status.

Unlike local authorities who under legislation[5] secure all borrowing, including for housing, on future revenues, housing associations borrow on the strength of their balance sheets which is dependent largely on the value of the housing stock. Right to Buy not only has a direct impact on the balance sheet, by reducing the total value of fixed assets through disposals, but also impacts upon third parties' (e.g. lenders) assessment of the value of remaining stock. This is because of the ability of tenants to exercise the Right to Buy at below balance sheet values. Housing associations are completely dependent upon money markets for borrowing so will face increased borrowing costs if market providers and credit agencies downgrade the value of their balance sheets and increase the risk factors associated with lending to them.

1 Page 5: **http://www.ifs.org.uk/uploads/publications/bns/BN171.pdf**

2 Department of Communities and Local Government Housing Statistical Release 25 June 2015, Right to Buy Sales: January to March 2015, England

3 **http://blog.shelter.org.uk/2015/03/right-to-buy-one-to-one-replacement-falling-short-in-london/**

4 Incentivising the Right to Buy House of Commons Library 2014

5 Security for borrowing by Local Authorities was confirmed in the 2003 Local Government Act

According to Social Housing magazine: 'Fitch Ratings, which assesses organisations including A2Dominion Group, Genesis HA and Great Places HA says its standalone assessments take into account the strong quality of a housing associations' cash flow, through indirect and direct government-supported funding for social housing. According to the ratings agency decreasing numbers of social housing units would lead to a fall in Registered Providers' social housing revenue as a share of turnover, which could in turn put pressure on some ratings[6].

In its report in advance of the budget in July 2015, the Office for Budgetary Responsibility (OBR) highlighted that if the government forced independent housing associations, which are charities, to sell off their stock this could mean they would have to be treated for accounting purposes as part of the public sector, which would then have to take on their liabilities, adding £60bn to the national debt:

"If housing associations were to be classified as part of the public sector, their approximately £60bn of debt would be added to the public sector net debt, while the social rent reduction announced in this budget would increase rather than decrease public sector net borrowing, because the full amount of the rent reduction would then reduce public sector income, and outweigh the housing benefit and other expenditure savings."

Local authorities have developed processes and administrative functions firstly to deal with both the Right to Buy transaction and secondly to provide advice to tenants. Housing associations will need to put into place systems and personnel to deal with queries from their tenants regarding details around this policy. It is vital that in designing the scheme the Government will need to take these costs into account as well as the direct cost of sales.

The housing associations will be required to sell the homes to those that meet the Right to Buy requirements, subject to the detail agreed in the voluntary agreement. The associations will be allowed to retain the income from the sale of the home and the shortfall will be met by a payment from the local authority. The government proposal has stated that the discounts to be offered by housing associations will be offset by the sale of high value local authority housing stock.

Sale of high value housing stock

Local authorities will be required by this new policy to sell their high value properties in order to compensate the housing associations for the discount. They also remain under a duty to derive the best value they can obtain in the disposal of any asset[7].

The definition of high value stock will be critical to the impact of the scheme on individual authorities as will the definition of the threshold used to determine the definition of a high value property. Analysis of CIPFA statsistics[8] shows the huge variation in balance sheet values of stock across the country.

Based upon an analysis of average stock values for those authorities completing the statistical return:

- the national average value is over eight times the average value in the lowest authority.
- of the ten highest average values, six are in London Boroughs and all are in the South East.

Any analysis of average value also hides the potential variation and impact within local authority areas. For example the average open market value of a four bedroom house in Hackney is just over £1m but individual values vary from around £600k to over £2.2m, largely dependent upon where in the borough they are located[9]. There is a concern that within individual authority areas sales of high value homes could leave certain areas, for example high demand urban areas and desirable rural villages, with a shortfall in social housing that will be difficult to replace due to the lack of affordable land for building.

Concern has also been raised about the cost and timing of achieving high value sales in the open market. Local authorities have considerable experience and administrative procedures in place to process Right to Buy sales but high value open market sales will require additional external valuation and marketing support to achieve best value and the sale process is likely to take longer than a Right to Buy sale.

In setting out its policy for the sale of high value homes it is vital that the Government gives local authorities sufficient flexibility to maintain a balance of stock across its area and to manage the sales process appropriately.

6 Social housing April 16 2015

7 Section 123 of the 1972 Local Government Act

8 CIPFA Statistics: Local Authority Assets 2014 and Housing Revenue Account 2014

9 Source: Foxtons' Estate Agency

High value housing needs to be seen in the context of the balance of the overall housing stock and local factors such as need and the availability of land for development and alternative housing provision. Social housing is not just about the direct provision of homes for individual families and tenants but also contributes significantly to a balanced socio-demographic make-up in an area.

This is particularly important in areas of high cost housing, shortages of alternative provision and where there is a lack of building land available for new social housing. Social housing is vital in many city centres to the maintenance of a vibrant balanced population that supports the provision of local services and economic activity.

Wider impact of the policy

Self financing for local authority housing is based upon 30 year business plans established in 2012 with the HRA self-financing regime.

Through it each council is reliant on its own rental income to provide council housing. Business plans were produced for councils' long term investment requirements as well as the day to day running of their properties. These business plans did not factor in the recent changes being proposed for high value properties or the rent policies within the budget.

Any legislation that leads to a negative impact on the housing business plan models of local authorities could seriously undermine the very basis of self-financing which promised autonomy for local authorities in the delivery of housing in their areas.

Further reduction in social housing stock will lead to additional pressure

There were 1.37 million households on local authority waiting lists on 1 April 2014.

There is a concern that Right to Buy, unless it guarantees at least one for one replacement in the areas of highest need, will increase this shortfall. As a result a reduction in housing stock may lead to increased waiting lists and an increase in the length of time individual tenants have to wait before being housed. Even where one for one replacement is achieved, replacement of housing stock will take time to become available.

New housing stock may not be in the same area as the original stock. The purchase of land and the delivery of new housing will be impacted on by external factors including availability of funds for investment and the availability of suitable building land.

The Housing Bill, announced in the Queen's Speech in June 2015, will require local authorities to establish and maintain a register of brownfield land suitable for housing development, which will include local authorities' own land. Whilst this increases transparency it does not automatically lead to suitable sites.

There is also the very practical problem that Registered Social Landlords and local authorities rarely have the same boundaries. This issue of co-terminosity between providers presents a practical problem when looking at who compensates for a discounted property.

Research[10] shows that many of the properties sold under the Right to Buy scheme have returned to the rental market at a greater rent level than council levels. In particular London Boroughs are able to provide evidence that illustrates this trend. In Barking and Dagenham 41% of properties purchased under Right to Buy are now privately let. As the number of social houses has fallen more tenants have been forced to rent within the private sector often at greater cost.

Any decline in the availability of social housing and increase in private renting has implications for the welfare budget. Independent figures from the Department of Work and Pensions (DWP) show that the cost of housing benefit rose from £23bn in 2010 to £24.6bn in 2013-2014. DWP's analysis in 2013 revealed the impact of rent growth on housing benefit expenditure:

"the average eligible private sector rent for Housing Benefit (HB) increased by 45% in real terms between 2000-01 and 2010-11. An estimated £2.9bn (33%) of private sector HB expenditure in 2010/11 can be attributed to real terms rent growth over the previous ten years"[11]

10 Inside Housing May 2015

11 Impact of Rent Growth on Housing Benefit Expenditure November 2013 DWP

CIPFAs position on extending Right to Buy:

- Any scheme change leading to a weakening of the balance sheet within the sector would lead to additional financial pressures
- The scheme may significantly weaken housing association balance sheets making it more difficult to raise the money they need to build urgently needed affordable family homes and lead to an increase in the cost of borrowing for the sector.
- The proposed sale of high value local authority housing to pay for the scheme could have a significant impact on those authorities with a high proportion of high value housing and leave certain areas short of social housing.
- Right to Buy has wide social implications for communities as it affects the balance of housing provision in an area.
- There is no statistical evidence that replacement stock has ever been built on a 1:1 ratio.
- At a time of historically acute housing shortage and high demand it is vital that access to high quality social housing is maintained.
- The scheme could drive a wedge between local authorities and housing associations at a time when they should be working together.

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