

# Reinvigorating Right to Buy and one for one replacement: Consultation

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## **General**

CIPFA welcomes the opportunity to comment on the Government consultation on Reinvigorating Right to Buy and one for one replacement and on the draft Impact Assessment on the proposed changes to the Right to Buy.

In terms of our general principles, CIPFA believes in promoting proper accounting practices, good financial administration and local discretion in decision making. We have strongly supported and long worked towards the reform of the housing finance system that has led to the introduction of Self-Financing. We believe that these principles should also underpin the reinvigoration of Right to Buy (RTB) policies and should not impact adversely on the viability of authorities' Housing Revenue Accounts (HRAs) or the Council's General Fund.

The context of Self-Financing is particularly important, in our view, in considering the issues around Right to Buy. Local authorities have prepared their 30 year business plans for Self-Financing and it will be vital that changes to RTB policies do not jeopardise the viability of their HRAs. The consultation paper rightly recognises the need to balance offering generous discounts against having enough receipts to fund the building of replacement homes.

As we are a professional accountancy body, our detailed responses are focused mainly on those questions around finance and accountability – we have not attempted to respond to all the questions in the consultation, some of which are clearly aimed at local authorities.

## **Detailed Responses to the Consultation Questions**

### **Consultation Question 1: We would welcome views on the proposals for caps, discount rates and eligibility**

Answer: Ideally, in our view, caps, discounts and eligibility should be determined at local level. That would enable the local housing markets, building costs and RTB demand to be taken into account. We would urge further consideration about a national imposition of caps and discounts and the interplay between these two elements of the proposals as they seem to act as a barrier to sales in certain parts of the country and this is clearly contrary to the concept of the policy. We suggest that the current average discount (25%) should be raised and note that a percentage approach allows the discount to rise when/if house prices rise

### **Consultation Question 2: Do you agree that information currently provided to prospective Right to Buy purchasers is sufficient? If not, what else should be included?**

Answer: N/A

### **Consultation Question 3: Are there further steps which could be taken to ensure that tenants who purchase under Right to Buy know about and understand the implications of home ownership, including their obligations on becoming a leaseholder?**

Answer: Given the current situation and outlook for the economy and employment in particular, it is important that tenants are made fully aware of the implications of adverse movements in their income for their mortgage repayments.

We agree that there was a need, as set out in paragraph 30 to amend *The Right to Buy your Home* booklet to highlight all the issues which a tenant should take into account when deciding whether to exercise their Right to Buy, particularly with regard to family members.

**Consultation Question 4: We would welcome evidenced assessments of the impact on rural affordable housing of the proposed changes to Right to Buy discounts.**

N/A

**Consultation Question 5: We would welcome your views on the proposals for calculating the amount of housing debt that should be cleared, as set out in Annex 3**

Answer: In line with our general principle of support for local discretion, we consider on balance that Local Model of retention of receipts should be adopted, allowing local authorities to decide whether to use receipts to pay down the debt or to manage their debt in other ways and use the full value of the receipt to provide replacement homes if needed. If however the Government were to adopt the National pooling model, then we would agree that the debt that is to be cleared should reflect the methodology used in the Self Financing settlement to arrive at the properties' contribution to the total value of the HRA for the local authority.

**Consultation Question 6: What proportion of Right to Buy applications are subsequently withdrawn in your area?**

N/A

**Consultation Question Q7: What costs are incurred in managing aborted applications?**

We do not have any evidence of this element. However, allowing receipts to be kept locally removes any need for consideration of this matter and also encourages authorities to be as efficient as possible to maximise the receipt available for replacing the sold asset, thus reducing administrative burdens both locally and centrally.

**Consultation Question 8: What sources of funding have you [Local Authorities] used for improvement works in your area?**

N/A

**Consultation Question 9: We would welcome views on the proposed approach to projected receipts [paras 51-55].**

Answer: As we have stated previously, in our view 100% of receipts from Right to Buy sales should ideally be retained for reinvestment in housing locally.

We welcome the statement (paragraph 55) that in respect of homes newly built or otherwise newly acquired, the Department will continue to accept applications to enter into agreements for sale receipts to be excluded from the pooling regime.

**Consultation Question 10: We would welcome any information councils can provide on the use of Buyback properties. We would also welcome views on this proposal.**

N/A

**Consultation Question 11: 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). This is**

**to ensure that the public sector can generally recoup significant expenditure on upgrading homes. We do not propose to make any changes here. Do you have any comments on this proposal?**

Answer: We agree that this section should be retained with consideration being given to extending the period of time that this protection applies to particularly in the cases of building and buying.

**Consultation Question 12: We would welcome views on the calculation of allowable deductions**

Answer: This approach appears reasonable

**Consultation Question 13: Which model for delivery of replacement housing do you consider the most appropriate, and why? Do you think that a limit should be placed on the amount of discount a local authority can offer on vacant land? If yes, what should it be?**

Answer: see also our response to Question 5. We think a national model of redistribution is likely to be more costly to administer and unlikely to be able to respond as quickly and effectively to local supply and demand as local authorities could.

On balance, then, we consider the Local Model may be the most appropriate of the models suggested. However, none of the models is likely to work best for all authorities. Higher receipts will be generated in some areas than others and so on.

We welcome the proposal for local replacement delivery models.

**Consultation Question 14: How can housing associations and councils be further encouraged to use receipts from Preserved Right to Buy sales to support provision of replacement homes?**

Answer: From April 2012 the Government is implementing Self-Financing, under which council housing is to be a business over a 30 year period. In keeping with this new system of housing finance and local control, in our view local authorities should also be able to retain 100% of RTB receipts and make their own decisions, appropriate to local circumstances.

**Consultation Question 15: If there are any exceptions where administration and debt costs cannot be covered, please provide details.**

N/A

**Consultation Question 16: Based on your experience, are you able to provide any evidence on the likely percentage of Right to Buy purchasers on Housing Benefit?**

N/A

**Further Comments:**

In our view, one overall effect of the proposals in the consultation paper will be to push up what the average social rents tenants will be paying, as property leaving the system under RTB will have been at a social rent level (a maximum 70% of market rent), but the new properties will be coming in at an affordable rent.

The underlying premise in the consultation that the housing market reflects need (eg in paragraph 69 of the paper) is not altogether the case. Where there is high unemployment, residents may not be able to purchase properties and thus they do depress the market - but they still need a home. Indeed the demands for affordable housing may be greater in areas of less affluence where the housing for sale market is less buoyant.

CIPFA also responded to the Department's earlier consultation on *Streamlining council housing asset management – disposals and use of receipts consultation* and our response then still holds – though we note the comment in paragraph 65 of the current consultation paper that the Government's response to comments on *Streamlining council housing asset management – disposals and use of receipts* "will be confined to those amendments relating to non-Right to Buy receipts: that is, receipts that are not the subject of this separate consultation exercise".

Paragraph 66 talks about withdrawing the RTB pooling regulations and replacing them with a calculation. Will this require regulation and if so, when will the draft calculation and/or new regulations be issued?

We would also remind the Department that we have expressed our view that the Prudential Code is a sufficient control on capital expenditure at the local authority level. The proposal for a local retention of the RTB receipt with then a council replacing the sold asset will be dependent on the newly introduced HRA Debt Cap not being breached. We feel that there are strong arguments for this cap to be lifted in these circumstances, something that would have not been necessary with the Prudential Code.



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