

# ARCH response to consultation on the options for reforming the rules around the use of Right to Buy receipts

## Timeframe for spending Right to Buy receipts

### Question 1:

Views on extending the time limit for spending Right to Buy receipts from three years to five years for existing receipts but keeping the three year deadline for future receipts.

We welcome the proposal to extend the time limit for spending existing receipts to five years, but would like the extension to also be applied to future receipts. We understand why the Government wishes to see receipts used as quickly as practicable, and share that objective, but some development schemes, particularly larger schemes involving land assembly and remediation, or regeneration schemes involving the decanting or demolition of existing homes, have to be planned and delivered over a longer time period. Providing the certainty that receipts could be available for use for up to five years would greatly assist planning and development of such schemes. The imposition of a shorter time limit, as the experience since 2012 has shown, is likely to lead authorities to prioritise acquisitions or schemes that can be delivered quickly rather than planning strategically to meet local housing needs. If the Government is reluctant to agree to a longer time limit on a general basis, we would welcome the opportunity for councils to apply for and be granted an extension if they present a compelling case for it.

We also believe the current requirement for quarterly returns is unnecessarily onerous. A switch to annual returns would substantially reduce the administrative burden and provide the additional flexibility that is needed to allow authorities to make the best use of receipts.

If, nonetheless, the Government decides to retain a 3-year limit on the use of “future” receipts, careful thought should be given to the date from which this limit should apply. The Prime Minister’s recent – and very welcome - announcement on abolition of HRA debt caps is certain to lead many authorities to reconsider their new housing plans. If further announcements on funding for council housing are anticipated to be included in the Budget, sufficient time also needs to be allowed for these to be digested. For capital receipts to be used most effectively to support these plans, authorities need to be allowed sufficient time to take stock of these developments and review and update their development plans before deciding how best to apply their expected receipts from RTB sales.

**Question 2:**

Views on allowing flexibility around the 30% cap in the circumstances set out in the consultation paper, and whether there are any additional circumstances where flexibility should be considered.

We welcome the proposal to allow authorities to use receipts to fund up to 50% of scheme costs from receipts where they are providing replacement homes for social, rather than affordable rent; however, we believe this should apply to all authorities which can show a local need for social rented housing, and not be restricted to those classed as being in areas of high affordability pressure. All authorities should be allowed to bid for Affordable Homes Funding to top up the contribution from receipts (to the relevant maximum) where they can make a case that this is necessary, with bids considered on their merits.

**Use of receipts for acquisition****Question 3:**

Views on restricting the use of Right to Buy receipts on the acquisition of property and whether this should be implemented through a price cap per unit based on average build costs.

We believe the activity that has led to the Government's concerns about the use of receipts for acquisition is primarily driven by the restrictive rules on the use of receipts and the unrealistically short time limit currently in force. If the Government acts to increase flexibility in the use of receipts, as it proposes to do, there is no need to introduce restrictions on their use for acquisition. Additionally, the restrictions proposed are likely to have unintended and adverse consequences.

The assumption that seems to underly both proposals for restricting acquisitions is that cost-minimisation is the only objective that authorities should consider in planning how and where to replace homes lost under the Right to Buy. It is an important objective but not the only one. House and land prices vary significantly within the majority of authorities, and land availability is not the only consideration in deciding where to build (for example, local infrastructure and facilities are also important considerations). Acquisitions can often provide additional housing more quickly than new housebuilding, which can be of significant financial advantage where an authority is incurring high costs on temporary accommodation for homeless households. Acquisitions may also be focused on particular types of housing – perhaps larger or adapted properties – which are in higher need or more difficult to provide through new development in the areas of the authority where they are needed.

Further, comparison of acquisition with new-build costs is misleading unless the latter include the cost of land at current value. Any restrictions based on such comparison would need to be linked to property size. Neither option (a) nor (b) discussed in the consultation avoid the risk of disrupting authorities' ability to use receipts where they are most needed and should be dropped.

## Tenure of replacement home

### Question 4:

Views on allowing local authorities to use Right to Buy receipts for shared ownership units as well as units for affordable and social rent.

Not all ARCH member authorities would see the need to use this flexibility but we believe it should be available to them.

## Changing the way the cost of land is treated

### Question 5A:

Views on allowing the transfer of land from a local authority's General Fund to their Housing Revenue Account at zero cost.

This proposal is welcome, however, it will be difficult for most authorities to take advantage of such change because the pressure on General Fund spending is so great. If it is implemented, there should be no assumption by Government that, or to what extent, authorities will make use of it. What would be of greater benefit in securing the development of non-HRA local authority land for housing would be to allow the cost of appropriation to be classed as an eligible cost for the purpose of using RTB receipts.

### Question 5B:

Views on how many years land should have been held by the local authority before it can be transferred at zero cost, and whether this should apply to land with derelict buildings as well as vacant land.

Given that, for the reasons given above, it is very unlikely that authorities will choose to acquire land through the General Fund and immediately, or shortly, transfer it to the HRA at zero cost, we do not see why any minimum time limit should apply. Nor is there any good reason for distinguishing the rules on land with derelict buildings from those on vacant land – at best this would create a perverse incentive to demolish such buildings before transfer.

## **Transferring receipts to a Housing Company or Arm's-Length Management Organisation (ALMO)**

### **Question 6:**

Views on whether there are any circumstances where housing companies or Arm's-Length Management Organisations should be allowed to use Right to Buy receipts.

We see no good reason why authorities should not have the same flexibility to transfer receipts to ALMOs or local housing companies as they currently do to transfer them to housing associations, particularly bearing in mind that some ALMOs are registered social housing providers. Specifically, we do not see why such flexibility should be restricted to specified circumstances; it should apply at the local authority's discretion.

## **Temporary suspension of interest payments**

### **Question 7:**

Views on allowing a short period of time (three months) during which local authorities could return receipts without added interest.

We welcome this proposal, however, careful consideration should be given to the timing of its implementation. As argued earlier, authorities should be given a reasonable period of time to take stock of the proposal to abolish HRA debt caps and any relevant announcements in this autumn's Budget and review and update development plans before deciding how best to make use of their existing and expected future receipts.

## **Other comments**

### **Question 8:**

Other comments to make on the use of Right to Buy receipts and ways to make it easier for local authorities to deliver replacement housing?

We believe that local authorities should be able to retain 100% of net receipts from RTB sales and use them to finance replacement housing – the current restriction of the replacement policy to “additional” receipts is mystifying to the non-expert and no longer has any convincing rationale.

We also believe that the “cost floor” limit on RTB discounts should not be restricted to 15 years after provision or refurbishment, but apply indefinitely or, at least for a period that reflects the time over which the relevant investment is financed, for example, 30 years for a newly constructed home. We also believe there is a case for a wider review of RTB discount and eligibility rules, particularly to consider the merits of more local variation. Imposition of the same maximum discount to all areas outside London provides RTB purchasers in many low-house price areas with discounts they arguably do not need to be able to afford to buy, and leaves the relevant authorities with insufficient net receipts to fund replacement homes on a

one for one basis. Recent research by Savills for the LGA makes a convincing argument that lowering the discount in such areas would have limited impact on the volume of sales yet lead to a substantial increase in the receipts available for reinvestment.

Treating all loans for housing investment by local authorities as infrastructure would lower PWLB costs by 0.2% which would have a significant impact on marginal schemes. Better still would be to return to the pre-2007 position of PWLB borrowing at a margin of 0.25% over gilts.

## Reforming the replacement commitment

### **Question 9:**

Views on whether the Government focus be on a wider measurement of the net increase in the supply of all social and affordable housing instead of the current measurement of additional homes sold and replaced under the Right to Buy?..and if the target were to change, views on what is the best alternative way to measure the effects of Government policies on the stock of affordable housing.

The principle that homes sold under the Right to Buy should be replaced on a one for one basis, at least, is important in ensuring public acceptance of the Right to Buy policy and should not be dropped. The one reform we would like to see is that the principle should apply to all RTB sales & receipts and not just those identified as “additional” (only experts understand what this means); in parallel, as argued above, local authorities should be able to retain and reinvest all such receipts without being required to pass a proportion to the Treasury. We would want the Government to continue to track its success in ensuring delivery of this policy objective.

We would be opposed to any proposal to aggregate changes in local authority and housing association stock into a single measure of social housing. The Government should be open and transparent about its specific plans for council and housing association housing, and be prepared to account both for the reasons for them and the success with which they are being delivered.