

NFA response to the Government's consultation on the use of receipts from RtB sales

Introduction

The National Federation of ALMOs (NFA) (www.almos.org.uk) is the trade body which represents all housing Arms' Length Management Organisations (ALMOs) across England. The NFA represents 32 ALMOs which manage just over 440,000 properties across 35 local authorities. The NFA represents the interests of ALMOs at the national level and provides advice and support for members.

The NFA is pleased that the Government has listened to the sector regarding the problems faced by councils and their ALMOs in providing one for one replacement affordable homes with Right to Buy receipts. We very much welcome this consultation and some of the proposals contained within it. However, we do not feel it goes far enough in providing sufficient flexibilities for all councils across the country to be able to make use of their RtB receipts to provide more affordable homes in their areas.

Summary

We welcome the flexibilities proposed within the consultation but believe they should go further and be extended to all councils across the country.

The time period for spending Right to Buy receipts should be extended to 5 years for existing as well as future receipts as many new build schemes require a longer time period to get to development stage and this would give councils and ALMOs the longer-term framework in which to build up a decent development programme. Councils should be able to set out their development plans allocating various elements of financing to them over a 5-year period and then the presumption from Government is that they will deliver on those unless there are specific issues that prevent them doing so that could not be foreseen. A switch to annual returns rather than quarterly would allow government and council to reduce bureaucracy and focus energy on delivering new homes.

We welcome the flexibility around the 30% cap in the circumstances set out in the consultation paper and the ability to mix receipts with AHP funding but are very concerned again at the use of the eligibility criteria from the HRA debt cap bidding process. All authorities should be eligible for these flexibilities to be able to replace homes lost locally.

We believe that restricting acquisitions is unnecessary and unhelpful. We think that delivering the other flexibilities in this paper will increase the proportion of new build delivered as part of the RtB receipts programme and there is therefore no need to further restrict acquisitions.

We very much welcome the proposal to allow councils to pass RtB receipts to their ALMOs and believe it would significantly help to increase the delivery of new homes across the country. ALMOs have a proven track record in delivering new homes and over the last five years have built over **3,000** new homes. ALMOs are ambitious to build many more truly affordable homes for their communities and already plan to build nearly **8,000** more over the next five years. This flexibility would enable them to deliver even more and would give councils with ALMOs the flexibility to mix and match delivery vehicles as appropriate within larger delivery programmes mixing RtB replacements with building for outright sale, affordable rent and shared ownership, all helping to meet the government's housebuilding targets for the country.

We fully support the Right to Buy policy but believe discount levels need to be reduced back to sensible levels and eligibility criteria lengthened again to ensure it is sustainable for local councils, communities and better value for money for the public purse.

We also take this opportunity to welcome the Prime Minister's announcement last week that the HRA debt caps will be lifted for all councils and believe that this will go a long way to help councils increase their development plans and build more homes in their communities. Alongside that announcement and these proposals we are calling for:

- Extending the cost floor to 30 years to cover the debt for new build so that new investment within the HRA is not disincentivised as 30 years is the typical length of time a council will borrow over for new build.
- That the Treasury agrees to forego its share of receipts so that 100% of the revenue raised from sales is retained and reinvested locally.
- That the government reviews discounts and eligibility again and looks to reduce them to sensible levels for each local housing market so that tenants still have the ability to purchase their home at a discount but that councils are able to replace all homes sold and there is more equity between the subsidies available to council tenants to own and those living in private rented sector or at home with their parents.

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Consultation response

Time period for spending

Local authorities are currently required to spend their one-for-one Right to Buy receipts within three years. If the receipts are not spent within three years the authority has to return them to the Ministry of Housing, Communities and Local Government together with interest of 4% above base rate.

Question 1: We would welcome your 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 period for existing receipts to 5 years but would argue the new receipts should have this timescale too so that it's easier to administer and gives ALMOs and councils a reasonable amount of time to plan a pipeline of development. MHCLG could monitor development outcomes and plans if they started to get worried that councils were not delivering, and money was just sitting there.

Councils and ALMOs should only have to do annual returns rather than quarterly ones and we propose that as part of these reforms government could change its approach from an assumption that if receipts were not used in 3 years they should be returned to an outlook which assumed they would be used well at a local level and only if evidence of no plans or action then they would be instructed to return the receipts.

Cap on expenditure per replacement unit

Right to Buy receipts can currently fund no more than 30% of the cost of a replacement home (whether through acquisition or new build) and local authorities have to find additional funding for the remaining 70%. The Government is therefore considering allowing greater flexibility in the following circumstances:

- a) Increase the cap to 50% of build costs for homes for social rent in areas where authorities meet the eligibility criteria of the Affordable Homes Programme and can demonstrate a clear need for social rent over affordable rent; and
- b) Allow local authorities to “top-up” insufficient Right to Buy receipts with funding from the Affordable Homes Programme up to 30% of build cost for affordable rent, or 50% of build costs for social rent where authorities can demonstrate a need for social rent, with bids for top-up to be submitted to the Affordable Homes Programme.

Question 2: We would welcome your views on those proposals, and whether there are any additional circumstances where flexibility should be considered.

We welcome the flexibility around the 30% cap in the circumstances set out in the consultation paper but are very concerned again at the use of the eligibility criteria from the HRA debt cap bidding process. All authorities should be eligible for this flexibility to be able to replace homes lost locally. This would be particularly useful for lower rent areas where there is a proven demand for social housing but where low rents make the servicing of any additional borrowing costs particularly difficult.

Research by Savills for the LGA found strong evidence that varying the 30:70 funding mix/matching principle to 40:60 or 50:50 on a flexible, authority-by-authority basis, has the potential to increase replacement supply by 10 period.

The report estimated that 61 authorities could benefit from a change to either 40:60 or 50:50 ratios of receipt to other funding over a 5-year period, around 40 per cent of all authorities. Of these 48 are in the London and wider south/east regions reflecting

the greater capacity to reinvest and there is no trend which would suggest anything other than authority-by-authority flexibility is the optimal way to maximise reinvestment.

We also welcome the proposal to allow RTB receipts to be used with the Affordable Housing Programme grant but again this option should be available to all local authorities and not just those that meet the current AHP eligibility cap. Removing eligibility restrictions will enable all local authorities to maximise the use of RTB receipts and deliver much needed social housing.

Use of receipts for acquisition

Local authorities can use Right to Buy receipts for the acquisition of existing properties as well as for new build, and acquisitions currently account for around 40% of replacements. Last-minute high-value acquisitions, where local authorities use receipts rather than have to return them to the Department together with interest, have been highlighted as one of the problems affecting replacement. This has an impact on the level of new supply being achieved through Right to Buy receipts.

However, in some areas acquisition may be cheaper than new build and offer better value for money or may better reflect local needs. Acquisition can also be effective in bringing empty properties back into use. The Government does not therefore propose to implement a blanket ban on acquisition but is considering restricting acquisitions to help drive up new supply.

The Government is proposing to restrict the use of receipts for acquisition by:

- a) introducing a price cap per dwelling based on average build costs at Homes England and Greater London Authority operating area level **OR**
- b) allowing acquisition in certain areas only, for example, where average build costs are more than acquisition costs.

Question 3: We would welcome your 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 understand why the government would like to ensure more new build rather than acquisitions are delivered through RtB receipts and we wholeheartedly support the aim of increasing housebuilding in the country. However, we also know that acquisitions are very useful in some circumstances and can provide the public purse with savings over time as they are quicker to deliver (3 months typically compared to 3-5 years for a new build) and can provide specialist accommodation, provide homes for people in costly temporary accommodation or help regenerate neighbourhoods where they are of empty or problematic homes in the neighbourhood. We would like to see RtB receipts continued to be able to be used where appropriate to acquire existing properties for council housing. Some of our members are particularly keen to be able to finance the buyback of ex-RTB's where appropriate as they are often a strategic investment to improve the block, estate or neighbourhood as well as providing much needed affordable housing in an area.

We do not support a price cap or a ban in certain areas but would want to see continued local flexibilities in this area. We believe that our members want to build new homes for their communities when and where they can as a first priority and that many acquisitions are currently driven by the need to spend the receipts in such a short time period. We believe that both the ability within London to give them to the GLA to “hold” until they are ready to be spent on a new development or the extension of the time limit to 5 years outside London would actually prevent the problem you are trying solve. We therefore strongly recommend the Government introduces the other flexibilities and keeps the need for any restrictions on acquisitions under review to see whether the levels of acquisition then go down as a result of greater flexibilities to spend them on new build.

We have serious concerns that a price cap could stop larger properties being acquired where they are needed e.g. to be able to move families out of temporary accommodation or overcrowded homes and if price caps are the chosen method despite our misgivings we would recommend that the government looks at different caps for different sized properties in each local authority area as housing markets are very localised and a national or even regional average is likely to preclude higher value areas being able to do any acquisitions at all.

Tenure of replacement home

At the moment this money should be used on affordable or social rented homes.

Question 4: We would welcome your views on allowing local authorities to use Right to Buy receipts for shared ownership units as well as units for affordable and social rent.

We support local flexibility on whether replacements could be shared ownership properties or not depending on local needs in the area and the demand for both social rent and low-cost home ownership options. This flexibility could help make some schemes more financially viable.

Changing the way the cost of land is treated

Where local authorities want to use land in their General Fund to build housing on, they are required to compensate the General Fund from their Housing Revenue Account for the value of the land and the value of the land is not counted as a cost in calculating the authority’s one-for-one expenditure. The Government is considering relaxing this restriction to allow local authorities to gift land from the General Fund to their Housing Revenue Account at zero cost, without increasing the Housing Revenue Account Capital Finance Requirement or increasing borrowing limits by the amount necessary to transfer land into the Housing Revenue Account. This will make it easier for local authorities to use land from within their General Fund for housing delivery.

Question 5A: We would welcome your views on allowing the transfer of land from a local authority’s General Fund to their Housing Revenue Account at zero cost.

The NFA supports this flexibility in principle but the evidence from our members suggests that in many areas the extent of the financial pressures on the General Fund mean that in reality it would not be a flexibility that the council would make use of.

Question 5B: We would also welcome your 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.

We support the principle of allowing as much local flexibility to councils to manage their assets as they see fit to meet their strategic objectives and that no time limit should apply and it should apply to land with derelict buildings as well as vacant land to give councils as much power to assemble sites for housing as possible. However, we are not convinced that this would make much of an impact on the ground. It has been suggested that what would help instead would be the classification of the debt adjustment made on appropriation into the HRA as a cost for the purposes of using RTB receipts.

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

Local authorities are not currently allowed to transfer Right to Buy receipts to a housing company or to an Arm's-Length Management Organisation as the homes built through these organisations do not come under the Housing Revenue Account and are, therefore, not subject to the same protections which residents in council homes enjoy. However they are able to be given to a housing association to use, whose tenants also have different rights and protections to council housing tenants.

Question 6: We would welcome your 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 very much welcome this flexibility and believe it would significantly help to increase the delivery of new homes across the country. ALMOs have a proven track record in delivering new homes and over the last five years have built over **3,000** new homes. ALMOs are ambitious to build many more truly affordable homes for their communities and already plan to build nearly **8,000** more over the next five years. This flexibility would enable them to deliver even more, especially in areas where housing associations are not interested in using the receipts locally.

It would give councils with ALMOs the flexibility to mix and match delivery vehicles as appropriate within larger delivery programmes mixing RtB replacements with other mixed tenure housebuilding or partnership working, all helping to meet the government's housebuilding targets for the country.

Alongside local flexibility to offer shared ownership properties through the use of RtB receipts we believe that our members would be able to offer some form of affordable home ownership locally to those tenants who were able and wanted to move on to homeownership in due course.

Temporary suspension of interest payments

If a local authority does not spend their Right to Buy receipts within three years the receipts have to be returned to the Ministry of Housing, Communities and Local Government, together with interest of 4% above base rate. However, there will be instances where a local authority is unable to spend their receipts within the timeframe and the Government is considering providing a short window of time during which local authorities could return receipts without interest.

Question 7: We would welcome your views on allowing a short period of time (three months) during which local authorities could return receipts without added interest.

We welcome this.

Other comments

Question 8: Do you have any 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 very much welcome this consultation but do not think it goes far enough to properly stimulate the building of replacement homes for existing RtB sales. The re-invalidation of the Right to Buy policy has led to significant levels of discounts in some areas as well as widening the number of tenants eligible to gain that subsidy. This has led to a situation where some councils are receiving so little as a receipt they will never be able to replace the homes sold locally. This makes councils less willing to invest money in new build as they fear they will lose the value of that investment too quickly and not be able to replace the lost homes. Savills found strong evidence that allowing selective local variation in the level of discount would have a positive effect on supply; "We estimate that by capping discounts in the five northern and midlands regions by a flat £20,000 applying to all sales, this could lead to a net greater social/affordable housing stock of c12,500 homes over a 5 year period."¹

We fully support the Right to Buy policy but believe discount levels need to be reduced and eligibility criteria lengthened again to ensure it is sustainable for local councils, communities and better value for money for the public purse.

Alongside these proposals we are calling for:

¹ <https://www.local.gov.uk/sustainability-right-buy>

- Extending the cost floor to 30 years to cover the debt for new build so that new investment within the HRA is not disincentivised as 30 years is the typical length of time a council will borrow over for new build.
- That the Treasury agrees to forego its share of receipts so that 100% of the revenue raised from sales is retained and reinvested locally.
- That the government reviews discounts and eligibility again and looks to reduce them to sensible levels for each local housing market so that tenants still have the ability to purchase their home at a discount but that councils are able to replace all homes sold and there is more equity between the subsidies available to council tenants to own and those living in private rented sector or at home with their parents.

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Reforming the replacement commitment

With the reinvigoration of Right to Buy in 2012, the Government committed to ensuring that, for every additional council home sold as a result of the increased discounts, a replacement home would be provided nationally through acquisition or new build. The national target has now been missed for the last two quarters. This trend is set to continue. Because of this the government would prefer to look at the overall net increase in the supply of social and affordable housing.

Question 9: Should 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? If yes what measure should they use?

We propose that the government continue to monitor progress in replacing homes sold under the RTB and commit to taking further action in the future, should the policy continue to deliver a net loss of affordable homes as without them doing this there will be no way to ensure that we are actually able to deliver the one for one replacements that the Cameron Government promised. We would also like to see the one for one replacement commitment applied to all RtB receipts not just the additional ones created by the re-invigoration policy of 2012.