Dudley Metropolitan Borough Council

Agenda Item No. 6

DACHS Scrutiny Committee – 15th September 2014

Report of the Director of Adult, Community and Housing Services

Right to Buy (RTB) and Replacement New Build - update

Purpose of Report

1. To update the Committee on Right to Buy sales and the Right to Buy Replacement target.

Background

Right to Buy scheme and recent changes.

2. Council tenants have the right to buy their property at a discount on market value, if they are secure tenants, the property is a separate dwelling, and they occupy the property as their only or principal home. The discount is based on how long they have been tenants, with a maximum cap on the value. Sheltered and supported housing is generally exempt from the right to buy. In addition, tenants cannot exercise their right to buy if they have a court order or suspended order for possession, or in cases of bankruptcy.

3. In April 2012, the Government substantially increased the maximum discount for tenants exercising their Right to Buy, from £26,000 (in the West Midlands) to £75,000 (in England, with a higher value in London). The maximum percentage discounts based on length of tenure at this point remained unchanged at 60% of market value for a house and 70% of market value for a flat.

4. Further changes have been introduced from July 2014. The maximum discount has increased to £77,000, and in future years will increase annually by the CPI inflation percentage for the previous September. In addition, the maximum discount for a house has from July 2014 increased to 70%. The minimum discounts remain at 35% for a house and 50% for a flat.

   Example: for a house with a market value of £100,000 where the tenant had been living for 20 years, the percentage discount based on length of residence is 35% plus 15% (1% per year beyond the qualifying 5 year period) = 50% or £50,000. However, when the maximum discount was £26,000, this limit would have applied. Since April 2012, this tenant would have been able to obtain the full £50,000 discount.

5. The government has set up a national Right to Buy agent service to provide support to tenants wishing to buy their home. This has only started at the end of July 2014, so we have no evidence yet on the impact it will have, but we may expect a further increase in applications.

6. We also expect further changes to be introduced, for instance, reducing the qualifying time before a tenant can make a Right to Buy application from 5 years to 3. This change requires primary legislation, which is currently progressing through parliament in the Deregulation Bill.

Number of sales

7. Sales in Dudley had previously been stable for a number of years at between 50 and 60 each year. The recession had resulted in the number of sales reducing, as tenants experienced uncertainty over income security and mortgage lending was more restrictive. Dudley's experience was typical of that nationally.

8. With the increase in the maximum discount, sales have increased. In 2011/12, the last year of the £26,000 maximum discount, we sold 57 properties. In 2012/13, following the increase in discount, we sold 109 properties, with over half of these being sold in the last quarter of the year. In 2013/14 we have sold 205 properties, and in the first quarter of 2014/15 we have sold 51 properties – equivalent to 204 for the full year. Applications have also increased: there are many more enquiries and applications than completed sales, with varying amounts of work required to process applications that do not go through to completion.

9. The average price paid by purchasers is currently around £50,000 for a house and £24,000 for a flat. We are seeing discounts ranging from £20,000 to £75,000, with an average of around £43,000.

Income from sales and Right to Buy Replacement

10. Some of the income we receive from the sales must go to central government, to contribute the level of income that they were expecting before the increase in the discount and the rise in house sales. We must also set some of the income aside to account for the debt we hold relating to these properties, and to cover the legal and administrative costs of the sale.

11. After these requirements have been taken into account, we must use all the remaining income from house sales to contribute towards building or acquiring new council houses.

12. Example: a tenant buying a house valued at £100,000 with a discount of £50,000 would pay us £50,000. Of this, around £20,000 represents the historic debt on the property, £2,000 represents the administrative costs to the council, £10,000 is payable to the Treasury, so we have £18,000 left to support new build. We can choose to spend the £20,000 rather than repay debt, but we need to be confident that our debt levels remain at their current prudent levels and do not become excessive as a proportion of the value of our stock.

13. Housing authorities had the option to use their own receipts to build or provide additional homes, or to hand their receipts over to the HCA (Homes and Communities Agency) for additional homes to be provided nationally. Most authorities, including Dudley, chose to use their own receipts, and have 3 years from receipt to start to incur expenditure on the replacement new build. Spend from 1 April 2012 is eligible to be included. It should be noted that the RTB receipt should not be more than 30% of the cost. Other sources e.g. sale of land, rental income, or (if an authority is below its borrowing cap) borrowing must be used to fund the remaining 70% of build costs.

14. Up to the end of 2012/13, we had £1m of RTB income that we must use for new homes, giving a total of £3.3m that must be spent by March 2016. In 2013/14, we had £2.2m of RTB income that we must use for new homes, giving a further £7.7m that must be spent by March 2017. Based on current projections, we expect a further £2.2m in 2014/15, giving a further £7.7m that must be spent by March 2018. In total, therefore, we must spend £18.7m on new build to replace RTB sales by March 2018, equivalent to around 150 new homes.

15. We already have £13.6m built into the capital programme up to March 2017 for new council homes, which will contribute towards this RTB replacement target. We will be including proposals in the Review of Housing Finance report scheduled for Cabinet on 29 October to extend this programme to March 2018 and increase the budget to at least the £18.7m target.

Finance

15. Expenditure on managing, improving and maintaining council dwellings is funded within the Housing Revenue Account (HRA), which is ring-fenced for income and expenditure on council landlord services.

Law

16. The powers and duties of housing authorities in relation to the allocation and management of Council housing are set out in the Housing Acts 1985 and 1996 and the Homelessness Act 2002. The Housing Act 2004 made significant changes to the Right to Buy and discount levels have been amended via various Statutory Instruments (SI 2012/734, SI 2013/677 and SI 2014/1378).

17. HRA finances are governed by Section 74-78B and 85-88 in Part IV of the Local Government and Housing Act 1989. Sections 167-175 in Part VII of the Localism Act 2011 abolish the HRA Subsidy system (Sections 79-84 in Part IV of the Local Government and Housing Act 1989) and introduce self-financing.

Equality Impact

18. The HRA operates in line with the Council's Equality Policies.

Recommendation

19. It is recommended that:-

    a) The contents of this report are noted.
    b) Members determine if there are issues they wish to scrutinise in more detail.

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