Update Report – Council House Sales under the Right to Buy Scheme

History

The Right to Buy Scheme was introduced in 1980 as a means for tenants of Local Authorities to purchase their properties. It offered generous discounts for tenants to buy their properties. It has proved a popular scheme with over 30,000 properties in Sheffield being sold.

Originally the scheme required tenants to have had a secure tenancy for two years to enable them to buy their property. The more years a tenant had the greater the discount they received, there were also greater discount for tenants purchasing leasehold properties.

For tenants purchasing freehold properties providing they qualified for the scheme they initially received a 30% discount and then gained an additional 1% for every year of tenancy they accrued. For leasehold properties the tenant started at 40% and gained 2% for every year.

The maximum percentage discount a tenant could receive was 60% for freehold (30 years tenancy) and 70% for leasehold (15 years tenancy), these maximum discounts remain in place today although there are planned changes to raise the freehold level to 70% (this is covered in future of the Right to Buy in this report)

Due to the popularity of the Right to Buy a maximum cash discount was introduced in 1999 which limited the discount to £24,000 despite how many years tenancy they had accrued. This remained in place until 2012 when the discount limit was raised to £75,000.

The biggest changes came to the Right to Buy scheme in the Housing Act 2004, this changed the qualification period from two to five years tenancy. It also amended the discount repayment period from three to five years. (i.*e where a tenant sell their property within the first five years a percentage of the discount they originally received when they purchased the property would have to be repaid back to the Council).*

It also inserted a clause into the conveyance / lease where the property has to be offered back to the Council if it is sold within the first ten years after the sale. This was seen as a means for local authorities to lessen the impact of reducing stock levels, however in reality to date the Council has not had funds to buy any back.

Housing Market

In 2007 the general collapse in the housing market also had a dramatic effect on Right to Buy sales. In 2005 /06 Sheffield sold 950 properties in 2007 /08 this had reduced to 376 and the further decline in sales continued year on year to a low of 76 sales in 2009/10.

The subsequent years have seen modest increases in sales until 2012 /13 where the increased discount limit saw a total of 149 sales. The upward trend has continued for 2013/14 with sales to date of 181 (as at end of quarter 3) with forecasted sales for the year predicted to be 243.

The table below shows the trend for RTB sales and applications over the past 10 years.

Year	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
Apps	3508	3109	2968	1927	1866	904	371	275	339	339	561
Sales	1520	2252	1375	950	578	376	106	76	88	104	149

Future for the Right to Buy

The coalition Government still see the Right to Buy Scheme as an important tool to increase home ownership and also with the retained receipts from sales as a means for local authorities to start building new social housing.

The Government is keen to increase Right to Buy sales to fund this new build programme and is actively promoting the Right to Buy. A national advertising mail out has been planned by DCLG this will incorporate Sheffield postcodes where there are known Council properties. DCLG are also doing a targeted mail out to 55-65 year old who live within those postcodes as they see this group of people as the most likely to purchase their property.

To further boost Right to Buy sales there are also planned changes to the qualification criteria and the discount caps. In a press release at the beginning of January DCLG have confirmed they are going to increase maximum % discount from 60% to 70% for freehold properties, this will bring it in line with the maximum discount for leasehold homes. They will also introduce an annual uplift to the maximum cash discount (currently £75,000). This will be increased each year in line with the Consumer Price Index rate of inflation and as such it serves to ensure that discounts remain constant in real terms. DCLG are aiming to have these changes in place by May 2014 and any application that may be affected will automatically have their selling price amended.

There are also proposals to reduce the qualifying criteria for tenants to buy. Currently applicants need to have been tenants for five year before having the right to buy, this is set to be reduced to three years to allow more tenants to access the scheme. This change is likely to be introduced later in the year.

Future Sales Predictions

Whilst there has been a gradual recovery in the general housing market it is difficult to predict the effect it will have on Right to Buy sales. Historically mortgage providers were happy to lend on the basis that the discount a tenant received could be used as the deposit. Following the downturn in the housing market mortgage providers were less willing to lend on this basis and generally saw Right to Buy as a higher risk and restricted their lending to this market.

Steady rises in Right to Buy sales are predicted for the next few years.

2013 / 14 – 243

2014 / 15 – 265

2015 / 16 – 290

It is possible however that numbers could be higher if the housing market in this region becomes particularly buoyant and/or there are further changes to the scheme in the future.

Capital Receipt

The introduction of the higher maximum discount of £75,000 in April 2012 has meant that properties are being sold for less and therefore the capital receipt per sale has reduced. However because the number of sales is increasing the level of receipt overall is increasing and will assist the delivery of new affordable homes in the city.

The table below shows the total sales, total capital receipt (millions), average property price and average property discount for the past 10 years.

	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
Year											
Sales	1520	2252	1375	950	578	376	106	76	88	104	149
Capital Receipt £ Millions	25.2	46.6	37.9	35.8	25.6	18.7	5.3	4.4	4.2	4.5	5.6
Average Sale price £	16567	20703	27542	37731	44257	49604	50276	58212	47793	43080	37704
Average Discount £	14770	17623	19558	22553	23086	23634	21762	23650	23622	23415	37874

The projected capital receipt from the right to buy sales for the next 3 years is

2013 / 14 - £9.4m – based on 243 sales at an average selling price of £38,033

2014 / 15 - £10.6m – based on 265 sales at an average selling price of £39,950

2015 / 16 - £12.2m based on 290 sales at an average selling price of £41,950

Not all of the receipts from RTB sales can be retained by the Council to reinvest. Prior to April 2012 the Council could only retain 25% of the receipt (subject to offsetting certain costs). The remaining 75% however had to be sent to the Government for pooling. By this time DCLG had also obtained/ commissioned from PWC long term RTB sales projections and factored these into the self-financing debt settlement.

In 2012 when the Government introduced changes to the maximum discount levels to reinvigorate the RTB scheme they also gave Local Authorities the option to keep 100% of the receipts gained from any additional sales (over and above the levels forecast in the self-financing settlement) This was on the proviso they agreed to reinvest the additional capital receipt into the delivery of new affordable homes . If Councils took up this option (as Sheffield has done) they can use these additional receipts to part fund new homes. Significantly however, only 30% of the cost of a new home can come from RTB receipts. The remaining 70% has to be funded by another source.

Further reports will be brought to this committee to provide an update on the oncoming changes to the RTB scheme, changes to RTB activity moving forward and the resultant impact on capital receipts/ funds available to invest in new homes.