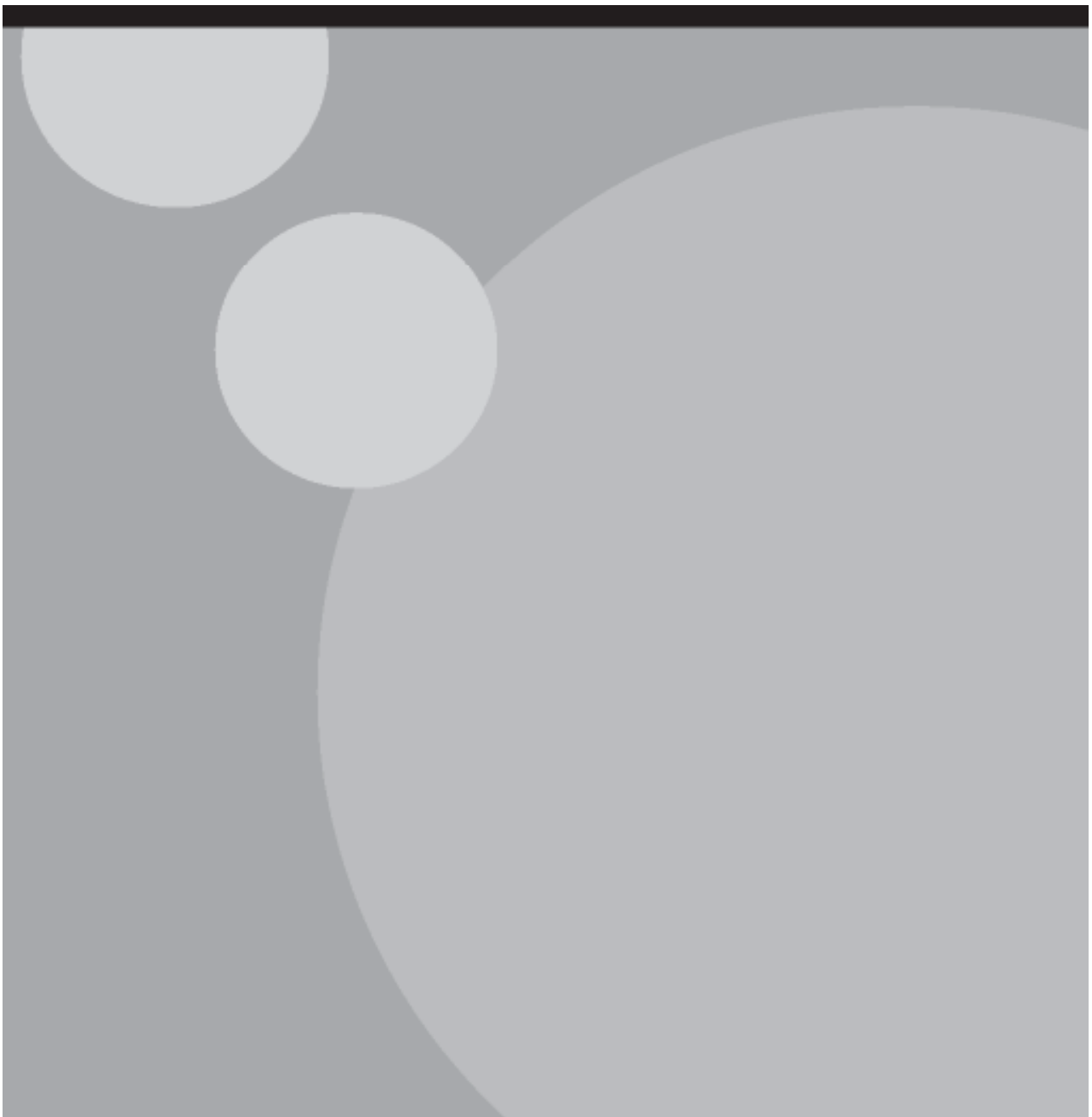




Reinvigorating the Right to Buy and one for one replacement

Consultation



Summary

The Housing Strategy

1. In its paper *Laying the Foundations: A Housing Strategy for England*, the Government announced its intention to increase the caps on Right to Buy discounts and “hence the average discount received by buyers in England would be up to half the value of their homes – which would be roughly double the current average discount”.
2. The strategy also set out Government’s commitment to ensuring that every additional home sold under the Right to Buy is replaced by a new home for Affordable Rent and that additional receipts from sales will be recycled towards the cost of replacement.

Introduction and background

Current arrangements

3. Under the current Right to Buy legislation council tenants and housing association tenants who transferred with their homes from council landlords have the right to buy their home at a discount¹. Where a council makes a Right to Buy sale, the receipts² are subject to pooling. The council may retain the administrative costs of the sale and the costs incurred on improving the dwelling up to three years before the sale. After those costs have been taken into account, the council may retain 25 per cent of the remaining receipts and the balance of 75 per cent is paid to government.

¹ Right to Buy is available to secure tenants of local authorities and non-charitable housing associations. Assured tenants of housing associations who were secure tenants and have been transferred with their homes as part of a stock transfer from a local authority to a housing association also have the Right to Buy - this is known as Preserved Right to Buy. Broadly the same terms apply to both schemes.

² Apart from homes covered by an agreement between the local authority and the Secretary of State under section 80B of the Local Government and Housing Act 1989, which, in the main, are new homes built since July 2008

Proposed arrangements

4. The Government now intends that net receipts from sales (after allowable costs, repayment of housing debt and currently forecast receipts for councils and central government) should be used to replace the additional homes sold as a result of the higher discount levels. That is, all Right to Buy sales above current predicted levels will be replaced by new homes for Affordable Rent funded (in part) by the additional Right to Buy receipts.
5. The receipt needed to fund replacement will only be a fraction of the cost of a new home. This is because most of the funding for new affordable rented homes comes from borrowing by the provider against the future rental income stream and, in many cases, cross-subsidy from the landlord's own resources, including land.

This consultation

6. This document sets out this Government's detailed proposals to change the caps on discounts and the rates that will apply to Right to Buy sales.
7. We are consulting on:
 - our proposals to increase caps on the Right to Buy discount
 - protections for tenants who exercise their Right to Buy
 - preventing abuses
 - rural areas
 - exclusions
 - our proposals for councils on allowances and deductions from Right to Buy receipts
 - our proposals for councils in apportioning Right to Buy receipts
 - our proposals for changes to the Local Authority (Capital Finance and Accounting) Regulations 2003
 - our proposals for delivering Right to Buy replacement homes for Affordable Rent
 - how Right to Buy will work in the housing association sector
 - working with lenders.

The Government's proposals for tenants

8. To qualify for Right to Buy or Preserved Right to Buy, tenants must have spent five years as public sector tenants. Once eligible, current discount rates are:
 - for houses: 35 per cent of the property's value plus 1 per cent for each year beyond the qualifying period up to a maximum of 60 per cent
 - for flats: 50 per cent plus 2 per cent for each year beyond the qualifying period up to a maximum of 70 per cent.
9. In practice, most Right to Buy discounts are limited by caps set in secondary legislation. These currently range from £16,000 in most parts of London to £38,000 in parts of the South East. The effect of the caps is that the average discount rate received by buyers in England is around 25 per cent - ranging from 13 per cent in London to 32 per cent in the North West.

Proposals for caps, discount rates and eligibility

10. There is a balance to be made between offering generous discounts and having enough receipts to fund the building of replacement homes.
11. We propose to raise the upper limit (the cap) on the Right to Buy discount entitlement to £50,000 throughout England. This will be implemented by an order made under section 131 of the Housing Act 1985. This more than triples the cap currently applied in most of London and provides a substantial increase in the rest of England.
12. We are interested in views on whether there is a case for changing the minimum and maximum discount rates applying to houses and flats, or the rate at which tenants qualify for increased percentage discounts.
13. We do not intend to change the qualifying period for eligibility.
14. The proposed changes will also apply to the Preserved Right to Buy.
15. Subject to the outcome of the consultation and Parliamentary business, we plan to implement these changes in April 2012.

Q1: We would welcome views on the proposals outlined above

Protecting tenants who exercise their Right to Buy

The tenant experience and the responsibilities of home ownership

16. The responsibilities of home ownership are different from those facing tenants. The increased discounts offer new opportunities but it is important that tenants have clear information on what is involved in entering home ownership so that risks of them being unable to sustain owner occupation are mitigated.
17. The Department's booklet for tenants, *Your Right to Buy your Home*, which is available in both hard copy and on the website, will be updated. It currently includes advice on the costs and responsibilities of home ownership and the importance of obtaining independent legal and financial advice before deciding whether to buy. The booklet also provides a chart allowing tenants to compare the costs of renting or buying their home. In addition, free advice to help tenants understand what home ownership means is available through organisations such as the Money Advice Service.
18. The **Money Advice Service** provides free tailored money advice to help people make informed choices on financial matters. The service was set up by Government and is financed by a levy on financial services firms. It can be accessed online, over the phone or face to face.
19. The **Citizens Advice Bureau** also provides free information to tenants to help them understand the practical implications (both day-to-day and long term) of the change from being a council tenant to becoming a home owner. In addition, both the Citizens Advice Bureau and Shelter provide training to local authorities to enable their staff to give basic money advice to tenants.
20. In taking up the Right to Buy most tenants will fund their purchase through a mortgage. The discount offered reduces the mortgage required and means that the lender is able to offer a loan to value below that which would normally be required.
21. The **Financial Services Authority** currently requires firms to take account of consumer's ability to pay when providing mortgage finance. It is undertaking a wide ranging review of its mortgage regulation, the Mortgage Market Review, which includes proposals to strengthen rules to protect consumers. It published a consultation paper - http://www.fsa.gov.uk/pages/Library/Policy/CP/2011/11_31.shtml on 19 December 2011 with a number of proposals in the areas of responsible lending and the distribution of mortgages. The measures will apply to Right to Buy lending and will help prevent Right to Buy borrowers from getting into financial difficulty on their mortgage.

Leasehold service charges

22. Flats currently comprise around half of all local authority stock. Where a tenant buys a flat, they have to pay service charges which include costs for routine maintenance and for any major works. In some cases, major repair costs for blocks of flats have resulted in financial difficulties for some Right to Buy purchasers. In particular, major renovation programmes to improve local authority properties generated significant major works bills for a small number of Right to Buy leaseholders. Right to Buy purchasers may also find it harder to sell their home in the future if subsequent purchasers are likely to face large major repair bills.
23. A package of measures to assist leaseholders was introduced between 1997 and 2008 including:
- a good practice guide to help local authorities improve their management of service charges and to avoid leaseholders being presented with unexpectedly, or unreasonably, high bills
 - directions providing for mandatory and/or discretionary reduction of service charges
 - the requirement for local authorities to provide loans for service charges
 - a financial incentive for local authorities to operate a Buyback³ scheme
 - statutory rights for leaseholders to be consulted about major works and to challenge service charges.
24. Together these have reduced the risk of Right to Buy leaseholders being faced with unexpected and unaffordable bills.
25. Tenants thinking of purchasing their flat under Right to Buy can obtain free advice and information from the **Leasehold Advisory Service**, a specialist body funded by the Department for Communities and Local Government to give independent advice on a wide range of residential leasehold issues.
26. In addition, the Department's booklet, *Thinking of buying a council flat?* provides information for tenants on the particular responsibilities associated with owning a flat.

Q2: Do you agree that information currently provided to prospective Right to Buy purchasers is sufficient? If not, what else should be included?

³ See paragraphs 55-57

Purchasing with family members

27. Family members may join in the purchase if they are on the tenancy agreement or if they have lived in the property (as their only or principal home) for at least 12 months immediately prior to the Right to Buy application being made.
28. Family members are defined in section 186 of the Housing Act 1985 and include children, aunts and uncles, and nephews and nieces.
29. The landlord can, if they wish, allow any family member to join in purchasing a property under Right to Buy even if they do not meet the qualifying criteria.
30. There has been anecdotal evidence of family members encouraging tenants to exercise their Right to Buy and then persuading them to sell in order to realise the asset, resulting in the former tenant needing to be re-housed by a social landlord. The *Right to Buy your Home* booklet has been amended to highlight all the issues which a tenant should take into account when deciding whether to exercise their Right to Buy.

Q3: 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?

Preventing abuses

31. In the past companies have offered tenants a lump sum to take up their Right to Buy, leave the property having leased it to the company (who then sublet it at market rates), and agree to sell to the company after the end of the period for repayment of discount (a sale and lease agreement); and encouraged tenants to employ them to administer their Right to Buy purchase, often charging over the odds for their services.
32. Research by Heriot-Watt University on this issue, commissioned by the Department in 2003, concluded that this was almost entirely an inner London problem; that it was a cheap way for companies to build up a portfolio of private rented properties; and that it particularly attracted tenants in high rise blocks or on problem estates, and those who needed sub-prime mortgages.
33. The Housing Act 2004 made several changes to discourage Right to Buy exploitation:

- agreements to resell were defined as ‘relevant disposals’. This means that, where tenants agree to a resale agreement, they must repay some or all of the discount based on the date the agreement was entered into
 - the period during which discount was repayable was extended from 3 years to 5 years
 - the amount of discount repayable changed from a ‘percentage of discount received’ to a ‘percentage based on the resale value of the property’
 - a right of first refusal was introduced, requiring Right to Buy owners to offer their home back to a social landlord first, when they wanted to sell.
34. These changes make sale and lease agreements less attractive. In addition, the Department’s booklet for tenants, *Your Right to Buy your Home*, carries warnings for tenants about approaches from Right to Buy companies
35. We want to strike a balance between guarding against abuse, and over-limiting the rights of individuals buying their own homes through the Right to Buy.
36. The Government considers that the current legislation on resale agreements and discount repayment, which have been introduced since the last peak in Right to Buy sales, are a proportionate response to the exploitation issue but will keep this under review.

Tenants without a Right to Buy

37. Not all social tenants have a Right to Buy their rented home. Some housing association tenants benefit from a Right to Acquire with slightly different terms and discount arrangements. The proposals for Right to Buy discount do not apply to the Right to Acquire. Some landlords may offer discounted voluntary sales schemes, including Social HomeBuy, to assist those tenants without a Right to Buy.

Other home ownership schemes

38. Irrespective of whether tenants have a Right to Buy, they will want to make informed choices about the range of home ownership options available, including other Government funded schemes such as shared ownership (part buy/part rent) and the FirstBuy equity loan scheme for which social tenants have priority. Further information on these schemes can be obtained from HomeBuy Agents. A list of HomeBuy Agents and their contact details is available at:

www.homesandcommunities.co.uk/homebuy_agents

Rural areas

39. Over the years, concern has been expressed over the impact of Right to Buy on rural areas where the original stock of council housing was small and high house prices made owner occupation inaccessible for many local people. A number of measures (under section 157 of the Housing Act 1985) ensure that properties sold under Right to Buy in rural areas remain in the ownership of local people. For example, where homes are sold under Right to Buy in National Parks, Areas of Outstanding Natural Beauty or areas designated as rural by the Secretary of State, social landlords can impose restrictions on their resale. The restrictions are either:
- that the property can only be resold to someone who has been living or working locally for at least three years; or
 - that if the owner wishes to resell within 10 years of the Right to Buy sale, they must first offer the property to the original social landlord.

Q4: We would welcome evidenced assessments of the impact on rural affordable housing of the proposed changes to Right to Buy discounts.

Exclusions

40. Some properties are excluded from the Right to Buy. These include, among others, homes which are suitable for occupation by older people, sheltered housing for older people and those with disabilities. There are no plans to change the rules on properties excluded from Right to Buy.

The Government's proposals for councils

Use of Right to Buy receipts: proposals on allowances and deductions

41. Right to Buy receipts include all receipts from tenants under Right to Buy legislation. Additionally, we propose to include receipts arising from voluntary sales at discounts to secure tenants, including some shared ownership sales as set out in our recent consultation *Streamlining council housing assets: Disposals and use of receipts*⁴. Receipts from Preserved Right to Buy sales are discussed later.

Loss of income to the Housing Revenue Account

42. The valuations used in calculating the self-financing settlement payments to end Housing Revenue Account subsidy include a forecast of lost surplus income arising from Right to Buy sales under the current Right to Buy policy. The methodology is set out in the consultation on *Housing Revenue Account Self-financing Determinations*, published on 21 November 2011 on the Department for Communities and Local Government's website⁵. However, under our proposals to reinvigorate Right to Buy, we expect sales to be substantially higher than the self financing projections, and we propose that a part of the Right to Buy receipt should be used to pay down the housing debt supportable from the lost income from these additional sales.
43. Our proposals for calculating the amount of housing debt that should be cleared are set out in Annex 3.

Q5: We would welcome your views on these proposals

⁴ www.communities.gov.uk/publications/housing/streamliningcouncilhousing

⁵ www.communities.gov.uk/publications/housing/draftdeterminationsselffinancing

Local authority transaction and administration costs

44. Under our proposals for increased discounts we expect take-up of the Right to Buy to be substantially higher than current levels and the costs of administering sales (successful and withdrawn) will rise correspondingly. Currently councils can deduct the actual administration and transaction costs of successful sales from Right to Buy receipts, but there is no allowance for costs relating to applications under Right to Buy which do not result in a sale.
45. We propose a simpler, fairer and more transparent system.
46. Councils will no longer need to make and justify expenses claims to central government, making a detailed retrospective allocation of staff time between successful and unsuccessful applications. This system encourages inefficiency and creates unnecessary red tape. Instead councils will be able to simply deduct and retain a flat rate per successful sale. They will continue to be able to charge administration costs to the Housing Revenue Account.
47. Flat rate allowances will be set for each region with regard to the 40th percentile of costs⁶ achieved by councils in that region over the last three years. Adopting a flat rate at the 40th percentile of costs provides a strong incentive to councils to achieve efficiency in their operations. Where councils are able to push costs below this figure they can retain the surplus.
48. The Government is considering making a further allowance to deduct the costs of handling withdrawn applications. This would be a helpful change for councils from the current position where such costs cannot be claimed. However we do not currently collect information on the number of cancelled applications and have limited evidence on the costs of administering these. We would therefore welcome any information councils can provide on actual numbers and costs incurred in managing applications which are subsequently withdrawn.
49. Annex 2 sets out the proposed flat rate allowances for transactional and administrative costs.

⁶ 40 per cent of councils have costs below the 40th percentile.

For local authorities:

Q6: What proportion of Right to Buy applications are subsequently withdrawn in your area?

Q7: What costs are incurred in managing aborted applications?

Improvement costs

50. Under current arrangements, councils can claim any costs they have incurred improving the sale property in the last three years from Right to Buy receipts. Whilst this has been an arrangement of long standing, we are no longer persuaded this is necessary or appropriate and propose to remove this allowance. To the extent that improvements increase the value of the property, this will be reflected in the market price and (at a discounted rate) in the Right to Buy receipt. Some improvement costs relate to expenditure under the Decent Homes programme which is funded by central government. Where the improvements do not increase the market value they are more of the nature of regular maintenance work which is a normal landlord responsibility.

For local authorities:

Q8: What sources of funding have you used for improvement works in your area?

Protecting council and central government projected shares of receipts

51. The Local Government Settlement was made on the basis of prudent assumptions about future receipts and these would have included council shares of Right to Buy receipts. Under current arrangements a council with retained stock can keep from any Right to Buy receipt the sale costs plus any costs incurred improving the property in the last three years. In limited circumstances they then have the option of using some of what is left to buy back former council homes. From whatever is left after that, 75 per cent is paid to government and 25 per cent is retained by the local authority which it may use for any capital purpose. In practice we understand that receipts are used for a variety of purposes including repayment of housing debt, private sector renewal and Disabled Facilities Grant.

52. We expect that councils will have made prudent projections of their share of future Right to Buy receipts in this spending review period (2011-12 to 2014-15) under current discount rates and we intend to implement arrangements which protect that income stream⁷.
53. Annex 1 sets out our calculations. These are based on published estimates of Right to Buy sales used in calculating financial arrangements for the self financing of council housing. We conclude that a reasonable estimate for local authority assumed income over the period is £253m. Some £24m has been received by councils to date in 2011-12 leaving £229m outstanding (referred to as *Local Authority assumed income* in the calculations).
54. We also intend to protect central government's projected share of Right to Buy receipts which are included in the Office for Budget Responsibility's public expenditure forecasts⁸. Central government's projected share of receipts from Right to Buy sales over the Spending Review period is £571m. Some £73m has been received by central government to date in 2011-12 leaving £498m outstanding (referred to as *Government assumed income* in calculations).
55. 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 regime⁹.

Q9: We would welcome views on the proposed approach to projected receipts.

Buyback

56. Under current arrangements, councils have the option of using Right to Buy receipts to cover part of the costs of buying back former council homes. The Government is considering whether to continue to allow the use of receipts for this purpose once other costs have been covered.
57. The Buyback allowance, as currently proposed, is relatively high at 50 per cent of the cost to authorities of buying back former council homes and its extensive uptake by

⁷ This income stream can only be fully protected if receipts are sufficient to cover allowances, Local Authority assumed income and Government assumed income. Where receipts fall short, we propose that, after debt and other costs, receipts are shared between councils and Government (broadly in line with current arrangements).

⁸ Office for Budget Responsibility: November 2011 Economic and fiscal outlook

⁹ Currently such agreements are made under section 80B of the Local Government and Housing Act 1989, but post March 2012 will be made under section 174 of the Localism Act 2011.

councils would reduce funding available for replacement homes. Some homes bought under Buyback are added to the council's rental stock, but others are bought for demolition under estate regeneration schemes. Where the local authority lets a property bought under Buyback and commits to its long term use as social housing, then this would contribute to the one-for-one replacement numbers.

58. In coming to a decision on Buyback allowances, it would be helpful if councils using the scheme could provide information on the numbers of Buyback properties which have been brought back into rental use or have been demolished.

Q10: We would welcome any information councils can provide on the use of Buyback properties. We would also welcome views on this proposal.

Cost floor

59. 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.

Q11: Do you have any comments on this proposal?

Proposals for apportioning Right to Buy receipts

60. Where receipts are sufficient to cover all allowable costs and Local Authority and Government assumed income then we propose that councils should apportion Right to Buy receipts as follows:

from the receipt the council may deduct:

- housing debt supportable from the income on additional sales
- transaction and administration costs on all sales
- local authority assumed income

the council pays to central government:

- government assumed income

61. The remaining receipt is available to support funding for replacement homes. The treatment of the remaining balance will depend on decisions on Buyback and the delivery model implemented for replacement homes.
62. Our estimates of take-up for Right to Buy over the spending review period indicate that receipts are very likely to be sufficient to cover all allowable costs and local authority and government assumed income and to provide sufficient additional funding to secure one for one replacement on additional sales. However, in the event that receipts fall short, after debt and costs, the receipts would be shared between the council and government in proportion to their respective assumed incomes.
63. A more detailed explanation is at Annex 4.

Q12: We would welcome views on the calculation of allowable deductions

Proposals for changes to the Local Authority (Capital Finance and Accounting) Regulations 2003

64. The Government recently sought views on proposed amendments to the *Local Authority (Capital Finance and Accounting) (England) Regulations 2003* (Streamlining council housing asset management: disposals and use of receipts).
65. Consultation closed on 17 November 2011 and the Government expects to publish its response to the comments it has received shortly. The response will, however, 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.
66. In relation to Right to Buy we propose to remove the current requirement to pool Right to Buy receipts. It will be replaced with a calculation that would apportion Right to Buy receipts as set out above.
67. The main provisions would:
 - remove the requirement to pool Right to Buy receipts as set out in the current regulations
 - provide for housing debt that is supportable from the income from additional sales
 - provide for administration and transaction costs on all sales and uplift for costs of handling withdrawn applications
 - require councils to use Right to Buy receipts up to the assumed levels (after paying housing debt and administrative costs) to pay the Government or itself the appropriate amounts
 - require councils to make Right to Buy receipts above the assumed levels (after paying attributable debt and administration costs) available to provide replacement social housing
68. A summary of the proposals and simple examples of how they would operate are at Annex 4.

Proposals for delivering Right to Buy replacement homes for Affordable Rent

Distribution of receipts from Right to Buy sales of council houses

69. Under our take-up modelling, receipts are generally greatest and sales increase the most in areas of high housing need, because these are the areas where house prices are highest and Right to Buy demand has previously been limited by setting the caps at low levels (for example £16,000 in much of London).
70. However, receipts generated locally will not necessarily secure one-for-one replacement in each area. For example, on average, our estimates suggest that receipts in the North West may be insufficient to support the funding required for one-for-one replacement while in London the receipt from a single sale could support more than one Affordable Rent replacement home.
71. This section sets out for consultation a range of possible delivery models for managing the replacement programme. These are:
- Local delivery – where receipts for replacement are left with the council where the Right to Buy sale took place for reinvestment
 - National delivery – where receipts for replacement are brought together and then allocated through the Greater London Authority in London and by the Homes and Communities Agency in the rest of England
 - Combined approaches – with some central direction on use of the receipts but leaving substantial local control.

Funding replacement homes

72. Under all models receipts used for replacement homes will need to be supplemented by borrowing, provider contributions in land or other funding. Unlike the current Affordable Homes Programme it is not intended to allow conversions¹⁰ to support funding for replacement affordable homes.

¹⁰ In the current Affordable Homes Programme, some of the additional funds for new affordable homes are generated by conversions. This allows registered providers to raise rents from lower social rents to higher Affordable Rents when the stock is re-let. The landlord can borrow against the increased rental stream providing the additional funds needed.

Replacement delivery models

Local Model

73. Receipts available for the delivery of replacement homes could be left with the local authority for investment in local priorities including new homes for Affordable Rent. Authorities could either choose to manage development themselves or to develop in partnership with neighbouring councils or to commission housing associations or other registered providers directly.
74. While we anticipate that most councils would prioritise the use of receipts for replacement homes, there may be some areas where, for example, estate regeneration or Decent Homes were considered more pressing and receipts applied for those purposes.
75. This approach is consistent with local authorities managing their own affairs and is generally consistent with replacement homes being built in areas of greater housing need. However, it would be unlikely that all the available receipts were used for replacement homes and so would be very unlikely to deliver one-for-one replacement at the national level.

Local model with Direction

76. Receipts available for the delivery of replacement homes could be left with the local authority with the requirement that they are used for investment in new homes for Affordable Rent.
77. Local authorities are well placed to decide where, what size and type of new homes for Affordable Rent should be provided and could use their own land and other resources to support development. They would be free to undertake development directly, to develop in partnership with neighbouring councils or to commission housing associations or other developers.
78. One way of directing local authorities to use available receipts for replacement homes would be to specify the uses of available receipts in the Local Government Capital Finance Regulations. Compliance could be checked by the local authority's auditor and failure to meet it would result in clawback. This Department would administer scrutiny and clawback arrangements (with consequent administration costs) and funds clawed back would be reinvested in Affordable Rent homes through the Homes and Communities Agency and the Greater London Authority.
79. In this model, councils would be free to decide the balance between receipts, their own resources and borrowing to support funding of replacement homes. There could be no obligation to use their own resources and so the proportion of receipt used for replacement would most probably be higher than necessary to secure one-for-one replacement at the national level.

80. This approach is consistent with local authorities managing their own affairs and is generally consistent with replacement homes being built in areas of greater housing need. However, while directing councils on the use of receipts is likely to increase the number of replacement homes (compared to the Local Model), it is still very unlikely to achieve one-for-one replacement across England

Local Model with Agreement

81. Receipts available for the delivery of replacement homes could be left with the local authority, subject to agreement with the Secretary of State, including agreement on the contribution to replacement costs that the council will make from its own resources.
82. The Secretary of State's agreement to leave receipts with a council could depend on a local funding plan for delivering new affordable homes. The plan would set out proposed borrowing, contributions the council would make from its own resources (land and funds) and a "maximum contribution" from available Right to Buy receipts. The maximum contribution would be agreed at a level intended to secure one-for-one replacement at a national level. The plan should also demonstrate that the council can secure value for money in its use of funding and is addressing need in the area. Under this model some areas would not be able to replace all additional Right to Buy sales while for others replacements would exceed sales.
83. Local authorities would report regularly on progress of the replacement programme to provide evidence they were delivering the replacement homes within a reasonable timeframe. If a local authority failed to meet its stated plans this Department would clawback the funding for redistribution.
84. This approach leaves receipts with local authorities which are able to demonstrate their ability to deliver good value for money in the use of receipts for replacement homes, and will secure one-for-one replacement at the national level. It is generally consistent with replacement homes being built in areas of greater housing need. However, the model adds a layer of administrative complexity and cost for both local authorities and this Department. It would require local authority proposals to be assessed, specific agreements to be drafted, and monitoring and enforcement arrangements implemented. It is likely that the delivery of replacement homes may take longer than through a national model.

National Model

85. Receipts available for replacement homes at Affordable Rent could be surrendered to this Department which would pass these to the Greater London Authority and the Homes and Communities Agency to manage replacement programmes in London and the rest of England. The programme could be managed along the lines of the previous National Affordable Homes Programme, whereby providers, including councils, would bid for

replacement funds for use in their areas on a continuous basis (known as continuous market engagement).

86. The Homes and Communities Agency would reinvest within each of their five operating areas¹¹ and within those areas give priority to local authority areas where there has been a high volume of sales and which had high levels of need. Similar arrangements could operate in London through the Greater London Authority.
87. As under the Affordable Housing Programme, local authority endorsement would be sought for proposals in their areas to ensure fit with local priorities. This approach would take advantage of the efficiencies of scale and value for money that both the Homes and Communities Agency and the Greater London Authority can achieve through the competitive process and funds could be directed to areas of higher need. However, it implies a less direct route for local decision making in allocating funds and some local authorities might be less willing to provide their own land to support development.
88. This approach would allow some redistribution of funding between council areas and provide an open and efficient procurement process through continuous market engagement. It is probably best placed to achieve one for one replacement nationally but would have less local support from councils than Local Models.

Consideration of Models

89. Local Models are most consistent with arrangements where receipts are spent where they are generated. While this will not ensure one-for-one replacement in every locality, under the Local Model with Agreement it could be consistent with national one-for-one replacement.
90. Local Models are consistent with councils managing their own affairs and bringing to bear local knowledge on priorities. However, competition from developers to build replacement homes may be limited by the small scale of some local replacement requirements and a limited number of developers based in the area. To some extent this drawback would be mitigated in the Local Model with Agreement where value for money benchmarks could be incorporated into decisions.
91. Local Models may not work for all councils. Some may not wish to manage the development process and might prefer to bid into a centralised scheme for delivering replacement homes. Others may not be able to borrow to fund the full cost of development if they are operating close to their borrowing limits under self financing and some may not wish to participate in a replacement programme. If a Local Model is chosen, then arrangements through the Homes and Communities Agency and the Greater London Authority would still be required to manage available receipts of those councils who did not wish to manage locally.

¹¹ From 1 April 2012

92. The Local and National Models could be adapted to allow some redistribution from “high receipt” areas to “lower receipt” areas. In high receipt areas, local authorities would surrender “surplus” receipts to this Department but they would continue to lead on delivering their local replacement programmes funded from retained receipts. This Department could then pass the surplus receipts either to councils with lower receipt levels for use in their local replacement programmes or to the Greater London Authority in London and the Homes and Communities Agency in the rest of England to administer replacement programmes. Redistribution would be more consistent with one-for-one replacement locally, if that were an objective, but adds administrative complexity to the Models.
93. If some redistribution is agreed we will need to decide whether receipts arising in London should be ringfenced for use in London. This would limit the potential for national redistribution but might reflect the higher need for affordable housing in London.
94. Under Local Models we would have to develop arrangements for monitoring of replacements. For the Local Model and Local Model with Direction, monitoring could be implemented through completion of a new section in the annual return of the English Local Authority Statistics on Housing to this Department. This is an annual return completed by local authorities on a voluntary basis. For the Local Model with Agreement, this Department would need to set up a monitoring regime. For the National Model, monitoring would be through the Homes and Communities Agency and Greater London Authority’s existing systems.
95. Under all Models, where local authorities develop homes for Affordable Rent, they would need to gain exemption from the limit rent in order to retain the benefit of the higher Affordable Rent. Arrangements to achieve this could build on those used in the current Affordable Homes Programme where local authorities developing homes for Affordable Rent are required to gain the Homes and Communities Agency’s support. Similar arrangements enable private registered providers to deliver Affordable Rent homes without grant from the Homes and Communities Agency; these arrangements would need to be adapted to support the provision of council funded Affordable Rent homes by private registered providers.

Criteria for decisions

96. The critical issues in deciding between these models will be the extent to which the arrangements:
 - can secure competition and value for money in commissioning replacement homes
 - provide assurance that, for England as a whole, one-for-one replacement is secured
 - secure replacement in a reasonable timeframe
 - deliver replacement homes in areas of higher housing need, and

- are administratively simple and transparent.

Q13: Which model for delivery of replacement housing do you consider the most appropriate, and why?

The Government's proposals for *housing associations*

How Right to Buy will work in the housing association sector

Tenants benefiting

97. Assured tenants of housing associations who were secure tenants of a local authority and have transferred with their homes as part of a stock transfer from the local authority to a housing association also have a right to buy – this is known as the Preserved Right to Buy.
98. Eligibility, discount rates and caps applying to Right to Buy automatically apply to Preserved Right to Buy.
99. The number of tenants with Preserved Right to Buy is not known directly but on the basis of a number of reasonable assumptions we estimate that about 620,000 tenants in the housing association sector are eligible.

Allocation of receipts

100. Arrangements for distributing receipts from Preserved Right to Buy sales in the housing association sector are varied and depend on the local agreements made with transferring councils. In most cases Preserved Right to Buy sale receipts are shared between the housing association and council but for early transfers (pre 1991-92) associations generally retain the full receipt. Where receipts are shared the portion retained by the association covers sales costs and compensates for lost rental income. This is important so that the sale has a minimal impact on the association's business plan and it can continue to meet loan covenants.

Local Authority	Region	RTB Sales Forecast from Self Financing Model				Actual RTB Sales (P1B data)			Provisional 2011/12 RTB sales data (Q1,Q2)	Actual Capital Receipts (after discount) (P1B data) £'000			Average Capital Receipt £'000	Average Admin Cost £	Average Improvement Cost £	Compensation - LA maximum retained receipt per RTB sale... £'000				LA actual income 2011/12	LA assumed income £'000			Government assumed income £'000		
		2011/12	2012/13	2013/14	2014/15	2008/09	2009/10	2010/11	2011/12	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2011/12	2012/13	2013/14	2014/15	2012/13	2013/14	2014/15	2012/13	2013/14	2014/15
Epping Forest	E	7	9	10	11	7	8	9	3	980	1,030	992	125.1	2,349	358	30.6	30.6	30.6	30.6	77	406	312	349	870	692	760
Total		2410	2955	3458	3878	2,690	2,191	2,518	1,353	209,962	164,574	197,438								24,176	82,638	68,858	77,220	177,000	153,000	168,000