
Research into the Right to Buy within the Housing Revenue Account

Local Government Association
Association of Retained Council Housing
National Federation of ALMOs

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Executive Summary

Introduction

Savills Affordable Housing Consultancy was jointly appointed by the Local Government Association (LGA), and its partners the Association of Retained Council Housing (ARCH) and the National Federation of ALMOs (NFA), to undertake research into various aspects of the policy, financial and technical operation of the Housing Revenue Account (HRA). This report addresses the work related to the Right to Buy in the HRA, carried out during the period from August-December 2022 based on the construction of a national model covering household income distribution, affordability, sales, receipts and discounts and taking into account the views and feedback from a series of participant local authorities.

Headline outputs

Key trends

1. Volumes of sales increased significantly after 2012 (taking into account a “start-up year” in 2012.13 which saw applications grow but with completions of sales in 2013.14). Based on total local authority housing stock of an estimated 1.570million homes on 1st April 2022, projected to be c1.552million homes on 1st April 2023, RTB sales at 11,000 represent around 0.7% of the stock sold through this route annually.
2. Replacement homes provided under 141 agreements have consistently failed to match the loss of stock through sales, challenging the notion of “one for one”. The financial implications of the calculation of replacement potential (based on 141 receipts converted into programme totals with matched funding) does not achieve one for one replacement, when taking into account increasing construction and development costs.
3. Notwithstanding that it takes time to bring forward schemes for development and then to complete the construction, annual replacements (as measured by starts on site and acquisitions) peaked at just above 6,000 in the period from 2019-2021, and were 5,089 in 2021.22.
4. There has been an increasing contribution of acquisitions within the replacement totals but in no year have starts represented anything more than 58% and in only one year have been more than 50% of stock sold under the RTB. There is a substantial net decline in stock held by local authorities as a result of increased sales and replacement homes nowhere near keeping pace with sales.
5. In summary, the total market value of sales since 2012 has been £15.533billion with actual receipts of £8.795billion highlighting that the total of discounts provided to purchasers has been £6.738billion. A substantial proportion of the discounts provided will have been at a rate which is either in excess of the required discount in order to facilitate a purchase, i.e. households are able to afford more than the net price offered, and/or in excess of the rent paid by the tenant/household during their time as a council tenant (noting that one of the original arguments in favour of the Right to Buy was that rents paid should be accrued to form the basis of the discount to market value).

6. At a regional level, we can identify three separate experiences: in London sales peaked in 2014.15 and have declined steadily since; in the three southern regions, sales volumes are lower than in the north and midlands and have tended to stabilise or exhibit slight decline since 2016; in the five northern and midland regions, by contrast, there is a tendency to show consolidated increases to 2016 which have been sustained into the current period.
7. Whilst discount averages were 41% across the country in 2021.22, the regional variation was between 36% in the south and 48% in the north. This masked an even greater variation at the authority level where the maximum was 54% (an authority in the East Midlands) and as low as 18% (an authority in London).
8. We believe that the regional differentiation provides the basis for a serious discussion around whether it might be appropriate to adopt alternative policies towards elements of the RTB scheme on a regional basis i.e. to further expand the separation between maximum discounts in London vs the rest of the country to a defined region-by-region approach.
9. The experience of the Right to Buy, the operation of maximum discounts, lower replacement rates and higher net stock loss, disproportionately impacts authorities in lower value areas, particularly in the northern and midlands regions; proposals to operate separate approaches towards discounts should therefore be seen in the context of the government's Levelling Up agenda.

Replacement modelling 2021-2030

10. Total sales projected over the period from 2021 to 2030 are projected to be in the region of 100,000, whilst total replacements are unlikely to be much above 43,000, representing net stock loss of 3.61% across the country over that period.
11. The failure of the 141 replacement programme to deliver at the rate of sales is highlighted – far from one for one, the replacement rate is likely to be closer to 0.5 for 1.
12. There is in no region nor in any authority the capability to provide fully at one for one replacement over this period and based on these input assumptions.
13. Net stock loss in the north and midlands regions is projected to be over 5%, and in some cases nearer 6% over this period, representing a replacement rate of only around one third of a property for every one sold. In the south and east, replacement rates are expected to be higher, perhaps up to around half a unit for every property sold. In London, the restriction of discounts to maximum rates that represent a lower share of sales price results in a projected estimate of roughly three-quarters of a unit for every property sold.
14. Whilst there is no doubting the success of the scheme in achieving sales of properties to tenants as a result of enhanced discounts since 2012, and with evidence that this would be set to continue at broadly similar rates to the immediate pre- and post-Covid periods, the replacement programme continues to fail to replace the properties sold, and this is particularly marked in lower value areas in the north and midlands regions.

15. The failure of the programme to replace sold properties is also striking in the context of the level of discounts that are offered and also in the context of whether this offers value for money for the public purse. Our research suggests that the gross level of discounts offered since 2012 substantially outweigh the rent likely to have been paid by those tenants who purchased their properties in that period, perhaps by up to £2billion.
16. If this level of “additional” discount had been available to apply for replacement properties, and had been available even at current development costs, this would have enabled over 8,000 additional homes to have been provided over the period since 2012. Moreover, it is likely that the extent of discounts provided outweighing rent paid is has been higher in the north and midlands regions, therefore the capability of the £2billion to have provided additional replacement might have been nearer 10,000 additional homes over the period from 2012.
17. The prevalence of discounts at a higher rate than rent paid could be said to be subsidising one household’s home ownership over another’s access to social housing; whilst this undoubtedly is the case across the country, the lower replacement rates in the north and midlands also indicate in the context of “Levelling Up” that this degree of cross-subsidisation disproportionately impacts lower value areas.

Impact of suggested changes to policy

Reinvestment of pooled receipts

18. If the removal of all receipts pooling were to be applied universally across all authorities and reinvestment of these receipts in replacement homes, net stock loss might reduce to around 4% in the north and midlands and reach as low as 1% (or below) for London, the south and east.
19. There is a balance to be struck between pooling nationally and allowing reinvestment locally and Government may well take the view that pooling would guarantee reinvestment via the Affordable Homes Programme. Conversely, retention of the LA share for reinvestment purposes could at least allow funding for replacements to increase, by perhaps around 10%.

Regional factors affecting discounts and matching

20. 94 authorities collect 141 receipts that are below 30% of replacement costs. Only 30 authorities collect receipts that are in excess of 40% of replacement costs. Only 4 authorities in the whole of the north and midlands regions collect receipts that in excess of 30% of replacement costs. Conversely, two thirds of authorities across the south, east and London collect receipts above 30% of replacement costs, a figure which is over 80% of authorities in London.
21. This serves to highlight the challenges experienced in lower value areas in providing for additional resources to enable replacements to be provided in addition to the receipts able to be reinvested via the 141 programme.
22. Given the wide disparity in experiences, our analysis does tend to imply that a differential approach to applying maximum matching might provide the basis for the provision of more replacements in the north and midlands.

Reinvestment via ALMOs

23. If all receipts at ALMO authorities were able to be allocated to ALMOs, this might allow for the viable replacement of properties to increase by up to one third (driven by higher rents but delivered at similar costs to social rent properties) – for ALMO authorities this could represent c1,000-1,200 properties additionally annually nationally.
24. In practice ALMO authorities are also likely to want to reinvest in HRA properties, so taking a half and half approach (which has been the practice at two prominent developing ALMO authorities since 2012 utilising a combination of borrowing, 141 receipts for the HRA and AHP grant for the ALMO elements of the programme), the additional capability might still be above 500 replacement homes annually.

Alternative low cost home ownership models

25. There was widespread support amongst authorities for the development of an alternative model for rent to buy that is offered on a more proportionate, sensible and balanced basis than the blanket availability of the Right to Buy at high discounts to tenants who have not paid a full amount of rent towards their deposit.

Combining RTB receipts with Affordable Homes Programme grant

26. The rules that disallow combining RTB receipts and AHP grant were drawn in 2012 at a time before the abolition of the HRA debt cap and when take up of grant by local authorities was minimal; these rules seem arcane in the extreme, and a far more enlightened approach could be merited by being able to look at development schemes in the round, taking into account a more output related approach to the deployment of 141 receipts by for example relaxing the 30%/40% matching principle on schemes where there is a complex mix of expenditure and AHP grant is also being deployed.
27. When asking for the “one change” that would be of most benefit in 141 receipts reinvestment, the ability to mix and match 141 receipts and grant was referenced by every single participant authority and the ability to take a “whole scheme” view would appear to be pressing.

Use of RTB receipts for replacement properties in regeneration schemes

28. If 141 receipts were able to be deployed to part-finance replacement properties, this would represent the deployment of a receipt in order to provide not only for the replacement of an unviable property but also to improve the capability of the HRA to sustain additional borrowing across the remainder of the business plan.
29. We believe that there is serious merit in considering this type of “offset” approach for 141 RTB receipts to be applied to replacement homes, in order to enable scheme viability, especially in complex and expensive schemes.

Application of CPI increases to maximum discounts in the current economic climate

30. Based on reducing house prices in 2023.24 (we have modelled 5%) and increased levels of discounts from a large increase in the maximum (we have modelled a proportion increasing as CPI is 10.1%), together representing a scenario which could not be said to be improbable, the capability to provide replacements to keep up with increasing sales is much reduced.
31. Nearly half of authorities are likely to experience a reduction in the size of their 141 programmes, simply because the increase in sales from reduced prices and increased discounts, produces reduced net receipts.
32. In this context, we believe there might have been merit in reconsidering whether to apply the full CPI increase to maximum discounts at a time when house prices might be falling – this combination of factors is likely to lead to a serious deterioration in the ability of many authorities to maintain the 141 programme they have, noting that 141 programmes already fail to provide for true “one for one” replacements.

Sustainability and discounts

33. Our analysis provides an evidence base that suggests discounts in the north as a whole and in many parts of the midlands, are at a level which are unnecessarily high in order to achieve the kind of take up that the government seeks through the RTB scheme.
34. As the 141 replacement programme is generally failing to provide replacements at anywhere near a true “one for one” level, the opportunity to simultaneously reduce sales modestly and enhance replacements positively should be seriously considered as part of a review by government as to whether there would be merit in providing for differential levels of discount offer between regions.
35. After all, the government already accepts the concept of regional differentials by setting maximum discounts differently in London compared to the rest of the country. It would not therefore seem to be too great a departure from any point of principle to extend this concept to different maximum discounts for different regions. Regional maximum discounts could be set according to what would be the opportunity to strike the optimal balance between sales, receipts and replacements and thereby have the capability of producing a much greater sense of value for money for the public purse.
36. Starting minimum discounts at a lower rate to reflect the amount of time that a tenant has rented the property (or for newer properties since the property has been built) has the potential to offer improved value for money and is also entirely consistent with the original concept from the 1980s that the discount represents the amount of rent paid by a household in their time in the tenancy. The minimum discount applying against current values is simply a “broken” concept when comparing to rent paid: This is exemplified in the example below: a property worth the national average (outside London) of £138,000 with a tenant occupying a property for three years has paid rent (at the national average of c£85/week outside London) of £13,260 whereas the minimum discount for a house is 35% after 3 years, or around £48,000.

37. A straightforward approach to mitigating some of the management issues associated with former RTB units now being privately rented and promoting sustainable home ownership would be to consider ensuring that a purchaser covenants to live in the property as homeowner at all times, until they wish to sell, and when they wish to sell, the local authority gets right of first refusal on re-purchase, irrespective of the time since the sale. Over time, and combined with a programme of repurchase of former RTB units on the open market, this could reduce the challenges arising from poor private lettings, help rebalance the provision of social housing stock and reduce net need and demand for council housing over time.
38. Given that the existence of the cost floor mechanism is to ensure costs are recovered, and in the case of new build units, to (in theory) enable the further replacement of the sold unit, there would seem to be a strong case for allowing the cost floor to be increased by inflation, specifically an index based on construction cost inflation, in order to ensure that this mechanism still serves its purpose.

1. Introduction

1.1. Background

Savills Affordable Housing Consultancy was jointly appointed by the Local Government Association (LGA), and its partners the Association of Retained Council Housing (ARCH) and the National Federation of ALMOs (NFA), to undertake research into various aspects of the policy, financial and technical operation of the Housing Revenue Account (HRA).

There are three areas of research, each addressing a key area for review and exploration:

1. HRA Expenditure: incorporating a review of expenditure pressures affecting services provided to council housing within the HRA including: landlord services and housing management, building safety, net zero carbon and other pressures.
2. HRA income: incorporating a review of income pressures, possible alternative approaches to rent policy, future rent increase policy and all other areas of income.
3. Towards a more sustainable Right to Buy: not challenging the RTB policy itself but researching and exploring issues around sales volumes, the operation of discount levels, the recycling of RTB receipts – aimed to come up with some thoughts around future policy ideas to make the policy more sustainable for local authorities.

This report addresses the work related to the Right to Buy and its impact within the HRA.

Whilst the operation and experiences of the Right to Buy are not directly impacted by the prevailing economic and fiscal climate, as exemplified by the Government's Autumn Statement on 17th November 2022, the primary research and analysis work for this report was undertaken during the period when authorities were considering the impact of a cap on rent increases, increasing interest rates and rising inflationary pressures across all expenditure areas. The report should therefore be seen in this context.

In addition, there are a small number of areas where government policy towards the Right to Buy, and in particular the operation of discounts, are impacted by the prevailing economic climate, most importantly the annual increase in maximum discounts being linked to CPI inflation, which is running above 10%. This specific issue has been explored within this report with a recommendation that the Government consider mitigating the impact of such an increase on the basis that it would represent poor value for money and potentially lead to a significant reduction in the provision of replacement homes whilst not necessarily materially increasing the take up of the Right to Buy scheme.

1.2. Overall methodology

The overall approach for this research and analysis has been as follows:

1. To construct a national financial sustainability model for the Right to Buy (RTB) in England, based on data going back to 2012 at the individual local authority level, projecting forward at least until 2030, in which we are able to project changes in RTB activity based on a range of scenarios covering: take up (sales volumes), gross and discount values, an assessment of affordability based on household income distributions at the local authority level, varying discount rates as a result of suggested areas for changed policy, provision for replacements under Retention Agreements (referred within this report extensively as “141 replacements” of “141 agreements” as this is terminology widely understood within the local authority sector notwithstanding that the scheme does not actually produce one for one replacement); the principal objective of the modelling is to model the interplay between gross values, different levels of discounts and their impact on volumes, receipts and replacements¹.
2. To engage with a series of local authorities in order to gain feedback on local experiences; all partners were keen to ensure that a sample of local authorities were selected in order to test out a range of questions relating to the Right to Buy in the HRA, and in particular to draw in local experiences to test proposals to make the Right to Buy more sustainable for both authorities, and for purchasers. Details of the authorities that have been engaged as part of this research are contained within the report².

1.3. Right to Buy financial sustainability model

We have consolidated information from the following sources to enable a local authority by local authority build-up of a national financial sustainability projection for the RTB covering 162 local authority HRAs incorporating:

- Individual local authority sales volumes and receipts from April 2012 to March 2022 (published by DLUHC)
- National levels of discounts and values (published by DLUHC)
- Individual local authority replacements under 141 agreements, split between new development and acquisitions
- Household income distribution data published by DWP and others for 2020.

We have cross-referenced these sources to data provided by authorities during the course of business plan support provided by Savills to our clients for c15-20% of the HRA sector.

We have made a series of assumptions around the levels of discounts operating at the individual local authority level and, in order to assess the potential change in volumes, discounts, receipts and replacements arising from a series of suggested areas for policy change, also made a general assumption around the number of households that may be able to take up the RTB based on their household incomes and the cost of their homes given certain values and discounts available; this has been applied as a “multiplier”.

¹ The model has been made available for the partners for further exploration and scenario testing

² In this version, we have not named participants – details can be supplied on request (confidential)

For example, in one local authority area, based on a mortgage multiplier of x5 of household income, this might allow 24% of households to afford the average property (given average values and discounts in 2021.22). When this is changed to a multiplier of x4, the proportion of households able to afford the average property would reduce to 12%; this is then utilised to state that such a change in multiplier would, all other factors being equal, halve the volume of RTB sales for that authority. Whilst this can never be a “hard and fast” rule, it is felt that this provides a reasonable proxy to model the changed behaviours associated with income, price, discount and mortgage availability changes.

The key factor is the *relative change* in behaviour occasioned by a change in input, assumption or policy driver.

Throughout this research, we have gathered a series of ideas and suggestions around making the RTB more sustainable, as there is a widely held view across all local authorities that the policy is not sustainable for authorities given that home ownership is promoted at the expense of the supply of social housing – we have utilised the model to test these ideas so as to provide an overall sense of the changes in volumes, receipts and 141 replacements. These are set out throughout the report.

A final point on methodology relates to the changing landscape of local authorities driven by Local Government Reform, meaning that we have adjusted figures relating to the following separate LGR changes since 2012:

- Bournemouth and Poole -> BCP Council
- Shepway -> Folkestone & Hythe
- Corby and Kettering -> North Northamptonshire
- Waveney -> East Suffolk
- Northampton -> West Northamptonshire
- Taunton Deane -> Somerset West & Taunton.

1.4. Engagement with local authorities

Basis of engagement

We invited up to 12 authorities to participate in the research through a high level engagement with relevant officers based around a summary questionnaire. All authorities were approached at the same time, and we were able to engage with a majority of those authorities approached. The authorities approached were selected to reflect a political, geographical, size, authority-type (district, unitary, metropolitan borough, London Borough).

An overall briefing was provided (see annex 1) and a schedule of questions were discussed (see annex 2). A number of authorities provided a detailed response to our briefing in relation to ideas and suggestions for change.

The approaches were made on the basis that there was no additional work involved in authorities compiling or analysing data/information, there was an initial discussion / follow-up data review / follow-up discussion (as required) only, and that there was a key focus on finding ways to make the Right to Buy scheme more sustainable as a platform to increase home ownership, rather than challenging the RTB policy itself.

The level of discounts is a concern to all authorities, and there is a keenness to find ways to adapt the policy to provide the basis for a more sustainable way of encouraging home ownership, without reducing the availability of social and affordable rented housing which is very short supply and subject to increasing need and demand. More than one participant appealed for a temporary moratorium on RTB sales whilst what was described as the “current homelessness crisis” is addressed, and in each of these, the political makeup of the authorities were of the type that might have traditionally been seen as supporters of the RTB in principle.

The failure of the programme to deliver one for one replacements is also almost universally felt to be a major challenge for the RTB scheme and the arrangements that are in place to secure replacements. This can be captured by the general view that... if it is accepted that we should in principle aim to replace stock sold under the Right to Buy, we should at least make the programme work to support that objective, otherwise why have the objective?

The findings from the engagement part of this research are incorporated throughout the report.

2. Right to Buy policy drivers and trends

2.1. Key RTB drivers

The principal factors affecting the operation of the Right to Buy in 2021.22, the current financial year and going forward, are driven by the “reinvigoration” of the policy through increased discounts introduced in April 2012.

The main factors and trends are summarised below:

- Prior to 2012, there were significant restrictions on maximum discounts available for tenants
- Discounts were increased significantly in 2012 to commence at 35% after 3 years’ of tenancy (for houses) and 50% after 3 years’ of tenancy for flats, up to a maximum of 70% with a much higher maximum discount set for authorities: one applying to London and one applying to outside London.
- Maximum discounts are increased by CPI annually (the September CPI rate from the previous year) such that in 2022.23, the maximum discounts are £87,200 outside London and £116,200 in London.
- In order to support the Government’s policies towards increasing the supply of affordable housing, part of the reinvigoration incorporated the capability for local authorities to retain the additional RTB receipts that would arise from the increase in discounts; all but two authorities have entered a “Retention Agreement” to retain the excess of receipts over and above the prevailing level in 2011.12 (which was assumed to roll forward in the HRA self-financing settlement of March 2012), and reinvest these into new homes locally (the so-called 141 replacement agreements).
- The 141 agreements came (and still come) with a series of conditions to ensure that authorities were incentivised to reinvest their receipts, including focus on restricting to specific types of social housing, the requirement to reinvest receipts within a certain period, and setting a maximum proportion of the development/acquisition cost that receipts could be used for, albeit that the costs of RTB administration and debt relating to the property sold can be offset against the requirement to reinvest.
- Any receipts not reinvested locally according to the terms of the 141 agreement are “returned” to government for reinvestment via the mainstream Affordable Homes Programme. Government provides regular data on new homes delivered locally through 141 agreements and nationally via “returned” receipts.
- Restrictions to reinvestment applies in the following regards: the time period for reinvestment (initially this was 3 years, now extended to 5 years), the matching factor (initially 30%, now extended up to 40%), investment via the local authority or housing associations and not via a council-owned vehicle, and rented homes only. Since 2021, restrictions also apply to the maximum amount that an authority can utilise to acquire (purchase) an existing home.

- Different rules around discounts and reinvestment apply to properties built before 2008, and before 2012, and those developed or acquired since, with a restriction on discounts applied (the “cost-floor”) to ensure that any recent capital reinvestment is able to be recovered by authorities.

Notwithstanding the recent Covid-pandemic, the reinvigoration of the scheme has led to a significant and ongoing increase in RTB sales since 2012, although experiences vary widely between regions and authorities. These issues are explored further in this research.

At the same time, the administration of the 141 replacement scheme carries with it a significant administrative burden, both at authority level and at government level, in completing regular returns, accurately accounting for different elements of receipts over time, monitoring the rate of reinvestment to ensure that deployment is being operated within the rules, and generally ensuring that the scheme is operating effectively.

Local authorities have lobbied consistently for relaxation of all of the restrictions and conditions since the reinvigoration was introduced, some of which has resulted in meaningful policy change by government, but a majority of which there remains an overwhelming feeling that the administration is overly burdensome given the outputs achieved. Some of these issues are also explored in this report.

2.2. Key RTB trends at a national level

Volumes of sales increased significantly after 2012 (taking into account a “start-up year” in 2012.13 which saw applications grow but with completions of sales in 2013.14).

Sales peaked at 13,433 in 2016.17 and have since declined, although the principal driver for this decline has been in London where sales values increased significantly in the 2012-2017 period.

Sales declined during 2020.21 because of the Covid pandemic and have since recovered to their pre-Covid level, with evidence that 2022.23 has shown a continued trend towards sales in the region of c11,000 per year.

Based on total local authority housing stock of an estimated 1.570million homes on 1st April 2022, projected to be c1.552million homes on 1st April 2023, RTB sales at 11,000 represent around 0.7% of the stock sold through this route annually.

Whilst average discounts have generally grown in the period since 2012, growth has been lower than housing market values – so that average discounts in 2012-2016 were 45-47% whereas since 2016 they have averages c41%. The primary reason for this is sales in London where values have grown such that the maximum discount represents a much lower percentage of sales value than in previous years, despite the general reduction in sales in London.

Replacement homes provided under the 141 agreements have consistently failed to match the loss of stock through sales, somewhat challenging the notion of “one for one”. In fact, as explored in this research, the financial implications of the calculation of replacement potential (based on 141 receipts converted into programme totals with matched funding) does not achieve one for one replacement, when taking into account increasing construction and development costs.

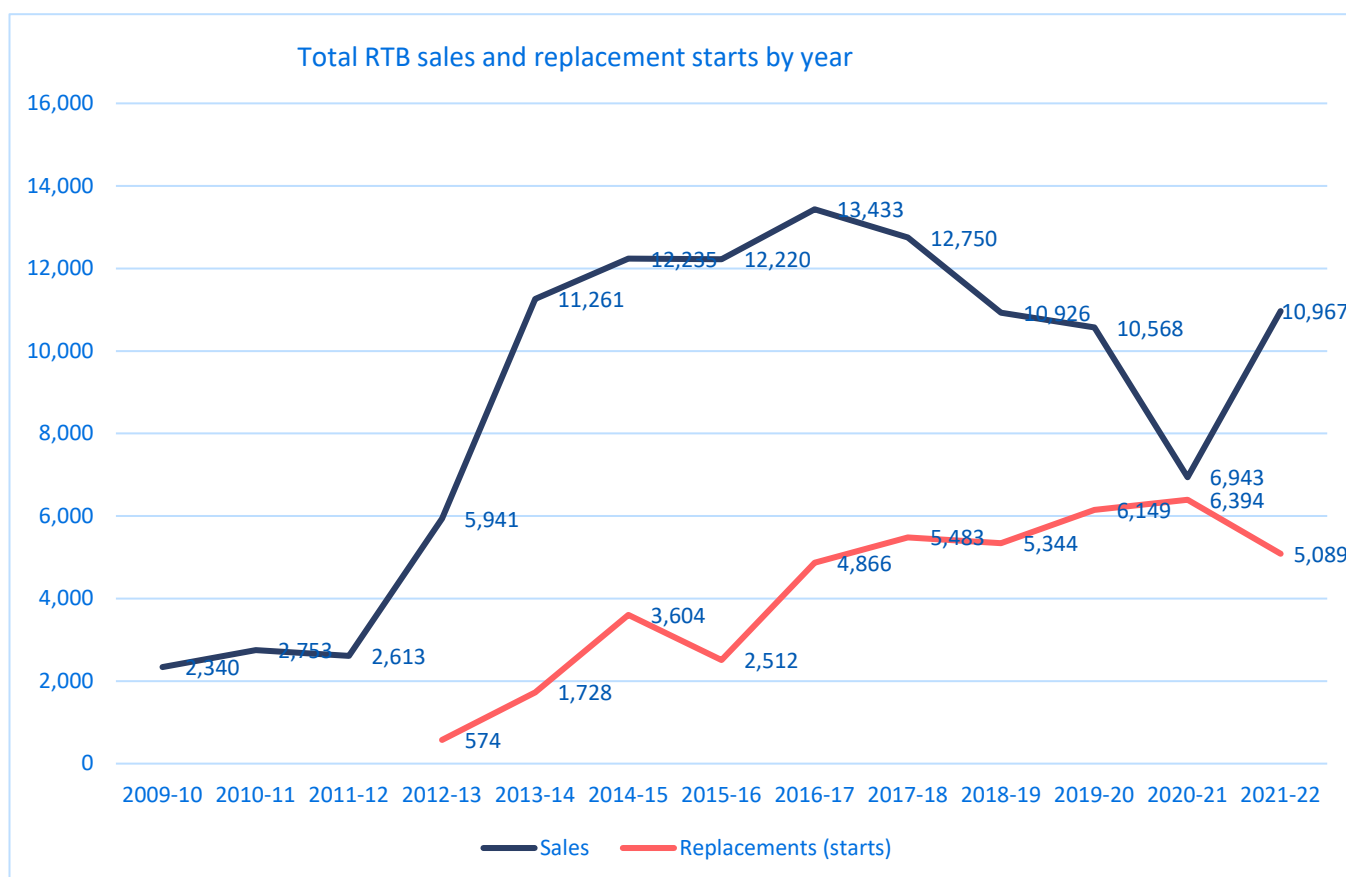
Notwithstanding that it takes time to bring forward schemes for development and then to complete the construction, annual replacements (as measured by starts on site and acquisitions) peaked at just above 6,000 in the period from 2019-2021, and were 5,089³ in 2021.22.

Replacement homes have consistently drawn on acquisition of stock from the private sector to bring into use for affordable and social housing, as authorities have responded to the relatively short period of time allowed for reinvestment (until recently, 3 years) alongside a desire not to have to pay any monies to government, by purchasing units – this has grown over the period since 2012 and was 52% of the 2021.22 total.

Whilst government contends that acquisitions are not adding to the quantum of stock, authorities counter that there are strong operational reasons for taking private stock back into the HRA, particularly former RTB properties that have fallen into disrepair.

The charts below show trends in volumes, receipts, values and discounts, and replacements provided under the 141 programme.

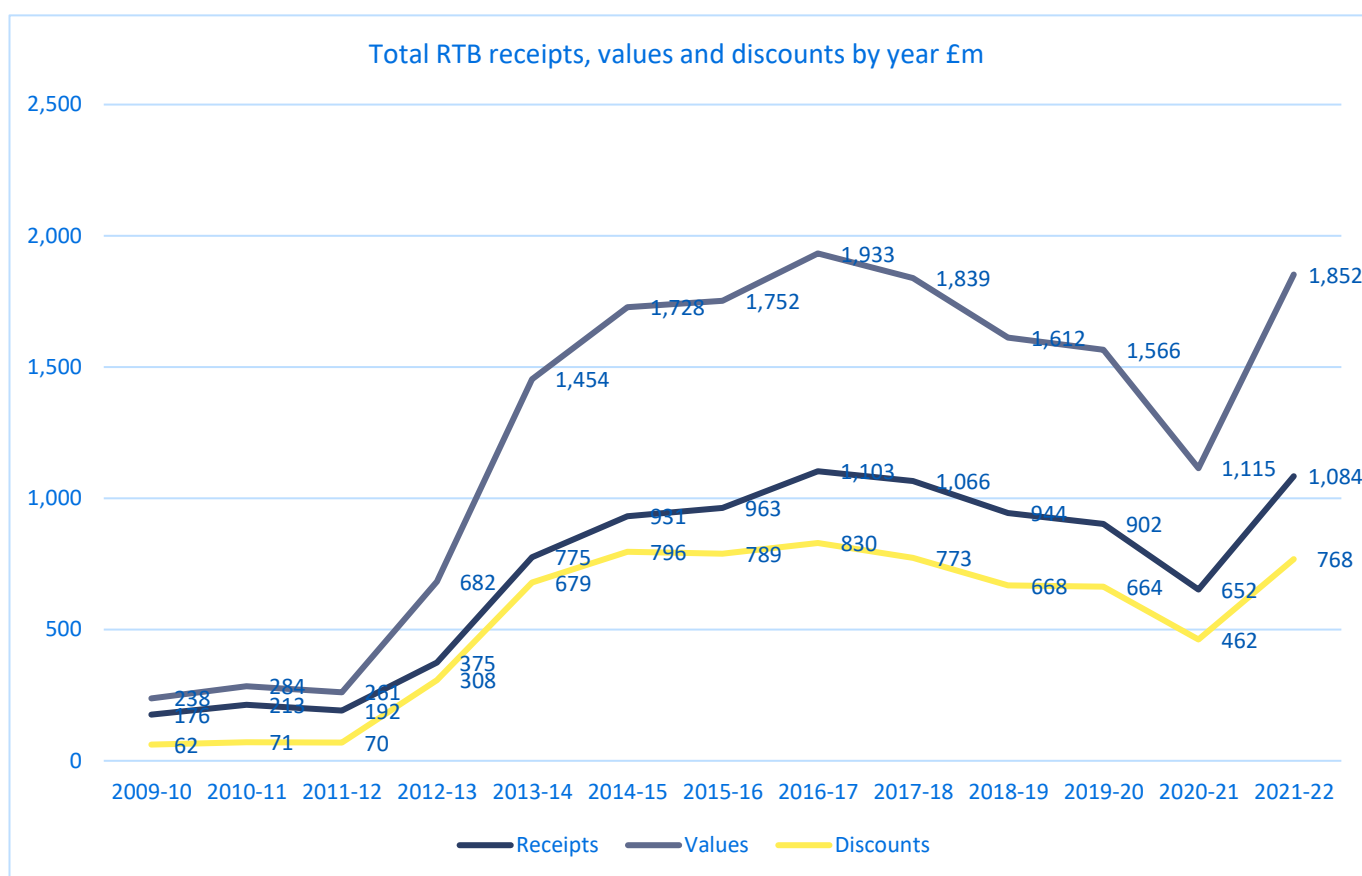
Chart 1.1: RTB sales volumes and 141 replacements/acquisitions 2009-2022



³ This figure includes the total of those provided locally through retention agreements and centrally from the “return” of receipts to government

The chart does not show the increasing contribution of acquisitions within the replacement totals but does highlight that in no year have starts represented anything more than 58% and in only one year have been more than 50% of sales. The chart therefore highlights the net decline in stock held by local authorities as a result of increased sales and replacement homes nowhere near keeping pace with sales.

Chart 1.2: RTB sales values, receipts and discounts 2009-2022 £m



The chart highlights how average discounts and average receipts as a proportion of sales values have declined slightly in the period since 2016.

In summary, the total market value of sales since 2012 has been £15.533billion with actual receipts of £8.795billion highlighting that the total of discounts provided to purchasers has been £6.738billion. A substantial proportion of the discounts provided will have been at a rate which is either:

- In excess of the required discount in order to facilitate a purchase, i.e. households are able to afford more than the net price offered
- In excess of the rent paid by the tenant/household during their time as a council tenant (one of the original arguments in favour of the RTB was that rents paid should be accrued to form the basis of the discount to market value).

In order to illustrate this latter point, we can infer the rent paid by purchasers in the period since 2012 by taking the number of sales and making assumptions around the average length of tenancy for the purchasers as a group. This is illustrated in the following table.

Table 1.3: estimated difference between rent paid and discounts offered

No of sales 2012-2022	107,244	
Average rent pa	4,420	Today's prices
Average length of tenancy	10	Years
Estiamated rent paid £m	4,740	2012-2022
Discounts offered £m	6,738	2012-2022

The table shows that c£2billion may have been offered in discounts over and above what would have been paid by purchasers in rent assuming that purchasers, on average, have been in their tenancy 10 years.

In fact, we would have to assume that purchasers have on average been in their tenancies up to 15 years before there is any reasonable correlation between rents paid and discounts offered. Feedback from participant authorities was clearly that the actual average length of tenancy for purchasers is much less than 15 years.

Further work on determining the value to the public purse in this respect would be merited, with a view to potentially considering maximising discount at the total of rent paid as a minimum requirement.

2.3. Regional trends

The national average picture serves to highlight the overall trends which are consistent across all regions: growth in values, stabilisation of proportional discounts, failure to provide replacements at the rate of stock sales, the dip in activity during Covid. However, these averages mask differentials experiences between regions, in particular between London, the three southern regions, and the five northern and midland regions.

This is exemplified in the two charts below, showing annual sales since 2012 by region and the average total values, receipts and discounts by region in 2021.22

It will be seen that values are far higher in London than in the rest of the country but also materially higher in the three southern regions that in the north and midlands.

At a regional level, we can therefore identify three separate experiences (controlling for the Covid pandemic dip in 2020.21):

- In London sales peaked in 2014.15 and have declined steadily since
- In the three southern regions, sales volumes are lower than in the north and midlands and have tended to stabilise or exhibit slight decline since 2016
- In the five northern and midland regions, by contrast, there is a tendency to show consolidated increases to 2016 which have been sustained into the current period.

Whilst discount averages were 41% across the country in 2021.22, the regional variation was between 36% in the south and 48% in the north. This masked an even greater variation at the authority level where the maximum was 54% (an authority in the East Midlands) and as low as 18% (an authority in London).

Chart 1.4: RTB sales by region 2012-2022

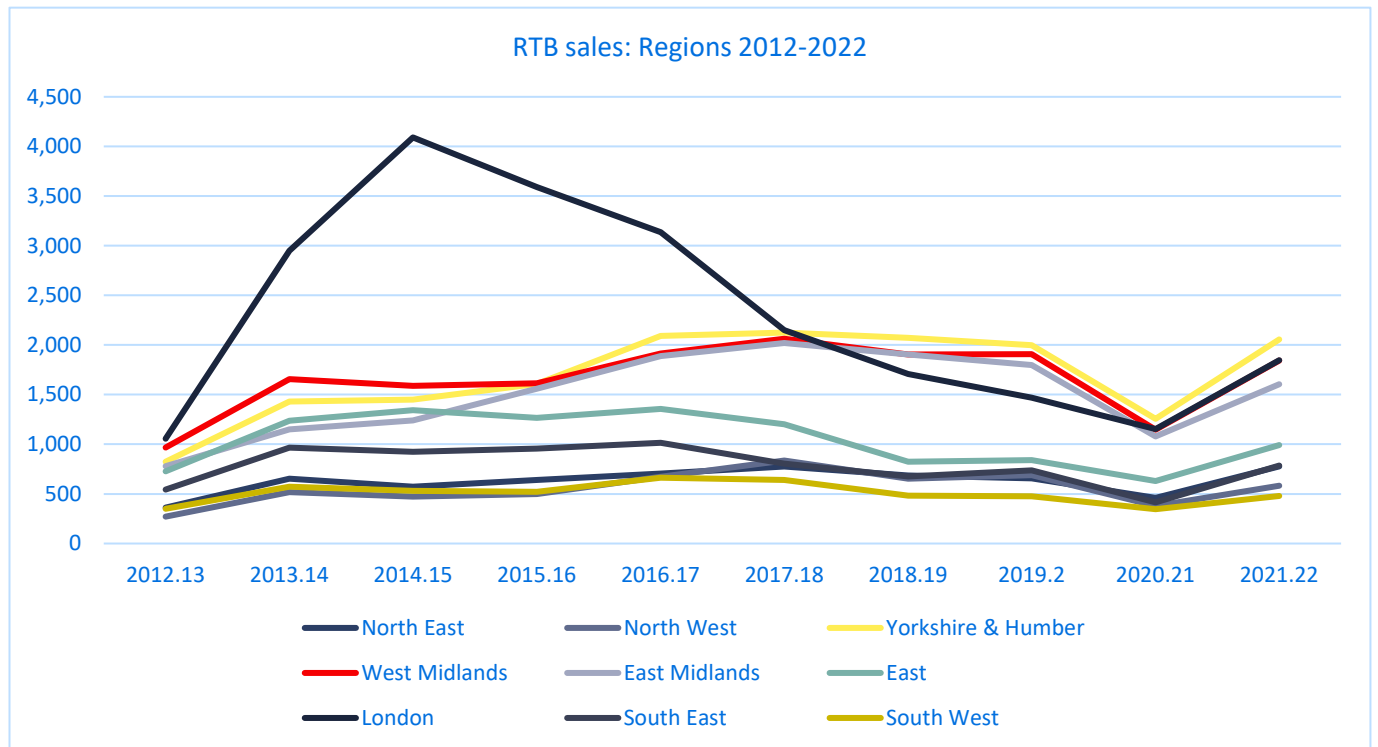
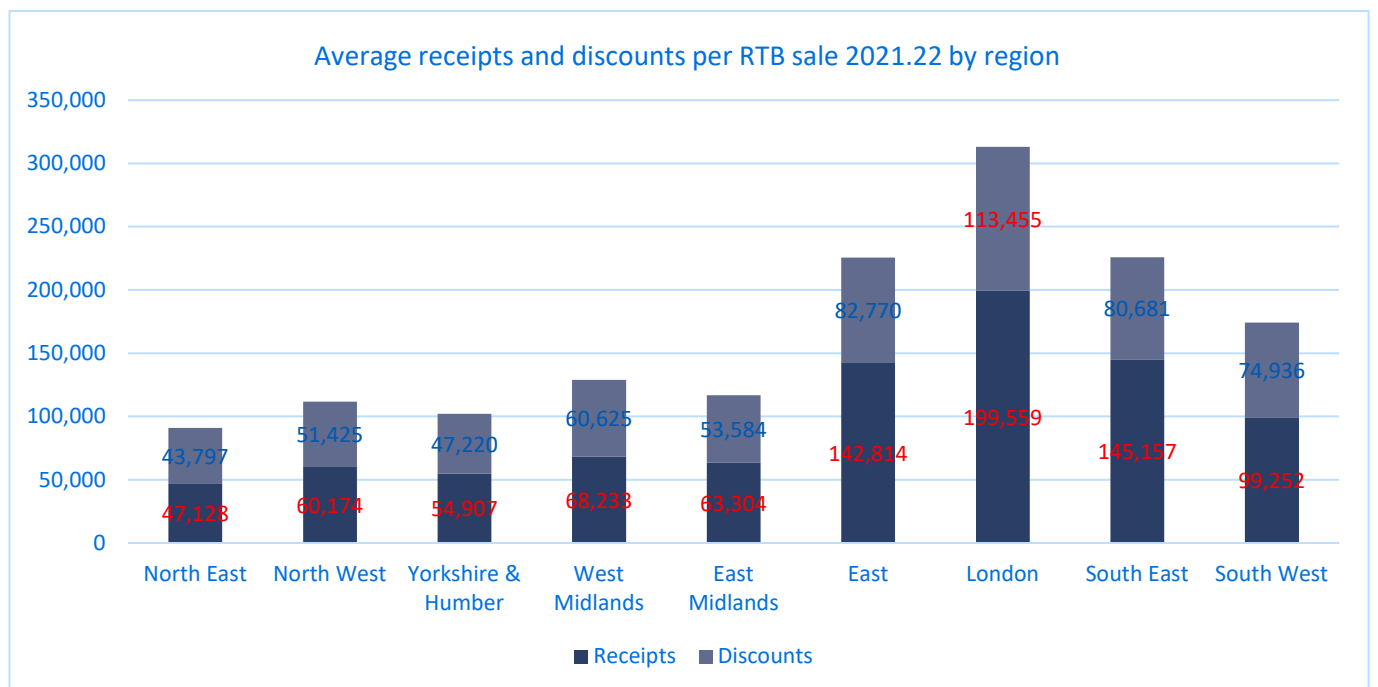


Chart 1.5: RTB average values, receipts and discounts 2021.22



The estimated average discounts provided by authorities were able to be allocated into the following bandings:

Table 1.6: number of authorities with average discount rate in bandings (national average 41%)

Average discount rate	No of LAs in 2021.22
<25%	4
25-35%	38
35-45%	63
45%+	57
Total	162

The number of authorities with relatively low average levels of discount was around 40, some 25% of the total authorities, and less than half of these are in London.

This tends to suggest that discount rates do not have to be anywhere near the maximum level in order to generate sales. Experience from our participant authorities corroborated this in identifying anything up to 25% of sales take place with the minimum level of discount.

Summary

We believe that the regional differentiation highlighted above and further analysed in the research within this report, provides the basis for a serious discussion around whether it might be appropriate to adopt alternative policies towards elements of the RTB scheme on a regional basis i.e. to further expand the separation between maximum discounts in London vs the rest of the country to a defined region-by-region approach.

The experience of the Right to Buy, the operation of maximum discounts, lower replacement rates and higher net stock loss, disproportionately impacts authorities in lower value areas, particularly in the northern and midlands regions; proposals to operate separate approaches towards discounts should therefore be seen in the context of the government's Levelling Up agenda.

3. Analysis of 141 replacement programme

3.1. Introduction

As would be expected, there is a lag period between receipts becoming available for reinvestment and actual deployment into scheme starts. This is demonstrated by the relatively slow start up of new starts for replacement homes in the period after 2012.

Nevertheless, as the number of new starts achieved has only ever reached just over 6,000 annually at its peak to date, the capability of the 141 replacement programme to produce outputs has consistently been lower than actual “one for one” replacement, and in fact has consistently been lower than the theoretical levels of reinvestment when assuming an average development and construction cost across the country. The outcome has therefore inevitably been a continued net decline in stock held by local authorities arising from the operation of the Right to Buy scheme.

This section provides a baseline analysis of potential replacements based on a range of standard input assumptions and highlights how a range of sensitivities, scenarios and possible policy changes, might enhance the production of replacement homes.

3.2. Baseline replacement model

Our baseline replacement model incorporates the following key assumptions:

- Forecast sales volumes based on the average from 2017-2020 and 2021.²² (i.e. ignoring and providing for the Covid interruption).
- House price changes – increases in gross sales values over the period to 2030, 5% to 2022.²³, 0% in 2023.²⁴ and 2.5% pa thereafter.
- Change in the value of discounts as a proportion of sales value, growing broadly in alignment with values, but with the exception that discounts grow in 2023.²⁴ as a result of the increase in CPI, compared to an assumption of zero house price growth.
- Deduction from RTB receipts for the share allocated to corporate local authority receipts and to the Government – this has been updated to the latest year rolled forward from the self-financing settlement of 2012 – this is 25% on average cross the country.
- Average deduction for debt and administration – this is 14% on average across the country, hence deriving 141 receipts which are able to be used for reinvestment.
- Application of a matching factor – at 30% or 40% to illustrate the impact of matching on delivery outputs.

- Application of average development costs at a regional level, including an element of development on land not currently owned by local authorities at 50% - i.e. over time around half of new developments financed through the 141 scheme would be on land that had to be acquired by local authorities and around half on authority owned land. Costs have been assumed to increase 10% to 2022.23, 6% to 2023.24 and 2% annually thereafter in line with the parallel research undertaken on HRA expenditure.

The development and land values applied are as follows. These have been derived from a wide ranging database held by Savills, benchmarked to a range of recent schemes, updated for latest inflation drivers, and moderated against the experiences of participant authorities.

The table highlights, for example, our core input assumption that the average development cost per unit in the North East would be £175,000 - £170,000 build cost and 50% of £10,000 average land cost.

Table 3.1: baseline 141 replacement model – regional development costs

Regional build costs	Unit	
	Build	Plot/unit
East	220,000	40,000
East Midlands	170,000	20,000
London	300,000	80,000
North East	170,000	10,000
North West	180,000	20,000
South East	250,000	60,000
South West	220,000	40,000
West Midlands	180,000	20,000
Yorkshire & Humber	170,000	20,000

The above assumptions when applied to the baseline model suggest the capacity to provide c9,200 replacement homes in 2012.22 and, in future years, approximately 8-8,500 new homes per years to 2030 – based on a 30% matching principle.

At 40% matching principle, the potential for replacements reduces to c6,900 in 2021.22 and c6,000 homes pa thereafter to 2023.

3.3. Applying a “scale down” factor

Experience has shown in practice that replacements have not been provided for at this rate.

Taking into account both starts on site as evidence of actual investment, deployment and acquisitions, replacement outputs totalled 5,089 in 2021.22 compared to sales volumes of nearly 11,000 and theoretical replacement potential of c9,000 (at 30%) or c6,900 (at 40%) depending on matching factor.

Feedback from local authorities suggests that there are a number of reasons for this, principally driven by delays and challenges in bringing forward schemes for development (whether via the planning system or through procurement delays) as well as, in some cases, the higher than average costs of development.

There are also time lags built into the system as authorities now have up to 5 years to deploy receipts – this can be seen in the continued delivery through the Covid period when sales reduced significantly.

Taking all of this into account, we consider it appropriate to apply a “scale down” factor to the capability of the programme to deliver 141 replacements.

The scale down factors apply as follows.

Table 3.2: estimating scale down factors on delivery outputs

	30% matching factor	40% matching factor
2021.22 Sales	10,967	10,967
Theoretical replacement capability	9,206	6,904
Actual replacements	5,089	5,089
Scale down factor	55%	74%

The table highlights that it is appropriate to apply such a factor given the consistent under-delivery against a “one for one” replacement objective, and also highlights the “two stage” nature of this under-delivery – firstly the receipts themselves if applied according to the rules are insufficient to replace sold units, but that in practice under-delivery is more marked because of practical local factors.

The extent of scale down varies across local authorities. Ideally, we would have applied the factor at a local authority level as experiences vary greatly; however there are a number of authorities that have delivered zero replacements in 2021.22 and a number where replacements are high as a result, presumably, of a banking up of receipts from previous years. Both of these factors would lead to distortions in estimated replacements at the individual local authority level going forward hence we have retained a national scale-down assumption for different matching facts as above.

3.4. Baseline replacement model outputs

The tables below show our projected sales, replacements, hence net stock loss at a regional level based on the 40% matching factors. This has been compared to the 30% factor at a national level for illustrative purposes.

Our view, strongly supported by feedback for participant local authorities is that the matching factor is moving rapidly towards 40% given the impact of construction costs and the requirement to deploy receipts.

Table 3.3: projected RTB sales 2021-2030

	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30
North East	777	707	707	707	707	707	707	707	707
North West	582	641	641	641	641	641	641	641	641
Yorkshire & Humber	2,055	2,042	2,042	2,042	2,042	2,042	2,042	2,042	2,042
West Midlands	1,843	1,885	1,885	1,885	1,885	1,885	1,885	1,885	1,885
East Midlands	1,606	1,965	1,965	1,965	1,965	1,965	1,965	1,965	1,965
East	993	910	910	910	910	910	910	910	910
London	1,846	1,675	1,675	1,675	1,675	1,675	1,675	1,675	1,675
South East	787	734	734	734	734	734	734	734	734
South West	478	551	551	551	551	551	551	551	551
National	10,967	11,109	11,109	11,109	11,109	11,109	11,109	11,109	11,109
Outside London	9,121	9,435	9,435	9,435	9,435	9,435	9,435	9,435	9,435

Table 3.4: projected RTB receipts 2021-2030 (£)

	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30
North East	36,618	34,905	34,257	35,113	35,991	36,891	37,813	38,759	39,728
North West	35,021	39,996	39,313	40,296	41,303	42,335	43,394	44,479	45,591
Yorkshire & Humber	112,833	118,134	116,112	119,015	121,990	125,040	128,166	131,370	134,654
West Midlands	125,736	133,894	131,511	134,798	138,168	141,623	145,163	148,792	152,512
East Midlands	101,667	116,168	114,200	117,055	119,981	122,981	126,055	129,206	132,437
East	141,864	130,653	129,119	132,347	135,656	139,047	142,524	146,087	149,739
London	368,407	350,996	346,994	355,669	364,560	373,674	383,016	392,592	402,406
South East	114,230	109,616	108,369	111,078	113,855	116,701	119,619	122,609	125,675
South West	47,457	50,385	49,629	50,870	52,142	53,446	54,782	56,151	57,555
National	1,083,831	1,084,747	1,069,503	1,096,241	1,123,647	1,151,738	1,180,531	1,210,045	1,240,296
Outside London	715,425	733,750	722,509	740,572	759,086	778,063	797,515	817,453	837,889

Table 3.5: projected 141 replacements 2021-2030 – based on 40% matching principle scaled down 74%

	9 year total to 2029.30
North East	1,780
North West	1,839
Yorkshire & Humber	5,793
West Midlands	6,204
East Midlands	7,331
East	5,081
London	9,262
South East	3,509
South West	2,413
National	43,212
Outside London	33,950

Table 3.6: projected net loss of stock measured as sales against replacements 2021-2030

	Projected sales	Projected replacements	9 year total -- %age net loss compared to 2021 stock levels	
North East	6,433	1,780	-4,653	5.26%
North West	5,713	1,839	-3,873	4.94%
Yorkshire & Humber	18,388	5,793	-12,595	5.60%
West Midlands	16,922	6,204	-10,718	5.48%
East Midlands	17,325	7,331	-9,993	5.78%
East	8,273	5,081	-3,192	1.92%
London	15,244	9,262	-5,982	1.52%
South East	6,658	3,509	-3,149	2.00%
South West	4,888	2,413	-2,475	2.65%
National	99,843	43,212	-56,631	3.61%
Outside London	84,600	33,950	-50,649	4.30%

* Totals may be subject to rounding

It should be noted that the total theoretical replacements based on net receipts available for the 141 programme compared to development total 55,331 over the 9 year period whereas projected delivery would be 43,212.

Were we to apply a blanket matching factor of 30%, the theoretical capability for replacements would be 73,775, an increase in delivery potential of an increase of one third (in theory). However the experience at the authority level differs greatly and this is explored further below.

In summary, the tables highlight the following:

- Total sales projected over the period from 2021 to 2030 are in the region of 100,000, whilst total replacements are unlikely to be much above 43,000, representing net stock loss of 3.61% across the country over that period.
- The failure of the 141 replacement programme to deliver at the rate of sales is highlighted – far from one for one, the replacement rate is likely to be closer to, and less than, 0.5 for 1.
- The regional picture is marked with differential experiences between the north and midlands, the wider south and east, and London particularly striking.
- There is in no region nor in any authority the capability to provide fully at one for one replacement over this period and based on these input assumptions.
- Net stock loss in the north and midlands regions is projected to be over 5%, and in some cases nearer 6% over this period, representing a replacement rate of only around one third of a property for every one sold.
- In the south and east, replacement rates are expected to be higher, perhaps up to around half a unit for every property sold.

- In London, the restriction of discounts to maximum rates that represent a lower share of sales price results in a projected estimate of roughly three-quarters of a unit for every property sold.

Whilst there is no doubting the success of the scheme in achieving sales of properties to tenants as a result of enhanced discounts since 2012, and with evidence that this would be set to continue at broadly similar rates to the immediate pre- and post-Covid periods, the replacement programme continues to fail to replace the properties sold, and this is particularly marked in lower value areas in the north and midlands regions.

The failure of the programme to replace sold properties is also striking in the context of the level of discounts that are offered and also in the context of whether this offers value for money for the public purse. Our research suggests that the gross level of discounts offered since 2012 substantially outweigh the rent likely to have been paid by those tenants who purchased their properties in that period, perhaps by up to £2billion.

If this level of “additional” discount had been available to apply for replacements, and had been available even at current development costs (which on our inputs average £239k/unit based on 50% developments on purchased land), this would have enable over 8,000 additional homes to have been provided over the period since 2012.

And if we assume that the extent of discounts offered outweighing rent paid is likely to have been higher in the north and midlands regions, the capability of the £2billion to have provided additional replacement might have been nearer 10,000 additional homes over the period from 2012.

The prevalence of discounts at a higher rate than rent paid could be said to be subsidising one household’s home ownership over another’s access to social housing; whilst this undoubtedly is the case across the country, the lower replacement rates in the north and midlands also indicate in the context of “Levelling Up” that this degree of cross-subsidisation disproportionately impacts lower value areas.

3.5. Modelling changes to investment and programme criteria

We have taken the baseline replacement model and varied the inputs to take account of changes in a range of assumptions based on potential changes in economic activity and changes in policy towards the 141 scheme.

These are taken in turn below.

Making the LA/Government share available to the 141 replacement programme

The share of RTB receipts allocated to corporate local authority capital programmes and pooled to HM Treasury represents a legacy from the self-financing settlement of 2012 in which there was an assumption of future RTB sales and receipts built into the settlement – an assumption based on activity in the immediate run up to 2012.

The LA and government share represents approximately 25% of total receipts in 2021.²² Whilst it is recognised that some authorities will apply their element of this 25% share towards reinvestment in new development, this is not felt to be a widespread practice given pressures on capital financing for other capital programmes and this is certainly the view of our participant authorities. It is understood that, at the national level, the pooled receipts are taken into account when determining the financing of the Affordable Homes Programme.

The table below shows the theoretical capability to provide for replacements (pre-scale down factor) of removing one or both of these shares and allowing them to be reinvested within the 141 programme.

As shown in the table, if the removal of all pooling were to be applied universally across all authorities, net stock loss might reduce to around 4% in the north and midlands and reach as low as 1% (or below) for London, the south and east.

There is a balance to be struck between pooling nationally and allowing reinvestment locally and Government may well take the view that pooling would guarantee reinvestment via the AHP. Conversely, retention of the LA share for reinvestment purposes could at least allow funding for replacements to increase, by perhaps around 10%.

Table 3.7: potential impact of removing some or all pooling requirement

	9 year replacement potential to 2030	Comments
Replacements at 40% matching with full pooling to LA and HMT	55,331	Noting that actual replacements are scaled below this level – figure used for comparative purposes
Removal of 25% LA corporate requirement	61,001	Increase in potential programme of 10%
Removal of all pooling requirements	78,008	Increase in potential programme of 41%

Varying the matching factor from 30% or 40%

Increasing the matching factor may assist local deployment of RTB receipts towards 141 replacements, but would necessarily reduce the capability to deploy in the round, as the “gearing factor” would be lower for each replacement. We have not therefore modelled this aspect as it would highlight lower capability.

However, what remains a key factor is that the blanket application of 30% or 40% to all authorities may not represent the optimal way to apply such criteria as experiences of the interplay between receipts, and reinvestment costs vary so widely between regions and between authorities.

We have therefore focused on a comparison between the average 141 receipt per unit at the authority level and the average cost of development. For example, at Adur, the average RTB receipt in 2021.22 was £148k which, after deductions for pooling and debt/administration was £91k, the latter of which represents 32% of the average regional development cost. Whereas for Barnsley, the average receipt was £53k, reinvestable as a 141 receipt was £32k after pooling and deductions, which is only 18% of replacement costs.

The table below counts those authorities in bandings (as set out) in order to highlight the major challenges in providing for anywhere near adequate levels of replacements across some regions.

94 authorities collect 141 receipts that are below 30% of replacement costs. Only 30 authorities collect receipts that are in excess of 40% of replacement costs.

Only 4 authorities in the whole of the north and midlands regions collect receipts that in excess of 30% of replacement costs.

Conversely, two thirds of authorities across the south, east and London collect receipts above 30% of replacement costs, a figure which is over 80% of authorities in London.

Table 3.8: number of authorities regionally falling comparing reinvestment cost vs average 141 receipt

	No LAs		
	< 30%	30%-40%	>40%
North East	6	0	0
North West	10	0	0
Yorkshire & Humber	10	1	1
West Midlands	12	1	1
East Midlands	24	0	0
East	6	9	10
London	4	14	11
South East	12	11	7
South West	10	2	0
National	94	38	30
Outside London	90	24	19

This table serves to highlight the challenges experienced in lower value areas in providing for additional resources to enable replacements to be provided in addition to the receipts able to be reinvested via the 141 programme.

Given the wide disparity in experiences, our analysis implies that a differential approach to applying maximum matching might provide the basis for the provision of more replacements in the north and midlands.

Expanding the range of organisations eligible for reinvestment

Suggestions have been made to allow reinvestment of 141 receipts through ALMOs, or at least ALMOs that are also registered as RPs in their own right.

The circumstances of the policy criterion in which reinvestment of 141 receipts was restricted to HRA properties prevailing in 2012 were such that there was some concern within Government that authorities would divert receipts to properties that avoided future Right to Buy eligibility.

This concern now appears anachronistic given that the number of council-owned companies that are delivering new build at scale for affordable homes is very limited, and certainly well below that which might have been expected back in 2012.

Put another way, the contemporary evidence is that any concern around “RTB avoidance” can safely be set aside in the current climate. Even if not extended to reinvestment via housing companies, allowing ALMOs to be the delivery entity for 141 replacements formed the basis of widely held views within our participant authorities.

As an illustration, if ALMOs were enabled to deliver 141 replacements at varied rent levels (i.e. above social rents), this might allow an increase in replacement capability as illustrated below:

- There are currently 20 ALMOs managing approximately 30% of the housing stock, primarily in the northern and midlands regions.
- If rents were enabled to be (say) 20% higher than social rents, this would allow some replacements to come forward that might not otherwise be viable.

- If all receipts at ALMO authorities were allocated to ALMOs, this might allow for the viable replacement of properties to increase by up to one third (driven by higher rents but delivered at similar costs to social rent properties) – for ALMO authorities this could represent c1,000-1,200 properties additionally annually nationally.
- In practice ALMO authorities will also want to reinvest in HRA properties, so taking a half and half approach (which has been practice at two prominent developing ALMO authorities since 2012 utilising a combination of borrowing, 141 receipts for the HRA and AHP grant for the ALMO elements of the programme), the additional capability might still be above 500 replacement homes annually.

The above, whilst very illustrative, does highlight that such an approach continues to merit consideration as a relatively straightforwardly implemented means to boost to 141 replacement numbers.

Expanding the range of tenure types eligible for reinvestment

Enabling reinvestment into a larger range of affordable housing tenures could allow replacement numbers to be boosted.

Following the extension of eligibility to reinvestment in shared ownership properties in 2021, the additional examples quoted to us as part of this research by participating authorities included: intermediate rented, temporary accommodation provided via the HRA and other low cost home ownership options such as rent to buy models.

Illustratively, as set out in the example above, the ability to stretch rents to a higher level to represent intermediate or Local Housing Allowances associated with wider availability of affordable homes to lower income households, could allow for additional replacements to become viable.

There was widespread support amongst participant authorities for the development of an alternative model for rent to buy that is offered on a more proportionate, sensible and balanced basis than the blanket availability of the Right to Buy at high discounts to tenants who have not paid a full amount of rent “towards” their deposit.

There are a number of effective models emerging within the private sector and within the housing association sector, all of which offer a form of rent-to-deposit mechanism, for which mortgage availability is growing, and for which take up is reported to be strong. Indeed many noted that Homes England programmes towards rent to buy had also been available.

For example, the Rent Plus model offers the offset of rent paid towards a gifted deposit applicable up to 10% of purchase price at set periods of 5, 10, 15 and 20 years into a tenancy, encouraging a saving mindset and allowing households to settle in a property that they know they will one day own. There are many others: Kettel, Heylo and HSPG amongst others.

Given the enormous demand for the private sector examples that have been developed, we believe that further investigation into these types of rent to buy or rent to own models and whether they might become available within the HRA could be a positive development to encourage sustainable low cost home ownership, and provide more predictability to authorities in planning future approaches to tenure and delivery.

Accompanying reinvestment with AHP grant

A widely held view expressed regularly since 2012 by the sector and by every single one of our participating authorities in this research is frustration with the inability for authorities to be able to deploy a mix of 141 receipts and AHP grant in the same scheme.

It is understood that the treatment in the national accounts of RTB receipts as *de facto* grant subsidy means that from a HM Treasury perspective, the maximum subsidy available for schemes via the combined AHP/RTB financed programme is always maintained at a maximum of 30%/40%.

However, current economic conditions driving higher development costs and higher interest rates mean that such an approach may merit reconsideration, if only on a temporary basis to allow schemes previously viable and now unviable to come forward when they might not otherwise do so.

The rules that disallow combining RTB receipts and AHP grant were drawn in 2012 at a time before the abolition of the HRA debt cap and when take up of grant by local authorities was minimal. Since that time, and particularly since the abolition of the debt cap in 2018, authorities have sought to work with Homes England and the Greater London Authority to increase grant provided to support scheme development.

This has led to situations where authorities are having to balance the reinvestment of their 141 receipts alongside achieving AHP grants, but having to do so in a context where they are not allowed to “mix and match” between sources of subsidy and finance. We have had reported to us via this research how some authorities will separate scheme phases into (1) to be financed via 141 receipts and (2) to be financed by AHP grant, and that these are often on the same site and within the same overall scheme.

This does seem arcane in the extreme, and a far more enlightened approach would surely be merited by being able to look at development schemes in the round, taking into account a more output related approach to the deployment of 141 receipts by for example relaxing the 30%/40% matching principle on schemes where there is a complex mix of expenditure and AHP grant is also being deployed.

We would emphasise that when asking for the “one change” that would be of most benefit in 141 receipts reinvestment, the ability to mix and match 141 receipts and grant was referenced by every single authority and the ability to take a “whole scheme” view would appear to be pressing.

Additionality

This is particularly prevalent in regeneration and redevelopment schemes where the rules applying to reinvestment in additional homes only run parallel to the availability of AHP grant.

In the research into expenditure in the HRA, we identified a series of exemplars (one of which based on a real life scheme in Sheffield) where the redevelopment of a scheme in urgent need of upgrade was potentially being made unviable through the inability to deploy either 141 receipts or AHP grant into replacement homes as well as additional homes.

Whilst these are not repeated here, we would highlight the following key issues:

- The proposed regeneration and redevelopment of properties is generally driven by a need to address poor property conditions where investment to bring to modern standards and higher energy efficiency would be uneconomic over the longer term; redevelopment of these properties would therefore represent improved value for money within an HRA business plan over the longer term.
- If 141 receipts were able to be deployed to part-finance replacement properties, this would represent the deployment of a receipt in order to provide not only for the replacement of an unviable property but also to improve the capability of the HRA to sustain additional borrowing across the remainder of the business plan.
- The economic case would therefore be based on the avoidance of net additional costs in the HRA in effect “paying for” the 141 receipt element applying to replacement properties.
- Illustratively, this could be conceived as follows:
 - A poor condition property which it is uneconomic to improve to net zero carbon (for example) represents an average net cost to the HRA of £5,000 per annum in Net Present Value terms (actually many properties are worse performing than this level).
 - Such a net cost released upon redevelopment would represent borrowing capacity of c£125,000 (at current interest rates of 4%)
 - The cost of replacement might be (at a national average level) £240,000
 - The additional costs avoided might therefore allow up to 50% of the replacement cost to be financed
 - Critically however, if there is not the viability within the scheme to finance this element up front, there would be a requirement for additional capital subsidy, which cannot be provided under current rules by either the 141 programme or AHP grant
 - The ability to deploy a 141 receipt to the replacement might therefore enable the scheme to come forward by providing the subsidy for replacement homes to go alongside additional borrowing capability provided by those replacement homes.

We believe that there is serious merit in considering this type of “offset” approach for 141 receipts to be applied to replacement homes, in order to enable scheme viability, especially in complex and expensive cases.

3.6. Potential impact of housing market changes in 2023.24

A potentially pressing variation would have been to take account of what is expected to be a more challenging period for the housing market during 2023.24 coupled with a substantially enhanced level of maximum discount in 2023.24 driven by September 2022 CPI at 10.1%.

We have set out below an analysis of the potential impact on sales volumes, receipts and discounts, hence 141 replacement programmes for 2023.24 based on the application of a “two stage” change to our baseline assumptions.

1. Reduction in house prices: 5% in 2023.24
2. Increase in discount rate: 5.05% (increasing discounts from an average c41% to c44% between 2021.22 and 2023.24).

Impact of reducing house prices with no change in discounts

The table below sets out our modelling outputs based on affordability criteria (see next session for backdrop on this calculation of affordability and its impact on sales volumes when discount rates and prices change) where house prices reduce but with no change in the level of discount applied to values.

Table 3.9a: impact on 2023.24 sales, receipts, discounts and replacement outputs of reducing house prices 5%

	2023.24	
	Gross	Per unit
Forecast sales	12,183	
Additional sales (see b/down)	1,215	
Forecast gross value £	1,974,962	162,115
Forecast discount £	845,671	69,417
Forecast RTB receipt £	1,129,291	92,698
Additional RTB receipt £	45,459	
Deduct admin/debt -> 141	39,095	
Gross programme @ 40%	97,738	
		Net additional loss of stock
141 replacements @ 40%	278	-937
No of LAs with reduced 141 programme		68
No of LAs with unchanged/increased 141 prog		94

Table 3.9b: estimated additional sales by region 2023.24 driven by reducing house prices 5%

	Additional Sales
North East	54
North West	47
Yorkshire & Humber	150
West Midlands	189
East Midlands	127
East	134
London	364
South East	108
South West	43

The tables highlight the following:

- Additional forecast sales of over 1,200, falling proportionately higher in London boroughs and the south and east regions.
- The additional 141 receipt (assuming that all pooling has already been provided for) would enable only the replacement of 278 of these properties, leading to a relatively high net stock loss across the country, simply from reducing house prices.
- Whilst increased sales would apply across the board, the increased level of sales in many authorities would not drive an increased receipt, leading to 68 authorities (around 40%) actually seeing a reduction in the 141 replacement programme despite higher sales.

Impact of reducing house prices with increased average discount of 5% (half of increased maximum by 10.1%)

The tables below repeat this analysis with the addition of an increase in discounts by half of 10.1%. This has been applied at this rate as the impact of increasing maximum discounts at this rate is likely to have a disproportionate impact in London, whereas it would be unlikely to affect increases in discount in some of the northern and midlands authorities.

Table 3.10a: impact on 2023.24 sales, receipts, discounts and replacement outputs of reducing house prices 5% and increased discount 5.05%

	2023.24	
	Gross	Per unit
Forecast sales	12,636	
Additional sales (see b/down)	1,669	
Forecast gross value	2,055,420	162,658
Forecast discount	924,340	73,149
Forecast RTB receipt	1,131,080	89,509
Additional RTB receipt	47,248	
Deduct admin/debt -> 141	40,634	14%
Gross programme @ 40%	101,584	
		Net additional loss of stock
141 replacements @ 40%	255	-1,414
No of LAs with reduced 141 programme		77
No of LAs with unchanged/increased 141 prog		85

Table 3.10b: estimated additional sales by region 2023.24 driven by reducing house prices 5% and increased discounts 5.05%

	Additional Sales
North East	77
North West	68
Yorkshire & Humber	213
West Midlands	267
East Midlands	184
East	178
London	478
South East	142
South West	61

The tables highlight a worse position in the context of sales versus replacements with a reduction in the potential for increased replacements despite a higher volume of increase in sales.

With this set of assumptions based on reducing house prices of 5% and increased levels of discounts from a large increase in the maximum discount set (particularly in London), a scenario which could not be said to be improbable, the capability to provide replacements to keep up with increasing sales is much reduced.

In fact nearly half of authorities are likely to experience a reduction in the size of their 141 programmes, simply because the increase in sales produces reduced net receipts.

In this context, we believe there would have been serious merit in reconsidering whether to apply the CPI increase to maximum discounts at a time when house prices might be falling – this combination of factors is likely to lead to a serious deterioration in the ability of many authorities to maintain the 141 programme they have, noting that 141 programmes already fail to provide for true “one for one” replacements.

Note on relationship between market price changes and RTB sales volumes

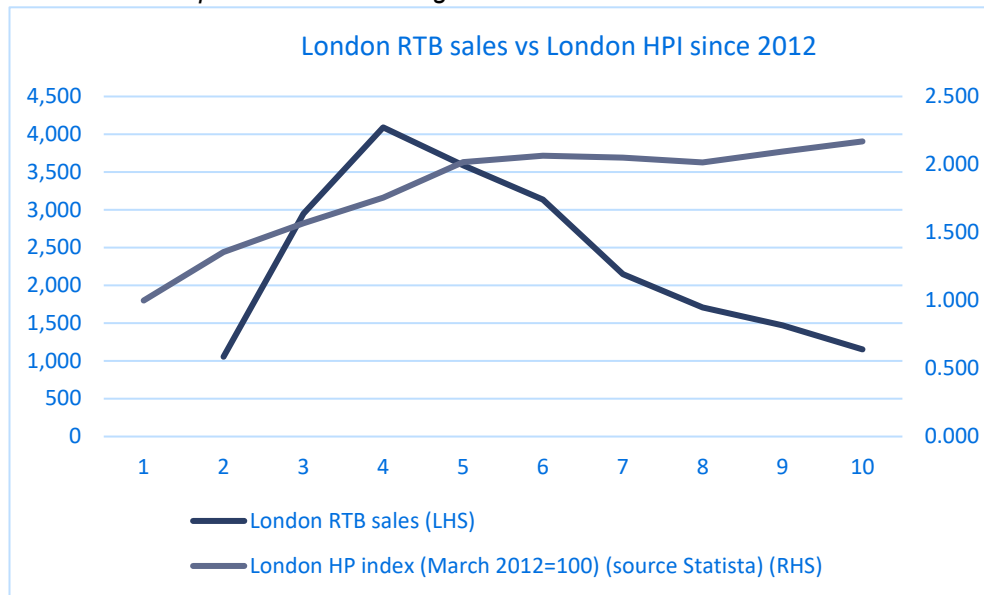
Over time, and since the original introduction of the RTB scheme in the 1980s, there has been a tendency towards correlation between sales volumes and general confidence in the housing market. As confidence and therefore prices have increased, so have sales. The only significant interruption to this has been as a result of restricting access to maximum discounts (as in the period from 2008-2012 for example).

We have therefore tested whether the potential reduction in house prices might therefore lead to a lower demand for RTB sales, at least for the forthcoming year.

We have tested this specifically in the London context as an increase in maximum discounts of 10.1% is likely to have the biggest impact in London given most RTB sales are at maximum discount.

The chart below shows the relationship between movement in London house prices against the volume of RTB sales.

Chart 3.11: comparison of HPI changes in London with volumes of RTB sales since 2012



The chart clearly highlights how there is no correlation at all between the two measures.

Our conclusion is therefore that an increase in maximum discounts of 10.1% is not likely to be accompanied by a reduction in demand for RTBs in London as a result of house price reductions.

Quite the opposite, as properties would become more affordable, this would lead to a higher proportionate increase of sales in London with associated challenges towards replacement of those additional homes sold.

4. Analysing suggestions for more sustainable discounts

4.1. Baseline discount impact model

There is a widely held view that in order to achieve a more balanced and sustainable approach to the Right to Buy scheme and associated replacement programme, reform of the discounts available would be required.

In order to support the modelling of the possible impact of changing approaches to discounts, whether at a national, regional or individual local authority level, we have developed and adapted a financial model to estimate the impact of changes in discount rates on projected volumes of sales, levels of discounts and receipts, capability to provide for replacement properties under the 141 replacement programme.

The model is founded upon an assumption of affordability of properties at prevailing values and discounts at the individual local authority level given the distribution of household incomes at each authority and an assumption of an average mortgage multiplier applying to the *net* sales price (after discount).

This is illustrated below:

- At Adur, the average receipt (i.e. net sales value) in 2021.22 post-discount was £148,376
- At a mortgage multiplier of x5, this would require a minimum household income of £29,675 pa
- There are 24% of households in Adur that have incomes above this range; whilst we know that the distribution of household incomes is likely to be lower for council tenants, as we are testing the impact of affordability for working households, the 24% level acts as a proxy for relative affordability.
- When the net sales price increases by 5% to £160,030, this implies a minimum household income requirement of £32,006, and only 20% of households can now afford this price, a change from the baseline of -4%.
- The application of the drop in sales therefore is 4% arising from the increase in prices of 5%.

By contrast, the affordability factor at Barnsley is estimated at 61% - 61% of tenants can afford their property at prevailing average sales prices after discount.

At Westminster, as average sales prices were £385,000 in 2021.22, only 1% of tenant households might be expected to be able to purchase their property (on average) given the distribution of household incomes.

Whilst Westminster has the lowest affordability, we estimate that affordability is at its highest at Blackpool (76%).

It is important to stress that this is a relative measure, to model changes in discounts, rather than an absolute measure of affordability. We cannot state with certainty that 24% of council tenants in Adur could afford their property at 2021.22 averages while only 20% could afford them with a 5% higher price, but we can say with some degree of certainty that the relative change in sales arising from such a price increase would be 4%.

Similarly at Westminster, were house prices to fall 5%, this would increase affordability to 2% of households, implying the potential to double the volume of sales.

The above baseline modelling has been utilised as the basis to model a series of sensitivities and scenarios which give a sense of how sustainable or otherwise changes in approaches to offering discounts might be in providing for more of a balance between volumes of sales and capability for replacements – i.e. a fundamental objective being to try to achieve closer to a true “one for one” replacement rate.

4.2. Modelling changes in discount policies

The modelling outputs below represent a composite analysis primarily driven by varying the rate of discounts offered at an individual local authority level, whether that is applying a blanket change (e.g. reduction or increase), or assessing smaller changes in policy (e.g. limiting maximum discounts to %age represented by the number of years a tenant has rented or limiting discounts to a maximum of rent paid).

The potential changes are assessed in turn, and compared to the baseline position which, for completeness, is repeated below:

- Sales in 2012.22 = 10,967, forward projected to 99,843 over the 9 year period from 2021 to 2030.
- Sales receipts of £1.084billion in 2021.22
- Theoretical replacements at current costs and assuming 40% matching = 6,904
- When scaled down to the actual replacements, these are 5,089, which in our modelling is round to a forecast 5,109 based on moderation at the individual authority level
- Total theoretical replacements for relative analysis purposes over the period from 2021-2030 would be projected to be 55,331 (at 40% matching).

Application of blanket reduction in maximum discount of 15%

We have applied a blanket reduction in the rate of discounts applied and offered of 15% across the entire sector. This would result in the average discount reducing from around £68k to around £58k per sale.

The reduction in discount would impact affordability leading to a reduction in sales but an increase in average receipt for those sales that would still proceed. In some authorities, this would lead to an *increase* in overall receipt and therefore an increase in replacement capability against a reduced loss of stock through sales, thereby enhancing the “one for one” metric.

In summary, this scenario is estimated to have the following impacts:

- Reduction in sales 1,770 from revised sales annually of 9,197.
- Revised receipt £970m – a reduction of c£113m.
- Reduced replacements by 824.

The table below shows the number of authorities where there would be a reduction in the 141 replacement programme, and the number where there could be an increase in replacement programme totalled by region.

Table 4.1: numbers of authorities with increased or reduced replacement programmes given a reduction in discount rate across the board of 15%

	Reduced	Increased
North East	0	6
North West	4	6
Yorkshire & Humber	5	7
West Midlands	12	2
East Midlands	22	2
East	25	0
London	29	0
South East	30	0
South West	10	2
National	137	25
Outside London	108	25

The table shows that whilst only two authorities in London, the south and east would see an increased replacement programme, 23 authorities in the midlands and the north could see an increased programme, even with a discount reduction of 15%, including all authorities in the north east and over half of authorities in the north west and in Yorkshire and the Humber.

The primary benefit to these authorities would be in the reduction in sales (in the north and midlands 886 out of 1,770 nationally) coupled with a modest increase in replacement, thereby positively impacting the net loss of stock via sales, and providing the potential for much better value for the public purse.

Application of blanket reduction in maximum discount of 5%

A reduction in discount of 5% would impact affordability leading to a reduction in sales but an increase in average receipt for those sales that would still proceed. As above, in some authorities, this still leads to an *increase* in overall receipt and therefore an increase in replacement capability against a reduced loss of stock through sales, thereby enhancing the “one for one” metric.

In summary, this scenario is estimated to have the following impacts:

- Reduction in sales 572 from revised sales annually of 10,395.
- Revised receipt £1,053m – a reduction of c£30m.
- Reduced replacements by 213.

The table below shows the number of authorities where there would be a reduction in programme, the number where there could be an increase in replacement programme totalled by region.

Table 4.2: numbers of authorities with increased or reduced replacement programmes given a reduction in discount rate across the board of 5%

	Reduced	Increased
North East	0	6
North West	4	6
Yorkshire & Humber	3	9
West Midlands	10	4
East Midlands	14	10
East	24	1
London	29	0
South East	30	0
South West	8	4
National	122	40
Outside London	93	40

It will be noted that the impact of a more limited reduction in discount offered could have a much improved impact on the capability of many authorities to increase their replacement programmes.

40 authorities, around 25% of the total, could see an increased capability to deliver replacements, in exchange for a more modest reduction in sales, thereby providing for an even more optimal balance between sales rates, discounts and replacements.

Three quarters of authorities in the northern regions would see their delivery capability increase with a modest reduction in discounts of 5%. Around 25% of authorities in the midlands could increase their programmes, and even five southern and eastern authorities could see an increased replacement programme.

Application of blanket reduction in maximum discount of 25%

It is noted that even with a very substantial reduction in average discounts offered of 25%, a significant minority of authorities and many of those in the northern regions could deliver an enhanced replacement programme.

This highlights the fact that the levels of discount offered in the north may be simply too high and certainly above the level required to achieve a reasonable level of RTB take up.

Table 4.2: numbers of authorities with increased or reduced replacement programmes given a reduction in discount rate across the board of 25%

	Reduced	Increased
North East	0	6
North West	4	6
Yorkshire & Humber	6	6
West Midlands	13	1
East Midlands	22	2
East	25	0
London	29	0
South East	30	0
South West	10	2
National	139	23
Outside London	110	23

We believe that the foregoing analysis strongly implies that discounts in the north as a whole and in many parts of the midlands, are at a level which are unnecessarily high in order to achieve the kind of take up that the government seeks through the RTB scheme.

As the 141 replacement programme is generally failing to provide replacements at anywhere near a true “one for one” level, the opportunity to simultaneously reduce sales modestly and enhance replacements positively should be seriously considered as part of a review by Government as to whether there would be merit in providing for differential levels of discount offer between regions.

After all, the Government already accepts the concept of regional differentials by setting maximum discounts differently in London compared to the rest of the country. It would not therefore seem to be too great a departure from any point of principle to extend this concept to different maximum discounts for different regions.

Regional maximum discounts could be set according to what would be the opportunity to strike the optimal balance between sales, receipts and replacements and thereby have the capability of producing a much greater sense of value for money for the public purse.

The following suggested reforms to enhance sustainability should be seen in this context.

Restricting discounts on new build to 1% pa since build – this would mean that tenants would accrue no more than 1% discount pa for every year since the property was built therefore by limiting unnecessarily low prices for relatively newer properties; we expect that such an approach would have a marginal impact in terms of the whole RTB scheme and 141 replacement programme but that in individual instances could enhance value for money for the authority, particularly in the need to replace relatively newer properties given increases in construction costs.

Similarly, starting minimum discounts at a lower rate to reflect the amount of time that a tenant has rented the property (or for newer properties since the property has been built) has the potential to offer improved value for money and is also entirely consistent with the original concept from the 1980s that the discount represents the amount of rent paid by a household in their tie in the tenancy.

Along with the authorities which participated in this research, we consider that the minimum discount applying against current values is simply a “broken” concept when comparing to rent paid. This is exemplified in the example below:

- A property is worth the national average (outside London) = £138,000
- A tenant occupying a property for three years has paid rent (at the national average of c£85/week outside London) = £13,260
- The minimum discount for a house is 35% after 3 years, or around £48,000.

The minimum discount (whether in London or in this case outside London) represents a significant amount of discount over and above the rent paid for a tenant that has only rented for three years. This seems inequitable for every part of the system except the household: the local authority, other tenants and the government.

4.3. Other policy issues

During the course of this research, a number of additional suggestions toward achieving greater sustainability of the RTB scheme have been proposed. These are addressed in turn below.

Covenant on living in property / re-sale

The scheme already provides for restrictions on re-sale post Right to Buy with the opportunity for the local authority to re-purchase the property within a set period.

We estimate from feedback within this research that between 40% and 50% of former Right to Buy properties are now rented privately. Many authorities report significant issues around estate management as a result of poor control over lettings in these properties and this is a strong driver for many authorities having significant programmes for the repurchase of former RTB units, some of which have been in the private sector for many years.

A straightforward approach to mitigating some of the management issues associated with former RTB units now being privately rented and promoting sustainable home ownership would be to consider ensuring that a purchaser covenants to live in the property as homeowner at all times, until they wish to sell, and when they wish to sell, the local authority gets right of first refusal on re-purchase, irrespective of the time since the sale.

Over time, and combined with a programme of repurchase of former RTB units on the open market, this could reduce the challenges arising from poor private lettings, help rebalance the provision of social housing stock and reduce net need and demand for council housing over time.

Cost floor changes / increase

The cost floor mechanism exists to provide a minimum floor (and therefore inhibit maximum discounts) reflecting the capital expenditure recently invested into a property. Authorities are therefore able to recover, as a minimum, that which has been invested into the property within the last 10-15 years (depending on age of property).

Given that the existence of the cost floor mechanism is to ensure costs are recovered, and in the case of new build units, to (in theory) enable the further replacement of the sold unit, there would seem to be a strong case for allowing the cost floor to be increased by inflation, specifically an index based on construction cost inflation, in order to ensure that this mechanism still serves its purpose.

Such an approach would enhance the capability to achieve increased replacement of properties built within the last 15 years, and would seem to be a straightforward and appropriate reform that may also assist authorities in deciding, positively, to develop new council housing.

Sales to households on benefits

Many authorities have reported that several sales have been to households on housing benefit or Universal Credit, presumably drawing upon the injection of funds from associates, family members etc to facilitate the purchase.

Sale of much needed social housing to those on benefits utilising resources not available from the household directly is seen by our participant authorities to be inequitable and could be addressed through a means test applied by the authority to the named tenant of the property prior to sale and as part of the RTB application process. This would receive universal support from all local authorities.

5. Commentary on engagement with local authorities

5.1. Introduction

We have set out below a summary commentary of the engagement with local authorities for this element of the research.

Where necessary, individual feedback has been anonymised and/or collated into an overall view.

It should be noted that whilst the feedback set out below was very broadly consistent in many themes, also acknowledged that the majority of the feedback was received during the period in the run up to the Autumn Statement as authorities were reviewing and assessing the potential implications of large increases in maximum discounts (i.e. CPI being high at over 10%), and possible changes around future house price values.

The commentary below references the foregoing analysis where appropriate.

5.2. Key themes

Experiences and volumes

1. *History of RTB sales since 2012, in particular what has been the experience since 2020? Has there been a “catch up” post-Covid in 2021/22 and 2022//23 to date?*

See analysis within this report.

2. *Average levels of discount being applied? For houses? And for flats?*

Northern authority participants reported very low sales values post-discount especially for flats; London boroughs reported many or most sales at maximum discount.

3. *What projections are you making in the business plan for RTB sales going forward?*

Authorities are generally projecting sales at the pre- and post-Covid rates and this has been adopted as the core baseline assumption in our modelling.

4. *Previous RTB properties now rented in the private sector? Management challenges arising?*

The minimum reported was 40%; the maximum was thought by one London borough to be over 50%. Statistics are difficult to come by but all authorities offered a view between these levels.

5. *For properties developed since 2012, whether the RTB been an issue for these properties and whether the cost floor been an inhibitor to RTB sales of these properties?*

The level of the cost floor becomes out of date given rapid recent increases in construction costs. Most authorities agreed with a suggestion to raise the cost floor with some measure of inflation.

6. *Impact, if any, of previous RTB sales on plans for redevelopment or regeneration? Key issues arising?*

Those authorities with regeneration schemes reported that high previous sales volumes inhibit scheme programmes because of the buy-back implications.

RTB Retention Agreements (141 receipts)

7. *Experience of the operation of these agreements? Have they worked generally well for each authority? What kind of proportion has been possible?*

8. *Acquisitions made in order to prevent funds being paid to the Treasury? Policies towards RTB buy-backs? Do the rules work well to encourage buy-backs?*

9. *Have you ever sent money to the Treasury as a result of not being able to reinvest receipts? What was the reason? Does this remain a risk?*

10. *Following the extending of reinvestment periods (3 to 5 years), and varying the 30:70 matching principle up to 40:60, any further changes that would be helpful to your authority in ensuring that receipts are reinvested effectively?*

See main report.

The main feedback on extending deployment opportunities were focused on being able to finance replacements properties in regeneration schemes and to deploy 141 receipts alongside AHP grant. Both views were unanimously expressed in this research.

RTB administration

11. *Attrition rate for RTB applications (roughly)? Action taken to you take to prevent fraudulent RTB applications?*

The attrition rate varied between 50-75% in the responses received. This is in line with the national average. Many authorities take steps to prevent fraudulent applications but some continue to experience applications from this ineligible.

12. Administration of the RTB service? Elements of good practice to share?

We have gathered a sense of the numbers of officers required to deal with sales volumes, typically 1 for every 50-100 sales.

Future sustainability

13. Other issues or experiences around the Right to Buy you would like to flag?

14. Recognising that the abolition of the Right to Buy is not currently a policy option, what changes would you make to the policy to make it more sustainable?

These have been covered within the report.

Annex 1: Copy of briefing letter for participant local authorities

Dear

Local Government Association Research into the Housing Revenue Account

Savills Affordable Housing Consultancy has been jointly appointed by the Local Government Association, and its partners the Association of Retained Council Housing and the National Federation of ALMOs, to undertake research into various aspects of the policy, financial and technical operation of the Housing Revenue Account (HRA).

There are three projects in total, each addressing a key area for review and exploration:

1. HRA Expenditure: incorporating a review of expenditure pressures affecting services provided to council housing within the HRA including: landlord services and housing management, building safety, net zero carbon and other pressures.
2. HRA income: incorporating a review of income pressures, possible alternative approaches to rent policy, future rent increase policy and all other areas of income.
3. Towards a more sustainable Right to Buy: not challenging the RTB policy itself but researching and exploring issues around sales volumes, the operation of discount levels, the recycling of RTB receipts – aimed to come up with some thoughts around future policy ideas to make the policy more sustainable for local authorities.

For each of these research projects, the LGA and its partners are keen to engage with example/case study local authorities in order to test our modelling outcomes in a “real life” environment and to gather local insight into the challenges faced by local authorities. In identifying these exemplar groups, we hope to be able to enhance the findings of financial modelling and analysis research and to ensure that experiences “on the ground” are captured for the benefit of the research. The work will help to inform policy positions for the LGA and the two trade bodies for the forthcoming Spending Review in the autumn of 2022.

We have agreed with the LGA and its partners that engagement with exemplar local authorities should reflect a balance of geography, size, type, political leadership and known exemplars of good practice, and have nominated 12 authorities for each project with a core of 5 authorities involved in all. We have agreed that it would be really helpful to involve your authority in the HRA Expenditure project.

We anticipate that the engagement will incorporate the following:

- An initial meeting (via Teams or Zoom) to discuss the nature of the project in more detail and to set out what we are looking for in terms of our engagement
- A follow up review of the key issues emerging within the review, testing assumptions around cost assumptions across a whole range of expenditure areas, both revenue and capital
- Capture in particular your authority’s approach to assessment of future capital investment liabilities towards your existing stock (decent homes 2, building safety, energy efficiency, net zero carbon)

- Capture your authority's approach to the impending implementation of a more proactive regulatory regime towards the Regulator's consumer standards and any associated cost implications
- In the short-medium term, your authority's experiences of inflationary pressures (revenue, capital and development) and the responses you are identifying.
- Capture any areas of positive and best practice for exemplification within the research reporting.

We would discuss any requirements for anonymity and we have an unequivocal commitment to share details of exemplar authorities strictly only if agreed by you.

In the first instance, I would be grateful if you could confirm that you and your colleagues are comfortable to participate in the research, and if so, who would be invited to an initial meeting to discuss the research and information needs. Assuming you are able to confirm, I will follow up with a more detailed spec for the project and initial discussion, and any in-advance information needs along with a request for dates from my colleague Robyn Law (robyn.law@savills.com).

We expect the work to take place during the course of the summer and early autumn, notwithstanding the holiday period.

I very much hope that you will feel able to engage with the project and I look forward to meeting with you shortly.

In the meantime if you wish to discuss any further information or background, please do not hesitate to get in touch. You can speak to the Savills team, led by myself (steve.partridge@savills.com 07968 354948) and Simon Smith (simon.smith@savills.com 07815 612458), or the following trade body representatives:

- LGA: Calum Davidson calum.davidson@local.gov.uk
- ARCH: Matthew Warburton matthew.warburton@arch-housing.org.uk
- NFA: Chloe Fletcher chloe.fletcher@almos.org.uk

Thank you for your attention to this letter and I look forward to catching up with you shortly, and working with you on this research.

Annex 2: Copy of questions/topics for discussion

Local Government Association Research into the Housing Revenue Account

introduction

The aims of the LA engagement element of the research are to:

- Moderate the modelling we are undertaking at the national level, to ensure that our assumptions are based on as wide an evidence base as possible
- Understand the income, expenditure and RTB pressures facing authorities – picking up particular pressures applying in particular locations or authority areas
- Provide an opportunity for authorities to feed ideas for change into the research.

Following an initial discussion, we may ask you to provide some further information, but I would emphasise that we would only ask for information that is readily available, and nothing that involves any additional work to compile. All information will be aggregated and anonymised.

Right to Buy Project: discussion prompts

Experiences and volumes

15. What is the history of RTB sales since 2012, in particular what has been the experience since 2020? Has there been a “catch up” post-Covid in 2021/22 and 2022//23 to date?
16. What are the average levels of discount being applied? For houses? And for flats?
17. What projections are you making in the business plan for RTB sales going forward?
18. Do you have an estimate of how many previous RTB properties are now rented in the private sector? What management challenges does this cause?
19. For properties developed since 2012, has the RTB been an issue for these properties? Has the cost floor been an inhibitor to RTB sales of these properties?
20. What impact, if any, have previous RTB sales had on plans for redevelopment or regeneration? What are the key issues?

RTB Retention Agreements (141 receipts)

21. What is your experience of the operation of these agreements? Have they worked generally well for your authority? Assuming you have not been able to replace one for one, what kind of proportion has been possible?

22. Have you ever made acquisitions in order to prevent funds being paid to the Treasury? Do you have a policy of RTB buy-backs? Do the rules work well to encourage buy-backs?
23. Have you ever sent money to the Treasury as a result of not being able to reinvest receipts? What was the reason? Does this remain a risk?
24. Within the original Social Housing Green Paper, there were a series of possible reform points identified for discussion, including: extending reinvestment periods (3 to 5 years), varying the 30:70 matching principle, ability to reinvest into subsidiaries/ALMOs, ability to invest into different affordable tenures. Some of these have been addressed in policy. Are there any further changes that would be helpful to your authority in ensuring that receipts are reinvested effectively?

RTB administration

25. What is the attrition rate for RTB applications (roughly)? What action do you take to prevent fraudulent RTB applications?
26. How many people administer the RTB service? Are there any elements of good practice that you would like to share?

Other issues

27. Are there any other issues or experiences around the Right to Buy you would like to flag?
28. Recognising that the abolition of the Right to Buy is not currently a policy option, what changes would you make to the policy to make it more sustainable?
29. Are there any other issues around the HRA more generally that you would like to flag?