DCN BETTER LIVES STRONGER ECONOMIES DISTRICT COUNCILS' NETWORK

Consultation on Use of Receipts from Right to Buy Sales

Response

About the District Councils' Network

The District Councils' Network (DCN) is a cross-party member led network of 200 district councils. We are a Special Interest Group of the Local Government Association (LGA), and provide a single voice for district councils within the Local Government Association.

District councils in England deliver 86 out of 137 essential local government services to over 22 million people - 40% of the population - and cover 68% of the country by area.

District councils have a proven track record of building better lives and stronger economies in the areas that they serve. Districts protect and enhance quality of life by safeguarding our environment, promoting public health and leisure, whilst creating attractive places to live, raise families and build a stronger economy. By tackling homelessness and promoting wellbeing, district councils ensure no one gets left behind by addressing the complex needs of today whilst attempting to prevent the social problems of tomorrow.

Key points:

- We agree that the time limit for spending existing receipts should be extended from three years to five so that local authorities can take advantage of proposals to raise the HRA borrowing cap. We also believe that the time limit for future receipts should be extended to five years so that local authorities can ensure they achieve best value. It does not seem logical to have two sets of time limits for use of receipts for the same purpose, particularly where government policy is to increase house building. As the government is accepting that the 5-year rule should apply to current receipts because more time is needed to ensure delivery, then, by the same token, the same period of 5 years should apply to future receipts.

- For particularly complex and high value regeneration schemes, we would suggest a limit of 7 years, otherwise the limit could still deter major housing delivery projects.

- The 30% cap on RTB contributions should be increased to 100% to allow Councils to play a full part in delivering the government's ambitions for social housing.

Question 1: We would welcome your views on extending the time limit for spending Right to Buy receipts from three years to five years for existing receipts but keeping the three year deadline for future receipts.

We agree that the time limit for spending existing receipts should be extended from three years to five so that local authorities can take advantage of proposals to raise the HRA borrowing cap. The case study in Appendix 1 from Stevenage Borough Council highlights the negative impact of the current three year limit.

We also believe that the time limit for future receipts should be extended to five years so that local authorities can ensure they achieve best value. This also takes account of the potential need to obtain Homes England top-up funding, which might not be available when sought.

It does not seem logical or consistent to have two sets of time limits for use of receipts for the same purpose, particularly where government policy is to increase house building. As the government is accepting that the 5-year rule should apply to current receipts because more time is needed to ensure delivery, then, by the same token, the same period of 5 years should apply to future receipts.

For particularly complex and high value regeneration schemes, we would suggest that consideration be given to a limit of 7 years, otherwise the limit could still deter major housing delivery projects.

Question 2: We would welcome your views on allowing flexibility around the 30% cap in the circumstances set out in the consultation paper, and whether there are any additional circumstances where flexibility should be considered.

The 30% cap on RTB contributions should be increased to 100% to allow Councils to play a full part in delivering the government's ambitions for social housing.

It should be made clear that the build cap is to be applied before top-up funding (assuming this is the government's intention).

The DCN has concerns about the proposed requirement to 'demonstrate a clear need for social rent over affordable rent'. The Government should make it clear that its own table of local authorities qualifying for the Additional HRA Borrowing Programme suffices as this reflects affordability pressures in Districts. This table should be reviewed annually to take account of changing market rents.

Question 3: We would welcome your views on restricting the use of Right to Buy receipts on the acquisition of property and whether this should be implemented through a price cap per unit based on average build costs.

We support the principle of a price cap (option a), but we have concerns about using the averages proposed, which fails to take account of the size of the home (either sold or to be acquired). We advocate either:

- an average build cost per square metre (our preferred option), or
- a table of average costs by dwelling size, based on the number of bedrooms.

We would not support option b for the reason stated in the consultation document, as it would effectively introduce a blanket ban in some areas, which would prevent acquisition of empty properties in those areas.

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

The provision of shared ownership (but no other affordable ownership tenure) is acceptable in principle where it can help councils to respond to local demand. However, we have concerns that there could be pressure to provide shared ownership when Homes England does not have funding available. It should be made clear that this will only be an option for councils to suit their local situation and will not become a requirement.

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

We strongly support the principle of allowing the transfer of land to the HRA at zero cost.

Question 5B: We would also welcome your views on how many years land should have been held by the local authority before it can be transferred at zero cost, and whether this should apply to land with derelict buildings as well as vacant land.
We also accept that ownership must be held be the local authority for a minimum period to avoid any temptation to game the system. We would suggest 3 years as a minimum.

We also agree that land with 'derelict buildings' should be eligible, although an unambiguous definition of 'derelict' will be required.

Question 6: We would welcome your views on whether there are any circumstances where housing companies or Arm's-Length Management Organisations should be allowed to use Right to Buy receipts.

We support this option, where it can provide flexibility for the local authority. As RTB is intended to deliver more affordable homes, we would advocate that where this option is used then there are required restrictions on tenure, rent and RTB eligibility which ensures that Social Rents are applied. Current experience suggests that Registered Providers rarely apply Social Rents to new housing. Their business models are based on applying Affordable Rent levels. We would therefore be concerned if there were no restrictions that this policy will only increase the number of homes at Affordable Rents and none at Social Rents, since for many households, even Affordable Rents are unaffordable.

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

We support this flexibility.

Question 8: Do you have any other comments to make on the use of Right to Buy receipts and ways to make it easier for local authorities to deliver replacement housing?

We would prefer an increase in the cap to 100% in all parts of the country to ensure that Councils can play a full part in delivering the government's ambitions for housebuilding and its vision for social housing.

Question 9: Should the Government focus be on a wider measurement of the net increase in the supply of all social and affordable housing instead of the current measurement of additional homes sold and replaced under the Right to Buy? If the target were to change, we would welcome your views on what is the best alternative way to measure the effects of Government policies on the stock of affordable housing.

The target should not be abandoned. It is a valid, clear commitment which serves a useful purpose.

A broader measure of the number of homes added to the social stock would be useful, but this is a separate issue. It should not replace the Right to Buy replacement target. However, producing a reliable figure for the net change in the stock of affordable homes will require additional data. Examples of data required to achieve a comprehensive figure include:

- Shared ownership homes 'lost' through staircasing out.
- Affordable home ownership secured only through a legal charge in favour of a local authority or a Registered Provider (already included within I5d of the LAHS form, but only if new-build and the LA is aware of such completions).
- Staircasing out from such a legal charge.

Appendix 1 Case Study of Impact of 3 year limit on Right to Buy Receipts

Achieving a reliable supply of new build housing has been a struggle across the whole of the UK for many decades, not least due to the uncertainty of the market place, shortages in skills and the pressures on supply chains to meet demand. In particular, the supply of affordable housing is made even more fraught because of the added need for financial subsidy.

One useful source of subsidy is the 1 for 1 retained right to buy programme. This does after all make provision to fund 30% of scheme development costs associated with the affordable housing. However, it does not provide the certainty to funding that the market place craves and acts as a barrier to future supply.

The prescriptive rules and the unpredictability of future receipt generation (from future RTB sales) means that programme managers find themselves *hedging* against declining receipts in future years, and the embarrassment of being penalised with compound interest penalties and receipt clawback if the scheme is prolonged for any reason. This forces many organisations to either give the receipt back early and not deliver affordable housing, or opt for low value risk free schemes that involve open market acquisitions or don't maximise the land opportunity.

In Stevenage our community, like many others, demands extra value for every pound of public expenditure. Therefore, our new build schemes focus on improving the wider place, having good design with lower running costs, undertaking land assembly to make the best impact, and giving SMEs greater opportunities through tendering. All this adds to the time of delivery; but the benefit to both local community and UK PLC is huge. We take on this challenge and at times we have to go right up to the wire in meeting our delivery deadlines.

Affordable housing needs to be about delivery but also about achieving quality with sensible programmes that reflect schemes' specific time frames. The design quality has to be right to meet the needs of the end user and give them every chance of tenancy sustainment. Otherwise, the whole investment in this product is undermined. The focus should not be about hedging our bets on what future RTB receipts are going to do, how long we can keep them for and designing scheme to meet the 3-year rule.

Our experience suggests that a better proposition would be to allow LA's to keep 1 for 1 receipts as follows (although the proposed change in the consultation to allow 5 years is welcomed):

3 years where development is on retained land with project values of up to £2m.

5 years for schemes that involve some land assembly and or project values of £2m to £15m

7 Years for major projects and regeneration schemes that involve complex land assembly from multiple private interests and project values of over £15m with delivery over phased programmes.

These time frames will give more certainty to funding and eliminate a fundamental barrier to housing supply. Added assistance would be by way of allowing the retention of up to 50% of receipts for schemes that deliver regeneration in view of the high cost of land assembly work.

The outcomes of these changes would be that Stevenage, like so many other councils that want to do more would be able to design affordable housing schemes over long term programmes that achieve efficiency, mixed communities and high quality.

The Twin Foxes House Development of 14 affordable rented homes, Stevenage 2018. Meeting the challenge, but only just, and at the expense of displacing other similar projects to mitigate programme risk.

Time line of Twin Foxes project	Months	Problem areas of 1-4-1 receipts
Identifying Opportunity and getting local support	2 months	3 years to use the funds where any more delays on this scheme would have meant missing the time limit makes it a risk factor.
Land Assembly work	7 months	
Design Development & Planning	5 months	
Procurement of a contractor and contracting with SME	3 months	The compound interest rate penalties act as a deterrent especially when they come out of future affordable housing budgets.
Construction Phase	14 months	
Inclement weather / utility delays / unforeseen	4 months	
Total Time	**35 months** **36 months deadline**	Other similar projects displaced in order to ensure delivery within the time limit, meaning that fewer homes are built in Stevenage overall.