

Consultation response

**Department for Communities and Local  
Government consultation:**

**Reinvigorating the Right to Buy and  
one for one replacement**

February 2012

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## Introduction

There is huge demand for social housing across England. With over 1.8 million households on council waiting lists, homelessness acceptances rising and insufficient numbers of new homes being built, the government must consider how to achieve value for money from housing and find ways to leverage more funding into new supply. The government has also expressed the view that social housing is a 'precious resource' that councils must make the best use of.

Shelter is not convinced that the proposals outlined in this consultation document will deliver significant numbers of new, genuinely affordable homes. While we welcome the general commitment to 'one-for-one' replacement of homes sold through Right to Buy, it is not clear that this can be achieved under the proposed framework, nor that the homes will be replaced 'like-for-like'. If homes are not replaced like-for-like, this policy will do more harm than good, stripping away much needed public assets. The government's own impact assessment, and external analysis,<sup>1</sup> suggest that the commitment to replacement is ambiguous, and even misleading. Shelter and other housing groups<sup>2</sup> will be monitoring the success of government housing policies against their aims and intend to do so with the reinvigorated Right to Buy policy. Judging the extent to which Right to Buy receipts have funded new stock will require good audit trails so that there is real clarity as to what has been delivered through such receipts and related borrowing, and what would have been delivered in any case or is built through existing funding streams. Without this trail it will be impossible for anyone to credibly comment on the efficacy of the policy.

Relying on Right to Buy receipts to fund the gap left by huge cuts to capital funding for housebuilding is not a sustainable solution, and local authorities will still have a large funding gap to make up through borrowing and other resources such as land. Much of the sale proceeds will still need to be returned to central government, in order to meet the assumptions of projected Right to Buy income set out in the Comprehensive Spending Review, or allocated to paying down local authority self-financing debts.

We are also concerned about the risks of home-ownership for potential buyers. Right to Buy purchasers are "the borrower type historically most likely to experience arrears and payment problems. 40% of current RTB mortgages have a record of payment problems of some kind, with 9% in current arrears of two payments or more."<sup>3</sup> If the government goes ahead with its proposals, provision of good quality, impartial advice for potential buyers will be vital.

Many Right to Buy homes later become privately rented, which can lead to management problems on social housing estates. It has also tended to be the case that better stock is sold off first, leading to increased residualisation of the remaining, poorer quality social rented homes. These neighbourhood effects have not been sufficiently considered in the impact assessment.

## The Government's proposals for tenants

### Q1: We would welcome views on the proposals for caps, discount rates and eligibility

The current discount rates are favourable, allowing some tenants a discount of as much as 70% of the property value. In practice, high house prices and caps (of £16,000 - £38,000) set in secondary legislation off-set the generosity of these discounts in most areas. The caps may not, however, be the only reason for declining rates of Right to Buy purchases. Consumer confidence is low, economic recovery is uncertain, mortgage lending has been constrained since the collapse of the sub prime market, and social renters often have very squeezed incomes, making it difficult for most to afford the

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<sup>1</sup> See <http://www.hometrack.co.uk/press-room/latest-press-releases/new-research-into-right-to-buy-shows-14-right-to-buy-sales-are-needed-to-deliver-a-replacement-home-without-further-subsidy>

<sup>2</sup> *The Housing Report Edition 1* National Housing Federation, The Chartered Institute of Housing, Shelter 2011

<sup>3</sup> *Mortgage Market Review: Proposed package of reforms*, Financial Services Authority 2011

costs of home ownership. A recent survey for Shelter found that around one in five social renters (22%) are either falling behind or constantly struggling to keep up with their rent.<sup>4</sup>

Although the consultation cites the figure that 80% of people aspire to own, this is significantly lower among social tenants:

"A little over half of social housing tenants (51%) aspire to own their own home as do eight out of ten (78%) of those living in private rented accommodation. Only half (51%) of current private renters and a little less than one in five social housing tenants (18%) were confident, however, bearing in mind their personal circumstances and financial position that they would be able to move into home ownership within the next five years."<sup>5</sup>

The proposed new cap of £50,000 will affect potential buyers in London the most - where take-up has historically been quite low. London has a particularly high pressure and high cost housing market, but also suffers from a shortage of land making it harder to replace homes sold under Right to Buy. Further privatisation of London's housing stock could therefore mean less mixed communities over the long run. The generous discount also risks 'deadweight' in other, less expensive areas, i.e. using public subsidy to help those who would have been able to buy independently anyway.

We do not therefore believe that the increased discount level is necessary and are concerned that it will diminish the social stock.

We agree that there should be no changes to the qualifying period for eligibility, currently set at five years. The 'affordable rent' tenancies that are being brought in under the Localism Act will however, mean that future tenants will have less capacity to save, due to higher rents, and are likely to stay in their homes for shorter periods of time. These factors will dampen future demand for Right to Buy.

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

The rules on Right to Buy are extensive and complex. While the information provided in DCLG's 'Your right to buy your home' booklet is useful and comprehensive, a more interactive and user-friendly platform could be developed. Potential buyers should be referred to impartial, free advice as early as possible and given time to think through their options. Unfortunately, the proposals come at a time when funding for free advice services has been significantly scaled back and organisations are struggling to provide advice through voluntary income.

**Q3: Are there any further steps which could be taken to ensure that tenants who purchase under Right to Buy know about and understand the implications of home ownership, including their obligations on becoming a leaseholder?**

There is substantial evidence to suggest that Right to Buy purchasers face particular risks:

- Shelter's Mortgage Debt Advice case workers report seeing an unusually large number of clients who purchased under Right to Buy and are now in arrears or facing repossession. These clients are often older people or people with long term health issues, those who have over-committed to debt and had not realised or planned for the additional costs of repair and maintenance on their homes.
- Analysis by the Financial Services Authority shows that mortgage lending to Right to Buy customers has typically been of a poor quality (although this is now improving); Right to Buy customers are significantly more likely than other types of borrower to have impaired credit

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<sup>4</sup> A further 27 per cent are keeping up but struggle from time to time. Figures from YouGov Plc. Total sample size was 4014 adults. Fieldwork was undertaken between 2nd - 5th December 2011. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+). Social renters refer to those who responded that they were paying rent to a local authority or housing association.

<sup>5</sup> *New approaches to mortgage market regulation The impact of the MMR and the risks and benefits for consumers, society and the wider economy*, CML/ Policis 2010

records and income is not verified in around a third of lending. Of all borrower types,<sup>6</sup> Right to Buy borrowers are the most likely to experience arrears and payment problems. One in every 22 has had their home repossessed or a possession order made against it, compared to around one in every 77 across all borrower types.<sup>7</sup>

Case Study: Shelter advised an older couple with serious health problems who had bought their council home for less than £20,000 in 2004, using a sub-prime mortgage to purchase the house and pay off some rent arrears. By 2011 the couple had fallen into arrears on their main mortgage and on a secured loan. The second charge lender initiated possession proceedings. Unable to afford the costs on their low income and rejected for help through the Mortgage Rescue Scheme, the couple were evicted and had to move in with relatives.

We hope that the proposals outlined in the latest draft of the FSA Mortgage Market Review will help to protect Right to Buy borrowers from unsustainable mortgage deals and support mandatory advice for these borrowers. However, there is a risk that intermediaries and sub-prime lenders will find ways to capitalise on this emerging market and that new 'scams' will emerge. We urge the FSA to supervise this high-risk area extremely closely.

Additional costs of homeownership must be factored in to buyer's budgets. Shelter often sees clients who did not anticipate high service charges for example. Lease charges are particularly likely to be high in London, where blocks of flats are common and property values are high. The Leasehold Advisory Service should be promoted to potential buyers so that they can talk to a professional adviser about the nature and level of service charges and the legal implications of being a leaseholder. Local authorities are often the first port of call for housing advice, and their staff will need training, support and guidance on suitability of Right to Buy as a housing option for potential buyers, particularly those who might find Right to Buy an unsustainable option (and would need to go back to the local authority for support if they later faced mortgage arrears and the threat of losing their home).

## The Government's proposals for councils

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

Our preference is for as much of the sales receipts as possible to be ring-fenced and reinvested into new housing supply, so it is unfortunate that receipts from projected sales will still largely go to the protected central government share. This fact undermines the credibility of the claim that the proposed approach will support new supply.

Large amounts of borrowing are required in order to achieve one-for-one replacement of homes. The worked example provided in the consultation document gives a best-case scenario of £92,000 receipt to replace 16 sold homes. These sorts of figures would require borrowing millions to meet the costs of building new homes and increase councils' debt burdens.

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

Replacing existing social homes with homes available for affordable rent does not represent like for like replacement; affordable rent will be more expensive and, likely, less secure for tenants. The affordable rent model may mean that councils need less grant per unit to deliver homes, but it also means that social homes are being replaced with a different *type* of home.

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<sup>6</sup> Borrower types are: Re-mortgagors, First-time buyers, Home movers, All borrowers.

<sup>7</sup> *Mortgage Market Review Data pack - supplement to CP11/31*, Financial Services Authority 2011 <sup>7</sup>

Some councils have decided that they will favour development of homes to let on social tenancies rather than the new affordable rent tenancies; this should be factored into the impact assessment and councils should be allowed to use receipts for this purpose, in the spirit of localism. Additionally, the consultation document is not clear as to whether homes sold will be replaced with homes of the same size and, as the consultation notes, there will be regional discrepancies in quantity and level of receipts and grant required for replacement stock. There are unlikely to be viable sites for replacement in the centres of towns and cities, so councils may have to build new homes on the outskirts, further away from employment, services, and transport links.

The model that gives the greatest potential for one-for-one replacement of stock is the national model, where receipts are reinvested by the Homes and Communities Agency or the Greater London Authority and distributed according to need, likely taking investment away from the North of England. However, this model involves additional administration. A local model would give councils greater discretion and ensure that money is recycled into the area where stock has been lost. If a local model is chosen, we would favour one with direction from central government so that receipts must go towards generating new housing supply or other housing spend.

**Q14: How can housing associations and councils be further encouraged to use receipts from Preserved Right to Buy sales to support provision of replacement homes?**

Housing associations who choose to recycle receipts into new build should be given priority in new funding allocations. We urge all housing associations who sell homes under the Preserved Right to Buy to replace the stock with new social homes.

**The Government's proposals for lenders**

**Q16: Based on your experience, are you able to provide any evidence on the likely percentage of Right to Buy purchasers on Housing Benefit?**

By definition, housing benefit claimants are on very low incomes and need help to cover their housing costs. We do not think that many claimants would therefore be able to afford home-ownership unless the discount makes the property value very low, as there are not only mortgage costs but also repair and maintenance costs and service charges to consider. Some of these households may be eligible for Support for Mortgage Interest, but this is a fairly unpredictable source of income and not one that lenders should rely on for a long-term, sustainable loan.

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## Until there's a home for everyone

In our affluent nation, tens of thousands of people wake up every day in housing that is run-down, overcrowded, or dangerous. Many others have lost their home altogether. The desperate lack of decent, affordable housing is robbing us of security, health, and a fair chance in life.

Shelter believes everyone should have a home.

More than one million people a year come to us for advice and support via our website, helplines and national network of services. We help people to find and keep a home in a place where they can thrive, and tackle the root causes of bad housing by campaigning for new laws, policies, and solutions.

We need your help to continue our work. Please support us.

Visit [shelter.org.uk](http://shelter.org.uk) to join our campaign, find housing advice, or make a donation.