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Reforming the Right to Buy in Wales

Value for money for the public sector

- 1 The right to buy is a sale to a sitting tenant with rights to continue occupation at a sub market rent. It is "not" a sale with vacant possession.
- 2 On average English data suggests that RTB purchasers continue in residence for some 15 years [Direct Welsh evidence is not available].
- 3 The cost to the public sector is thus the relet that does not become available in - on average - some 15 years time; and the loss of rental income.
- 4 The market value of a sale to a sitting tenant with occupancy rights to a tenancy at sub market rents is substantially below the value of a sale with vacant possession.
- 5 Modelling based on the English evidence and HM Treasury evaluation conventions suggest that discounts of some 30-35% represent reasonable value to the public sector. Provided that discounts do not exceed those levels there is no cost to the public sector.
- 6 Sales with 30/35% discounts would permit reinvestment in two new dwellings for every three that are sold. This would provide two new lettings today against the three relets lost in - on average - some 15 years time.
- 7 The dwellings sold under the RTB continue to be occupied for some time by the households to whom they were initially allocated on the basis of housing needs. They continue to play a part in the local housing market.
- 8 The RTB provides for discounts of up to 70%. Discounts at that level have in the past clearly imposed substantial costs on the public sector.
- 9 The £16,000 cash limits on RTB discounts introduced in 2003 has significantly reduced average discounts; in 2006/07 the discounts were equivalent to just 23% of open market values.
- 10 With discounts at current levels there is not a value for money argument for suspending RTB sales in any area. Indeed at current achieved discount levels this would prevent sales that would be good value for the public sector.
- 11 Receipts from sales are an important source of investment funds.
- 12 There is a case for reforming the (excessive) underlying discount rates for the RTB, and for this the Scottish 'modernised' right to buy provides a good model.

Implications for the proposed Order

- 1 The current RTB rules are rigid and permit only limited interventions. While the underlying discounts have imposed heavy costs on the public sector, those have been curbed by cash limits. However the cash limits do not sit easily alongside the annual discount entitlements, and remove any incentive for tenants to defer exercising the RTB in order to build up increased discount entitlements.
- 2 There is no value for money case for suspending the RTB in high pressure areas while the £16,000 cash limit remains in place. It would be more cost effective to permit those sales and to ensure that the resulting receipts are applied to the purchase of replacement vacant dwellings, that can provide an immediate letting. This does not require a 1 for 1 replacement for dwellings sold to sitting tenants, even in areas of high housing needs.
- 3 There is a case for seeking wider powers for 'first refusal' to repurchase dwellings sold in rural (and other) areas where there is a finite supply of appropriate dwellings available to meet local housing needs.
- 4 There is also a case for seeking wider powers to restructure the RTB discounts in Wales so that they provide reasonable value for the public sector, as well as choice and opportunity for tenants.

The views set out in this note, and the fuller article from the UK Housing Review 2006/07 evaluating the right to buy, are the personal views of professor Steve Wilcox, and not those of any other person or organisation.

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