National Audit Office

Memorandum
for the House of Commons
Committee of Public Accounts

Department for Communities and Local Government

Extending the Right to Buy

MARCH 2016

Key facts

1.8m
homes sold under the Right to Buy between 1980-81 and 2013-14

1.3m
housing association tenants in England to receive Right to Buy

3 years
the time housing associations or local authorities have to start building a new home for each one sold under the new policy

19,445	additional homes sold under the reinvigorated Right to Buy between 2012-13 and 2014-15
3,054	additional homes sold under the reinvigorated Right to Buy in 2012-13
3,387	new homes acquired or started to be built under the reinvigorated Right to Buy between 2012-13 and 2014-15
5	housing associations piloting the scheme
£103,900	maximum discount obtainable under the Right to Buy in London
£77,900	maximum discount obtainable under the Right to Buy in the rest of England
6.7%	average annual turnover rate of council lettings
30%	maximum proportion of the cost of a new home that can be financed by sales of existing homes under the Right to Buy
Up to 80%	proportion of market rent levels that can be charged as affordable rent
Around 50%	proportion of market rent levels that are charged as social rent
1 million	the number of homes overall the government wants to see built in England between 2015 and 2020

Summary

Background

1 This memorandum has been prepared to support the Committee of Public Accounts (the Committee) consider the approach taken by the Department for Communities and Local Government (the Department) in assessing the impacts and value for money arising from aspects of its Housing and Planning Bill (the bill). Specifically, the scope of this memorandum covers the Department's intention to:

- **give 1.3 million tenants of housing associations** – through voluntary agreement with the housing association sector – **the right to buy their home at a discounted rate**;
- **finance this policy through sales of high-value council homes as these fall vacant**; and
- **ensure a new home is provided** for each one sold by housing associations **on at least a one-for-one basis; and ensure additional homes are provided for those sold by local authorities, with at least two additional affordable homes for each one sold in London.**

2 At the time of writing, the Housing and Planning Bill is still being considered by the House of Lords. To date, the Department has not set out how much it projects the policy to cost or how much it intends to raise from the sale of high-value council homes, among other aspects. The Department states that key details, such as the definition of high-value council homes, will be set out in secondary legislation to follow the bill. As this information is still subject to policy development and has not yet been decided on by ministers, it lies beyond the scope of this memorandum to attempt to analyse the impacts of different potential options for the ultimate design of the policy. We have though, brought together observations on the Department's previous iteration of Right to Buy, examined its published impact assessment on the current bill together with other analyses carried out by the Department and lastly, revisited previous National Audit Office (NAO) and the Committee of Public Accounts' (PAC) reports on earlier housing interventions.

Recent impacts of the reinvigorated Right to Buy

3 **The Department's policy of reinvigorating the Right to Buy, introduced in the last Parliament, is relevant to the design of its new policy of extending the Right to Buy.** In 2012, the Department introduced a policy of reinvigorating the Right to Buy: increasing the discounts available to tenants of council housing who wished to buy their own home and committing to a one-for-one replacement nationally of affordable housing stock for each additional council home sold. Understanding the way in which the Department is assessing the success of this policy, in stimulating property sales and leading to new housebuilding, can provide useful context for examining the Department's plans for forecasting and measuring the success of extending the Right to Buy.

4 **The Department reports it has successfully ensured a one-for-one replacement nationally for each additional council home sold in the first year of reinvigorating the Right to Buy.** One-for-one replacement does not necessarily mean like-for-like: replacement properties can be a different size, and built in a different area, compared to those that have been sold. The pace of replacements will also need to accelerate to keep pace with the target in subsequent years. Under the Department's objective, housing providers have up to three years from the sale of a council property to make a start on using the receipts to provide replacement homes. The Department has taken the housing starts and acquisitions funded by this policy for the three years 2012-13 to 2014-15 together. This yields a total of 3,387, which roughly equates to the approximately 3,054 additional sales attributable to the reinvigorated Right to Buy in 2012-13. To meet the target of replacing the roughly 8,512 homes sold in 2014-15 by the end of 2017-18, however, would require quarterly housing starts to reach around 2,130, a five-fold increase on recent figures of approximately 420 per quarter.

5 **Past experience of similar policies could be used to anticipate some potential impacts of extending the Right to Buy, but the absence of key details at this stage makes this difficult.** Impacts on sales of housing association properties, the building of new homes, and any potential differences in outcomes in different areas, will depend ultimately on the demand for discounts and level of funding released by sales of vacant high-value local authority housing. Secondary legislation will define what 'high-value' means, and a formula will be used to calculate the payment each stock-owning local authority is required to pay. Until there is more clarity about what counts as high-value housing and how often tenancies end, it is hard to estimate the flow of payments and the number of sales to tenants that will be funded and additional properties built as a consequence.

Assessing impacts of extending the Right to Buy

6 **The Department has carried out various analyses on policy options and their potential impacts.** The Department has expanded on the substantive analysis it carried out for its published impact assessments on the reinvigorated Right to Buy in 2012 and 2014. It has modelled both demand for the Right to Buy among housing association tenants, and how much money sales of high-value council homes could raise, and used this analysis to demonstrate that this policy can be cost-neutral to the government. Among its analyses, it has projected impacts of these policies on future housing benefit expenditure. From local authorities it has gathered data on every council home in England (1.6 million properties), as well as updated market valuations. More widely, it has analysed the physical capacity within different local authority areas to build additional housing. Its analysis is an ongoing process; it is currently working with the housing association sector, including 5 pilots, to inform the details of the policy design. It is also working with associations to set out its approach to the delivery of additional properties, and will be establishing a clear methodology for evaluating the number of these which are built as a result of the scheme.

7 **The Department's position is that its impact assessment which accompanies the Housing and Planning Bill was published as an aid to Parliamentary scrutiny and debate, through setting out the strategic intent and high-level impacts of the bill.** The Department has carried out internal analysis to establish the value for money of extending the Right to Buy, including an economic business case assessment, and this work is ongoing. When reviewed against good practice, however, the published impact assessment to the bill has weaknesses. For example, it does not present alternative options for achieving the policy objectives or a summary of other options that were considered at an earlier stage. While it does identify a number of groups who might be affected, positively or negatively, by the intervention, it does not seek to quantify the costs or benefits, and it omits some potential impacts. Additionally, though dependent on certain assumptions, the impact assessment does not state those assumptions clearly, use evidence to justify them, or sensitivity analysis to consider the potential impact of uncertainties relating to them. The Department is clear that in its view it has complied with Better Regulation Framework guidance in terms of the limited scope of the impact assessment produced for the bill.

Past findings on the Department's approach to housing policy and impact assessments

8 **The Department has designed and implemented a number of housing policy interventions in recent years which may be relevant to how it intends to assess the impact of its new policy.** Since the start of the last Parliament, the Committee of Public Accounts and its predecessor committee, supported by our work, have made a number of conclusions and recommendations regarding the Department's approach to housing policy appraisal and evaluation:

- Under the **Disposal of public land for new homes** programme, which ran from 2011 to 2015, the government disposed of land with capacity for an estimated 109,950 homes. In 2015, the Committee concluded it was not possible to assess whether the original programme had delivered value for money because the Department had only collected information on the amount of land released, not on sales proceeds or progress in the actual construction of new homes.
- In April 2013, the Department opened the **Help to Buy equity loans** scheme, with the objectives of increasing demand for new homes, making mortgage finance more accessible and affordable, and encouraging developers to build more new homes. In its 2014 report the Committee found that, contrary to guidance in HM Treasury's *Green Book*, the Department's business case had not assessed whether there were alternative, more effective options that would have delivered the scheme's objectives. The Department responded that it had followed *Green Book* principles, and had considered other options to meet the scheme's objectives, but conceded it could have done more to present this analysis within its formal business case.
- In 2011, the Department introduced the **New Homes Bonus**, designed to provide a financial incentive for local authorities to create more homes in their areas. In our 2013 report, we found the Department's estimates of the number of additional homes it would lead to were unreliable, being based on limited evidence and unrealistic assumptions, and containing an arithmetical error. We found that while the Department was aware the Bonus could result in large cumulative losses for some local authorities, it did not cover this effect in its impact assessment. The Department did not consider substantially different scheme designs, as the main features were set in advance as being seen as key to the policy aim to incentivise and reward housing growth.

- The **Affordable Homes Programme**, launched by the Department in 2011, secured commitments from housing providers to build 80,000 homes for affordable rent by March 2015, 24,000 more than the Programme's initial target. In our 2012 report, we found, positively, that the Department had carried out a cost–benefit analysis of three different implementation options, and selected the best delivery model for the funds available. Reporting later in 2012, the Committee said it was not yet clear whether the Programme would deliver better value for money in the long term, as allowing housing providers to charge higher rents would lead to an increase in housing benefit payments. The Committee recommended the Department carry out research on the impacts of higher rents on tenants, and build the results into future programmes. In its response, the Department said it had already taken account of the impact on tenants, and that the Programme's impacts were positive. It said its impact assessment had reviewed the impacts on housing benefit payments, and demonstrated its preferred approach delivered greater benefits.

- In 2009, the Department launched the **Mortgage Rescue Scheme**, aimed at protecting the most vulnerable households from the negative impacts of repossession and homelessness. Reporting on the Scheme in 2011, we found the Department's impact assessment overstated the Scheme's potential benefits by not including the costs to housing associations. In its response the Department accepted our recommendation that its impact assessments should show how costs and benefits could differ under alternative assumptions.

Issues for the Committee to consider

9 The Committee might choose to ask the Department:

- what are its latest assessments of performance against the objectives of the reinvigorated Right to Buy initiative, and how has it applied this experience to the design and appraisal of its new policy of extending the Right to Buy;

- what are its processes for ensuring it acts on relevant findings by the Committee of Public Accounts and the National Audit Office, and other guidance such as the HM Treasury *Green Book*, when producing impact assessments, and how it has applied them in this case; and

- how it plans to monitor, report on, and evaluate the impacts of extending the Right to Buy?