Right to buy preparedness: survey results

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Introduction

The implementation of the extension of the Right to Buy to housing association tenants, as announced in the Chancellor’s Summer Budget 2015, could have a profound effect upon social landlords from 2016 onwards.

The agreement between National Housing Federation (NHF) members and the government gives all 2.3 million housing association tenants the opportunity of home ownership through Right to Buy discounts. The agreement includes an assurance that every home sold will be replaced with a new property. The definition of a replacement home is broad and includes the development of starter homes, shared ownership homes, and other part-rent and part-buy models, as well as properties for rent.

In return, housing associations will be fully compensated by the government for the cost of the discount. They will be afforded the discretion not to sell some homes under some circumstances in order to manage their business and charitable objectives. In these cases, housing association tenants will be offered a portable discount to purchase an alternative property to the one in which they already live.

The government will fund the extension of the Right to Buy by requiring local authorities that have retained ownership of their stock to sell higher value homes as they become vacant. Local authorities will be required to pay an annual levy to the government based on the amount of money that the government would expect each individual authority to receive from sales of higher value homes.

The Housing and Planning Bill 2016 has now completed its passage through Parliament and received Royal Assent on 12 May 2016. The Act will enable the government to make payments to housing associations to compensate them for the cost of Right to Buy discounts and allows the government to publish the ‘home ownership criteria’ (a set of rules for the extension of the Right to Buy), and to direct the Homes and Communities Agency (HCA) to monitor housing associations’ compliance with the criteria.

The Department for Communities and Local Government (DCLG) will produce a draft of how the scheme will work for housing association boards to consider, prior to the extended Right to Buy being introduced.

We are grateful to members of the Housing Quality Network and our sister network, the Leasehold Excellence Network for their help with this research, in particular the online survey and telephone interviews. We wanted to look at the extent to which the principles of the Right to Buy extension have been embraced by housing associations, the subsequent preparations they have been making, and the perceived knock-on impact on local authorities and ALMOs that are already administering Right to Buy.

The report highlights the key points from the research and recommends some actions that members may wish to consider prior to the introduction of the scheme.
Support for the extension of the Right to Buy

Housing associations largely (87.6%) support the principles of the extension of the Right to Buy. However, support is not unconditional, with only a quarter (25%) backing the scheme absolutely, and almost two-thirds (62.6%) having reservations.

Our research indicates that housing organisations are likely to be reticent about the introduction of the scheme because:

1) Many have said that they have experienced an increase in enquiries since the extension of the Right to Buy was first announced (in the summer of 2015) and anticipate that once the scheme is launched fully they will be dealing with a large number of enquiries and applications leading to pressures on often already-stretched resources.

2) Although five (surveyed) housing associations are piloting the scheme to test how processes might work, understand demand, and prepare for the wider roll out, housing providers may feel that they do not understand enough about the detail of the scheme at this stage to enable them to put processes, procedures and systems in place.

3) Where a property is exempt from the extended Right to Buy, the tenant will be offered a portable discount to purchase an alternative property to the one in which they live. How this element of the scheme will work in practice is unclear to many Housing Quality Network members, and this is being debated by the NHF’s...
Voluntary Right to Buy Sounding board. Areas of the policy under discussion include:

- Likely viable sources of stock for porting
- Suitable criteria for identifying properties for porting
- The mechanism via which porting would happen
- The valuation and discount setting
- Dealing with complaints about the porting process.

4) Managing the demand for the extended Right to Buy. It is likely that the government will put arrangements to manage the financial costs of the policy into place to ensure that the cost of sales does not exceed the value of receipts received from the sale of higher value council assets. This could include, for example, introducing an annual cap on the costs of Right to Buy discounts. As a result housing associations will need to manage tenant expectations carefully.

5) There will be an increase in pressures on teams dealing with the post-sale management of homes. The extended Right to Buy will increase the number of leasehold homes managed by housing associations. This may include an increase in shared ownership homes as a shared ownership Right to Buy option is being discussed as part of the scheme.

One-eighth (12.5%) of the housing organisations involved in this research did not support the extension of the Right to Buy. Some are concerned about the loss of stock and whether the one-to-one replacement will be possible, particularly in low value areas where Right to Buy receipts may not cover rebuild costs. Others in rural areas are concerned that the extension will mean that the supply of affordable housing in rural areas is not protected. Their view is that the portability option is not realistic in a rural context owing to the likely unavailability of alternative properties in the same locality.

Activity

Applications

In the nine-month period between April 2015 and January 2016, applications to purchase from housing association tenants (of those landlords participating in this research) under Right to Buy have already increased by 8.1% on the previous full 12 months. When extrapolated to a 12-month period, this would represent an increase of 44.1%.

The knock-on effect of the increased profile of RTB for participating local authorities and ALMOs over the period has also been noticeable, with a very similar figure of applications (2,504) in just the nine months from April 2015 and January 2016 as that of the whole preceding year (2,570). Again, when extrapolated to a 12-month period, it would represent an increase of 29.8%.
Completions

Interestingly, actual completions appear set to fall slightly over the first full 12 months of the announcement. This demonstrates the extent to which the national marketing of selling the dream of owning a (first) home can artificially raise expectations that are not realised at local level. As at January 2016, conversions from applications into sales by housing associations in the nine-month period stood at 69.2% of the total in 2014/15, and at this rate would only achieve 92.3% of the previous year’s total over the full year.

Amongst local authorities and ALMOs the figure was 61.1%, which if this rate continued to 12 months would represent 81.6% of the previous year’s total sale completions.

Anecdotally, housing associations are also reporting an increase in Right to Acquire applications despite this historically being a relatively unpopular product when compared to the Right to Buy due to the lower level of discounts on offer.

Preparedness

With the policy, and Bill, now enacted (legislation), landlords must be ready. Just over half (56.3%) of housing associations feel that they are now more prepared than they were at the announcement. Around one-third (37.5%) feel they are as prepared as they were at the time. Clearly, some development has been made across the sector, with only 6.3% still as unprepared as before.

Are you more prepared now than at the announcement of the extension to RTB in the summer Budget 2015?

It is positive that the majority of housing associations have made some preparations for the introduction of the extended Right to Buy, but this has mainly been around reviewing and revising Right to Buy policies, attending training and seminars, reviewing feedback
from the housing association pilots and expanding awareness of dealing with Right to Buy fraud.

It is unclear whether housing associations have modelled the likely impact of the policy on financial plans and whether they have considered the practicalities of delivering the scheme including processes, systems and resources and ensuring buy-in from teams across the business.

The vast majority of housing associations (93.8%) expected that the publicity surrounding the granting of Royal Assent to turn the Bill into Law will now stimulate a further increase in interest and activity.

**Knock-on effect**

There has clearly also been a knock-on effect across the wider sector as a whole to the announcement, with half (50%) of the local authorities and ALMOs surveyed reporting increased interest and activity from their tenants as well (27.8% reported the same level of activity).

**Local authorities and ALMOs: Has your organisation experienced any knock-on effect in terms of increased interest and activity in RTB?**

As a result, local authorities and ALMOs have needed to maintain their momentum, with 11.8% feeling they had needed to become more aware and 76.5% aware of the need for consistency of approach.

Indeed, just over one-third (35.3%) of local authorities and ALMOs feel that the granting of Royal Assent might be the catalyst to stimulate further activity within their specific sector.
Research by housing associations into likely take-up has been mixed, with just over half (52.9%) carrying out some initial research. Of these, estimates suggest that landlords envisage that between 10%-15% of their tenants will be able to purchase their home. Around one-third of those carrying out some initial research were unable to say.

Data provided by the housing association pilots has indicated that the take-up of the scheme may be more limited than originally anticipated. The pilots launched in January and by April less than 1% of the tenants offered the chance to purchase under the pilot of the Right to Buy had made a formal application to buy. Just 443 tenants had put in a formal application to buy their home out of more than 48,000 households in the pilot areas to which the scheme was marketed. This is well below Sheffield Hallam University projections for demand, which have suggested around 7% of tenants would have the means and the desire to buy under the scheme.

The eligibility criteria of ten years’ residency in the pilots, and the exclusion of some types of home, saw some tenants who hoped to buy ruled out, as the portability option is not part of the pilot scheme. Some tenants, particularly in London and the south east, found that they were unable to afford to go ahead with the purchase (source: Inside Housing).

Just below half (46.7%) of those sampled have been able to identify which of their properties are likely to be excluded from the extended Right to Buy (because they are in rural areas, are homes for people with special needs).

Of these, there is still some uncertainty over the proportion that will be excluded, although early indications suggest the figure could be anything between 20%-60%, with only a few providers able to provide a more precise estimate (based on current criteria).
Preparing for the changes

Housing associations have nonetheless been active in period since the Summer Budget announcement. Policy formulation and reviews of existing practices have been carried out by the majority (62%-69%) with the majority (75%) sending their staff to training and seminars to learn more about the subject and processes, and combating fraud.

Local authorities and ALMOs have also needed to take more proactive steps to expand their awareness as interest in the Right to Buy market generally gathers momentum. Their activity in these areas has been less marked (35%-57%).

Perhaps inevitably, the activities given least focus by all landlords were communicating with tenants and making more information available to tenants.

Housing Associations - How have you been preparing for the changes?

Local authorities and ALMOs - How have you been preparing for the changes?
Most of housing associations taking part in this research have been proactive around preparing for the introduction of the extended Right to Buy but information remains limited around some aspects of how the scheme with work, particularly in respect of portability and a possible shared ownership product. Although some feedback from the pilot housing associations has been shared with some members, the DCLG has advised that it will not be issuing its guidance on the extended Right to Buy scheme until the autumn. These factors are likely to be hampering more detailed preparations by housing associations.

Fewer than half of the housing associations members surveyed were able to identify which of their properties would be excluded from the extended Right to Buy. Identifying those with Section 106 and other legal agreements that preclude their sale seems to have been proving a particularly lengthy and difficult process for some housing associations.

**Finances and use of resources**

*Use of resources*

With an anticipated increase in activity, the subsequent allocation of resources is of concern to landlords. Managing home ownership remains a specialist area, with 68.9% of housing associations tasking leasehold or Right to Buy staff with administering the work. Other landlords allocate the work to other services such as legal, lettings or housing management to a much smaller degree (6.3%).

Who currently leads on the administration of RTB applications and sales in your organisation?

![Pie chart showing the distribution of responsibilities for RTB applications and sales]

- Leasehold Team
- Finance Team
- Legal Team
- Specialist RTB resource
- Other (please give details)

This is relatively consistent with local authorities and ALMOs, already experienced in managing the process, where 76.5% of organisations allocate the work to their specialist leasehold personnel.
However, it is apparent that over a quarter of all landlords right across the sector opt for multi-tasking as opposed to specialist Right to Buy/leasehold staff or aren’t in a position whereby they can resource specialist leasehold staff.

The average number of staff that has been allocated to administering the extension of Right to Buy in the housing association sector is 1.5 per landlord (in a range of between 0-3.5 people).

Interestingly, a majority (68.8%) of landlords have stated that they don’t plan to increase their resource allocation despite the (93.8%) anticipated increased interest and activity.

### Resourcing efficiencies

Technology will be an influential factor in the allocation of resources moving forward. Over half (55.5%) report that they will move towards an online application process, with only 22.2% opting to retain a paper-based approach. Some 44.4% will be using a CRM system to track applications.

### The private rented sector, and combating fraud

Around half (46.2%) of participating housing associations have reported being aware of a Right to Buy purchases becoming private sector lets straight away. Fewer (37.5%) of local authorities and ALMOs were aware of such incidences.

More reassuringly, the majority (73.3%) of housing associations and virtually all (93.3%) local authorities and ALMOs currently have policies or plans in place to address Right to Buy fraud. These include:
Tenancy audits
- Referral to a specialist anti-fraud team
- Independent investigation (including external agencies)
- Threat of removal of tenancy
- Unannounced visits
- Additional information and evidence requests
- More comprehensive checking and signature verification
- Wider checks into previous addresses.

**Costs and overheads**

Almost three-quarters (73.4%) of housing associations expect their overheads to increase as a result of the anticipated increased activity.

Will the anticipated increase in RTB leaseholders increase or decrease your leasehold management overheads?

As a result, similar numbers (68.8%) expect Right to Buy valuation and administration costs to increase.

As a reinforcement of the specialist nature of administering leasehold and Right to Buy, despite the likelihood of increased costs for landlords as a result of increased interest, there seems reluctance across the sector to partner with other providers or associated organisations to attempt to reduce costs. Only 20% of housing associations, and even fewer (6.7%) local authorities and ALMOs are considering this option.
Financial modelling

Less than one-third (31.3%) of local authorities and ALMOs have carried out any financial modelling in order to measure the impact of the proposed requirement for local authorities and ALMOs to sell their high value stock to finance Right to Buy for housing association tenants.

Have you carried out any modelling to measure the impact of the proposed requirement for local authorities and ALMOs to sell their high value stock to finance RTB for housing association tenants?

The impact on resourcing the extended Right to Buy will very much depend on the actual level of increased activity. Early feedback from the pilots has indicated that actual take-up may be more limited than anticipated but the level of initial enquiries from tenants is likely to be high. Many housing associations are already seeing this and enquiry levels can be expected to rise as publicity about the scheme increases.

In view of this, resourcing the enquiry service will be key, and housing associations will need to consider how to do this. Rather than using their specialist Right to Buy or leasehold teams, housing associations may, for instance wish to consider training any appropriate contact centre staff they may have.

Most of the housing associations taking part in this research have stated that they will not be increasing their staffing resource to deal with the extended Right to Buy. It appears that these organisations may be looking to increase their use of technology to help bridge the gap, with the use of online application forms and customer relationship management (CRM) systems appearing popular.

These solutions can be time consuming to implement so partnering with other providers to develop these systems may be beneficial. This research however has revealed that only 20% of housing associations would consider working with others to help reduce costs. Joint procurement of valuation surveys and conveyancing services may also help to keep costs down.
The majority of associations surveyed (66.7%) said that they would consider introducing home visits as part of the extended Right to Buy process. This approach is likely to be resource-intensive and providers may need to look across their business to identify suitable resources from other teams (ie, housing management).

Local authorities that have retained ownership of their stock will be required to sell higher value homes as they become vacant to fund the extended Right to Buy. Some of the local authorities and ALMOs taking part in this research have carried out financial modelling of the impact of this policy but the details of both the definition of higher value homes and the mechanism by which the government will calculate the amount owed by each stock retaining authority has not yet been published. In view of this, it is impossible for local authorities to accurately assess the impact of the policy on their financial plans.

The regulations used to determine the definition of higher value homes and the local authority levy will be discussed in both the House of Commons and the House of Lords before they are implemented.

**Future changes**

Perhaps unsurprisingly, bearing in mind the expected increase in overheads and costs, the majority of housing associations (80%) want to see an ‘up front’ administration fee introduced, payable in advance. One-third (33.4%) want to see an increased tenant eligibility period introduced.

As noted previously, the mechanics of the portable discount are still to be agreed. The portability arrangements are likely to have a big impact on the extended Right to Buy processes that housing associations implement and on how housing providers work together to identify suitable properties for tenants to port their discount to.

All housing associations are likely to see an increase in levels of leasehold management, particularly if a shared ownership Right to Buy model is introduced. Some landlords will be unfamiliar with the shared ownership product and will need to develop new procedures and processes for staircasing, re-sales, income collection, etc.

Some of the extended Right to Buy pilot associations have made changes to the statutory Right to Buy product so that, for instance, purchasers are unable to sub-let their property for the first five years and the housing association has the right of first refusal to buy back the property for the first 21 years following the sale of the property. Members should be minded to build these aspects of the product into their management practices.
Conclusions

Our research into the impact of the extended Right to Buy policy on Network members has revealed that most housing associations support the policy, with some reservations. These reservations are likely to be as a result of the lack of detail currently available on how the policy will be implemented.

Publicity around the extended Right to Buy has resulted in a large increase in applications for the statutory scheme, although the number of actual sale completions has fallen slightly. This indicates that many tenants have a desire to purchase their home but the practicalities of financing the purchase etc mean that this is not always possible. It is anticipated that the launch of the extended Right to Buy will result in large numbers of enquiries from tenants for the extended scheme as well as continued higher levels for the statutory scheme.

Generally, housing associations have done a lot of work to prepare for the extended Right to Buy but there is more for them to do as the detail of the implementation of the scheme comes out. In particular, housing associations need to consider how they will resource the policy in terms of people, systems and working with teams across the business. This needs to include the ongoing management of leasehold and freehold properties post-sale.

The increase in statutory Right to Buy applications has resulted in local authorities reviewing their Right to Buy policies, expanding their awareness of Right to Buy fraud and strengthening internal communications in their organisations.
Recommendations

Based on this research, the following is recommendations are put forward to Leasehold Excellence Network members.

**Housing associations**

- Identify which properties in your stock will be exempt so that you are prepared. Identifying units with Section 106 and legal agreements that prevent their sale can be time-consuming but you will need a record of this detail once the extended Right to Buy is launched, so it is wise to start this work now.

- Speak to your Development Teams about the possibility of the local authorities with whom you work being requested to vary Section 106 agreements, etc, as appropriate. A reduction in the number of Section 106 agreements you have that prevent the sale of the property will reduce the need for tenants to request a portable discount.

- Work on developing some detailed processes for the extended Right to Buy that reflect what will work for your organisation. Make sure that you involve all the relevant teams across your business to ensure buy-in, ie, asset management, legal, housing management, finance.

- Consider working with other providers to implement the policy as efficiently and effectively as possible. It may be worth procuring valuation and conveyancing services jointly, or considering re-tendering for these services due to the anticipated increase in activity.

- Plan the resources you will need to deliver the new policy. This will include both systems and people. In particular, consider how you will deal with an increase in Right to Buy enquiries from tenants.

- Manage tenant expectations by keeping your website, newsletters, etc, updated with information on the extended Right to Buy as it is released.

**Local authorities and ALMOs**

- Increasing publicity about the extended Right to Buy is likely to lead to a continuing increase in enquiries and applications for the statutory Right to Buy. Be prepared for this increase and consider whether you need to change the way you resource the service.
## Appendix one: participants

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<th>Organisation</th>
<th>Tenanted stock</th>
<th>Leasehold stock</th>
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About the author

Helen Muir has over twenty years experience working in the housing sector, with the last fifteen years spent specialising in low cost homeownership, including leasehold management.

She worked for many years at a senior level for two large housing groups with responsibility for affordable sales, Help to Buy Agency contracts and the management of a range of property tenures.

Helen now works as an independent housing consultant with leasehold management as one of her specialisms. Helen has a BSc (Hons) in Estate Management and is a member of the Chartered Institute of Housing.