Scrutiny 13/9/21

Briefing Paper – Return of Right to Buy Receipts (RTB)

As Members are aware on the 31/10/19 the Council repaid unutilised RTB receipts totalling £651k to the MHCLG. This money was returned to the MHCLG as part of a quarterly returns process on the basis that at the time there was no plan/intention to spend these funds generated from the previous sale of Council houses.

The rules surrounding the use of RTB receipts, at the time in question, allowed Councils to keep a specific portion of a Council House sale on the proviso that these funds were spent within a 3 year window to build new Council Houses. If monies remained unspent and weren't returned within the 3 year period they were subject to late interest payments.

In addition to the above criteria we also have/had the prevailing RTB legislation which, subject to some other more detailed further criteria, gives a Council tenant the ability to purchase their house at a very significant discount.

This criteria is as follows:

For the tenant under RTB

Tenants can receive up to a maximum of a £84.6k discount when purchasing a CH (they may have to repay some if re-sold within 5 years)

With a tenancy between 3-5 years a 35% discount is available

After 5 years it increases by 1% per annum up to a maximum of 70% or £84.6k

For the Council utilising RTB receipts

Until the 31/3/21 the Council could keep 30% of the RTB receipts (after discount) if it was used to fund new Council Housing within a 3 year window. And in March 2021 new legislation effective from the 1/4/21 was introduced to amend the amount a Council could retain to 40% and the time period was increased to 5 years.

In Oct 2019 the Council returned £651k of unspent RTB receipts to the MHCLG as it had no plan of how the money could be used as it was determined that without a plan we didn't want to hold on to the money and then be subject to the 4% above base interest rate additional charge that the Govt. would then apply when it had to be returned. So why didn't we have a delivery plan?

The decision (albeit a non-formalised one) was that the commercial risks associated with the legislation surrounding RTB were too great to enter into a large scale social housing build programme at that time - coupled with the associated long term PWLB funding that would still have to be paid back over that long term period, with a diminishing rental stream, if or more likely when, some of these the new houses got RTB'd.

You will also be aware that this decision was not unique to Mid Devon i.e. the national picture reflected that very few Councils were building Council houses at that time, predominantly down to the financial risk/exposure of RTB. i.e. why would a Council want to potentially borrow money for a fixed period of time in the knowledge that a tenant could purchase the property at a heavily discounted rate – leaving the Council with 1 or more less housing units and still having to fund the associated long term debt repayments?

This issue was further demonstrated by a significant level of national Council lobbying of Central Govt. to remove/reduce the existing RTB discounts and to adjust the rules around how much and for how long the partial receipts could be kept for. Very recently these rules have been revised slightly giving Councils a bit more money (increased from 30 to 40%) and a bit longer to spend it over (increased from 3 to 5 years).

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Sept 2021