

5 April 2016

Briefing:

Voluntary Right to Buy

Key principles of the agreement

Summary of key points:

The Voluntary Right to Buy proposal was agreed by the Government in October 2015, allowing housing associations to extend Right to Buy discounts to their tenants by way of a voluntary agreement rather than legislation. This agreement is based on four key principles:

- **Right to buy discounts for housing association tenants:** housing association tenants would have the right to purchase a home at Right to Buy level discounts – subject to funding for the scheme.
- **Board control over which homes to sell:** housing associations will have the final decision about whether to sell an individual property, with the presumption that they will sell a tenant their current home where they can.
- **Full compensation:** housing associations will get the full market value of the properties sold, with the value of the discount funded by the Government.
- **Flexible one for one replacement:** nationally, for every home sold under the agreement a new affordable property would be built thereby increasing overall supply. Some housing associations may not be able to build at a ratio of one for one, or in limited circumstances have to rely on acquisitions or bringing empty homes back into use, but it is expected that this will be balanced by others delivering to a higher ratio and that, nationally, the target will be met. The type and location will be flexible to their needs.

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Background

In September 2015, the National Housing Federation, on behalf of its members, put forward a proposal to the Government to deliver its commitment to extend Right to Buy to housing association tenants by way of a voluntary agreement rather than legislation. [This proposal](#) was accepted by the Prime Minister in October 2015 and work is now underway to develop and implement the scheme.

This agreement ensures their crucial role in delivering housing solutions for people who need them in four main ways:

- **Independence:** housing associations will retain the independence of boards to make decisions – an independence that would have been undermined by a legislated compulsion to sell.
- **Compensation and flexibility:** housing associations will receive the full market value of the homes they sell, and will have the flexibility over which homes are sold and how they are replaced.
- **New relationships:** housing associations will gain a positive, constructive relationship with the Government – making the sector trusted, independent partners for delivering the new homes that the country needs.
- **Realising capital for new build:** releasing capital through sales to reinvest in new affordable homes will be a significant contribution to meeting the housing supply this country needs.

Key principles

There are four key principles to the Voluntary Right to Buy (VRTB) agreement:

1. Every housing association tenant would have the right to purchase a home at Right to Buy level discounts
2. Board control over which homes to sell
3. Full compensation for the discount funded by the Government
4. Flexible one for one replacement.

1. **Every housing association tenant would have the right to purchase a home at Right to Buy level discounts.**

The VRTB offer was clear that every housing association tenant would have the right to purchase a home at Right to Buy level discounts, subject to the overall availability of funding for the scheme.

The Government has agreed to compensate the housing association for the discount offered to the tenants and housing associations would retain the sales receipt to enable them to reinvest in the delivery of new homes.

The presumption is that housing associations will sell tenants the property in which they live, but if not, to offer them an alternative through the portable discount.

2. Board control over which homes to sell

Although housing associations will be expected to sell the tenant their current home, if there is good reason not to they can work with the tenant to find them somewhere else to buy.

Examples of circumstances where associations may exercise discretion over sales include:

- properties in rural areas
- supported housing adapted for special needs tenants
- properties provided through charitable or public-benefit resources
- specialist properties of historic interest
- properties held in a Community Land Trust.

In this event, or where an association has declined to sell a home for any other reason, it is intended that housing associations will offer tenants the opportunity to use their discount to buy an alternative home. The terms of the agreement make it clear that this must be from within the sector to ensure that government contribution to the scheme through discount compensation is retained by the sector for investment in new supply and not lost to the private market. The working assumption is that this would be a housing association new build property and help drive development. Portability is however one of the trickiest issues to work through and much work remains to be done here.

The final decision about whether to sell an individual home will rest with the association board. Having control over which properties are sold, and what new properties are built, will ensure that housing association boards maintain their independence to make decisions. This independence would have been undermined if the Government had compelled housing associations to sell homes through legislation.

3. Full compensation for the discount funded by the Government

The Government has agreed to pay full compensation for VRTB discounts directly to housing associations on the basis that 70% will be paid on completion of the sale and the remaining 30% will be paid when there is evidence of a 'start on site' or acquisition. This recommendation is being discussed with DCLG and at the VRTB Sounding Board. We are currently working through how and when payment is triggered, including what the 70:30 split would mean for non-developing housing associations.

4. Flexible one for one replacement

The deal is clear that housing associations would use the sales receipts, the discount compensation from the Government – minus any transaction costs and debt repayment – and any other available resources to deliver replacement affordable homes. Given the differences in markets the commitment to deliver one for one replacement through new supply was agreed to be on a national basis, not an obligation on individual associations.

Housing associations will have the flexibility to use sales receipts to respond to market pressures and local housing needs. Housing associations would retain any grant element from any homes sold under this deal in a Recycled Capital Grant Fund (or another similar fund) with discretion over how this money is used within certain limits set down by the Government.

The type of replacement affordable property is flexible – including Starter Homes, shared ownership homes, other part-buy models and affordable and social rent– and associations will have the option, in limited circumstances, to buy another property or bring an empty property back into use.

The location of replacement property is also flexible – replacement will be measured at the national level, allowing housing associations discretion over where they build replacement homes.

Next steps

VRTB will allow housing associations to work in partnership with the Government to deliver the new homes that the country needs in a number of ways, including:

- developing an efficient implementation process
- putting in place robust, transparent and timely arrangements for the selling process
- facilitating the release of land for housing and speeding up the planning process
- providing the flexibility to replace homes within a three-year period
- creating measures to limit fraudulent purchases
- managing financial costs of the policy
- developing innovative ways for home ownership outside of VRTB.

The Federation is now working with the Government to develop the implementation process and five housing associations are currently piloting VRTB and working with the Federation and DCLG to learn the lessons from that.

Further information

It's crucial that housing associations are involved in the design of VRTB, so keep updated on the latest news and how you can get involved by visiting [the VRTB section of our website](#).

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