

## Unintended Consequences; Local Housing Allowance meets the Right to Buy

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### Abstract

Recent rapid expansion of the Private Rented Sector (PRS) is recognised but the extensive involvement of ex local authority stock in this new PRS is not. This paper uses existing literature to outline the commodification processes through which Right to Buy (RTB) housing enters the PRS. Other published research is used to estimate a likely range of council to PRS tenure change over 30 years of RTB in the UK. Then using detailed data matching, we present one local authority example at individual dwelling level across the whole stock to establish the true scale of this transfer from council housing to private rental. Finally, to stimulate debate about the revenue cost of this switch of rental tenures we speculate on the additional annual cost of Housing Benefit support to this ex RTB stock given that the PRS is invariably more expensive than council renting for equivalent dwellings. This may well be over £1bn per year. We conclude that UK government's plans to expand the RTB scheme will simply increase revenue costs year on year for no discernable social or housing supply benefit.

Keywords: Right to Buy, Private Rented Sector, Housing Benefit / Local Housing Allowance, government spending.

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### Introduction and background

The Right to Buy (RTB) was one of the flagship privatization policies of the Conservative administration of the 1980s (Jones and Murie, 2006; King, 2010). Unlike other privatizations it sought to transfer responsibility for public assets not to private companies but directly to individual members of the public. There were a range of stated objectives (King, 2010) but one of the less explicit was the transfer of long term management and maintenance costs of a significant proportion of public sector housing stock away from government to individual households.

The RTB greatly extended the volume and proportion of housing stock that was valued and allocated through market mechanisms and it was assumed (not unreasonably at the time) that RTB homes would remain in the home-ownership market. For example, even writing thirty years after its inception King says "It is crucial to any understanding of the RTB to remember that the households who bought their

dwelling did not move away” (King, 2010: 72). However, the reality is different from this aspiration/assumption and an emerging pattern of re-sales has led to a significant, and increasing, minority of RTB homes transferring over time to the Private Rental Sector (PRS) as we show below.

The owner occupation element of the housing market in the UK has been in decline since at least 2003 (Springs, 2008; but CLG, 2011 dates the reversal slightly later; and Heywood 2011 explains it in some detail) while the PRS has expanded rapidly for a variety of reasons. The PRS in the UK usually acquires its stock from transactions in the wider housing market (normally assumed to be populated exclusively by individual household purchasers). Ex-RTB stock is now part of that wider housing market and subject to its trends. Consequently the broad trend to PRS expansion has meant that a significant minority of the RTB stock has found its way back into rental but now in the PRS. Here it caters for a variety of housing demand groups but increasingly it is expected to meet the needs of vulnerable households who would in the past have been eligible for social housing. Increasingly UK governments see the PRS having a role in meeting homelessness demand for example. A key point for the purposes of this paper is that many of these households will be dependent upon Housing Benefit (now Local Housing Allowance (LHA) in the PRS) to support them in homes with much higher rents than the equivalent current local authority rents for the same homes they may have accessed 20 years ago in the council sector had this stock not been sold.

What we present here, through a brief review of existing research followed by detailed analysis of the current tenure location of RTB stock in one local authority area, is evidence of both the likely scale of transfer to the PRS after just over 30 years of the RTB and the likely continuing costs of this transfer. There is a deliberately speculative element to this paper. Data of the kind used here is rarely available to researchers even in situations where they have been commissioned by local authorities to research the PRS (for example Hickman *et al* 2007 and 2008), and evidence of change invariably comes from partial surveys (e.g. Jones, 2003) or analysis of secondary data that is inevitably incomplete (for example Murie and Rowlands, 2008 drew on census tracts but had no correlation to Housing Benefit data). Lastly the PRS in England is largely unregulated and unmonitored so the bulk of the UK PRS cannot be easily identified at all for either enumeration or location (see Rugg and Rhodes, 2008).

Therefore the purpose of the review of the other limited literature on the RTB and tenure change is simply intended to demonstrate that the transfer evidenced in Renfrewshire is not unique to this authority, nor to Scotland, but is part of the unfolding story of the RTB and the role it now plays in housing markets. Evidence of varying scales of RTB transfer to the PRS exists across the UK, albeit with local level variations that cannot be quantified as the data is not gathered or collated. Rates of change vary too; as Jones (2003) shows the rate of transfer in London can be extraordinarily rapid. This is likely to be driven by both higher values and higher rents in the city. But regardless of local level variations our larger point is that, over time, this transfer occurs to some extent across all locations because of wider market trends (as recently summarized by Heywood, 2011) and this transfer to a higher rental structure will have cost implications for the state in sustaining families in private rental as opposed to social rental.

We want to suggest that any appraisal of the RTB, and consideration of its future expansion, needs to recognise this unanticipated consequence of commodification. The fiscal outcomes of the RTB do not end with discounts, capital receipts, asset value and use loss to the public sector, mortgage tax relief, equity withdrawal, access to credit, and limited support to failed owners, and so on. We believe the RTB has also translated into a considerable annual revenue cost not previously considered in RTB evaluations. The higher rents in the PRS have always been known but it seems likely

that meeting the housing needs of low income households in former council stock costs the Department for Works and Pensions (DWP) over £1bn per year in *additional* Local Housing Allowance (LHA) supporting the difference between council rents (that would have been charged to these tenants if they had been living in council stock) and the market rents of the PRS.

At a time when the English Local Government Minister is extending the RTB, ostensibly to use receipts for new social housing provision, we argue that the growing annual cost to the Treasury from past sales now in the PRS will need to be counted against any likely gains from capital receipts. Furthermore, newly sold social sector stock will again support future PRS expansion in high demand areas, increasing revenue costs to the Treasury despite the effects of caps on LHA payments.

### **The mechanisms of transfer from social rental to private rental**

When social housing stock is sold under the RTB framework the sale is made to the sitting tenant with a discount as allowed in legislation. Discounts have changed over time and there have also been varying restrictions on re-sale periods. Initial sales leave social composition of a neighbourhood the same and simply switch tenures for existing residents. The immediate popularity of the RTB led to the sale of over 620,000 council and New Town homes from 1980 to 1985 (UK Housing Review, 2002/3). Sales continued at a rate of 100k to 200k per year through to 1990, a transfer of over 1.3 million homes in the first decade. This stock has now been in the general housing market for over two decades and been subject, in many instances, to several subsequent sales.

The RTB had a substantial effect in expanding home ownership in the UK. During the 1980s home ownership increased in total by 3.3m dwellings so the 1.3m RTB sales make a significant contribution to that change. By 2012 around 2.5 million dwellings have been sold in the UK to sitting tenants. King (2009, 2010) views it as probably “the most successful housing policy over the past 50 years” (King, 2009: 108). The assumption was that RTB activity would permanently expand homeownership and bring with it all its supposed social and financial benefits (Saunders, 1990; King, 2010). There was also a naïve belief in the stability of this purchasing population – “...buying a dwelling on a council estate shows commitment to the locality” (King, 2010: 70). This belief remained intact despite early evidence that almost half of purchasers intended to move (Kerr 1988 quoted below). However, even critics of RTB never imagined that this policy would eventually also help the expansion of private rental.

About a decade after the introduction of the RTB, studies began to explore the role of re-sales of RTB stock in assessing its full impact on local housing markets and communities. The importance of examining re-sale activity and outcomes is that sales to sitting tenants, regardless of policy objectives, originally have little or no impact on the social profile of a neighbourhood. But over time RTB purchasers would sell for a wide variety of reasons; some in order to capitalise on the discount value and subsequent house price inflation, some to relocate. Others may be forced to sell through changed circumstances (unemployment, ill health, relationship breakdown), or family inheriting these homes would sell to realize asset value or to be rid of an unwanted inheritance. Early RTB researchers wanted to understand these dynamic impacts on local housing markets as well as understanding the gains to purchasers and the social changes arising from re-sales (Williams and Twine, 1992 and 1993; Forrest *et al.*, 1996). The loss of council rented stock in attractive rural areas also prompted research on the role of RTB stock in the expanding second homes market (Williams and Twine, 1994).

Ultimately these studies contribute to understanding the long term effects of the commodification of former council housing. In their analysis of re-sales in the Scottish housing market, Pawson and Watkins (1998b) drawing on Forrest and Murie (1995) state that:

*[...] the transition of housing provision from a decommodified bureaucratic form of provision to a system where the commodity – housing – is allocated through the market is characterised by two distinct stages: initial privatisation and subsequent commodification. (p. 417)*

Specifically, the explanation of the commodification process is that “It is at this point of re-sale that a more profound transformation occurs – when privatization becomes commodification” (Forrest and Murie, 1995: 408). So the initial sale is only the start of the process of change brought to neighbourhoods by the market processes affecting housing.

Commodification through re-sale was initially rather slow (partly due to restrictions on re-sale involving a requirement for the repayment of discounts, and partly due to the late 80s housing market slump) but as early as 1988 Kerr was concluding her study of the RTB by pointing out that:

*The resale of council homes seems certain to become an important feature of the housing market in the near future. Indeed, following the reduction in the discount repayment period from five to three years a good many properties will already have been resold. The finding that nearly half the buyers [in her study] intended to move contradicts earlier assumptions that the majority of RTB purchasers would stay put. (Kerr, 1988: s199)*

Kerr (1988: s191) also found that more flat owners intended to move (three out of five) than house owners. This supports the view that owners of flats may have tended more to purchase specifically to facilitate a move to a house, or relocation to a new area altogether, rather than simply to become home-owners in the same dwelling, thus demonstrating exactly the opposite of the neighbourhood commitment King (2010) imagined to have been occurring. So for a wide variety of reasons RTB stock becomes fully commodified through re-sale in increasing volumes over extended time periods.

### **The scale of transfer from social rental to PRS over 30 years of RTB**

Despite the widespread aspiration of initial purchasers to sell (Kerr 1988), actual re-sales occurred at lower rates. Reporting a study looking at the period to 1991 (after ten years of RTB) Forrest *et al* (1995) indicate that only 14 per cent of properties sold through RTB measures in England had subsequently been re-sold (around 151,000 dwellings). In Scotland, Williams and Twine (1992) tracked the re-sale of RTB stock formerly owned by Scottish Special HA and found that in the first decade of RTB around 10 per cent of sale stock had been re-sold. It may be worth noting that RTB sales took off more slowly in Scotland (see Pawson and Watkins 1998) so for much RTB stock there has been a little less time for it to enter re-sale markets. But even so, re-sale rates inevitably increased over time and by 1997 Pawson *et al* gathered evidence that 22 per cent of RTB properties in Scotland had been subject to re-sale (67,000 dwellings) and within that total 25,000 had been sold twice or more.

Thus from the mid-1990s it is clear that there is an increasing likelihood of re-sale over time and initially re-sales were predominantly to individual home-owners or second home owners (for personal consumption). But Forrest *et al* (1995) also report

that of the 151,000 re-sales they recorded, a total of 12,000 had become privately rented. In other words, almost eight per cent of the originally sold RTB dwellings had become privately rented after a decade: this study had identified what was to prove to be a growing trend. Not all studies picked up this outcome but this is possibly because of the assumption that stock would remain in simple homeownership. For example Chaney and Sherwood (2000) seek to understand the impact of RTB on a rural area and of 370 re-sold dwellings identified they target “homeowners” for survey with a response from 188 of those 370 households. The likelihood of there being some renters in the other 182 properties seems high but these would not have responded as they were not the survey target group.

The wider consumer market for the ownership of housing began to change in the mid 1990s as a range of factors encouraged the growth of private renting including deregulation, more financial support (Buy to Let mortgages), and failures of other investment methods attracting individuals to become landlords (Rugg and Rhodes, 2008). As stated above, the PRS does not commission new supply but acquires stock in the normal home ownership market competing with individual households. Increasingly through the 1990s this pattern of expanding PRS acquisition would come to include former council stock. PRS expansion may also have had an impact on new supply at this time (NHPAU, 2008: 12) but the evidence for this in overall volumes of new supply is unconvincing (Sprigings, 2008).

Despite the common belief that council housing is unpopular, interviews with private landlords have shown that former council owned stock can be very attractive to them (Nevin–Leather Associates, 2011; Sprigings and Knight-Markeigi, 2006). Landlords like this stock for a variety of reasons (several of which contradict successive government and popular assumptions about council built stock):

1. it is easy to let as there is ready local demand from families with relatives/friends on established estates/neighbourhoods;
2. it is generally historically of a good build standard and well maintained;
3. it has high space standards (this and 1&2 above may be accounted for by the propensity of RTB purchases to take good quality houses and low rise flats rather than high maintenance or structurally problematic high rise flats);
4. it is generally high yield having good rental income compared to often lower than average acquisition cost (due to location) and is therefore a low risk investment;
5. it is located on managed estates where the social landlord often still undertakes broader estate management duties from grounds maintenance and common repairs to community development and dealing with ASB, thus helping to sustain neighbourhood quality in a way that does not happen in other areas of PRS concentration (such as older tenements in Scotland or terraced housing in English industrial cities).

Studies by Craigforth and Newhaven Research (2005a and 2005b) for Communities Scotland concluded their survey findings commenting on private landlord acquisition strategies that “Traditional (older) flats and ex RTB properties are the main focus of property portfolios” (Ibid, p109), a clear indication of RTB stock as an attractive PRS investment target. As Rugg and Rhodes (2008: 96) commented, “it would be interesting to note how much of the current PRS comprises ex-social housing stock”. The difficulty of this analysis explains why it has never been done, even at a local level, until this study.

Rates of acquisition of housing by the PRS overall are very difficult to assess as the sector is largely unregulated and not monitored, except to a limited extent in Scotland

where, since 2004, there is a compulsory landlord registration scheme. Where surveys have been undertaken, evidence confirms that rates of acquisition of RTB stock by the PRS vary widely but are significant in most local authority locations.

Research by Murie (2008; also reported in Jones 2010, and Rugg and Rhodes 2008) studied the change on large Birmingham council estates comparing data from the 1981 and 2001 censuses. On the Ladywood estate 27 per cent of the original stock had been sold and 43 per cent of this had transferred to the PRS. This was an extreme example and overall they estimated around 20 per cent of Birmingham's RTB sales were in the PRS by 2001.

In 2003, Jones attempted this quantification in London while exploring another route to the transfer from social renting to private renting, namely the "Exploitation of the Right to Buy Scheme by Companies". Jones' study included a survey of recent sales of RTB stock in several locations and reports that:

*"In inner London only 74 per cent of households living in former council housing after three years are still the original owner-occupiers. That is, more than 25 per cent of former RTB properties are now privately rented. More precisely, 21 per cent and 31 per cent of houses bought under the RTB within approximately 3 years are no longer owner occupied within the Lambeth and Camden (normalised) samples respectively." (Jones, 2003: 69 S7.4)*

Jones adds that "This figure is much lower outside inner London with only seven per cent in Birmingham, six per cent in Havering and three per cent in Leeds" (Ibid). Clearly with this level of transfer of RTB stock to the PRS occurring *within three years of initial sale*, then it is reasonable (given the overall expansion of the PRS since 2003) to assume a much larger level of transfer will have occurred over the full 30 year life of the RTB policy, not only within each borough studied by Jones but also across the UK.

Existing studies in England therefore establish local level RTB to PRS transfer at three per cent to 30 per cent within three years of the initial sale and up to 43 per cent over the 30 years of the RTB. We would not expect these higher levels of all RTB stock to have returned to rental across the UK but it is interesting that transfer rates of this proportion are not beyond the bounds of possibility and thus are used later in the paper when we speculate on the continuing costs of the RTB through transfer to the PRS.

Not all private renters in ex RTB stock will have recourse to Housing Benefit. We know of only two previous studies that have specifically considered the involvement of RTB stock in the HB level market for private renting. Undertaken for Communities Scotland the Craigforth and Newhaven Research studies of East Dunbartonshire (2005a) and North Lanarkshire (2005b) found that despite a very different profile of public and private rented stock between the two councils, 43 per cent and 55 per cent respectively of the Housing Benefit supported PRS was in former public sector (RTB) stock (the public sector stock was, in 1980, much larger as a proportion of total housing in Scotland than in the UK as a whole and comprised council housing, RSL and Scottish Special HA stock). These reports were sample survey based but are a very significant starting point for our own study.

Next we consider in detail one local authority area (Renfrewshire) and present the results of a full stock analysis for the entire borough rather than survey results.

### Ex RTB stock in the PRS in Renfrewshire

This study is the first we are aware of that matches a range of data including RTB and Housing Benefit to the entire housing stock in a local authority area. It combines detailed area mapping of all dwellings with a variety of local household level data sources. This method allows us to track much more fully than sampling, the latest destination of RTB stock in the overall housing market. Total stock details are given in Figure 1 below.

Renfrewshire is a part rural, part urban administrative area immediately south of Glasgow City. The data matching reported below relates to the RTB affecting local authority stock only, not Scottish Special Housing Association or other Registered Social Landlords (as reported on in the Craigforth and Newhaven Research studies cited above) and so will ultimately under-estimate the total transfer of social housing stock to the PRS. The start point for the study of Renfrewshire was various public/social sector stock data bases as at June 2011, supplemented by RTB sales data (sales up to 2007), LHA payments (current claims), and the compulsory (but incomplete) register of private rented stock.

As Figure 1 shows, the RTB has been taken up extensively here with 57 per cent of the original council stock sold since 1981. Below are mapped examples of the results for an anonymised neighbourhood. Figure 2 shows all dwellings the council owned as at 1980. Figure 3 then adds records of all council RTB stock in green. Where there are blocks of flats the green indicates at least 1 sale, often more.

**Figure 1: Renfrewshire Housing Stock 2011**

<b><u>Social Renting Comprising</u></b>		<b>% of total Stock</b>
Social Renting total	20,428	24%
<b><u>Breakdown</u></b>		
RSL	7,571	9%
Local Authority	12,857	15%
<b><u>Privately Owned</u></b>		
Privately Owned total	63,141	76%
<b><u>Includes:</u></b>		
PRS Registered	5,448	6.5%
RTB	16,305	19.5%
<b>Total Housing Stock</b>	<b>83,569</b>	

**Figure 2: Property map and original council stock (blue)**



**Figure 3: Council Stock (blue) and Right to Buy (green)**

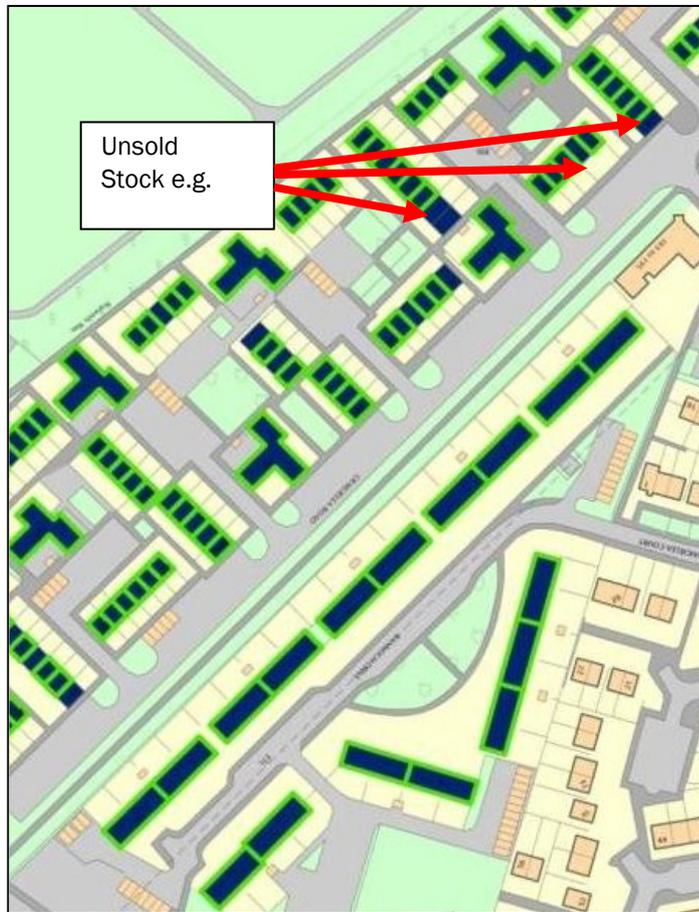


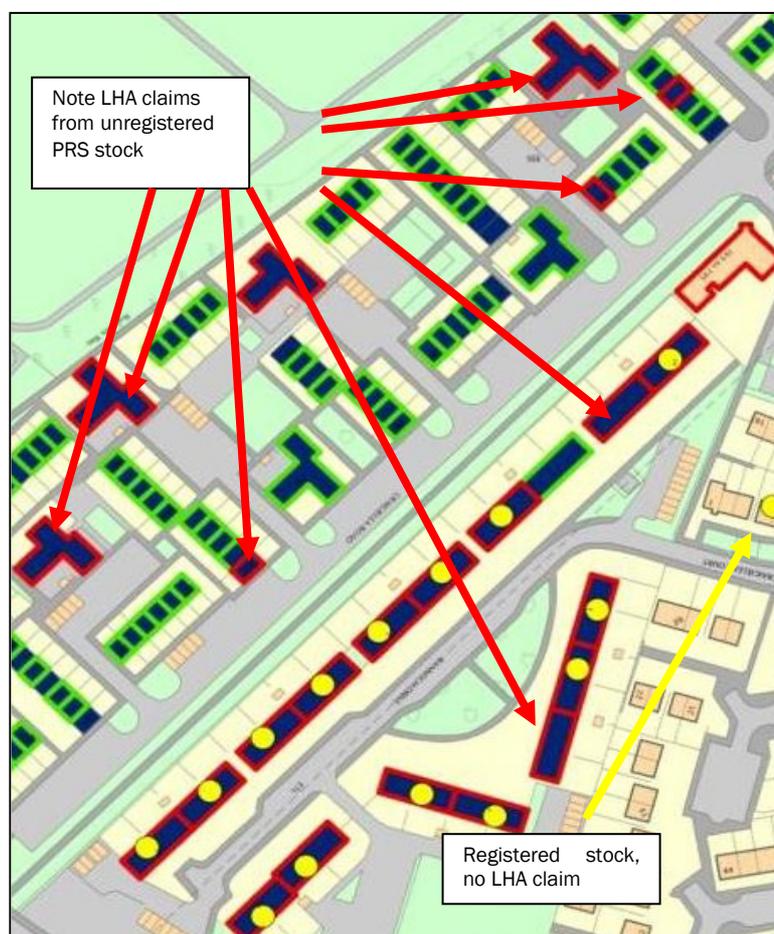
Figure 4 maps on top of this with a red line all live claims for LHA (1<sup>st</sup> March 2012). Again where a block of flats is circled this indicates at least 1 LHA claim in the building but in many instances there is more than one claim per block.

**Figure 4: Council stock, RTB, and Local Housing Allowance (red)**



Finally, Figure 5 identifies with a yellow dot all the PRS registered stock (1<sup>st</sup> March 2012). What is interesting here is that we can identify both registered PRS stock not subject to LHA claim (yellow arrow, in this case not RTB stock but part of the mapped area), but also PRS stock with an LHA claim that is not registered (red arrow). This indicates that there is likely to be a considerable untracked PRS at the lower end of the market even in Scotland where registration as a landlord is compulsory.

**Figure 5: Council stock, RTB, LHA, and registered landlords (yellow dots)**



This cumulative picture gives more definitive evidence of the scale of the PRS across the borough but also its variable presence on council estates. In some estate localities these match or exceed the findings from Murie and Rowlands in Birmingham cited earlier.

For our purposes in considering the additional cost of RTB PRS rentals over council rents, we track the extent of LHA claims from current PRS tenants in ex RTB stock. The summary analysis of all three data sources across the whole of Renfrewshire shows that 1526 of the 3558 current LHA claims derive from ex RTB stock. This is 43 per cent of the total of PRS LHA claims, involving 9.4 per cent of the RTB stock. We shall use these figures later for extrapolation to the wider UK market as they seem reliable and modest, but significant.

### **The current annual cost of transfer to the PRS of RTB stock**

PRS growth, with its higher rents than traditional council housing, has helped inflate UK Housing Benefit expenditure which since 1991/2 has risen by £14.5bn to total £22bn by 2010/11 (Wilcox and Pawson, 2012). The UK government has capped LHA payments and reduced household entitlements as it baulks at the rising costs of

market rents for housing that are the outcome of its deregulation and marketization policies. The newly capped rents remain higher than council rents and will be used in the following calculations.

DWP data indicates that between 2008 and (Sept) 2011 the number of HB claimants in the PRS rose from 1.1m to 1.6m (a rise of half a million or almost 50 per cent in the three year period). A third of the estimated PRS stock of 4.5m nationally is thus part or wholly funded through Housing Benefit (Wilcox and Pawson, 2012). As we have seen, evidence from a range of sources indicates that, across the UK, ex RTB housing stock makes up a significant minority of the overall PRS. But we have also seen, in the only areas for which data is available, it is precisely this ex RTB stock that is the source of over 40 per cent of LHA claims in three council areas in Scotland (Section 3 above). This would indicate that the RTB element of the expanding PRS in Scotland caters for significantly the same tenant group as the original council housing, but at higher cost to the exchequer.

For this section of the paper we wish to speculate (hopefully in an informed manner) on the annual revenue costs of LHA supported PRS tenancies in ex RTB stock as indicated by the evidence gathered above. Beginning with Renfrewshire we will use local LHA rates and council rents to try to calculate the *additional* amount being paid out through LHA to private landlords compared to the cost of renting that stock through the council (had RTB not happened to these dwellings).

Many PRS landlords have invested in their stock on the basis of being able to charge “market” rents and to have these covered by LHA. Where there are long standing tenants some landlords do not raise rents and the new LHA limits may be higher than some current rents. However, revisions to LHA rules regarding the removal of direct payments to landlords may tempt landlords to raise rents to the LHA limit to cover rent losses (this has been reported in recent studies (e.g. Nevin-Leather Associates and Sprigings, 2011)). We therefore assume that the new LHA rents are typical of PRS rents in an area as landlords seek to maximise rental returns in an environment where government is increasing their risks. The LHA limits for Renfrewshire PRS are as follows:

#### **Renfrewshire / Inverclyde BRMA**

Shared Accommodation Rate:	£65.38 per week
One Bedroom Rate:	£80.77 per week
Two Bedrooms Rate:	£102.69 per week
Three Bedrooms Rate:	£121.15 per week
Four Bedrooms Rate:	£183.46 per week

The Renfrewshire Council website gives the current rent levels for its own stock as follows, with approximate averages calculated at the bottom of the table:

Bed size	0	1	2	3	4
Multi-storey	£50.53	£56.32	£67.32		
Flat	£48.73	£52.98	£62.15	£67.61	£70.49
4 in a block	£54.78	£60.15	£70.92	£77.69	£80.74
Maisonette			£65.85	£73.19	£76.43
House	£53.16	£59.54	£67.45	£74.33	£78.58
Approx Avges		£57	£67	£73	£77

The additional cost of a PRS tenancy may therefore vary between £20/week for one bed property to £106/week for 4 bed. For ease of calculation we will assume an overall

average difference of £40/week per property between council and PRS rents. This assumption is in line with the DWP data indicating UK average council tenancy HB rates against average PRS LHA rates showing a difference of almost £40/week as at January 2012 (DWP Table 5).

Across the 1,526 claims of LHA in Renfrewshire from ex RTB stock at £40/week extra over 52 weeks the government may spend around £3.2m *more per year* for HB eligible households to rent this property than if the stock had remained with the council and was let to similar Housing Benefit eligible households. This is obviously a significant figure especially as it derives from a comparatively low rent area of the UK with a smaller than average PRS. However this DWP average will include partial claims and full claims on a wide variety of rental levels and different locations – it may be that RTB stock is more subject to full LHA payments so the real cost could be higher.

At the other extreme will be areas such as central London where equally unique aspects of the market create high values and high rents. These two elements go together of course as a landlord having to pay high acquisition costs will need to charge high rents simply to cover the cost of borrowing/investing in these areas.

Having created an ownership and rental market where shortage impacts on prices and rents, especially in hot spots such as London, government now baulks at the cost of these markets. To counter the rising cost of LHA in private rental driven by market forces, the UK Government plans to force LHA claimants out of high rent areas such as London where it is possible to find ex RTB stock renting out at far higher rents than the council rents for the area. In Westminster two bed ex RTB flats are advertised for rent at nearly £600/week for example and a recent correspondent to Inside Housing (June 24<sup>th</sup> 2011) said her rent for a 3bed ex RTB house in Westminster was £2,000 / week (compared to an average weekly council rent of £105). This is not necessarily landlord exploitation as it is often presented; an ex RTB two bed flat in Westminster changed hands in 2011 for £600,000 and a landlord would need around £4000/month rent to service a BTL mortgage and generate a return on this. Clearly London throws up some unique factors affecting house prices, rental costs, and the RTB itself. One of the outcomes of this combination of factors is the low take-up of RTB in central London where households either cannot afford even the discounted prices, or where they calculate that over the long term, paying rent to the council or social landlord, remains a preferable option. This is also why the exploitation of RTB by companies investigated by Jones (2003) was so extensive in this specific location.

Rather than assume such extreme levels of LHA support required by market forces as might be found in Westminster, we will look at the new LHA rates in the less expensive borough of Camden. Even here there are significant local market variations with the average house price in the borough being £550,000 in 2011, and average PRS rents for two bed property varying from £350/week in north Camden to £550/week in the south (Camden CC Housing Strategy, 2011), both considerably higher than the LHA levels indicated below.

By 2012 Camden Council has probably sold almost 10,000 homes under the RTB scheme (CLG Live tables Table 648), a far lower proportion (around 20 per cent) than sold in Renfrewshire, leaving the council managing 33,000 of its own stock still (Camden CC Housing Strategy, 2011). If we then make the very conservative estimate that only the 30 per cent RTB sales identified by Jones (2003) as occurring after three years has actually converted to private rental in Camden over the whole 30 years of RTB, this would give us 3,300 ex RTB PRS tenancies to consider. We do not know how many ex-RTB dwellings in the PRS are reliant on LHA but there are around 4000 PRS HB claims in Camden so we will assume, in line with our Scottish authorities, that the RTB stock makes up around 45 per cent of LHA claims (so we suggest 1800 RTB

tenancies in the LHA supported PRS). This is speculative analysis but as can be seen none of the speculations stretch credulity.

The LHA allowances are given below.

**Inner North London BRMA**

Shared Accommodation Rate:	£87.50 per week
One Bedroom Rate:	£250.00 per week
Two Bedrooms Rate:	£290.00 per week
Three Bedrooms Rate:	£340.00 per week
Four Bedrooms Rate:	£400.00 per week

CLG table 702 gives the average rent for Camden council for 2011/12 as being £91.74. Rounding down to £90 allows us to make the conservative assumption of a rent difference between a PRS tenancy and a council tenancy for the same stock as being £200/week (and these levels are below the average rents in Camden as shown above). Multiplying these together would indicate that within Camden the government pays £18.7 m/year extra through LHA on RTB stock as a continuing additional cost of the RTB scheme and the rental markets government policy has created. Given the rate of transfer to PRS noted by Jones the real costs is likely to be much higher as over time it is likely that more RTB stock has become PRS owned.

The analysis so far indicates huge local variations in several relevant factors. Rates of RTB sales vary, acquisition costs and rental charges for the PRS vary, the differential between council rents and PRS rents varies, and the rate of transfer of RTB stock to the PRS may vary too. However it does seem clear that across the UK a significant minority of RTB purchases in most areas will, since its inception in 1980, have become PRS stock by 2012 with an impact right across the UK on local level Housing Benefit expenditure through LHA. At this stage it makes some sense to try a very crude estimate of the UK wide impact of the Right to Buy scheme on the national LHA bill. We propose to do this through crude estimates of the likely range of costs involved. We believe the figures resulting from these estimates to be significant enough to warrant further discussion while being conservative enough to have credibility.

If an average of only 10 per cent of RTB stock UK wide has converted to the LHA supported PRS as it has in Renfrewshire this gives us around 250,000 LHA eligible tenancies across the UK deriving from RTB purchases that have been subject to further market exchange. If we take the average difference between an LHA rent and a council rent to be £40/week (using DWP averages as discussed above) this gives us an overall annual additional cost of the RTB as just over £520m.

While being a significant amount of expenditure this seems a low figure for several reasons. Firstly the evidence from Jones (2003) would indicate that the highest rental areas, such as London, are also those where the highest total and proportion of RTB stock has transferred to the PRS with 30 per cent of RTB stock transferring within three years; this is three times our assumed level of transfer over 30 years of the RTB. Our estimate of 10 per cent nationally is in line with the *lowest* actual figures observed in studies. Even by 1991 the figure in Birmingham was twice this.

Second, if the highest rental costs occur where the highest proportion of RTB stock has reverted to private rental then the £40pw estimate for the average difference will be very low (this average figure will include old terraced houses in extended low value areas in the north and midlands for example) and in Camden we showed that the average difference between council and PRS rents for two bed housing was far higher than this. The higher rents here also indicate why the impacts of the LHA caps will be most significant in London as the government tries to counter the effects of the

markets it has created by driving low income households out of areas where housing costs have inflated most rapidly over the past 30 years.

Third, a feature of the Renfrewshire example (and the Communities Scotland studies) was that over 40 per cent of current LHA claims were from ex-RTB stock, and the analysis of the figures from Camden indicated that such a level may not be unlikely there too. If this is the case across the UK then over 500,000 LHA claims are from ex RTB stock with an additional cost (at only £40/week difference between the tenures) of over £1bn/year.

Another way to think about this is to look at these proportions in relation to overall LHA expenditure. The JRF Housing Review 2011/12 gives the value of HB support to the PRS of £7.6bn/year. If the 43 per cent of claims made from ex-RTB stock in Renfrewshire is reflected in this overall cost to the Treasury then we are looking at an annual level of support to ex-RTB stock of over £3bn/year with the additional cost over and above council rent levels possibly approaching £2bn per year (given that LHA dependent households would probably be eligible for HB in council stock).

That final figure of a possible £2bn/year additional expenditure significantly exceeds the income generated through RTB capital receipts in any single year of the past decade. Far from generating income for new housebuilding, extending the RTB may simply increase the annual burden of rent support on the Treasury with a net loss overall, every year, for the foreseeable future even at the new LHA rates (which have been used above). This assumes of course that low income households are able to remain renting privately in ex-council stock found in high value areas.

These speculative estimates have clear weaknesses and as more detailed studies are undertaken the speculative element of this paper will be removed and more accurate data can strengthen the cost estimates. For example we hope to undertake analysis of census data to replicate the Murie and Rowlands study of Birmingham across a wider range of locations and this analysis will confirm or challenge our assumptions about RTB transfer to the PRS. But our view is that the errors contained in our speculations here would mainly involve under-estimates. The RTB took off more slowly in Scotland than in England and rules have changed there to curtail sales so the commodification period has been shorter. There remains a higher proportion of rented housing available in Scotland through social landlords, which means demand for the PRS will be lower reducing both investment and rents (although rents may still be largely driven by the cost of acquisition). However the smaller PRS overall in Scotland probably increases the chances of ex RTB stock making up the LHA level market. So there remain many possible variables that will all affect any attempt to calculate an overall cost. And it seems likely that we will continue to rely on estimating unless the national RTB database can be mapped onto the national LHA database, a task that may not even be possible.

## Conclusions

There are two very simple conclusions arising from this analysis of the involvement of RTB stock in PRS expansion. First, it has been possible to identify accurately the transfer of RTB stock to private rental in one local authority area and to see the extent to which this market segment of the PRS is supported by LHA. Second, we attempt a simple exercise in extrapolating these costs to national level. The huge variation based on different assumptions (between £0.5bn and perhaps nearly £2bn additional cost per year) indicates the need for more accurate appraisal of the impacts of RTB on PRS expansion but raises the probability of huge annual revenue costs to the Treasury that would need to be included in evaluation of the RTB. Given the housing market trends

indicated by Heywood (2011) it also seems likely that more RTB stock will find its way into the PRS (unless policy directions alter significantly) thus increasing the additional cost of the policy over time.

This is important as the RTB is being revived in England on the basis that it will generate income for new housebuilding. What we have shown is that, in fact, the RTB has resulted in growing annual revenue costs to the Treasury that may well continue to exceed any receipts generated from new sales. If the government has billions of pounds to spend on housing it might make more sense to spend it on new housing supply rather than to invest it in tenure change and continuing housing shortage in key locations.

## Notes

While this paper was at proof stage (17 July 2012) Westminster City Council released a report on Lessee Services that confirms the view of this paper that a considerable proportion of RTB stock is now privately rented. Westminster's lease agreement requires owners to advise them if there is "sub-letting" of the property. On this basis section 3.2.1 of the report states:

*"The Council now has over 9,000 lessees representing almost 45 per cent of the total customer base. Most have purchased on the open market (61 per cent) and the remainder under the Right to Buy (39 per cent) or other Council sales schemes (one per cent). Approximately 39 per cent of all leasehold properties are now owned by small and multiple landlords, including a small number of Registered Social Landlords."* (our emphasis).

Westminster CC has had wider sales policies than just the RTB in the past but this again indicates the scale of tenure change over time. There is no attempt to match this data across to the Housing Benefit database. Paul Dimoldenberg comments that "Former Council flats in Westminster owned by Buy-to-let landlords are now rented out at more than £500 a week, over four times the average rent of Council flats." (<http://redbrickblog.wordpress.com/2012/07/17/right-to-buy-is-buy-to-let-goldmine/>)

The Westminster CC report is available online at: [http://transact.westminster.gov.uk/CSU/Policy\\_and\\_Scrutiny\\_Committees/Current\\_P\\_and\\_S\\_Committees/Housing.%20Finance%20and%20Customer%20Services/17%20July%202012/Item%209%20-%20CityWest%20Lessee%20Services-July%202012%20Final.pdf](http://transact.westminster.gov.uk/CSU/Policy_and_Scrutiny_Committees/Current_P_and_S_Committees/Housing.%20Finance%20and%20Customer%20Services/17%20July%202012/Item%209%20-%20CityWest%20Lessee%20Services-July%202012%20Final.pdf)

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