

Appendix 1: Right to Buy Financial Implications

1. The minimum discount on the market value of a flat is 50% which increases by 2% a year after a tenant has had a public sector landlord for 5 years up until it reaches 70% of the market value or £87,200 (outside of London) (the maximum discount increases annually in line with the CPI).¹
2. However, if a landlord has spent money on a range of costs, which include renovations, then the Cost Floor Rule, which can limit a tenant's discount, may apply. The Cost Floor is designed to prevent the property from being discounted below the value that has been spent on it over a specified time. This would apply to costs in the last 10 years if the council built or purchased the home before 2 April 2012 or in the last 15 years if the council acquired the home after 2 April 2012.²
3. Given the council has owned York Buildings for many years we are working on the basis that the 10 year period would apply.
4. As the total expenditure on York Buildings is expected to be in the region of £1million, the approximate cost floor we will use to gauge the risk of Right to Buy is £166,666 per flat.
5. Below is an example³ of how the Cost Floor would apply to York Buildings:

	Current	10 year example
Market valuation	£160,000	£200,000 (25% uplift)
Less maximum discount available in Hastings	£87,200	£140,000 (70% of market value modelled)
Equals Initial Sale Price	£72,800	£60,000
Cost floor figure		
Cost Floor figure	£166,666	£166,666
Shortfall between Cost Floor figure and Initial Sale Price (Cost Floor Shortfall)	£93,866 (£166,666 - £72,800)	£106,666 (£166,666 - £60,000)
Final Sale Price		
Market value	£160,000	£200,00
Discount less Cost Floor Shortfall	£NIL (£87,200 - £93,866 = - £6,666)	£33,334 (£140,000 - £106,666)
Final sale price	£160,000	£166,666

6. The above examples set out a worst-case financial scenario over the next ten years of the council being required to sell the flats at £160,000 which equates

¹ [Right to Buy: buying your council home: Discounts - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/guidance/right-to-buy-buying-your-council-home-discounts) (Accessed 31 May 2022)

² Department for Levelling Up, Housing and Communities (DLUHC): Right to Buy: A guide for local authorities: April 2022

to its current market value. After the initial 10-year period, the risk is greater and there is the potential for a tenant to obtain a significant discount, e.g., 70% of the market value. If this played out in the case above, in year 11, if the property was worth £200,000 and the tenant had the maximum entitlement then this would equate to a discount of £140,000 and a sale price of £60,000.

7. The above calculations take no account of any further work undertaken on the properties over the next 10 years. In reality there are likely to be additional repairs and maintenance costs that will be fed into the calculation.
8. We also need to consider the likelihood of the Right to Buy occurring. To gain a better understanding, we have reviewed Right to Buy sales for Eastbourne and Thanet, who have 3,382 units and 3,049 respectively, from 2018/19 to 2020/21. The data shows that over the 3-year period there are on average 13 units sold by Eastbourne and 11 sold by Thanet annually which equates to 0.38% and 0.36% of their stock.⁴ 0.38% on 6 units would present an annual risk of 0.02 units. On 200 units, it would increase to 0.76 units a year.
9. However, our risk is not comparative to Eastbourne and Thanet as we have not delivered council housing for many years and there has been a significant change in the demographics of people on the council's housing register. Whilst historically there was more diversity amongst people entering social housing, unfortunately, due to the limited supply of social housing in Hastings it is now predominantly people who are in Band A who are considered to be in housing crisis.
10. Therefore, it would be challenging for many of our households in Band A to meet the criteria to be awarded a mortgage, even one that is significantly discounted. It's also important to note that there are conditions associated with selling a home acquired through Right to Buy including a repayment of a proportion of the discount if it's sold within the first 5 years.
11. In the case of York Buildings, the affordable housing grant equates to approximately £50,000 per unit which provides some mitigation against the financial risk of Right to Buy.

⁴ Department for Levelling Up, Housing and Communities and Ministry of Housing, Communities & Local Government. Table 691: Quarterly Right to Buy Sales: Sales by Local Authority, England: 2006-07 Q1 to 2020-21 Q4. [Live Table 691 2021 Q4.ods](#); House of Commons Library (5 November 2021). Local authority data: housing supply. [Local authority data: housing supply \(parliament.uk\)](#) (Accessed 10 May 2022)