

The right to buy public housing in Britain: a welfare analysis

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The Right to Buy Public Housing in Britain: A Welfare Analysis

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Executive summary

- This briefing note examines the Right to Buy policy in the United Kingdom, by which council tenants could buy their council properties at a discounted price, and the subsequent extension of the policy to most forms of social housing.
- This policy constituted the largest source of privatisation revenue to HM Treasury, especially in the 1980s, exceeding the revenues from all other individual privatisations. It was responsible for one of the biggest transformations of housing tenure of households in the UK's history.
- The briefing note shows how the Right to Buy policy might be evaluated using economic principles; a formal theoretical economic model of housing tenure choices in the presence of Right to Buy is contained in an associated working paper published by IFS.
- To undertake a welfare evaluation of the policy, this briefing note makes a number of assumptions as to the preferences of households and the behaviour of local authorities, including the average quality of the public housing stock provided by those authorities.

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- In general, in the early stages of Right to Buy, most economic agents benefited from the policy; however, as the stock of available public housing dwindled, there were welfare costs associated with misallocating would-be tenants of social housing into inappropriate private dwellings. The Right to Buy policy is likely to have reduced household wealth inequality, albeit doing little to benefit those at the bottom of the wealth distribution.
- Resale restrictions on properties obtained under Right to Buy may improve or worsen welfare. They affect the quantity and quality of the housing stock in both the public and private sectors and the likelihood of the development of a secondary market in affordable (lower-quality) properties for rent or sale in the private sector.
- Levels of discounts and resale restrictions on Right to Buy purchases affect the relative merits of, on the one hand, a policy of allowing local authorities to retain some Right to Buy revenues versus, on the other hand, 'buy-back' policies by which local authorities have the right to reacquire a property previously sold under Right to Buy.
- A policy of restricting Right to Buy sales in areas of high pressures on social housing is also contrasted with a policy of increasing discounts and allowing local authorities to retain some of the revenues. Under certain, but not all, circumstances, these policies may have identical outcomes.

1. Introduction

The statutory 'Right to Buy' policy introduced in 1980 allowed council house tenants to purchase their rented accommodation at a heavily subsidised price. The policy was subsequently extended to other forms of social housing in the late 1990s. It has proved to be one of the most controversial social policies undertaken in recent decades in the United Kingdom (UK). A flagship policy of the Thatcher administration, it was largely responsible for an increase in the share of homeownership among householders in the UK from 55% in 1979 to over 70% in the early 2000s. In addition, given that most of the receipts from council house sales were effectively transferred to central government rather than made available to local authorities for the construction of replacement council housing, the 'Right to Buy' policy was effectively the largest privatisation undertaken in the UK in this period, exceeding the proceeds from the sale

of any of the major public utilities throughout the late 1980s and early 1990s.²

It is not surprising that such a transformative social policy has generated sharply divided opinions. On the one hand, the policy underpinned a significant increase in wealth-holding among a group of households on less-than-average incomes and widened homeownership in society as a whole, whilst enabling government borrowing or taxation to be less than it would otherwise have been. On the other hand, the policy is commonly associated with a rise in homelessness, a shortage of social rented accommodation and the destruction of social cohesion in many communities. It has seemed particularly reprehensible to some critics that, for example, houses purchased at a subsidised rate by council tenants can be sold (after an interval) at a profit; that some councils have engaged in buying back at market prices properties that were previously sold under the Right to Buy scheme; and that, as a result of the policy, families may have been rehoused at public expense in more expensive or less appropriate private rentals because of a shortage of appropriate social accommodation.

Given this controversy, it is perhaps surprising that no serious welfare evaluation of the policy has been undertaken by economists, although some efforts have been made to undertake limited cost-benefit evaluations of the policy as a whole.³ A welfare evaluation might consider not just the overall distributional and allocative efficiency of the Right to Buy policy, but also certain features of the policy. For example: should Right to Buy be restricted to certain kinds of council tenants (e.g. by length of tenure) or certain properties? If so, what are the implications of restrictions on eligibility not just for the demand by council tenants to exercise Right to Buy, but also for the demand for council tenancies themselves (since the existence of Right to Buy will affect who chooses to be a council tenant in the first place)? Should resale restrictions on Right to Buy properties be tightened or loosened? Should buy-back provisions for local authorities exist and should local authorities have 'first refusal' on

² House of Commons Library, 'The Right to Buy', Research Paper 99/36, 1999, <http://www.parliament.uk/briefing-papers/RP99-36/the-right-to-buy>.

³ For example, by C. Jones and A. Murie, *The Right to Buy: Analysis and Evaluation of a Housing Policy*, Blackwell, London, 2006.

resales of Right to Buy properties (and, perhaps, scope to recoup some of the subsidy on purchases)? And should revenues from Right to Buy sales be made available to local authorities and, if so, what should local authorities be permitted to do with the proceeds?

These welfare issues are addressed explicitly in an Institute for Fiscal Studies (IFS) working paper released simultaneously with this briefing note.⁴ Some of the conclusions derived from the formal welfare analysis in that paper may, at first sight, appear counter-intuitive, but a little reflection suggests that the application of economic logic to the issues can further our collective understanding of the merits and limitations of the Right to Buy policy.

2. Right to Buy: a summary of the main decisions

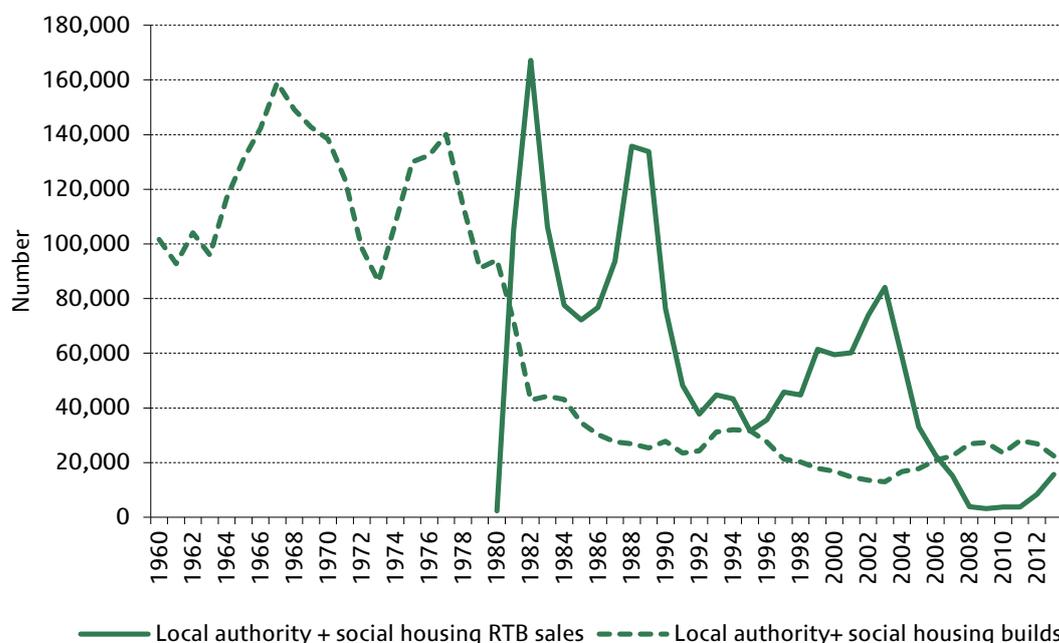
The **Housing Act of 1980** introduced a statutory right to buy for council tenants with at least three years' tenure in their council house. Discounts on the sale price relative to the market ranged from 33% for tenants with three years' tenure through to 50% after 20 years' residence. Local authorities were required to make mortgages available to would-be purchasers of their council properties subject to standard age limits and income multiples. The discount would be repayable if the property was sold within five years of the Right to Buy purchase. There was a floor price such that recently constructed properties should not be sold at less than the cost of construction. Subsequent legislation in the 1980s relaxed the cost floor condition and increased the discounts available for renters of council apartments.

Figure 1 shows the two spikes in council house sales arising from the 1980 Act and subsequent relaxations of Right to Buy restrictions. Note that new council house builds pretty much disappeared after the introduction of Right to Buy although construction of other forms of social housing continued. Although sales were at a lower level after the 1980s, the volume of sales continued for several reasons. First, tenants who had not initially fulfilled Right to Buy conditions of tenure eligibility subsequently did so. Second, several Labour-run and other local authorities opposed to Right to Buy had transferred significant numbers of properties to social

⁴ R. Disney and G. Luo, 'The right to buy public housing in Britain: a welfare analysis', IFS Working Paper W15/05, 2015, <http://www.ifs.org.uk/publications/7568>.

housing and other community housing associations. However, from 1997, the introduction of **Right to Acquire** gave tenants of social and community housing somewhat similar discounted rights to purchase their rented properties, which led to another peak in sales of social housing.

Figure 1. New builds and Right to Buy (RTB) sales of public housing, 1960–61 to 2013–14



Note: Years are financial years.

Source: Department for Communities and Local Government, *Housing Statistics*, tables 244 and 678, <https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building> and <https://www.gov.uk/government/statistical-data-sets/live-tables-on-social-housing-sales>.

Although the Labour administration broadened rights to acquire social housing, the large volume of sales had put pressure on the public housing stock and a series of measures were introduced between 1999 and 2004 that in effect capped discounts in absolute terms in localities where there was perceived to be pressure in terms of the demand for social housing. Since many of these local authorities were in the South East, and especially in Inner London, the effective value of discounts was even lower in these areas relative to the rest of the country, since house prices in London and the South East were higher than elsewhere.⁵ Subsequently, for similar

⁵ For further details, see House of Commons Library, ‘The Right to Buy’, Research Paper 99/36, 1999, <http://www.parliament.uk/briefing-papers/RP99-36/the-right-to-buy> and House of Commons Library, ‘Incentivising the Right to Buy’, Standard Note SN06251, 2014, <http://www.parliament.uk/briefing-papers/SN06251>.

reasons, the national government of Scotland ceased council house sales altogether. In addition, from 2005, local authorities were offered first '**right of refusal**' to repurchase properties using Right to Buy from that date, should the owner wish to resell the property. Some local authorities have utilised this facility, arguing that repurchasing a Right to Buy council house is cheaper than building a replacement property.

Although substantial revenues were raised by Right to Buy sales, the scope for discretionary use of these revenues by local authorities to renovate or even build new council houses was severely limited, especially after the **Local Government and Housing Act of 1989** placed severe restrictions on the discretionary use of funds raised by local councils from sales of, and rents on, council properties. Local authorities normally had access to 25% of the capital receipts arising from sales, with the remaining 75% treated as 'reserved receipts' which could not be used for general funding of local services. However, even this overstates the degree of discretionary housing policy available to local authorities. Past council house building had normally been financed from borrowing, with interest payments on these loans being a significant part of outgoings on local authorities' housing accounts, along with maintenance and repair of the residual housing stock. Revenues from subsidised rentals plus any funds retained from sales were rarely sufficient to cover these outgoings; hence direct subsidy from central government was usually necessary to balance local authority housing budgets. By explicitly ring-fencing housing revenue accounts and controlling these net additional subsidies, central government was effectively able to impose external budget constraints on local authorities. In economic terms, therefore, local council housing budgets have effectively been set exogenously by central government and unaffected (at least directly) by revenues arising from council house sales.

Two recent revisions to local authority housing policy are therefore of some importance. In April 2012, the coalition administration between the Conservatives and the Liberal Democrats announced that local authorities would be free to use rental incomes to fund improvements to their housing stock, with the implementation of a series of one-off subsidies or payments from central government. This included, for example, the freedom to adjust the interest payments on their historic debt portfolio to the revenue stream available from their residual council properties. Moreover, the powers thereby given to local authorities implied greater flexibility in

borrowing against the value of council house stocks and allowed authorities to retain at least part of the revenue raised from Right to Buy sales to build new 'affordable' housing or to extend the existing 'buy-back' programmes on previously-sold Right to Buy properties.

At the same time, the government announced that maximum Right to Buy discounts would rise significantly to a ceiling of £75,000 (£100,000 in London), thereby reversing the policy of lowering discounts in areas of perceived high pressure on social housing.⁶ This intention to invigorate the incentives in the programme would, it was assumed, generate greater revenues to local authorities in the short run from greater Right to Buy sales, part of which, given the announcements on greater flexibility, would allow local authorities to improve their residual properties or increase their stock of affordable housing. As Figure 1 illustrates, this policy does seem to have led to an upturn in Right to Buy sales after 2012, although there is little evidence so far that there has been any comparable increase in the stock of social housing; indeed, many local authorities and social housing associations have argued that a combination of the small share of sales revenues that they can retain and the continued need to require centralised permission for new social housing have limited their capacity to replenish their social housing stocks.

3. Evaluating Right to Buy: basic principles

To undertake a systematic analysis of the welfare implications of the Right to Buy policy from an economic point of view, some underlying assumptions are required.⁷ The following principles and assumptions underlie the welfare analysis in this briefing note:⁸

⁶ For further details, see House of Commons Library, 'Incentivising the Right to Buy', Standard Note SN06251, 2014, <http://www.parliament.uk/briefing-papers/SN06251>.

⁷ No explicit welfare case for (or indeed against) the Right to Buy policy has ever been set out formally, to the author's knowledge. Much of the argument concerning Right to Buy has stemmed from ideological positions and rather general sentiments and perceived costs and benefits. This is perhaps reflected in shifts in attitudes towards the policy over time. For example, the Labour Party initially proposed such a policy in 1959, long before it had appeared on the Conservative Party's agenda as a national policy. The Labour Party then opposed the policy in 1983, subsequently reversing its opposition in the late 1980s, but then more or less simultaneously both extended the policy (to other forms of social housing) and tightened the policy (by reducing discounts) in the late 1990s. For a general discussion of these shifts in policy and

1. Local authorities attach the greatest priority to housing applicants with the lowest incomes (with 'income' also proxying other characteristics of 'housing need' such as potential homelessness).
2. Local authorities can monitor the income of households when they apply for a council property and so long as they remain on a waiting list for such a property (if there is a waiting list). It is, however, costly for the local authority to verify subsequent incomes once the household is renting a council property.
3. Whoever owns a property – whether private owner or landlord, or public owner (e.g. local authority or housing association) – is responsible for the upkeep of that property. There is no incentive for renters to maintain the property to any standard.
4. Other things being equal, households prefer to own rather than rent properties.
5. But households with more volatile incomes might prefer renting to owning if there are transactions costs in buying and selling houses (subject to Assumption 4).
6. On average, council-owned houses are of lower quality than equivalent privately-owned properties. This could be for a variety of reasons: low-cost build technologies; economies in construction such as in room space per occupant; disamenities in public housing such as location and neighbourhood effects; and, perhaps, such properties being rented rather than owned so that improvements and maintenance are determined by the availability of local authority resources rather than the preferences of the occupants.
7. Hence properties that are sold under Right to Buy may well be maintained to a higher standard or improved when in private hands.

These assumptions are sufficient to generate welfare conclusions concerning the overall Right to Buy policy and the design of individual features of the policy.

statements from the main political parties, see chapter 2 of C. Jones and A. Murie, *The Right to Buy: Analysis and Evaluation of a Housing Policy*, Blackwell, London, 2006.

⁸ For a more formal analysis, see R. Disney and G. Luo, 'The right to buy public housing in Britain: a welfare analysis', IFS Working Paper W15/05, 2015, <http://www.ifs.org.uk/publications/7568>.

4. Who have been the gainers and losers from the Right to Buy policy?

In the short run, the answer to this question is straightforward – there are several potential classes of gainers. Council house tenants who exercised their Right to Buy will have benefited because they now own rather than rent a property (Assumption 4), so long as the discount on the sale price (and hence mortgage costs) plus maintenance costs outweigh the subsidised rental on the council property. Councils gain in the short run if the shadow economic cost (opportunity cost) of owning and maintaining a council property exceeds the (subsidised) rent received on the council property, were the authority to have continued to rent it to the tenant instead of selling it. Taxpayers benefit, in the short term at least, because revenues are raised from the sale of council houses that could be used either to reduce other taxes or to increase spending on public goods.

Is the Right to Buy programme progressive, in the sense of reducing wealth inequality? Right to Buy will have broadly reduced overall wealth inequality if the implicit wealth transfers implied by the subsidised sale price to council tenants disproportionately benefited lower-wealth households, assuming the incidence of these discounts (tax expenditures) is spread evenly across taxpayers. It is hard to obtain data on the wealth of council house tenants versus private owners and renters. However, income normally correlates with wealth and income data can show the relative position of council tenants and private owners and renters.

According to data from the British Household Panel Survey, the mean monthly gross income of households who were council tenants between 1991 and 1996 was £860. The equivalent figure for private tenants and owners was £1,875, over twice the level for council tenants. So council tenants exercising the Right to Buy typically had lower incomes than households in the private sector. However, perhaps not surprisingly, council tenants who were able to exercise the Right to Buy had, on average, a higher income than the average council tenant – £1,385 in this period – albeit still lower than private owners and tenants. The same pattern is repeated in later periods, with mean incomes for council tenants, Right to Buy purchasers and private owners/tenants between 1997 and 2002 of respectively £1,010, £1,360 and £1,920 and between 2003 and 2008 of respectively £1,174, £1,429 and £2,170. The same data source suggests, again not surprisingly, that council house tenants exercising Right to Buy had employment and unemployment rates closer

to those of private owners and renters than residual council house tenants. Right to Buy therefore disproportionately benefited working families on lower incomes, but did not benefit households with low employment prospects. Nevertheless, over time, the net effect of this transfer of wealth is likely to have been a reduction in wealth inequality over the whole household population.

In the longer run, however, the answer on gainers and losers is less straightforward. As the council house stock is depleted, the ability of local authorities to offer suitable accommodation to families in need of accommodation is diminished. Since local authorities broadly have a statutory duty to prevent homelessness, this may involve them finding private rental accommodation on either a short- or long-term basis at a higher public cost than would have been the case had they been able to offer a council property. For those on low incomes who do not satisfy the statutory condition of 'homelessness' but who would have successfully applied for council or social housing had sufficient properties been available, the cost may again take the form of renting private accommodation at a higher rental. In circumstances of low incomes, income support from the government in the form of housing benefit is generally available (although potentially subject to caps and other limitations on eligibility). Hence the incidence of the lower quantity of social housing on subsequent generations of would-be applicants for social housing is apportioned between local authorities (to the extent that they are required to provide statutory accommodation), taxpayers (to the extent that low-income households are provided with housing benefit for privately renting) and, as a residual, households themselves had they been eligible for council housing but for whatever reasons were not eligible for housing support in kind or in cash.

The *distributional* incidence of a future lack of council properties is therefore unclear as it depends on the incidence of the finance of local government (a mixture of direct grants from central government, council tax and business rates), the incidence of taxes levied by central government to pay for housing benefit, and the residual cost on would-be public renters themselves. A priori, we cannot say that this generates a long-run distributional inefficiency or inequity; what we can say, however, is that a shortage of public housing potentially generates an *allocative inefficiency*, insofar as some would-be council tenants are being housed in

properties of a higher quality and therefore higher shadow economic cost to society than those tenants would have chosen had public accommodation been available. Since (by Assumption 6) would-be council tenants would have been happy to live in a public property of lower quality, housing them in a higher-quality (and therefore higher-economic-cost) property is inefficient.

5. Should there be resale restrictions on Right to Buy sales?

From the start of the Right to Buy policy, there have been limits on resale (or, at least, a requirement that early resellers have to return the discount on the sale to the local authority). Some commentators have implied that even the existing resale restrictions are too lenient and that council tenants should be forced to remain in their Right to Buy property for an indefinite period or to return the discount on sale. However, although this restriction might seem intuitive, it is in need of an explicit rationale. One such rationale is that it is designed to limit ‘gaming’ the council house system by discouraging individuals from joining the queue for council houses simply to acquire a council property for profitable resell. However, the fact that the individual has to live in a specific rented council property for a certain period before being able to exercise the Right to Buy might be considered a sufficient deterrent to ‘gaming the system’ when there are typically other private market opportunities for making capital gains in the housing market, such as buying up foreclosed properties or renovating poor-quality privately-owned properties. However, it is certainly correct that limits on resale will affect the willingness of particular council tenants to exercise the Right to Buy and affect, at least potentially, the composition of council tenants.

Resale restrictions limit the ability of Right to Buy purchasers to deal with unexpected outcomes – for example, income volatility – that might require them to adjust their wealth stock, either in absolute amount or towards a more liquid portfolio (e.g. by selling up, reverting to private renting and acquiring some financial capital). As shown previously, Right to Buy purchasers typically have lower average incomes than other owners and may be more exposed to such income shocks. Relative to the lack of restrictions on other sources of realising private capital gains, it could be argued that requiring both a pre-sale residency restriction as a council tenant and a subsequent residency restriction as a Right to Buy owner is

an excessive limitation on households' freedom to reallocate their wealth holdings.

What are the social welfare implications of resale restrictions on Right to Buy sales? If we assume that the quality of council houses assigned to individual tenant households has a random component (depending both on an individual local authority's assignment procedure and on differences in average council house quality across local authorities), then the effect of resale restrictions is to cause a degree of selection in which tenants choose to exercise the Right to Buy. Resale restrictions will limit Right to Buy sales only to those tenants who happen to live in a property that they would wish to retain for a lengthy period after purchase. Although there will be heterogeneous preferences across households, we can generally assert that the tighter the resale restrictions, the higher the quality of properties that are likely to attract Right to Buy applicants.

Hence, in local authorities where the quality of properties is generally higher (or more attractive to would-be purchasers), resale restrictions are likely to have less effect on Right to Buy sales, and hence on the relative quantity of public to private properties in the local market, than in areas where council properties are of lower quality. And, as a consequence, the quality of the stock of privately-owned houses (including Right to Buy purchases) is likely to be broadly unchanged where there are resale restrictions. Conversely, where there are no (or very limited) resale restrictions, a greater variety of Right to Buy properties are going to be brought onto the private market, with an overall effect of lowering the average quality of privately-owned properties (or, insofar as quality is reflected in price differentials, thereby increasing the availability of 'affordable' properties in the private market).

A secondary market in ex-council properties of varying quality may allow access to affordable (and potentially improved) ex-council properties for those private renters on low incomes who are seeking to enter the housing market. This change in the character of properties available on the private market might imply a welfare gain for some low-income families, though this will be offset by the resultant shortage of properties available to low-income families for public rental. Hence, whether resale restrictions are welfare-improving or not depends on a number of factors such as the quality of council properties (with higher quality, resale restrictions will have little effect), the preferences among low-income families for renting

versus owning, search costs and transactions costs involved in housing transactions, the 'value added' to ex-council properties from improvements by their owners, and so on. A priori, the social welfare case for tighter (or looser) resale restrictions is not clearly in favour of one or the other.

6. The local authority 'right of refusal'

This note has already described the 'right of refusal', by which local authorities in recent years can have first choice to repurchase a Right to Buy property if the owner wishes to sell. It should first be noted that the existence of such a right does not render the original decision to permit the Right to Buy purchase irrational; it is perfectly rational for a local authority to permit a Right to Buy sale (for a variety of motives) but to be able to exercise a right to repurchase the property if the opportunity cost of obtaining an appropriate alternative (either newly-built social housing or another property purchase) is too high.

The effectiveness of a 'right of refusal' policy, in the sense of having some impact on the local authority's housing stock, again depends on the extent of resale restrictions. If there are resale restrictions, fewer council properties that have been purchased under Right to Buy are likely to be offered for resale, so the market is thinner. In addition, such properties, by the previous argument, are likely to be on average of higher quality and hence more expensive to repurchase. If the primary object of the local authority is to provide affordable low-cost rentals for poorer households (Assumption 1), then the 'right of refusal' policy is unlikely to be exercised by the local authority in such circumstances to any great extent.

Conversely, if there are only limited (or no) resale restrictions, then the secondary market in Right to Buy resales will be larger, the average quality (and cost) of such properties will be lower, and the scope for reacquiring properties at or below replacement cost by the local authority will be greater.

There remains the question of whether the local authority that has the first right to reacquire a council property should have to pay the full market price to do so. In effect, a reacquisition during the period of resale restriction allows the local authority to recoup the full discount (surplus on the transaction) whereas a reacquisition outside the resale restriction transfers the full surplus (discount) to the owner who has exercised the

Right to Buy. It is not too difficult to think of intermediate allocations of the surplus – whereby, for example, the discounted original sale value is subsequently indexed to general price increases plus an allowance for any improvement works by the owner, with any additional capital gain in the market price shared between the Right to Buy seller and the local authority. However, the seller of the Right to Buy property might justifiably argue that he or she is forgoing the opportunity to negotiate with (and possibly improve the welfare of) a private buyer; in addition, the local authority makes a welfare gain in any event insofar as it would only reacquire a Right to Buy property if the cost of doing so is lower than the cost of acquiring or building an alternative property.

7. Allowing local authorities to retain part of the proceeds from Right to Buy sales

One of the most contentious aspects of the Right to Buy policy (implemented by both Conservative and Labour administrations) is the severe limit on the fraction of the sale proceeds that would be returned to local authorities. By varying central transfers to local authority housing budgets, central government could effectively offset any Right to Buy receipts that were retained by the local authority. One obvious rationale for such a restriction is that the localities with the greatest housing ‘need’ might not coincide with those authorities with the greatest volume of council properties to sell; hence there was a need for some central reallocation mechanism for social housing construction. Moreover, central government has had a continuing concern that receipts from housing sales and rents would be diverted by local authorities into activities other than maintaining the social housing stock. Nevertheless, as Figure 1 demonstrates, for most of the post-1980 period, the effect of this restriction was that construction of social housing lagged well behind sales under the Right to Buy and Right to Acquire policies. Hence, there has been ongoing pressure from local authorities, housing associations and pressure groups that some or all of the proceeds from these policies should be returned to the social housing sector.

Broadly speaking, one can think of two alternative approaches to the issue of shortages of social housing in relation to Right to Buy. The first, which was adopted by the Labour administration in the 1990s (and subsequently by the Scottish Government), was to severely restrict council house sales,

either by ending the policy entirely or by reducing incentives (maximum discounts), so as to maintain the depleted stock of social housing, without returning any revenues to local authorities. The Conservative–Liberal–Democrat coalition in recent times has adopted the almost diametrically opposite policy response of increasing Right to Buy incentives whilst at the same time, in principle, diverting part of the increased revenue stream back to local authorities in order to replace council properties that are sold by low-cost/low-quality (‘affordable’) social housing. Can we differentiate the welfare effects of these alternative policy responses?

The answer to the question turns on other facets of the policy, described previously. If the object of social housing policy is to finance cheap low-cost housing for low-income families, then the relative merits of the two approaches effectively depend on the quality and quantity of the residual social housing stock, which in turn depend on such factors as the extent of resale restrictions and the range of discounts in place. If there are resale restrictions in place then, as suggested earlier, the council housing stock that has been sold will have been of higher average quality. There will be a greater residual stock of properties in public hands, of lower average quality, than would be the case with no resale restrictions. This makes an effective convergence more likely between, on the one hand, a policy of restricting new sales and, on the other, a policy of permitting new sales but with revenue retention to replace sold properties by lower-quality new properties.

In contrast, if there are no or very limited resale restrictions, then the quantity of residual social housing will be lower and its quality more variable. Hence the revenues available to new builds or acquisitions of social housing might be lower despite greater financial incentives, given the lower residual stock to sell. In this context, a policy such as ‘first right of refusal’ allowing local authorities to acquire resold social housing on the secondary market would probably make more sense than a policy of returning revenues to the local authority, for the reasons discussed previously. Of course, higher discounts will on the margin induce more sales, but higher discounts in turn reduce the fraction of the property’s sale price that can be potentially retained by the local authority, and with this sale price shared between the local authority and central government, local authorities have pointed out – with some justification – that their

capacity to initiate new builds or acquisitions of council housing is severely limited in practice.

8. Conclusion

The object of this briefing note has been to bring some clarity to the welfare analysis of the Right to Buy policy of offering the right to purchase council properties (and, subsequently, other forms of social housing) to tenants with significant discounts on market values. The note has suggested that, at its inception, there are reasonable grounds for thinking that the policy improved social welfare through positive impacts on the wealth of low-income families, on taxpayers in general and, to a limited extent, for some local authorities. However, as the stock of council properties dwindled, these gains evaporated; the distributional incidence of potential 'shortages' of social housing is hard to quantify but it seems likely that there were allocative inefficiencies that arose from the continuation of the policy.

The note has, however, demonstrated that the potential gains and losses in distributional and allocative efficiency are heavily contingent on the rules governing the Right to Buy policy, such as resale restrictions, potential exercises of 'first right of refusal' by local authorities and whether any receipts are returned to local authorities. All these provisions have impacts on the quality and quantity of council properties sold and therefore on the quality and quantity of not just the social housing stock but also the private housing stock once we add the newly-purchased council house properties to the latter. For example, resale restrictions determine the extent of the secondary market in resold Right to Buy properties, which in turn affects the efficacy of the 'right of refusal' policy. This in turn affects the optimal decision of a local authority as to whether to retain, build or repurchase potential council properties. In similar vein, the existence or otherwise of a secondary market in resold lower-quality ex-council properties and ex-social housing will either improve or potentially reduce social welfare, depending on the number of low-income families who seek to purchase rather than publicly rent properties. Further analysis of the characteristics of households that have utilised Right to Buy and Right to Acquire, and of the preferences of these households and other low-income families, would be necessary to assess these welfare outcomes in greater detail.