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Ysgrifennydd y Cabinet dros Gymunedau a Phlant
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Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: MA-L-CS-0327-17

Simon Thomas AM
Chair
Finance Committee
National Assembly for Wales

17th May 2017

Dear Simon

ABOLITION OF THE RIGHT TO BUY AND ASSOCIATED RIGHTS (WALES) BILL

Thank you for your letter of 3 May following my attendance at the Committee's meeting earlier that day on the Abolition of the Right to Buy and Associated Rights (Wales) Bill.

In your letter, you asked for further details of the estimated staff costs to the Welsh Government and the modelling used to measure the financial impact of the Bill on social landlords. Details of both matters are set out in the annex attached.

I should also like to take this opportunity to clarify the position on research which was discussed during the meeting (and referred to in paragraphs 60 to 63 of the transcript). The research undertaken by the Welsh Government looking at housing benefit claims was based on past Right to Buy sales (those since 1997) and estimated an annual cost to the public purse of £4.4 million. The research was not extended to look at the potential savings from preventing future Right to Buy sales. Given the evidence in the research it does seem likely that, if the Right to Buy were allowed to continue, some properties sold under the scheme in the future would eventually find their way into the private rented sector and be subject to a claim for housing related benefits. This would add to the existing cost to the public purse.

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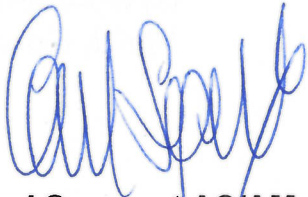
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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

I hope this is helpful. If you would like any further information, please let me know.

Yours sincerely



Carl Sargeant AC/AM
Ysgrifennydd y Cabinet dros Gymunedau a Phlant
Cabinet Secretary for Communities and Children

Details of the estimated staff costs to the Welsh Government

Set out below are details of the calculation of the estimated staff costs to the Welsh Government for the preferred option 5 in the RIA (ie £57,000 which comprises £42,000 in 2017-18 and £15,000 in 2018-19).

The following estimates identify the transitional costs, covering: the drafting and resultant communication of the policy change, the production of guidance clarifying how the law has changed as a result of the 'Act' and the impact of the legislation for social housing tenants.

<u>Year 1 (2017-18)</u>	<u>Year 2 (2018-19)</u>
Policy input – MB2 x 50% £27,044	Policy Input – MB2 x 25% £13,522
Team Support x 10% £ 2,711	Team Support x 5% £ 1,355
Legal - G7 x 10% £ 7,130	
Translation – MB2 x 5% £ 2,704	
Comms - MB2 x 5% £ 2,704	
£42,293	£14,877
rounded @ £42,000	Rounded @ £15,000

These are annual gross costs, including on-costs (NI & employer's pension contribution) using the normative methodology of daily cost of working days multiplied by the expected number of days input at each pay grade.

Year 2 costs envisaged residual enquiries, calls for clarification from social housing landlords and responding to new applicants and tenant communication/enquiries and the potential need for a follow-up exercise prior to expiration of the one-year period.

In line with the description in the Explanatory Memorandum (and RIA) the costs to the Welsh Government are estimated to require a relatively small time input from policy officials (consolidated as a single officer in a mid-range policy post) and respective input from lawyers, communications and translation officials.

*** Key**

MB2 – Management Band 2

G7 – Grade 7

Details of the modelling used by the Welsh Government to measure the financial impact of the Bill on social landlords

1. The modelling presented in the Regulatory Impact Assessment (RIA) compares the impact on Local Authority and RSL's finances of alternative options in which the Right to Buy is abolished to a baseline option in which the Right to Buy remains in place.
2. The model captures the following competing financial impacts resulting from the sale of a property under the Right to Buy. Upon selling the property, the landlord receives a capital receipt equal to the market value of the property *less* any discount which the tenant is entitled to. In addition, the landlord will no longer be responsible for managing or maintaining the property. Against this, the social landlord will incur a cost in having to administer the Right to Buy application and no longer receives a rental stream from the property.
3. The model incorporates a number of variables, including:
 - the number of sales in the baseline option;
 - the market value of properties sold under the Right to Buy;
 - the value of the discount;
 - the rent on the property (if the property is retained in the social sector);
 - the repair, maintenance and management costs that would be incurred if the property is retained in the social sector;
 - how long each property is expected to last;
 - the impact on the number of sales of a 12-month notice period (i.e. the potential spike in sales)
4. While data is available for these variables for previous years, the number of properties which will be sold under the Right to Buy in future years is clearly unknown, as are the characteristics of those properties (value, age, state of repair, rent etc.). As such, a number of assumptions were required. Given the degree of uncertainty around some of the variables, it was considered prudent to adopt a scenario modelling approach which considered alternative levels for rents, repair and maintenance costs and management costs (these scenarios are set out in paragraphs 6.27 to 6.29 and Table 3 of the RIA). Alternative periods of 30, 40 and 50 years for the remaining useful life of the properties (the period over which the rental surplus would continue to accrue if a property was retained in the social sector) were also included in the modelling. Finally, 'spikes' of 20% and 50% were included in the modelling to reflect the expectation that sales will increase in the lead-up to abolition.
5. It is this scenario based approach which has resulted in the broad range of financial estimates in the RIA. The Welsh Government considers that, due to the uncertainties involved, the modelling adopted is the best approach and that presenting the potential financial impacts as a broad range is more robust than presenting a single point estimate.