



House of Commons

Committee of Public Accounts

A Foot on the Ladder: Low Cost Home Ownership Assistance

**Nineteenth Report of
Session 2006–07**



House of Commons
Committee of Public Accounts

A Foot on the Ladder: Low Cost Home Ownership Assistance

**Nineteenth Report of
Session 2006–07**

*Report, together with formal minutes, oral and
written evidence*

*Ordered by The House of Commons
to be printed 12 March 2007*

HC 134
Published on 27 March 2007
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No 148).

Current membership

Mr Richard Bacon MP (*Conservative, South Norfolk*)
Annette Brooke MP (*Liberal Democrat, Mid Dorset and Poole North*)
Greg Clark MP (*Conservative, Tunbridge Wells*)
Rt Hon David Curry MP (*Conservative, Skipton and Ripon*)
Mr Ian Davidson MP (*Labour, Glasgow South West*)
Mr Philip Dunne MP (*Conservative, Ludlow*)
Helen Goodman MP (*Labour, Bishop Auckland*)
Mr John Healey MP (*Labour, Wentworth*)
Mr Sadiq Khan MP (*Labour, Tooting*)
Mr Edward Leigh MP (*Conservative, Gainsborough*) (Chairman)
Sarah McCarthy-Fry MP (*Labour, Portsmouth North*)
Mr Austin Mitchell MP (*Labour, Great Grimsby*)
Dr John Pugh MP (*Liberal Democrat, Southport*)
Don Touhig MP (*Labour, Islwyn*)
Rt Hon Alan Williams MP (*Labour, Swansea West*)
Iain Wright MP (*Labour, Hartlepool*)

The following were also Members of the Committee during the period of the inquiry:

Kitty Ussher MP (*Labour, Burnley*)

Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Mark Etherton (Clerk), Philip Jones (Committee Assistant), Emma Sawyer (Committee Assistant), Anna Browning (Secretary), and Luke Robinson (Media Officer).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee’s email address is pubaccom@parliament.uk.

Contents

Report	<i>Page</i>
Summary	3
Conclusions and recommendations	5
1 The impact of assistance on local housing markets	9
2 Targeting help goes to those who need it most	12
3 Retention of key public sector workers	14
4 Maximising the benefits to the affordable housing sector	16
Formal Minutes	19
Witnesses	20
List of Written evidence	20
List of Reports from the Committee of Public Accounts Session 2006–07	21

Summary

An imbalance between the demand and supply of housing has resulted in recent years in increasing numbers of people finding it difficult to afford to buy their own home. The Department of Communities and Local Government provides financial help, via Registered Social Landlords, to those who would otherwise be unable to buy, including key public sector workers in London and the South East and East of England. Despite the Department spending an increasing amount of its total spend on affordable housing on low cost home ownership assistance, demand for help exceeds availability.

Low cost home ownership assistance therefore needs to be properly targeted. Some HomeBuy Agents, those Registered Social Landlords with most responsibility for delivering the assistance, may however be too far removed from local housing markets to have the detailed knowledge needed to target help where it is most needed. There is also a risk that the assistance will push up house prices in locations or sectors of the housing market where demand for properties is already high. The Department has little information however on the impact on local housing markets. Nor does the Department collect sufficient information on what happens to low cost home ownership properties after their initial purchase or the extent to which people subsequently move on to purchase their property outright.

Increased spending on low cost home ownership assistance means there is less money available for building affordable housing for rent. It can however be a cost-effective way of freeing up a social rent home for another family and helping to relieve the pressure on housing waiting lists when targeted at existing social housing tenants or those households in priority housing need. The assistance going to these two groups has nonetheless been limited, and the new Open Market HomeBuy product, with its requirement to purchase 75% of a property, will make low cost home ownership unaffordable for many of these households.

The Department currently cannot separately identify the effects of the assistance from other measures employers are taking to improve the recruitment and retention of key public sector workers, nor is it able to tell whether the assistance is being targeted at individuals in those institutions where the benefits of retention are greatest. The list of workers eligible for help has grown to such an extent that there is a risk of assistance being spread too widely to have the intended impact. Controls over the recovery of assistance should a worker leave eligible employment need further tightening.

The benefits that low cost home ownership brings to the affordable housing sector need to be maximised to ensure that more money is available to help more people. In 2004–05 there was a general lack of controls within Registered Social Landlords to ensure that they sold purchasers as large a share of a property as they could safely afford and so minimised the amount of assistance given. To make the assistance go further, commercial lenders have agreed to part-fund the new Open Market HomeBuy product but under the terms of this deal the lenders are unlikely to suffer any losses if house prices fall and will receive the financial gains from increased house prices. These gains previously went to Registered

Social Landlords for reuse in the affordable housing sector. Some Registered Social Landlords have been slow to reuse the gains that they have made and there is scope for Landlords to use their equity stakes in low cost home ownership properties as security for raising extra funds to invest in affordable housing.

On the basis of a report¹ by the Comptroller and Auditor General, we examined the Department for Communities and Local Government and the Housing Corporation on how better targeting and further refining of the low cost home ownership assistance programme could improve efficiency and help more people .

Conclusions and recommendations

- 1. Information on the impact of the assistance on local housing markets is scarce.** There is a growing risk that, if misdirected, low cost home ownership assistance will increase demand for housing in property hot-spots and contribute to pushing up house prices. The Department should extend its existing modelling of the national impact of this assistance to include an assessment of its impact on local housing markets.
- 2. The Department does not know how many people who part-purchase can afford to purchase outright at some stage or how long it takes to do so.** Low Cost Home Ownership assistance allows households to purchase a share of a home and then to increase the size of their share until they own the property outright. The extent to which this assistance is contributing to full private ownership is unknown and there is a possibility of creating a new category of permanent part owners. The Department and Housing Corporation need to be better informed on what happens to low cost home ownership properties after their initial purchase.
- 3. In 2004–05 only 15% of those taking advantage of assistance were previously social housing tenants and the others helped were not normally in priority housing need.** When targeted at these groups, low cost home ownership assistance is especially cost-effective as it frees up a social rent home at as little as half the cost to the taxpayer of building a new social rented property. The Department should establish a target for the amount of assistance directed at households whose purchase of a property will free up social rented housing.
- 4. Some Registered Social Landlords do not consider the housing need of applicants for assistance** but automatically add applicants to housing waiting lists to ensure that they qualify for help. Registered Social Landlords and local authorities need to work together to improve the quality of waiting list information so that they are better able to target help towards those in housing need who can afford to part-purchase.
- 5. If Registered Social Landlords had encouraged all beneficiaries in 2004–05 to buy as large a share of a property as they could safely afford, an additional £63 million could have been available to help 3,420 additional households.** The Department and the Housing Corporation need to work with Registered Social Landlords to meet the Government's commitment to improve the assessments of applicants' finances. They should adopt best practice in assessing borrowing capacity from banking and private mortgage lenders.
- 6. In 2004–05 low cost home ownership assistance mainly went to households with incomes over £25,000, while most new social housing tenants had household incomes of less than £20,000.** The current Open Market HomeBuy product requires a purchaser to buy a 75% share of a property which makes it unaffordable for those with incomes below £20,000. Since we took evidence, the Government has stated that it is seeking to develop an option whereby households can buy 50 to 70% of an open market property. The Department needs to press ahead with this option. Any higher subsidy to the individual household receiving assistance should be more than offset

by the savings involved in releasing an existing social rent property for use by another family.

7. **The impact of helping key public sector employees through low cost home ownership assistance is not analysed separately from the effects of other measures public sector employers have been taking to improve retention.** It is therefore unclear whether this assistance is an effective way of tackling recruitment and retention problems in the public sector. The Department should carry out a full cost benefit analysis of this assistance, including a comparison of its performance against other measures being taken to address these problems.
8. **The Department lacks information on the take-up rates for key worker assistance at individual institutions, such as police stations or hospitals, and on the reasons for any variations in these rates.** The Department needs to identify those institutions with the greatest recruitment and retention problems and compare with the current pattern of provision of assistance. The Department and Regional Housing Boards should take account of this exercise when determining the criteria for eligibility for assistance.
9. **From April 2006, key public sector workers who receive assistance by sole virtue of their employment are required to repay this assistance if they leave eligible employment.** Both the individual recipient of this assistance and their employer are required to inform the relevant Registered Social Landlord on leaving eligible employment, but employers had not implemented the necessary controls. The Department and the Housing Corporation should require participating employers of key workers to apply controls for the recovery of this assistance.
10. **The new arrangements for funding the Open Market HomeBuy product mean that private lenders rather than the affordable housing sector will benefit from any rises in the equity value of homes bought with assistance.** The Department entered into an agreement with five commercial lenders whereby they part-fund the Open Market HomeBuy product and receive the gains from increases in property prices that previously went to the affordable housing sector for reinvestment there. The Department should compare the costs and benefits of using both commercial lenders and Registered Social Landlords as possible sources of funding for low cost ownership products.
11. **Registered Social Landlords have made substantial gains from their involvement in low cost home ownership but some have been slow to reinvest these gains in affordable housing.** The Government plans to work with the Housing Corporation and Registered Social Landlords to recycle such gains back into the provision of affordable housing. There is however uncertainty over whether the Housing Corporation has the necessary legal powers and the Department needs to clarify the legal position
12. **Registered Social Landlords' equity stakes in low cost home ownership properties are currently valued at potentially between £610 million and £720 million.** One of the Housing Corporation's aims is for Registered Social Landlords to lever more private finance into the affordable housing sector which could be achieved if Registered Social Landlords used their equity stakes as security to raise extra

borrowing from commercial lenders. The Housing Corporation should work with Registered Social Landlords and commercial lenders to overcome any obstacles to Registered Social Landlords raising additional funding in this way.

1 The impact of assistance on local housing markets

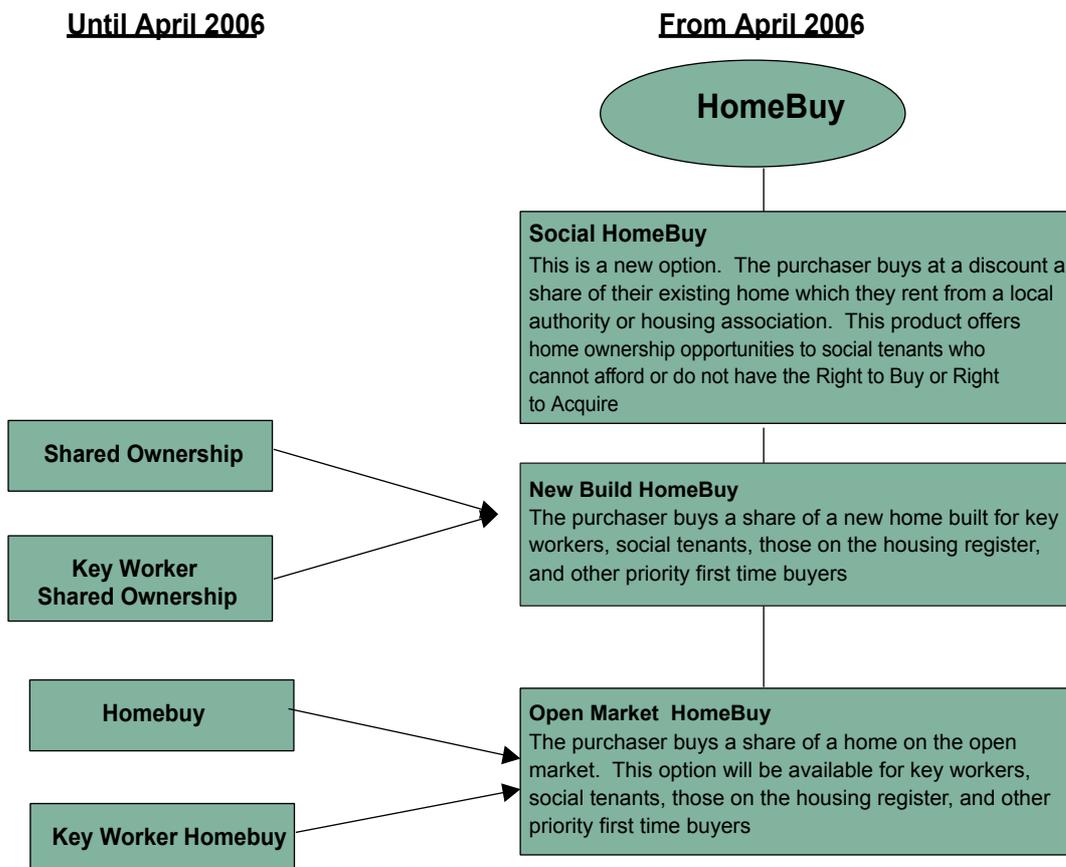
1. In recent years the number of people owning their own home has increased greatly. Currently, 70% of households in England are home-owners, compared to 61% in 1984.² The Government aspires to increase this still further to 75%, while 90% of householders would prefer to own their own homes if they could.³ The supply of available housing has however failed to keep up with this increase in demand, resulting in house prices rising at a greater rate than increases in average earnings. Consequently, more people are finding it difficult to purchase their own home, especially those attempting to buy for the first time.

2. To help address this problem, the Department for Communities and Local Government (the Department) provides financial assistance, via Registered Social Landlords, to those who would otherwise be unable to buy their own homes, by means of two main products—shared ownership and equity loans. In the standard versions of the two products, priority was given to applicants who were in social housing or on housing waiting lists. There were also special versions of both for certain public service workers in London, the South East and East of England under the Key Worker Living Initiative. In April 2006, the Department merged the range of existing products into a single, new HomeBuy Programme (**Figure 1 – see overleaf**) while streamlining procedures to ensure people are treated more consistently and fairly.

2 Department for Communities and Local Government: Table 801—Household characteristics: Tenure trend.

3 C&AG's Report, paras 1 and 2; Qq 11, 130

Figure 1: The Department merged the low cost home ownership products into a single programme from April 2006



Source: Department Consultation Paper "HomeBuy—expanding the opportunity to own", April 2005

3. The Department has spent an increasing share of its total support to the affordable housing sector on low cost home ownership assistance, from 13% in 1999–2000 to almost 30% in 2004–05.⁴ It has provided assistance to 40,000 households between 1999 and 2005 and plans to help a further 100,000 households between 2005 and 2010. This planned increase in provision is still insufficient to meet demand which has been estimated at 60,000 households a year.⁵

4. Given that demand for assistance outstrips availability, it is important that the assistance is properly targeted. Proper targeting requires sufficient knowledge of their local housing markets on the part of Registered Social Landlords, who administer the assistance, to ensure help goes to where it is most needed. Housing markets can vary greatly however even within the same region.⁶ There have been problems in some areas selling new shared

4 C&AG's Report, para 4; Q 129

5 C&AG's Report, para 12; Qq 12, 14, 127

6 Qq 2, 12, 36

ownership housing for key workers because properties have been the wrong type, built in the wrong locations, or poorly marketed.⁷

5. To make it easier for people to access this assistance and to ensure greater consistency in the treatment of people's applications, the Department extended the system of HomeBuy Agents across England in April 2006. These Agents now form a single point of contact where people are able to obtain information about all the low cost home ownership assistance available in their area. Agents' success in this role will depend on how well they liaise with Regional Housing Boards, local authorities, and the other Registered Social Landlords who are offering low cost home ownership assistance in their area to ensure that they have the necessary detailed understanding of the local housing markets and of the assistance available in their areas. There is however a risk that some Agents are covering too wide a geographic area to have the necessary detailed understanding.⁸

6. Good knowledge of local housing markets is important as there is a risk that if misdirected, low cost home ownership assistance can make homes even more unaffordable by increasing demand in property hot-spots, or in sectors of the market where demand is already high, so pushing up house prices. The impact of the assistance on house prices at a national level is likely to be small, as low cost home ownership sales represent only 1% of all house sales nationally, but they are more significant for first time buyers where they represent 4% of all purchases. While the numbers of first time buyers helped in the Midlands are too small to have an inflationary impact, low cost home ownership purchases represented 7% of all purchases by first time buyers in London.⁹ The risk of the assistance impacting adversely on house prices is likely to increase in the future as the Department is planning to increase the numbers of people it will help.¹⁰

7. Low cost home ownership can continue to have an impact on local housing markets even after the initial purchase of a property. Once they have made their initial purchase, low cost home owners can subsequently choose to increase their share of their property, buy it outright, or sell up and move on. If the owner decides to sell their share of a New Build HomeBuy property, the Registered Social Landlord has the right to buy back this share or nominate another buyer from the housing waiting list. The Department and the Housing Corporation do not know how long people tend to stay in these properties, the size of the share purchased when owners do decide to increase the share they own, or the extent to which these properties are bought back by Registered Social Landlords, although the Housing Corporation is intending to collect information from Landlords on the extent to which they buy back their share.¹¹

7 C&AG's Report, para 29; Q48

8 C&AG's Report, paras 7, 21; Qq 95–99

9 C&AG's Report, paras 13, 19; Qq 14–16, 81, 82

10 Q 37

11 C&AG's Report, Recommendation 5; Qq 17–19, 41, 149; Ev 19

2 Targeting help goes to those who need it most

8. Low cost home ownership assistance is particularly cost effective when targeted at social housing tenants as it frees up a social rent home at as little as half the cost to the taxpayer of building a new social rented property. In 2004–05 only 15% of those buying homes using low cost home ownership products not specifically aimed at key workers were previously social housing tenants, freeing up 1,200 properties for re-letting, while the remaining 85% were not normally in priority need and so likely to receive social housing.

9. Those in housing need are one of the priority groups for receiving low cost home ownership assistance. In three out of four local authorities visited by the National Audit Office, qualifying Homebuy applicants were added to the local authority waiting list for social rented accommodation when they applied for a Homebuy loan, thus qualifying them for the assistance regardless of how their housing need compared to others already on the list.¹²

10. Success in targeting social tenants and those in priority need for assistance is dependent on good relations between Registered Social Landlords and local authorities who are responsible for maintaining housing waiting lists. 37% of Registered Social Landlords however did not consider liaison with local authorities to be effective, citing examples where contact details for local authority tenants were withheld or where lists of such details failed to identify tenants who were eligible for assistance. From April 2006 the new Homebuy agents will be responsible for liaising with local authorities and will need to improve systems so targeting can be more effective.

11. The Government has stated that it will look in future to target low cost home ownership assistance at freeing up or avoiding social tenancies.¹³ The Housing Corporation has accepted the need to increase the number of social tenants receiving assistance from 15%, as recommended by the National Audit Office, but does not think that this will be easy. More than 60% of existing social housing tenants are on benefit, while 40% of new tenants have some sort of support need.¹⁴ The National Audit Office identified about 8,000 households moving into social rented housing in 2004–05 which had levels of income similar to those who bought with low cost home ownership assistance, and so could have afforded to part-purchase with this assistance.¹⁵

12. As currently designed, the Open Market HomeBuy product will be of little help in reaching those on lower incomes as it requires a purchaser to buy a 75% share of a property. Instead, it targets those households at the higher end of the low income scale. As a result, little low cost home ownership assistance is going to households with incomes of less than £20,000. Such families represent an increased financial risk for the Registered

12 C&AG's Report, paras 43–45, 47; Qq 1, 2, 25, 143, 144

13 HM Treasury and Department for Communities and Local Government, *Report of the Shared Equity Taskforce*, December 2006, para 5.45

14 Qq 9, 143, 144

15 C&AG's Report, para 42

Social Landlords who administer this assistance. Instead, the assistance mainly goes to households with incomes of above £25,000, at the lower end of the first time buyer's market. While there are controls in place to ensure that assistance only goes to those who cannot afford to buy on the open market in the area they are seeking to buy, there were many other first time buyers who bought without any help but who had household income levels similar to the recipients of low cost home ownership assistance.¹⁶

13. Providing for householders to buy a smaller share of a property would require the Government to take a larger equity stake in each property bought, at a higher cost. The Government has now stated that it will seek to develop an option for households to buy a 50 to 70% share of a property.¹⁷ The extra cost per household helped through such an option would be offset by the savings from enabling more social housing tenants to buy, thereby releasing increased numbers of existing social rent properties for other families.¹⁸

16 C&AG's Report, para 36, Figure 8; Qq 2–6, 24

17 HM Treasury and Department for Communities and Local Government, *Report of the Shared Equity Taskforce*, December 2006, para E29

18 Q 23

3 Retention of key public sector workers

14. One of the objectives of low cost home ownership assistance is to help with the recruitment and retention of certain key public sector workers. Since 2001 over 23,000 key workers have received assistance from both the Key Worker Living Initiative and its predecessor, the Starter Homes Initiative (**Figure 2**).¹⁹ The benefits arising from the improved recruitment and retention of such staff can be significant, such as the savings of £90 million for each 1% reduction in the turnover of nursing staff.²⁰ The Department does not separately identify the impact of this assistance from the effects of other measures public sector employers have been taking to improve recruitment and retention. The employers considered that the assistance had helped as part of an overall package of benefits but that it needed to be targeted.²¹

Figure 2: The recipients of Key Worker assistance

	Number of recipients	Per cent
Health	9,206	40
Education	8,273	36
Community Safety (1)	3,364	14
Other (2)	2,321	10
	23,164	
Note (1): Includes Police, Fire Service, Probation Officers and Prison Officers		
(2): Includes local authority planners, social workers and clinical staff		
<i>Source: The Department</i>		

15. The Key Worker Living Initiative defines a key worker as someone who is: employed by the public sector; in a frontline role delivering an essential public service; and in a sector where there are serious recruitment and retention problems.²² The initiative will achieve maximum value for money when targeted at workers in those public sector institutions where the benefits of improved recruitment and retention are greatest. The successful targeting of assistance to, for example, individual hospitals or police stations is dependent on the quality of the relationship between the HomeBuy Agents and public sector employers at a local level. However, the quality of these relationships can vary, with some employers being much more open to helping their staff receive this assistance than others. There is also a risk that the take up of this assistance at a particular police station, for example, may be greater simply because police officers are more aware of the availability of

19 Ev 19

20 Qq 8, 147; Ev 19

21 C&AG's Report, para 23; Q 10

22 C&AG's Report, Figure 5

this help than officers at other stations, rather than because the police station has the greatest difficulty in retaining officers. The Department and the Housing Corporation lack information on the take-up rates at individual institutions and on the reasons for any variations in these rates.²³

16. There is also a risk that Key Worker Living assistance is being used for too many categories of worker to have the intended benefit. Since the introduction of specific assistance for key workers in September 2001, the types of key worker eligible for this assistance has increased from three categories to twelve, including amongst others: all clinical NHS staff; prison and probation staff; local authority planners; social workers; and educational psychologists.²⁴ In addition, from April 2006 Regional Housing Boards have been able to designate other categories of key worker as eligible for assistance in their region and, in two small instances, Boards have subsequently chosen to do so.²⁵ As demand for this assistance outstrips the amount of assistance available, the expansion of the types of worker eligible for help has resulted in some unmet demand among the original key worker categories of nurses, school teachers and police officers.²⁶

17. To maintain the effectiveness of the Key Worker Living initiative in tackling the public sector's retention problems, Key Workers are required to repay assistance should they leave eligible employment. To date, no assistance has yet been repaid, although there are a small number of cases where repayment is due.²⁷ Both the individual recipient of this assistance and their employer are required to inform the relevant Registered Social Landlord on leaving eligible employment but the National Audit Office found that some Registered Social Landlords and employers were only starting to consider implementing the necessary controls.²⁸ The Department and the Housing Corporation have since taken steps to address this problem, acting on two out of three of the National Audit Office's recommendations; and a recent audit by the Housing Corporation of a sample of 100 Key Workers who had received assistance found that all were still in eligible employment. The Housing Corporation did not mention any steps it had taken to improve controls in employers.²⁹

23 Qq 69–72; Ev 19

24 C&AG's Report, para 5, Figure 5; Q 42

25 C&AG's Report, para 7; Qq 42, 43, 86–88

26 Qq 42, 60, 61, 63

27 Ev 19

28 C&AG's Report, para 24

29 Qq 32, 154–156; Ev 19

4 Maximising the benefits to the affordable housing sector

18. With insufficient assistance available to meet demand for it, low cost home ownership assistance needs to be used as efficiently as possible. There was however a general lack of controls at Registered Social Landlords to ensure that purchasers bought as large a share of a property as they could safely afford and thus minimised the amount of assistance they received. Some Landlords sold people fixed proportions of their Shared Ownership properties rather than inviting applicants to buy as large a share as they could afford. The Housing Corporation recommended the use of income mortgage multipliers of 3 times joint and 3.5 times single income when assessing applications for Key Worker Living assistance, but there were no such recommended multiplier levels for the other forms of assistance. If Registered Social Landlords had encouraged everyone to buy as large a share of a property as they could afford, using the recommended income multipliers, then Landlords would have had another £63 million available in 2004–05, enough to help a further 3,420 households in addition to the 11,000 actually helped.³⁰

19. In response to the National Audit Office's findings, the Housing Corporation has required Registered Social Landlords to ensure that purchasers, from April 2006, buy as large a share of a property as they can afford and sustain. The Corporation has also recommended the use of income mortgage multipliers of 3 times joint and 3.5 times single income when assessing all applications for low cost home ownership assistance and is advocating that Registered Social Landlords move away from selling fixed proportions of their New Build HomeBuy properties.³¹

20. Both the Department and the Housing Corporation are keen to ensure that purchasers are able to sustain the costs of home ownership and are not pushed into buying too large a share. Many of those accessing low cost home ownership do so from a position of some financial vulnerability. They consider that they have been successful in this objective as on the Key Worker Living Initiative there have been only seven repossessions to date.³²

21. Since October 2006 the Housing Corporation has recommended that Registered Social Landlords only use the income multipliers as guidelines. Landlords are free to use higher or lower income multiples as appropriate. The Corporation has also stressed to Landlords the importance of rigorous affordability checks of an individual's financial circumstances, including their savings and outgoings, in order to assess the sustainability of the purchase. The National Audit Office had found that there was scope for Registered Social Landlords to improve the quality of their assessments of an applicant's financial means before deciding how large a share of a property to sell them.³³ The Government intends to work with the Housing Corporation and Registered Social Landlords to improve these

30 C&AG's Report, para 12, 37, 38; Figure 15; Qq 29, 118

31 C&AG's Report, para 39; Qq 31, 112, 119, 121

32 Qq 25, 111, 119, 135

33 C&AG's Report, para 37; Recommendation 3; Qq 111, 112, 125; Ev 19

assessments.³⁴ This work will need to draw on best practice in assessing applicants' borrowing capacity taken from the banking and mortgage lending sector.

22. To ensure that as many people as possible are helped for the current level of government funding, the Department has entered into an agreement with five commercial lenders whereby they will part-fund the new Open Market HomeBuy product. Under this product, the purchaser buys a property with a commercial mortgage of 75% and equity loans from the Government and commercial lenders for 12.5% each. No interest is payable on the Government equity loan and the purchaser only pays interest on the commercial equity loan after the first five years. Between Years 5 and 10 they then pay a capped rate and, after 10 years, a standard mortgage rate. According to the Department, these arrangements will be 20% cheaper for the purchaser than buying the property with a conventional mortgage.³⁵

23. In addition to the interest, the commercial lenders will also receive 12.5% of any increase in the value of the property when it is resold. With the previous open market product, HomeBuy loans, all the gains from the 25% HomeBuy equity loan funded by the Department went to Registered Social Landlords for use in the affordable housing sector. According to the Department, such an arrangement was necessary to make it commercially attractive for the lenders to agree to the low interest rate payments by purchasers.³⁶

24. In the event of a fall in the property's price, the commercial lenders have a charge over the property and so have first call on any sales proceeds. The property's value would have to fall by more than 12.5% before the commercial lenders started to receive less than the 87.5% that they advanced for the original purchase.³⁷ On the other hand, the Government starts to lose money on its equity loan as soon as the value of the property falls below its original purchase price.

25. Registered Social Landlords receive a return on their investment in low cost home ownership in the form of the proceeds from the initial part-sale of a New Build HomeBuy property and the further receipts when the purchaser subsequently increases their share of any low cost home ownership property or sells the property on. From these proceeds Landlords are required to pay an amount equal to the grant they received from the Government to fund their original expenditure on the low cost home ownership assistance into a special fund, the "recycled capital grant fund". Money from this fund is then recycled back into affordable housing in line with the priorities identified by Regional Housing Boards and there are tight controls over what it can be spent on.³⁸

26. Registered Social Landlords are free to use any sales proceeds remaining after the repayment of the original grant to fund any activity within their remit as Registered Social Landlords and the Housing Corporation has no direct control over how these gains are

34 HM Treasury and Department for Communities and Local Government, *Report of the Shared Equity Taskforce*, December 2006, paras E31, E32

35 Qq 101, 103, 106, 107

36 C&AG's Report, paragraph 52, Figure 16; Q 107

37 Qq 108 and 167–169

38 C&AG's Report, paras 50–52; Qq 20, 21, 84

used.³⁹ These gains have been substantial. Registered Social Landlords' gains on the initial sale of shares in their Shared Ownership properties resulted in Landlords receiving £90 million more grant than they needed in 2004–05, while gains from the subsequent sale of their remaining shares in properties totalled £56 million.⁴⁰

27. The Housing Corporation is keen to work with Registered Social Landlords to build as many affordable housing units as possible, but some Registered Social Landlords have been slow to reuse their gains from low cost home ownership in this way and have, instead, built up large reserves.⁴¹ One way of ensuring that these gains are reinvested quickly in affordable housing would be to require Registered Social Landlords to repay into the recycled capital grant fund an amount reflecting the subsequent increase in the value of the low cost home ownership property financed by that grant, rather than an amount equivalent to the cash value of the original grant. Since the Committee took evidence, the Government has stated that it will work with the Corporation and Registered Social Landlords to ensure that the equity uplift from its investment in low cost home ownership is fully captured and recycled to expand the provision of affordable housing.⁴² The Housing Corporation may however need to establish new legal powers to introduce this requirement, and the Department needs to clarify the legal position.

28. One of the Housing Corporation's aims is to get Registered Social Landlords to make greater use of their balance sheet and financial capacity to lever more private finance into the affordable housing sector.⁴³ Registered Social Landlords' equity stakes in low cost home ownership properties are currently valued at potentially between £610 million and £720 million. More money could be made available for the delivery of new affordable housing if the Housing Corporation, in its role as regulator, encouraged Registered Social Landlords to use these equity stakes as security for extra borrowing.⁴⁴ Since 1989 Registered Social Landlords have borrowed £36 billion to fund their activities, almost as much as the amount of public money that they have received. Because of the Housing Corporation's regulation, this borrowing has been at competitive rates.⁴⁵

39 C&AG's Report, para 52; Qq 137

40 C&AG's Report, paras 56, 58; Q 137

41 Qq 137, 142

42 C&AG's Report, Recommendation 5; Qq 137, 138; HM Treasury and Department for Communities and Local Government, *Report of the Shared Equity Taskforce*, December 2006, para E27

43 Housing Corporation, *Future investment approaches*, September 2006, page 7

44 C&AG's Report, para 58; Qq 49, 50

45 Qq 51, 170

Formal Minutes

Monday 12 March 2007

Mr Edward Leigh, in the Chair

Mr Richard Bacon

Helen Goodman

Mr Sadiq Khan

Mr Austin Mitchell

Mr Don Touhig

Mr Iain Wright

Draft Report

Draft Report (A Foot on the Ladder: Low Cost Home Ownership Assistance), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 28 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Nineteenth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned until Wednesday 14 March at 3.30 pm.]

Witnesses

Monday 4 December 2006

Mr Peter Housden, Permanent Secretary, Department for Communities and Local Government and **Mr Jon Rouse**, Chief Executive, Housing Corporation

Ev 1

List of Written evidence

Department for Communities and Local Government and the Housing Corporation Ev 19

List of Reports from the Committee of Public Accounts Session 2006–07

First Report	Tsunami: Provision of support for humanitarian assistance	HC 25
Second Report	Improving literacy and numeracy in schools (Northern Ireland)	HC 108
Third Report	Collections Management in the National Museums and Galleries of Northern Ireland	HC 109
Fourth Report	Gas distribution networks: Ofgem's role in their sale, restructuring and future regulation	HC 110
Fifth Report	Postcomm and the quality of mail services	HC 111
Sixth Report	Gaining and retaining a job: the Department for Work and Pensions support for disabled people	HC 112
Seventh Report	Department for Work and Pensions: Using leaflets to communicate with the public about services and entitlements	HC 133
Eighth Report	Tackling Child Obesity—First Steps	HC 157
Ninth Report	The Paddington Health Campus Scheme	HC 244
Tenth Report	Fines Collection	HC 245
Eleventh Report	Supporting Small Business	HC 262
Twelfth Report	Excess Votes 2005–06	HC 346
Thirteenth Report	Smarter Food Procurement in the Public Sector	HC 357
Fourteenth Report	Ministry of Defence: Delivering digital tactical communications through the Bowman CIP Programme	HC 358
Fifteenth Report	The termination of the PFI contract for the National Physical Laboratory	HC 359
Sixteenth Report	The Provision of Out-of-Hours Care in England	HC 360
Seventeenth Report	Financial Management of the NHS	HC 361
Eighteenth Report	DFID: Working with Non-Governmental and other Civil Society Organisations to promote development	HC 64
Nineteenth Report	A Foot on the Ladder: Low Cost Home Ownership Assistance	HC 134