House of Commons

Committee of Public Accounts

Help to Buy equity loans

Second Report of Session 2014–15

HC 281

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Second Report of Session 2014–15

Report, together with formal minutes related to the report

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Committee of Public Accounts

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Summary

The Department for Communities and Local Government (the Department) introduced the Help to Buy equity loan scheme (the Scheme) smoothly in April 2013, drawing on its experience of having run similar schemes in the past. The Scheme was up and running quickly, and as a result the Department has supported the purchase of nearly 13,000 homes through the Scheme in its first nine months. However, the Department did not assess whether there were alternative, more effective options that would have delivered the Scheme's policy objectives of increasing demand for new homes, making mortgage finance more accessible and affordable, and encouraging developers to build more new homes. The Department will only truly be able to prove the Scheme provides value for money to the taxpayer once it has completed a comprehensive evaluation. The Scheme is one of a number of government interventions addressing wider housing market failures. The Department needs to develop a way to assess the combined effectiveness of its schemes.

Conclusions and recommendations

1. The Department introduced the Help to Buy equity loan scheme in April 2013, with the objectives of increasing demand for new homes, making mortgage finance more accessible and affordable and encouraging developers to build more new homes. Under the Scheme, the Department makes equity loans to buyers financing up to 20% of the purchase price of newly-built properties that cost £600,000 or less, which supplements the buyers' own deposit of normally at least 5%. Buyers then raise a repayment mortgage of, typically, 75% of the property's value. The equity loan is interest-free for the first five years, and is paid back within 25 years, or when borrowers redeem their mortgage, for example when they sell their home. The Department initially aimed to spend up to £3.7 billion to help 74,000 households buy a new home by 2015-16. In the 2014 Budget the Government decided to extend the Scheme to March 2020, and was providing an extra £6 billion to support the purchase of a further 120,000 homes. The Scheme is administered by the Homes and Communities Agency (the Agency), through its network of Help to Buy agents.

2. **The Department managed the Scheme's implementation effectively and got it up and running quickly.** The Department and the Agency built on their experience of running previous home equity schemes, such as FirstBuy, to implement the Help to Buy equity loan scheme. For example, they used delivery and administrative mechanisms already in place from similar schemes, for example rebranding the existing network of HomeBuy agents as Help to Buy agents. As a result, the Scheme was put in place quickly, and the Department had supported nearly 13,000 completed sales in the first nine months to December 2013. In July 2013, the Agency successfully negotiated down the fee it pays agents for administering each sale, from £1,000 per case to £600, and it told us that it has since secured a further reduction in the fee.

   Recommendation: ***The Department must:***

   - ***Maintain downward pressure on the Scheme's costs, and***
   - ***Make full use of the skills and experience it has gained from running this and other similar schemes when implementing its future programmes.***

3. **Before introducing the Scheme, the Department did not consider alternative ways to deliver its objectives, which goes against HM Treasury guidance.** HM Treasury states that it is good practice to assess a range of options to achieve the intended policy objectives when appraising any new policy initiative. The Department acknowledged that its business case for Help to Buy, which underpinned its decision to introduce the Scheme, did not contain any such assessment of alternative options. Yet the Department will now spend nearly £10bn supporting this scheme up to 2020. The Department cannot say whether its chosen Scheme is the best way to achieve its intended objectives of increasing access to mortgage finance, increasing housing supply and contributing to economic growth.

Recommendation: ***In future, the Department must follow the guidance in the HM Treasury Green Book, by assessing a range of alternative options and presenting this analysis in its business case, to ensure it selects the best option when launching new schemes.***

4. **Managing this Scheme will bring new challenges for the Department and the Agency, creating both risks and opportunities.** The Scheme creates a medium- and long-term risk to the Department by building a £10 billion portfolio of equity loans that will require careful management. Managing such a portfolio is new territory for both the Department and the Agency, and the ongoing monitoring required will create a heavy administrative burden for both organisations, potentially over decades. Government has sold similar investment portfolios to the private sector in the past, such as the final tranche of the old 'mortgage-style' student loan book in November 2013. Though the Department said it had no current plans to follow suit, it did not rule out the possibility of selling the Help to Buy portfolio in the future. The Department and the Agency also acknowledged that there are more immediate risks, particularly the fact that some buyers have accessed the Scheme with deposits of less than 5%, which increases the taxpayers' exposure to risk.

Recommendation: ***The Department and the Agency must set out how they will protect the taxpayer and ensure they have the skills and capacity both to monitor and manage the loan portfolios effectively in the short and the longer terms. They need to demonstrate how they will maximize repayment and how they will respond to changing commercial circumstances.***

5. **The Department should be mindful of the need to demonstrate that the Scheme is value for money to the taxpayer.** We welcome the Department's commitment to a full evaluation of the Help to Buy equity loan scheme in 2015, particularly as the Department has failed in the past to conduct proper evaluations of similar schemes' impact on the demand for, and supply of, new housing. We expect this evaluation to address fundamental questions about the Scheme's impact and its value for money, including whether more buyers purchase properties than would have without the Scheme, whether builders build more houses than they would have built otherwise, and what effect the Scheme could be having on house prices. The Department has made some early estimates of these factors.

Recommendation: ***For its planned evaluation of the Scheme, the Department must develop a robust methodology to assess the Scheme's impact on both demand for, and supply of, new homes. To do so, it must collect sufficient data directly from buyers to quantify how many would not have bought a property without the Scheme, and from builders on how many additional homes they are building because of the Scheme.***

6. **In any future assessment of the Scheme, the impact on each region of the Scheme should be examined in detail.** The Department did not set regional objectives for the Scheme, but evidence from the first nine months of operation suggests that it is working differently in different parts of England. It is more popular in the North and Midlands, and in areas that have already seen regeneration or major housing expansion, for example, Milton Keynes. It has had much less traction in London and

the South East (only 6% of equity loans made have been for properties in London), despite the fact that these are the regions with the greatest need for new housing.

Recommendation: ***The Department should assess the Scheme's effectiveness in different local and regional housing markets, and tailor the Scheme so it is effective in all regions.***

7. **The Department has not evaluated the combined effectiveness of its various interventions to address housing market failures.** The Department acknowledged that there are a wide range of complex problems in the housing market, and it explained that Government only intervenes where it thinks there is a market failure. The market has failed consistently for many years to supply enough new homes to meet both need and demand. This Scheme supports only a relatively small proportion of the market, and other fundamental housing market problems are beyond its scope. The Department has a number of other initiatives that address other market failures, for example the New Homes Bonus, through which it makes non-ring-fenced payments to local authorities for every home added to the council tax register. The Department, however, does not yet know what the combined impact of its initiatives will be on increasing the supply of new homes.

   Recommendation: ***To understand how it can improve its effectiveness in stimulating housing supply where it is needed, the Department should carry out a wider and integrated evaluation, assessing the combined impact of its major interventions in the housing market.***

1 The introduction and management of the Scheme

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Department for Communities and Local Government (the Department) and the Homes and Communities Agency (the Agency) about the Help to Buy equity loan scheme (the Scheme).[1]

2. The Department identified three barriers to home ownership in its 2011 housing strategy: potential home owners could not afford mortgage finance; mortgage lenders were requiring buyers to have big deposits; and developers were not building enough new homes. The Department introduced the Scheme in April 2013 to: increase demand for new homes by making mortgage finance more accessible and affordable; encourage developers to build more new homes; and contribute to economic growth.[2]

3. The Department initially aimed to advance up to £3.7 billion to help 74,000 households buy a new home by 2015-16. The Government announced in the 2014 Budget that it had extended the Scheme to March 2020, and would provide an extra £6 billion to support the purchase of a further 120,000 homes.[3] Under the Scheme, the Department makes equity loans to buyers of up to 20% of the purchase price of newly-built properties that cost £600,000 or less, which supplements the buyers' own deposit of normally at least 5%. Buyers raise the balance required for the purchase by arranging a conventional repayment mortgage with a bank or building society of, typically, 75% of the property's value. The equity loan is interest-free for the first five years, and is paid back by borrowers within 25 years, or when their mortgage is paid back, for example if they sell their home. The Department assisted the purchase of nearly 13,000 homes in the Scheme's first nine months, of which some 89% were by first-time buyers.[4]

4. The Department and the Agency told us that, in designing the Scheme, they drew on the operational experience they had developed running similar schemes since 2006. They explained that this experience meant that they knew what delivery mechanisms would work. This experience influenced features of the Scheme's design, including its size. At £3.7 billion, the Scheme is much larger than predecessors, such as FirstBuy and HomeBuy, and at £600,000 the cap on eligible property prices is much higher. The Department also explained that it had chosen to avoid factors that might limit the effectiveness of the Scheme; for example, it had decided not to ask developers to contribute to the equity loan, in contrast to earlier schemes.[5]

5. The Department and the Agency set out to introduce the Scheme quickly. To support this, they re-used delivery and administrative mechanisms already in place from similar

1 C&AG's Report, *The Help to Buy equity loan scheme*, HC 1099 Session 2013-14, 6 March 2014

2 Qq 23, 43, 64; C&AG's report, paragraphs 2, 1.1, 1.3

3 Q 77; C&AG's report, paragraph 1.4; HM Treasury, *Budget 2014*, HC 1104, March 2014

4 Q 12; C&AG's report, paragraphs 11-12 and 1.6-1.8

5 Qq 4-5; C&AG's report, Figure 2

schemes. For example, the Department and the Agency were already working with a network of agents in administering the HomeBuy scheme. These agents are locally based companies, usually offshoots of Housing Associations, which perform administrative tasks, such as affordability checks on potential buyers, and process applications. The Department has rebranded its existing network of HomeBuy agents as Help to Buy agents.[6] In July 2013, the Agency negotiated down the fee it pays agents for administering each sale, from £1,000 per case to £600. The Agency told us that it had now retendered for the Help to Buy agents, and that the agents would be paid less than £600 in the future.[7]

6. In some important respects, however, the Department did not follow good practice when developing the Scheme. For example, HM Treasury told us that its guidance, set out in the *Green Book*, states that it is good practice to assess a range of options to achieve the intended policy objectives when appraising any new policy initiative, and that this should consider as many options as possible, including the option of 'do nothing'. The Department acknowledged that, in the case of this Scheme, it had only appraised the option it had already decided would be most effective, and that its business case for the Scheme, which underpinned its decision to introduce the Scheme, did not assess any alternative options. The Department explained that its decision to go with its chosen option was influenced by its prior experience and its desire to act quickly, but it could not provide us with evidence that this option was the best way to achieve its intended objectives.[8]

7. We also asked the Department what lessons it had applied from evaluations of previous shared equity schemes, to inform its implementation of Help to Buy. The Department, however, could not refer us to any formal evaluation reports on which it had drawn, despite having overseen several similar shared equity interventions running back to 2006. The National Audit Office reported that the Department had committed to evaluating FirstBuy and HomeBuy Direct in 2013, but that the Department had not undertaken the planned evaluations because of the speed with which it had launched Help to Buy. The Department explained that, although it did not have any evaluation reports available, it had drawn on monitoring data as well as its previous operational experience. It also asserted that evaluations would not have been directly applicable, because Help to Buy has a different focus from some of its other schemes, which meant that it could not draw upon good quality evaluation evidence when designing the Scheme.[9]

8. The Scheme creates a medium and long-term risk to the Department by building a £10 billion portfolio of equity loans that will require careful management. For example, the value of the portfolio will fluctuate as house prices change, because the value of each loan at any point is based on a percentage of the property's current value. Furthermore, the Department told us that it anticipated a repossession rate of between 1% and 2%; but if a

6 Qq 4-5, 14, 26; C&AG's report, paragraph 3.14 and Figure 4

7 Qq 35, 54-55; C&AG's report, paragraph 3.15

8 Qq 3-4; HM Treasury, *The Green Book: Appraisal and Evaluation in Central Government*, 2003

9 Qq 5-13; C&AG's Report, paragraph 3.3 and Figure 2

home is repossessed, the mortgage lender would get its money back first because the government only holds a second charge, behind the lender.[10]

9. The Department agreed that managing such a portfolio was new territory for both it and the Agency. We have seen in our previous examination of student loans that value for money depends on forecasting loan repayments and understanding the likely cost of non-repayment to the taxpayer, as well as the efficiency and effectiveness of collection arrangements. Although Help to Buy equity loans are different to student loans in some respects, many of the same principles apply. Both the Department and the Agency will be required to monitor the Scheme for many years to come. The Department acknowledged that both it and the Agency would need to increase their capacity and skills to manage the portfolio effectively.[11]

10. Government has in the past addressed some of the risk associated with managing a portfolio of debt by selling the investment portfolios to the private sector, as it did with the final tranche of the old 'mortgage-style' student loan book in November 2013. The Department said a potential sale of the Help to Buy portfolio was not currently part of its plans, but it did not rule out the possibility of selling the portfolio in future.[12] The Department and the Agency also acknowledged that there were more immediate risks they needed to manage. These included the fact that some buyers had accessed the Scheme with deposits of less than 5%, which increased the taxpayers' exposure to risk. The Agency explained that the number of such buyers—205 to December 2013—is a very small proportion of buyers accessing the Scheme, less than 2% of completions at that point, and it told us that it would continue to monitor this situation.[13]

10 Q 27; C&AG's Report, paragraphs 5, 1.7

11 Q 57; C&AG's report, paragraph 3.27; Committee of Public Accounts, *Student Loan repayments*, Forty-fourth Report of Session 2013-14, HC 886, 14 February 2014

12 Q 57; Committee of Public Accounts, *Student Loan repayments*, paragraph 7

13 Q 26; C&AG's report, paragraph 3.25

2 The impact of the Scheme

11. The Scheme assisted with the purchase of nearly 13,000 homes in its first nine months of operation, with around a further 9,600 completions in the pipeline at that point. The Department told us that the Scheme had successfully hit its target group. The Department's initial business case stated the Scheme was aimed at 'deposit-constrained' potential buyers. Around 70% of buyers using the Scheme have put down a 5% deposit, and only 3% have provided a deposit of 25% or more; by comparison, in 2012, home buyers in the UK put down, on average, a 32% deposit. First-time buyers made up 89% of Help to Buy equity loan sales up to the end of December 2013, and the purchasers generally bought relatively inexpensive homes and had modest incomes.[14]

12. The Department told us that it was monitoring the Scheme's progress to assess whether it is having the desired impact. It also confirmed that it was committed to evaluating the Scheme in 2015, and to present the results in its 2014-15 annual report, but it said that it had not yet drawn up plans for this evaluation.[15] The Department accepted that to establish whether the Scheme has been value for money, its planned evaluation must gather evidence of whether it has enabled people to buy homes who could not have done so otherwise, and encouraged developers to build additional houses that would not otherwise have been built. However, it said it has not yet collected robust data systematically from developers and purchasers about what they would have done differently in the absence of the Scheme. The Department told us that it estimates that between 25% and 50% of purchases through the Scheme had lead to the construction of a new home that would not have been built without the Scheme. The Department accepted, however, that it needed to carry on improving and refining its monitoring of the Scheme, and that, in the full evaluation, more robust methods would be required that went into greater depth than its routine monitoring of progress.[16]

13. Evidence from the first nine months of operation suggests that the Scheme is working differently in different areas across England. The National Audit Office found that the Scheme has been particularly popular with buyers in the North and the Midlands, and the Department conceded that, typically, places that have had the highest numbers of sales through the Scheme are ones that have seen regeneration and major new housing growth, such as Milton Keynes.[17]

14. The Scheme has had much less impact in London and the South East. London, for example, is an area of high housing need, but although 15% of purchases of newly built homes were made in the capital from April to December 2013, only 6% of the Scheme's loans were made there in the same period. The Department suggested that buyers in London face different barriers to home ownership than are seen in other parts of the country, which might explain the relatively low take-up of the Scheme there. Data suggest

14 Qq 70-72; C&AG's Report, paragraphs 2.1-2.2

15 Qq 4, 11, 21-22; C&AG's Report, paragraph 3.31

16 Qq 14, 16, 21, 41, 44-47, 54, 73-74

17 Qq 59-60

that buy-to-let purchases of new build property are also slightly higher in London than in the rest of England, but such sales are excluded from the Scheme.[18]

15. It will be for the Scheme's formal evaluation to determine whether the Scheme works equally well for all parts of the country. The Department said that it has the ability to analyse the impact of the Scheme at various geographic levels, for example postcode, Local Enterprise Partnership or former Housing Market Renewal Pathfinder areas. The Department told us, however, that the Scheme's objectives were set at national, rather than regional or local, level.[19]

16. This Scheme is one of several interventions by the Government that attempt to address a wide range of complex problems within the housing market. The Department explained that Government only intervenes where it thinks there is a market failure. For many years, the level of private home-building in England has been insufficient to meet the need and demand for accommodation by the growing population. Despite the increased number of housing starts since the property crash in 2007 (the Department reported a 29% increase since the Scheme was introduced), the Department agreed that the gap between need and supply remains wide.[20] The Scheme does not attempt to address other elements of housing market dysfunction, for example, issues with planning or land-banking. Furthermore, the Department said that the Scheme affects only a relatively small proportion of the market. However, the Department's market intelligence and the National Audit Office's research have indicated that the Scheme may be improving the confidence and appetite of house builders, and may be encouraging them to build more new homes.[21]

17. The Department has several other major housing market initiatives besides the Scheme. These include: reforming the planning system to ensure new private housing developments also lead to the construction of affordable housing; an affordable housing scheme that is building 170,000 properties during this spending review period; and a scheme to encourage smaller builders to construct homes. The Department also told us about a range of initiatives to support new build-to-rent investment and to bring institutional investors into the private rented market, a programme to support custom-built homes, and schemes to unlock the viability of sites where there is an infrastructure issue.[22] In addition, we reported in October 2013 on the introduction of the New Homes Bonus in 2011; a non-ring-fenced payment made to local authorities for every home added to the council tax register, which aims to incentivise local authorities to increase the supply of housing, both through building new homes and returning empty homes to use.[23]

18. The Department told us that its approach to evaluation in the past had tended to focus on evaluating the individual components of its housing strategy. This has meant that the Department has not assessed what the combined impact of its interventions has been on

18 Qq 51, 58-60; letter from the Department to the Committee, 10 April 2014; C&AG's Report, paragraph 2.3 and Figure 7

19 Qq 54, 80

20 Qq 5, 18, 61-62, 83-84; C&AG's Report, paragraph 1.2 and Figure 1

21 Qq 18, 23, 33, 64; C&AG's Report, paragraphs 21, 2.5

22 Qq 54, 68, 84

23 Committee of Public Accounts, *The New Homes Bonus*, Twenty-ninth Report of Session 2013-14, 23 October 2013

increasing the supply of new homes. The National Audit Office concluded that unless the Department develops a robust and joined-up method of evaluating its housing market initiatives, it will be unable to make informed decisions, based on which interventions offer the best return to the taxpayer, about what level of funding to allocate to future initiatives.[24]

24 Q 58; C&AG's Report, paragraph 3.32

Formal Minutes

Monday 9 June 2014

Members present:

Mrs Margaret Hodge, in the Chair

Mr Richard Bacon
Guto Bebb
Chris Heaton-Harris
Meg Hillier
Mr Stewart Jackson
Mrs Ann McGuire
Austin Mitchell
Nick Smith
Justin Tomlinson

Draft Report (Help to Buy equity loans), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 18 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

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

Ordered, That the Chair 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 till Monday 16 June at 3.00 pm

Witnesses

Wednesday 2 April 2014

Questions

Sir Bob Kerslake, Permanent Secretary, **Peter Schofield,** Director General for Neighbourhoods, Department for Communities and Local Government and **Andrew Rose,** Chief Executive, Homes and Communities Agency Q1–88

List of printed written evidence

1 Department For Communities And Local Government (sch0002)

2 Department Of Communities And Local Government (sch0001)

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2014–15