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Help to Buy: Equity loan scheme

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Summary

Help to Buy was originally intended as a short-lived scheme but will now last for 10 years and consume over 8 times its original budget, yet the value achieved from its extension is uncertain. Around three-fifths of buyers who took part in the scheme did not need its support to buy a property, and the large sums of money tied up could have been spent in different ways to address a wider set of housing priorities and focus more on those most in need. The early scheme achieved its own aims to support people into home ownership, and boost the housing market. The scheme does not address issues with the wider planning system, or other problems in housing, such as the provision of affordable housing to buy or to rent and rising levels of homelessness, nor was it designed to do so.

The Department has other programmes to address these issues, but Help to Buy remains its largest initiative by value. The Department acknowledges that the scheme has, however, only benefitted one section of society—those that are in a position to buy their own home in the first place.

Inherent uncertainty in the housing market means there are still risks to the Department achieving a positive return on its investment in homes. The new scheme from 2021 provides an opportunity to target the money more effectively, but the Department has not yet fully thought out how it will do this. Unless the Department plans alternative housing initiatives, the end of the scheme in 2023 may lead to a fall in supply, adding to the challenge it already faces in achieving its ambition of 300,000 homes a year from the mid-2020s.

Introduction

The Ministry of Housing, Communities & Local Government (the Department) introduced the Help to Buy: Equity Loan scheme in April 2013 to address a fall in property sales following the financial crash of 2008 and the consequent tightening of regulations over the availability of high loan-to-value and high loan-to-income mortgages. Originally intended to last three years, in 2015 the Department announced the extension of the scheme to 2021. The scheme has two principal aims: to help prospective homeowners obtain mortgages and buy new-build properties; and, through the increased demand for new-build properties, to increase the rate of house building in England.

Homes England administers the scheme on behalf of the Department. Home buyers receive an equity loan of up to 20% (40% in London since February 2016) of the market value of an eligible new-build property, interest free for five years. The loan must be paid back in full on sale of the property, within 25 years, or in line with the buyer's main mortgage if this is extended beyond 25 years. The scheme enables buyers to purchase a new-build property with a mortgage of 75% (55% in London) of the value of the property. The current scheme, which will run to March 2021, is not means-tested and is open to both first-time buyers and those who have owned a property previously. Buyers can purchase properties valued up to £600,000. A new scheme, to follow on immediately from the current scheme for two years to March 2023, will be restricted to first-time buyers and will introduce lower regional caps on the maximum property value, while remaining at £600,000 in London.

Conclusions and recommendations

1. **Help to Buy has increased the supply of new homes and boosted the house-building sector.** The financial crash of 2008 caused a loss of confidence among both developers and buyers, leading to a significant reduction in the building of new homes. From its outset, the Help to Buy scheme has unlocked demand for new homes from potential buyers by giving them a government backed loan to help them buy their own home, and therefore giving developers the confidence to increase their rate of building. This includes small and medium-sized developers, of which around 1,600 have used the scheme to date, and there has been a recent increase in the number of very small developers that are using the scheme. Help to Buy has been more successful than previous schemes with similar aims. The Department's evaluations show the scheme has increased housing supply by around 14%.

   Recommendation: ***The Department should identify the lessons that can be learned from the success of Help to Buy and how these can be applied to future housing schemes.***

2. **While Help to Buy has helped many people to buy properties who otherwise would not have been able to, a large proportion of those who took part did not need its help.** By December 2018, the scheme had supported some 211,000 households to buy properties, through loans totalling £11.7 billion. Some 37% of buyers said they could not have bought a property at all without the support of the scheme. This implies that around three-fifths of buyers did not need the support of the scheme to buy a property, although some research suggests that even those who could afford to buy were not doing so because of wider economic uncertainty. Around 20% of people who have used the scheme were not first-time buyers. From 2021, the Department will restrict the scheme to first-time buyers, and is introducing lower regional price caps that will reduce the number of purchases through the scheme and should better focus the scheme on those who most need help. Regional price caps could mean that the scheme may not work well in some areas within the regions. While the Department has committed to monitoring the situation, having already set the caps, it seems unwilling to change them, creating a risk they may not work in the way intended. Despite this, the Department has not assessed the likely impact of the changes to the scheme from 2021.

   Recommendation: ***The Department should report to the Committee in spring 2020 on the impact it expects changes to the scheme to have from 2021 and how it will ensure that regional prices caps work effectively across regions.***

3. **The Department has allowed the scheme to become a semi-permanent feature of the housing market, and has not yet thought through the changes needed to improve the value to be achieved from the new scheme.** Help to Buy was designed as a short-term solution to address the collapse in housing supply after the financial crash. The original phase, from 2013 to 2016, stabilised the housing market and increased developer and buyer confidence, leading to increased demand for, and supply of, new-build properties. However, the additional funding for the scheme announced in 2017, when the housing market had improved, might not have been necessary or delivered enough value. The Department's two evaluations of the scheme cover the period up to March 2017. Some developers now sell nearly half

their properties with the support of Help to Buy. The Department acknowledges that the scheme is no longer as needed as it was in 2013 and that it should now plan for the end the scheme. The planned changes to the new scheme from 2021 will reduce its reach and begin to wean developers off the scheme. The Department has the opportunity to go further and use the new scheme to address concerns about undesirable practices by some developers, particularly given our recent concerns that developers are not fulfilling their commitments to fund infrastructure and build affordable housing. The Department has committed to using the scheme to ban the sale of houses as leasehold and to enforce building quality standards.

Recommendation: ***The Department should undertake a further evaluation of the scheme, to understand its value and necessity from 2017 and to inform the design and operation of the new scheme.***

Recommendation: ***The Department should report back to the Committee in spring 2020 on how it is working with developers to plan the new scheme from 2021, so that it addresses concerns about developers' behaviour, and achieves at least as much value.***

4. **The Department's lack of curiosity over why and how buyers are redeeming their loans gives rise to uncertainty over whether the Department will make a return on its investment.** The Department currently forecasts that it will make a positive return in cash terms on its investment in Help to Buy, although it acknowledges that the housing market is unpredictable and that it may make a small loss once inflation is taken into account. House prices are now static, or falling in some areas, following a period of price rises over the first five years of the scheme. Some 50% of buyers who bought in the first year of the scheme have redeemed their loans, a higher rate than the Department forecast. A good understanding of how, when, and why buyers are redeeming their loans is essential to make accurate predictions about the amount and timing of the likely return, yet the Department is unable to explain why redemptions to date have been higher than expected. This lack of understanding of the reasons for higher redemptions means the Department does not know how buyers may behave in future.

Recommendation: ***The Department should, by the end of December 2019, publish an analysis of the reasons for people redeeming to date—who, when, where, how, and why.***

5. **The Department's decision to keep equity loans as unregulated products means there is insufficient protection for buyers.** Help to Buy loans are a significant financial commitment for buyers. Buyers with loans which are still outstanding after five years must pay interest, at a rate which increases each year. For those who keep their loans over a longer period, the amount of interest owed could add a significant amount on top of their regular mortgage payments. Some buyers may not fully appreciate the potential impact of these interest payments on their finances. Surprisingly, the Department's Help to Buy loans are not subject to regulation by the financial authorities, unlike mortgages where buyers are protected through regulation. So far, buyers have not been paying more for Help to Buy properties than other new-builds. However, the scheme is only available for new-build properties, which can cost up to 20% more than existing properties, thereby increasing the

risks to the buyer. The Department does not fully understand the scale or effect on buyers of this "new-build premium", including the potential impact for those who need to sell soon after purchase, when their property may be worth less than they paid for it.

Recommendation: ***The Department should write to the Committee by the end of December 2019 to explain how it intends to put in place better consumer protection arrangements for similar products in the future.***

Recommendation: ***As part of its next evaluation, the Department should examine the new-build premium, and the impact Help to Buy has had in relation to this.***

6. **The Department does not have an integrated and coherent plan for achieving its commitment to deliver 300,000 new homes per year from the mid-2020s.** The increase in house building generated by the Help to Buy scheme is one of the ways in which the Department will achieve its aim of increasing the supply of new homes. The Department is, however, unable to quantify how much it expects the Help to Buy scheme to contribute to its stated commitment to deliver 300,000 new homes annually from the mid-2020s. The Department is winding down the scheme from 2021, but has not estimated the expected drop in housing supply when the scheme ends in 2023, nor does it have a clear plan for offsetting the drop. The Department expects to spend more on other initiatives, such as affordable housing and infrastructure loans for developers to boost housing supply. The Department is relying on engagement between developers and local authorities to address gaps in supply at a local level. The Department is also working alongside developers so that they can offer their own solutions for first-time buyers. However, we remain unconvinced that the Department's many housing initiatives are fully aligned with one another to form a cohesive strategy for achieving the 300,000 target.

Recommendation: ***The Department should, by the end of December 2019, set out how it will achieve its ambition for 300,000 homes per year without the contribution from the Help to Buy scheme after 2023.***

7. **The Help to Buy scheme is not making homes more affordable for society in general or helping address other pressing problems in the housing sector.** The Department has a significant amount of capital invested in the Help to Buy scheme, with the total size of the loan book on Homes England's balance sheet now equivalent to that of a medium-sized building society. The Department acknowledges that the scheme has, however, only benefitted one section of society—those that are in a position to buy their own home in the first place. The scheme does not address issues with the wider planning system, or other problems in housing, such as the provision of affordable housing to buy or to rent and rising levels of homelessness, nor was it designed to do so. The Department has other programmes to address these issues, but Help to Buy remains its largest initiative by value. The scheme is no longer as needed as it was when it was introduced in 2013, because mortgage availability has improved. Despite this, the Department will continue to commit considerable sums of money for another four years until the scheme ends in 2023, as it believes developers and lenders will need this time to adjust to a regime without the scheme's support.

Recommendation: ***The Department should report back to the Committee by the end of December 2019, setting out how its different housing policies and initiatives work together to address England's housing crisis.***

1 Performance of the scheme

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Ministry of Housing, Communities & Local Government (the Department) and Homes England about the Help to Buy: Equity Loan scheme in England.[1] We also took evidence from the Emeritus Professor of Housing Economics at the London School of Economics, from the Home Builders Federation, and from the former Chair of the Housing and Finance Institute.

2. The Department introduced the Help to Buy: Equity Loan scheme in 2013 to help people who could not otherwise afford mortgages to buy their own home. Property sales fell following the financial crash of 2008 and the consequent tightening of regulations over the availability of high loan-to-value and high loan-to-income mortgages. The scheme enables buyers of new-build properties, valued up to £600,000, to receive an equity loan of up to 20% (40% in London) of the market value of the property, interest-free for five years. The loan must be paid back in full on sale of the property, within 25 years or in line with the buyer's main mortgage if this is extended beyond 25 years. The scheme also aims to increase the rate of house building, by stimulating developers to build more to meet the increased demand for new-build properties.[2]

3. The current scheme is not means-tested and is open to both first-time buyers and those who have owned a property previously. It is demand-led and all eligible applicants are accepted onto the scheme. Demand for the scheme exceeded initial expectations, leading the Department to extend the scheme in 2015 beyond its planned 3 years, to March 2021. A new scheme, which will follow on immediately from the current scheme for two years to March 2023, will be more targeted and less generous. It will be restricted to first-time buyers and will introduce lower regional caps on the maximum property value, while remaining at £600,000 in London.[3]

Confidence within the housing market

4. The housing market consists of large developers with national reach, as well as many small and medium-sized local developers, of which around 1,600 have used the scheme to date. We heard from the Department how there has been a recent increase in the number of very small developers that are using the scheme. Professor Whitehead and the Department told us that Help to Buy has been more successful than previous schemes with similar aims in getting small and medium sized developers to participate.[4]

5. The scheme was introduced in 2013 when the house-building sector was in a very poor state following the financial crash in 2008. The Home Builders Federation told us that, in 2012–13, housing completions were at their lowest rate since the second world war. We heard from the sector representatives that the scheme had an immediate positive impact, increasing the confidence of potential homeowners to buy, and thereby increasing developers' confidence to build more. The new-build market has picked up, unlike the market for existing homes which remains sluggish. The Home Builders Federation credited the scheme with contributing to the 80% increase in housing supply since 2012–

1 C&AG's Report, *Help to Buy: Equity Loan scheme – progress review*, Session 2017–19, HC 2216, 13 June 2019
2 Q 38; C&AG's Report, paras 2, 3, 1.2
3 Q 41; C&AG's Report, paras 3, 4, 1.5
4 Qq 1, 40, 47, 89

13, and told us that Help to Buy was the only one of the government interventions in the housing market that had had a real impact in increasing housing supply. The Department confirmed it regarded the scheme as having had a strong impact on the sale and supply of new-build properties.[5]

6. The Department's second evaluation of the scheme, published in October 2018, concluded that it had increased the rate of house building by 14.5%. Professor Whitehead explained that the evaluation assumed one additional property sale for each Help to Buy transaction by a household that could not have otherwise bought a property. However, she told us that each Help to Buy sale potentially led to two or three additional sales, meaning the impact on housing supply could in fact be higher. The Department told us that the scheme had performed well, and that the increase in supply was higher than its original forecasts for the scheme, and was better than the number required for the scheme to break even. It explained that it had not, however, set targets for the required increase in supply, as the scheme was demand-led.[6]

7. The Department told us that some 2,000 developers had used the scheme, of which 60% were still using the scheme at the time of our evidence session. Homes England told us that it was working closely with small and medium-sized developers to make the scheme as accessible as possible for them. About 1,600 of the developers that joined the scheme have built and sold 10 or fewer homes per year through the scheme. The Department told us that the scheme had particularly helped small and medium-sized developers, and that the numbers of smaller firms that had used the scheme had increased significantly in the last few years.[7]

The scheme's added value

8. The National Audit Office reported that, by December 2018, the scheme had supported around 211,000 households to buy properties, through loans totalling £11.7 billion. The Department's most recent evaluation of the scheme, published in October 2018, found that some 37% of buyers could not have bought a property at all without the support of the scheme.[8] oHoThis implies that around three-fifths of buyers did not need the support of the scheme to buy a property. However, Professor Whitehead, one of the team that the Department commissioned to evaluate the scheme, told us that people who technically did not need the scheme in order to buy a property may not actually have bought. She told us that research by the Organisation for Economic Co-operation and Development (OECD) found that people who could afford to buy properties were not doing so because of concerns over wider economic conditions. She credited the scheme with giving such people confidence to buy properties.[9]

9. The Department told us that the scheme had also helped many people who were not first-time buyers, as well as some people with high household incomes. Around one-fifth of those who have used the scheme were not first-time buyers. The scheme has not been targeted by area or location. The Department and Homes England explained that the

5 Qq 1, 5, 53, 90, 96, 116, 124, 126
6 Qq 1, 3, 41, 50, 52, 58; C&AG's Report, paras 2 and 8
7 Qq 47, 88–93; C&AG's Report, para 17
8 C&AG's Report, paras 8, 2.5
9 Qq 2, 40–41

scheme was deliberately designed to be accessible and open, to turn potential demand into realisable demand for new-build properties, wherever, and for whoever, such demand existed. They asserted that to achieve this, the scheme was not targeted or means-tested.[10]

10. From March 2021, the Department will introduce a new version of the scheme that will be restricted to first-time buyers and will include lower regional price caps outside of London. The Department told us that its intention was that the changes will better focus the scheme on those who most need financial help.[11] It told us that changing the scheme to make it more targeted will reduce the number of purchases through the scheme by around a fifth, although it recognised that this did not take into account all potential responses by developers, for example a move to building more smaller properties and flats.[12] We asked the Department about concerns that the regional price caps will mean that the scheme will not work well in some areas within the regions. The Department committed to monitoring the situation, but told us that it did not have any plans to change the regional caps as it believed that in the vast majority of the country there were new properties available at a price below the relevant regional cap.[13] The Home Builders Federation told us that changes to the scheme could reduce the supply of new-build houses as developers may build more flats. We therefore asked the Department what assessment it had made of the likely impact of the changes to the scheme from 2021. The Department did not provide us with details of its assessment of the impact of changes to the scheme on the housing market as a whole, but asserted that its response would form part of the forthcoming Spending Review.[14]

Extending and winding down the scheme

11. Help to Buy was designed as a short-term solution to address a fall in property sales caused by the financial crash of 2008 and the response by the regulatory authorities to tighten the rules on mortgage availability. The fall in sales led to a sharp drop in the number of new homes built, from a peak of 160,000 in 2007 to 65,000 in 2009.[15] We heard from Professor Whitehead that by 2017 the market was stabilising and she questioned whether the additional £10 billion of funding for the scheme announced in 2017 had been as necessary. She told us that, at that point, developers' and buyers' confidence had increased, leading to greater demand for, and supply of, new-build properties.[16] The Department commissioned two independent evaluations of the scheme, the first covering the period April 2013 to January 2015, and the second covering the period June 2015 to March 2017. We heard from the housing sector representatives that further evaluation to examine the value the scheme has brought to the housing market since March 2017 would be beneficial, although the Department currently had no plans to conduct another evaluation.[17]

12. The top five developers selling properties with the scheme sold between 36% and 48% of their properties through the scheme in 2018. Professor Whitehead told us that the new-build housing market was now dependent on Help to Buy.[18] The Department acknowledged

10 Qq 8, 42, 45–46, 96; C&AG's Report, para 4.6
11 Qq 41, 98–99
12 Qq 7, 55, 104
13 Qq 107–115
14 Qq 55–56
15 Qq 3, 72; C&AG's Report, para 1.2
16 Qq 1, 3, 5, 42, 45, 47, 50; C&AG's Report, Figure 1
17 Qq 27, 29; C&AG's Report, paras 2.4–2.5
18 Q 3; C&AG's Report, para 2.21

that the scheme was no longer as needed as it was in 2013 now that more high loan-to-value mortgages were available. It told us that it did not want to distort the market too much by leaving the scheme in place for too long.[19] The National Audit Office found that the planned changes to the new scheme from 2021 will reduce its reach and begin to wean developers off the scheme. The Department told us that by giving the housing market several years to adjust to the withdrawal of the scheme, it expected developers and lenders to put in place new products to support people who had access only to smaller deposits so that they were able to buy their own homes.[20]

13. We asked the Department about the opportunities to achieve better value for money out of the scheme by introducing obligations and requirements for developers that it could not introduce in other circumstances. The Department confirmed that it will ban the sale of houses as leasehold through the new scheme from April 2021. It told us that it intended to use the scheme to enforce building quality standards, and that it will require any developer benefiting from the scheme in future to be a member of the proposed New Homes Ombudsman, which it was consulting upon.[21] We examined the planning and housing market in June 2019 and found that some local communities were not getting the necessary infrastructure to support new housing developments because local authorities had not been able to secure the required contributions from developers. We also found that developers were renegotiating agreements to provide less affordable housing within developments than originally agreed with local authorities. We asked the Department whether it was able to allow developers to participate in the scheme only if they paid for the necessary infrastructure. We were disappointed to hear from the Department that it did not intend to use the Help to Buy scheme in this way, despite acknowledging that ensuring developers fund and build the necessary infrastructure was one of the biggest challenges it faces. The Department told us that it had introduced the housing infrastructure fund, worth £5.5 billion, and that this would help release sites with the infrastructure required for new housing developments.[22]

19 Qq 54, 59, 121

20 Qq 51, 116–118, 124, C&AG's Report, para 27

21 Qq 86–87, 95–96

22 Qq 86, 88; Committee of Public Accounts, *Planning and the broken housing market*, One Hundred and Third Report of Session 2017–19, HC 1744, 26 June 2019

2 Financial risks to consumers and the Department

The Department's return on its investment

14. Buyers can redeem their loans at any point when they have the funds to do so, after the first year of owning their home. This usually happens when buyers re-mortgage, or when the property is sold. The value of the loan changes to remain proportional to the property's value, so if the property has increased in value buyers will pay back more than they borrowed.[23] The Department told us that it expected to make a positive cash return on its investment in the Help to Buy scheme. It confirmed that it had made an 11.5% cash return overall on those loans that had been redeemed so far. However, the Department explained that once the cash return was discounted to account for inflation, in accordance with HM Treasury rules, it was forecasted to make a small loss from the investment, although it regarded the loss to be outweighed by the economic benefits of the scheme.[24] We heard from the housing sector representatives that the housing market was unpredictable and historically interest rates and house prices had fluctuated. The former Chair of the Housing and Finance Institute told us that, should house prices fall or interest rates increase, the Department could make a substantial loss on the scheme.[25] The National Audit Office reported that house price growth was slowing down, and that there had been a recent fall in prices in some regions, following a period of general price rises over the first five years of the scheme.[26]

15. The number of redemptions since the start of the scheme has been higher than Homes England initially expected and exceeded Homes England's expectations every year by between 11% and 35%.[27] Homes England recognised that demand from buyers for redemptions had been far above what was anticipated. The Department's return on its investment will be reduced if people redeem earlier than expected, as it will not benefit from properties increasing in value over time, and the buyers avoid paying any interest if loans are paid back within five years.[28] The Department confirmed that 50% of buyers who had loans for five years—those that bought in the first year of the scheme—had redeemed their loans, a higher rate than the Department expected. It told us that redemption rates for those that have had loans for two and three years were also high.[29]

16. The Department told us that the higher-than-expected rate of redemptions was in part because there were more high loan to value products in the market than when it had introduced the scheme, and also because people were redeeming their equity loans as they re-mortgaged their main loan, moving the equity loan into a form of debt that did not require them to give an equity stake to the Government.[30] However, the Department could not tell us definitively why more people than expected were redeeming their loans, nor how they were doing so, and told us that it did not collect detailed information on

23 C&AG's Report, para 1.7
24 Q 44
25 Qq 20–22
26 Q 123; C&AG's Report, para 19
27 C&AG's Report, paras 3.10–3.11
28 Qq 66, 123
29 Qq 119, 121
30 Q 121

household finances to assess the ability of buyers to redeem in the future. The Home Builders Federation told us that more information on redemptions would be useful to the sector. The Department accepted that it ought to be publishing more information on redemptions and that it, and Homes England, intended to do so. The Department confirmed that some information would be included in its and Homes England's annual reports, but recognised that it would help improve wider understanding of the scheme if it were to release more detailed information as well.[31]

Protection for loan recipients

17. Help to Buy loans differ from normal mortgage products, as they are interest free for the first five years. If buyers have not redeemed their loan by this stage they start to pay interest, initially at 1.75% of the original loan value. The interest rate then increases annually by 1% above the Retail Prices Index.[32] These payments are in addition to the significant debt households have already taken on with the loan itself, with the overall amount to be repaid changing in proportion to any rises or falls in the value of the property. Professor Whitehead told us that the interest rates provided an incentive for buyers to leave the scheme through redeeming their loans as early as they can. Sir Mark Boleat told us that consumers should be able to repay their loans, and any interest, as long as house prices continue to rise. He was concerned, however, that if house prices fall, both consumers and the scheme itself may lose money.[33]

18. The Department confirmed that, unlike mortgages, Help to Buy loans are not regulated by the financial authorities. It asserted that it had, however, always tried to behave as if the scheme was regulated in the way it managed the product and in providing safeguards for consumers. Homes England agreed it was important to make sure that people buying with the scheme did not get into too much debt because they may not understand the nature of the financial commitment they were taking on. It told us that it followed the same standards as for regulated products, for example in the information it provides to buyers on the product. To protect consumer interests, it first relied on potential buyers having passed the checks done by the main mortgage lender, which was providing a regulated product. Homes England told us it then carried out its own sustainability checks on potential buyers to make sure they had been appropriately advised and that there was an acceptable level of risk for the buyer and for the Department in agreeing to lend them money. To pass these checks, carried out by Homes England's agent, the total amount borrowed through the mortgage and the equity loan must be no more than four and half times the buyer's income, and the amount paid overall, including interest, had to be no more than 45% of net income. Finally, Homes England told us that the forms completed by the buyer as part of the application process included information about the nature of the product, an explanation of the payments they will make, and consumer information. Homes England explained that this factsheet was similar to what buyers would receive with a regulated product.[34]

19. The NAO found that buyers who had used the scheme had paid less than 1% more than they might have paid for an equivalent new-build property bought without an equity loan. However, it also found that buyers who wanted to sell their property soon after

31 Qq 29, 122–123
32 C&AG's Report, para 1.8
33 Qq 19–22, 62, 65, C&AG's Report, para 3.11
34 Qq 63–64, 123

purchase might find that they were in negative equity as new-build properties typically cost around 15–20% more than equivalent “second-hand properties”. This “new-build premium” reflected the fact that these properties are yet to be lived in.[35] The Department’s evaluations of the scheme to date have not included a detailed assessment of the impact of the scheme on the wider housing market. Professor Whitehead noted that the size of the new-build premium seemed to vary depending on the type of housing, with a bigger premium apparent on flats. She stressed that the Department would benefit from a greater understanding of the new-build premium, to help it assess Help to Buy’s effect on the housing market in any further evaluation it carries out on the impact and effectiveness of the scheme.[36]

35 Q 9; C&AG’s Report, para 14–15

36 Qq 12, 27, C&AG’s Report, para 28

3 Help to Buy and wider housing policy

Meeting the Department's commitment to deliver 300,000 new homes per year

20. The Department has committed to delivering 300,000 new homes per year from the mid-2020s. Our report on the planning system in June 2019 found that there would need to be a significant increase in housebuilding if the Department was to meet this ambitious target. We concluded that the Department has a highly ambitious target to deliver 300,000 new homes per year by the mid-2020s but does not have detailed projections or plans on how it will achieve this.[37] We questioned the Department on the contribution the Help to Buy scheme was making towards this target, but it did not provide us with a figure. The Department recognised the scale of its ambition and that it would be unable to deliver this through a single intervention. It explained that it did not intend to rely only on the traditional developers to come up with the numbers of new homes that were needed, and it needed to build a broader housing market. Its other interventions included encouraging the build-to-rent market and affordable housing.[38]

21. The Home Builders Federation confirmed that the changes the Department planned to the new scheme from 2021 will reduce demand for, and therefore also the supply of, new housing, at a time when supply needs to increase if the Department is to meet its commitment to deliver 300,000 new homes per year.[39] We asked the Department why it was continuing to invest in a scheme that appeared to have no link to the government's target for new house building, and if it had done any work to quantify the likely reduction in supply and the implication for its ability to deliver 300,000 new homes per year. The Department confirmed that it did not have a precise estimate for the impact of changes to the scheme on the supply of new homes, and that it had also not quantified what the reduction in supply would be once the scheme ends in 2023. It told us that it expected the newer, more targeted, scheme to lead to a 20% reduction in the number of Help to Buy transactions, but asserted that the overall impact on the supply of new homes will depend on how developers and the wider market react. This included where developers subsequently choose to operate and any new products they might offer for borrowers unable to afford larger deposits, which the Department considered to be a factor outside of its control.[40]

22. We challenged the Department on how it planned to maintain housing supply once the scheme ends in 2023, and specifically what changes it would need to make to its other schemes and initiatives to compensate for any expected loss in supply from Help to Buy. The Department told us that it aimed to withdraw the scheme in a way that did not damage the stability of the new-build market. It explained that it had other interventions that it hoped will make the wider market more sustainable. The Department acknowledged that it expected to spend more in areas of the housing market it described as less commercially viable, such as affordable housing, and infrastructure grants and loans. It committed to monitoring the housing market closely to see whether any new action was needed to

37 Committee of Public Accounts, *Planning and the broken housing market*, One Hundred and Third Report of Session 2017–19, HC 1744, 26 June 2019.

38 Q 46

39 Qq 6–7

40 Qq 46, 52–55

support first-time buyers unable to afford property. The Department explained it also expected the private sector to come up with alternative schemes to help first-time buyers and to maintain supply. It told us that it was working with developers on this and would continue to do so. The Home Builders Federation confirmed that it was also working actively with developers to look at what the effect of the new scheme, and its withdrawal, will be and at what the private sector can do to help boost supply. It expected that there will still be some demand for new properties particularly from first-time buyers.[41]

Other problems in housing

23. The Department expects to have supported around 352,000 property purchases by March 2021, with the total amount loaned forecast to be around £22 billion in cash terms. Homes England confirmed that its investment in the Help to Buy scheme had resulted in its balance sheet increasing in size to the equivalent of a medium-sized building society. The Department agreed that its investment in the Help to Buy scheme tied up capital for a period of time, at a cost, with the money unavailable to be released for other purposes. The Department explained that Help to Buy differed from other housing programmes where it provides direct subsidies and does not receive any money back. Under the Help to Buy scheme, it expects to take a 20% share of any profits the homeowner makes when they come to sell their property.[42]

24. Professor Whitehead referred to Help to Buy, the Department's largest housing initiative by value,[43] as a "scheme for middle England" as it only benefited those who were already in a position to purchase property. We challenged the Department as to whether Help to Buy was the most effective use of nearly £22 billion, given that it helps a relatively small section of the wider housing market. The Department agreed that Help to Buy was targeted at a specific group, having been specifically designed to help people buy their own home who would not otherwise have been able to, as well as increase housing supply. The Department told us that the scheme should be considered in the broader context of the Government's housing strategy, and its many other interventions in the housing market. These included significant investment in affordable homes and specific help on homelessness. The Home Builders Federation told us that the private sector was also providing more affordable housing as a result of Help to Buy, with over half of affordable homes now provided through section 106 agreements on developer's sites. The Department acknowledged that Help to Buy did not address other challenges in the housing market, such as the wider planning system and provision of infrastructure. It told us it had introduced a housing infrastructure fund to help release more sites for housing, and had interventions in place which were specifically designed to support small builders, such as the home building fund which provided loans and other financial support.[44]

25. We asked the Department if it had assessed whether it still needed to help first-time buyers, who ultimately end up profiting from the scheme, or whether the £17 billion allocated to Help to Buy could be better spent helping those with more pressing housing needs. The Department confirmed that mortgage availability has improved since the scheme was introduced in 2013, with more high loan-to-value mortgages on offer, including for first-time buyers. However, the mortgage market has not yet returned to how

41 Qq 6–7, 56, 58, 116–119
42 Qq 42, 59, 63. C&AG's Report, para 4
43 C&AG's Report, para 1
44 Qq 8–9, 13–14, 32, 38–39, 86, 126

it was before the scheme was in place, and lenders are still slightly more cautious in lending for purchases of new-build properties compared to existing homes. For this reason, the Government has decided to keep a scheme in place until 2023, which will focus purely on helping first-time buyers from 2021. The Department asserted that this would also give developers and lenders time to plan their activities for the post-2023 housing market, when support from Help to Buy will no longer be available.[45]

45 Qq 59, 124, 126–128

Formal minutes

Monday 9 September 2019

Members present:

Meg Hillier, in the Chair

Sir Geoffrey Clifton-Brown	Nigel Mills
Caroline Flint	Gareth Snell

Draft Report (*Help to Buy: Equity Loan Scheme*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 25 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the One hundred and fourteenth 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 Wednesday 16 October at 2:00pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Wednesday 26 June 2019

David O'Leary, Policy Director, Home Builders Federation, **Sir Mark Boleat**, Former Chair, Housing and Finance Institute, and **Professor Christine Whitehead**, Emeritus Professor of Housing Economics, the London School of Economics Q1–32

Melanie Dawes, Permanent Secretary, **Jeremy Pocklington**, Director General Housing, Ministry of Housing, Communities and Local Government and **Nick Walkley**, Chief Executive, Homes England Q33–128

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

HTB numbers are generated by the evidence processing system and so may not be complete.

1 National Custom and Self Build Association (HTB0002)

2 Rentplus UK Ltd (HTB0001)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2017–19

First Report	Tackling online VAT fraud and error	HC 312 (Cm 9549)
Second Report	Brexit and the future of Customs	HC 401 (Cm 9565)
Third Report	Hinkley Point C	HC 393 (Cm 9565)
Fourth Report	Clinical correspondence handling at NHS Shared Business Services	HC 396 (Cm 9575)
Fifth Report	Managing the costs of clinical negligence in hospital trusts	HC 397 (Cm 9575)
Sixth Report	The growing threat of online fraud	HC 399 (Cm 9575)
Seventh Report	Brexit and the UK border	HC 558 (Cm 9575)
Eighth Report	Mental health in prisons	HC 400 (Cm 9575) (Cm 9596)
Ninth Report	Sheffield to Rotherham tram-trains	HC 453 (Cm 9575)
Tenth Report	High Speed 2 Annual Report and Accounts	HC 454 (Cm 9575)
Eleventh Report	Homeless households	HC 462 (Cm 9575) (Cm 9618)
Twelfth Report	HMRC's Performance in 2016–17	HC 456 (Cm 9596)
Thirteenth Report	NHS continuing healthcare funding	HC 455 (Cm 9596)
Fourteenth Report	Delivering Carrier Strike	HC 394 (Cm 9596)
Fifteenth Report	Offender-monitoring tags	HC 458 (Cm 9596)
Sixteenth Report	Government borrowing and the Whole of Government Accounts	HC 463 (Cm 9596)
Seventeenth Report	Retaining and developing the teaching workforce	HC 460 (Cm 9596)
Eighteenth Report	Exiting the European Union	HC 467 (Cm 9596)

Nineteenth Report	Excess Votes 2016–17	HC 806 (Cm 9596)
Twentieth Report	Update on the Thameslink Programme	HC 466 (Cm 9618)
Twenty-First Report	The Nuclear Decommissioning Authority's Magnox	HC 461 (Cm 9618)
Twenty-Second Report	The monitoring, inspection and funding of Learndirect Ltd.	HC 875 (Cm 9618)
Twenty-Third Report	Alternative Higher Education Providers	HC 736 (Cm 9618)
Twenty-Fourth Report	Care Quality Commission: regulating health and social care	HC 468 (Cm 9618)
Twenty-Fifth Report	The sale of the Green Investment Bank	HC 468 (Cm 9618)
Twenty-Sixth Report	Governance and departmental oversight of the Greater Cambridge Greater Peterborough Local Enterprise Partnership	HC 896 (Cm 9618)
Twenty-Seventh Report	Government contracts for Community Rehabilitation Companies	HC 897 (Cm 9618)
Twenty-Eighth Report	Ministry of Defence: Acquisition and support of defence equipment	HC 724 (Cm 9618)
Twenty-Ninth Report	Sustainability and transformation in the NHS	HC 793 (Cm 9618)
Thirtieth Report	Academy schools' finances	HC 760 (Cm 9618)
Thirty-First Report	The future of the National Lottery	HC 898 (Cm 9643)
Thirty-Second Report	Cyber-attack on the NHS	HC 787 (Cm 9643)
Thirty-Third Report	Research and Development funding across government	HC 668 (Cm 9643)
Thirty-Fourth Report	Exiting the European Union: The Department for Business, Energy and Industrial Strategy	HC 687 (Cm 9643)
Thirty-Fifth Report	Rail franchising in the UK	HC 689 (Cm 9643)
Thirty-Sixth Report	Reducing modern slavery	HC 886 (Cm 9643)
Thirty-Seventh Report	Exiting the European Union: The Department for Environment, Food & Rural Affairs and the Department for International Trade	HC 699 (Cm 9643)
Thirty-Eighth Report	The adult social care workforce in England	HC 690 (Cm 9667)
Thirty-Ninth Report	The Defence Equipment Plan 2017–2027	HC 880 (Cm 9667)
Fortieth Report	Renewable Heat Incentive in Great Britain	HC 696 (Cm 9667)

Forty-First Report	Government risk assessments relating to Carillion	HC 1045 (Cm 9667)
Forty-Second Report	Modernising the Disclosure and Barring Service	HC 695 (Cm 9667)
Forty-Third Report	Clinical correspondence handling in the NHS	HC 929 (Cm 9702)
Forty-Fourth Report	Reducing emergency admissions	HC 795 (Cm 9702)
Forty-Fifth Report	The higher education market	HC 693 (Cm 9702)
Forty-Sixth Report	Private Finance Initiatives	HC 894 (Cm 9702)
Forty-Seventh Report	Delivering STEM skills for the economy	HC 691 (Cm 9702)
Forty-Eighth Report	Exiting the EU: The financial settlement	HC 973 (Cm 9702)
Forty-Ninth Report	Progress in tackling online VAT fraud	HC 1304 (Cm 9702)
Fiftieth Report	Financial sustainability of local authorities	HC 970 (Cm 9702)
Fifty-First Report	BBC commercial activities	HC 670 (Cm 9702)
Fifty-Second Report	Converting schools to academies	HC 697 (Cm 9702)
Fifty-Third Report	Ministry of Defence's contract with Annington Property Limited	HC 974 (Cm 9702)
Fifty-Fourth Report	Visit to Washington DC	HC 1404 (Cm 9702)
Fifty-Fifth Report	Employment and Support Allowance	HC 975 (Cm 9702)
Fifty-Sixth Report	Transforming courts and tribunals	HC 976 (Cm 9702)
Fifty-Seventh Report	Supporting Primary Care Services: NHS England's contract with Capita	HC 698 (Cm 9702)
Fifty-Eighth Report	Strategic Suppliers	HC 1031 (Cm 9702)
Fifty-Ninth Report	Skill shortages in the Armed Forces	HC 1027 (9740)
Sixtieth Report	Ofsted's inspection of schools	HC1029 (Cm 9740)
Sixty-First Report	Ministry of Defence nuclear programme	HC 1028 (Cm 9740)
Sixty-Second Report	Price increases for generic medications	HC 1184 (Cm 9740)

Sixty-Third Report	Interface between health and social care	HC 1376 (Cm 9740)
Sixty-Fourth Report	Universal Credit	HC 1375 (Cp 18)
Sixty-Fifth Report	Nuclear Decommissioning Authority	HC 1375 (Cp 18)
Sixty-Sixth Report	HMRC's performance in 2017–18	HC 1526 (Cp 18)
Sixty-Seventh Report	Financial Sustainability of police forces in England and Wales	HC 1513 (Cp 18)
Sixty-Eighth Report	Defra's progress towards Brexit	HC 1514 (CP 18)
Sixty-Ninth Report	Sale of student loans	HC 1527 (Cp 56)
Seventieth Report	Department for Transport's implementation of Brexit	HC 1657 (Cp 56)
Seventy-First Report	Department for Health and Social Care accounts	HC 1515 (Cp 56)
Seventy-Second Report	Mental health services for children and young people	HC 1593 (Cp 79)
Seventy-Third Report	Academy accounts and performance	HC 1597 (Cp 79)
Seventy-Fourth Report	Whole of Government accounts	HC 464 (Cp 79)
Seventy-Fifth Report	Pre-appointment hearing: preferred candidate for Comptroller and Auditor General	HC 1883 (Cp 79)
Seventy-Sixth Report	Local Government Spending	HC 1775 (Cp 79)
Seventy-Seventh Report	Defence Equipment Plan 2018–28	HC 1519 (Cp 79)
Seventy-Eighth Report	Improving Government planning and spending	HC 1596 (Cp 97)
Seventy-Ninth Report	Excess Votes 2017–18	HC 1931 (Cp 97)
Eightieth Report	Capita's contracts with the Ministry of Defence	HC 1736 (Cp 97)
Eighty-First Report	Rail management and timetabling	HC 1793 (Cp 97)
Eighty-Second Report	Windrush generation and the Home Office	HC 1518 (Cp 113)
Eighty-Third Report	Clinical Commissioning Groups	HC 1740 (Cp 97)
Eighty-Fourth Report	Bank of England's central services	HC 1739 (Cp 97)

Eighty-Fifth Report	Auditing local government	HC 1738 (Cp 97)
Eighty-Sixth Report	Brexit and the UK border: further progress review	HC 1942 (Cp 113)
Eighty-Seventh Report	Renewing the EastEnders set	HC 1737 (Cp 113)
Eighty-Eighth Report	Transforming children's services	HC 1741 (Cp 113)
Eighty-Ninth Report	Public cost of decommissioning oil and gas infrastructure	HC 1742 (Cp 113)
Ninetieth Report	BBC and personal service companies	HC 1522 (Cp 113)
Ninety-First Report	NHS financial sustainability: progress review	HC 1743 (Cp 113)
Ninety-Second Report	Crossrail: progress review	HC 2004 (Cp 113)
Ninety-Third Report	Disclosure and Barring Service: progress review	HC 2006
Ninety-Fourth Report	Transforming rehabilitation: progress review	HC 1747
Ninety-Fifth Report	Accessing public services through the Government's Verify digital system	HC 1748
Ninety-Sixth Report	Adult health screening	HC 1746
Ninety-Seventh Report	Local Government Governance and Accountability	HC 2077
Ninety-Eighth Report	The apprenticeships programme: progress review	HC 1749
Ninety-Ninth Report	Cyber security in the UK	HC 1745
One-Hundredth Report	NHS waiting times for elective and cancer treatment	HC 1750
One Hundred and First Report	Submarine defueling and dismantling	HC 2041
One Hundred and Second Report	Military Homes	HC 2136
One Hundred and Third Report	Planning and the broken housing market	HC 1744
One Hundred and Fourth Report	Transport infrastructure in the South West	HC 1753
One Hundred and Fifth Report	Local enterprise partnerships: progress review	HC 1754
One Hundred and Sixth Report	Eurotunnel	HC 2460
One Hundred and Seventh Report	Consumer protection	HC 1752

One Hundred and Eighth Report	Emergency Services Network: progress review	HC 1755
One Hundred and Ninth Report	Completing Crossrail	HC 2127
One Hundred and Tenth Report	Sale of public land	HC 2040
One Hundred and Eleventh Report	Funding for Scotland, Wales and Northern Ireland	HC 1751
One Hundred and Twelfth Report	Brexit Consultancy Costs	HC 2342
One Hundred and Thirteenth Report	Network Rail's sale of railway arches	HC 2230
First Special Report	Chair of the Public Accounts Committee's Second Annual Report	HC 347
Second Special Report	Third Annual Report of the Chair of the Committee of Public Accounts	HC 1399
Third Special Report	Fourth Annual Report of the Chair of the Committee of Public Accounts	HC 2370