



House of Commons  
Committee of Public Accounts

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# A Foot on the Ladder: Low Cost Home Ownership Assistance

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Session 2006–07**

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

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## Summary

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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 report<sup>1</sup> 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

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- 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

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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.<sup>2</sup> The Government aspires to increase this still further to 75%, while 90% of householders would prefer to own their own homes if they could.<sup>3</sup> 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.

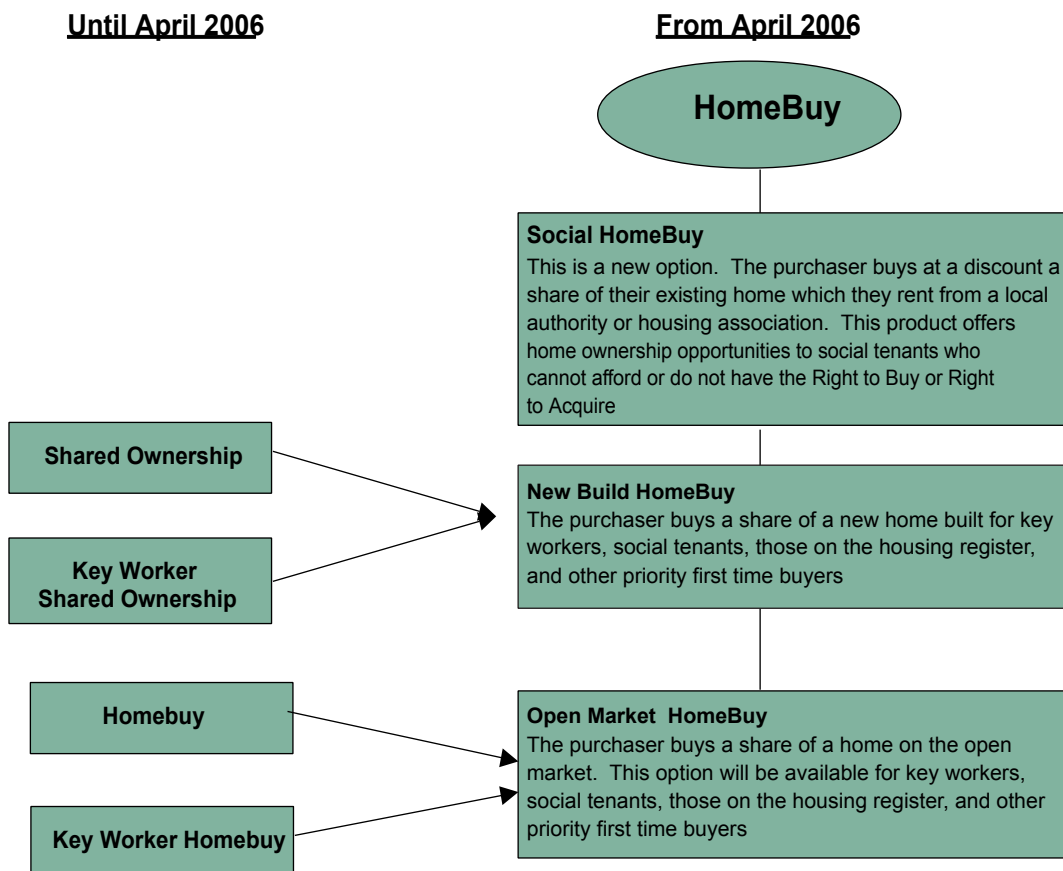
2. To help address this problem, the Department for Communities and Local Government (the Department) provides financial assistance, via Registered Social Landlords, to those who would otherwise be unable to buy their own homes, by means of two main products—shared ownership and equity loans. In the 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.

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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.<sup>4</sup> 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.<sup>5</sup>

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.<sup>6</sup> 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.<sup>7</sup>

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.<sup>8</sup>

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.<sup>9</sup> 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.<sup>10</sup>

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.<sup>11</sup>

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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

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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.<sup>12</sup>

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.<sup>13</sup> 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.<sup>14</sup> 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.<sup>15</sup>

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

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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.<sup>16</sup>

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.<sup>17</sup> 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.<sup>18</sup>

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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**).<sup>19</sup> 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.<sup>20</sup> 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.<sup>21</sup>

**Figure 2: The recipients of Key Worker assistance**

	<b>Number of recipients</b>	<b>Per cent</b>
Health	9,206	40
Education	8,273	36
Community Safety (1)	3,364	14
Other (2)	2,321	10
	<b>23,164</b>	
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.<sup>22</sup> 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.<sup>23</sup>

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.<sup>24</sup> 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.<sup>25</sup> 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.<sup>26</sup>

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.<sup>27</sup> 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.<sup>28</sup> 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.<sup>29</sup>

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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

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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.<sup>30</sup>

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.<sup>31</sup>

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.<sup>32</sup>

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.<sup>33</sup> The Government intends to work with the Housing Corporation and Registered Social Landlords to improve these

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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.<sup>34</sup> 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.<sup>35</sup>

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.<sup>36</sup>

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.<sup>37</sup> 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.<sup>38</sup>

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

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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.<sup>39</sup> 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.<sup>40</sup>

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.<sup>41</sup> 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.<sup>42</sup> 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.<sup>43</sup> 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.<sup>44</sup> 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.<sup>45</sup>

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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

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**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

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**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

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

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Nineteenth Report	A Foot on the Ladder: Low Cost Home Ownership Assistance	HC 134

# Oral evidence

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## Taken before the Committee of Public Accounts

on Monday 4 December 2006

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Mr David Curry  
Mr Ian Davidson  
Mr Philip Dunne

Helen Goodman  
Mr Sadiq Khan  
Mr Austin Mitchell  
Mr Alan Williams

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**Sir John Bourn KCB**, Comptroller and Auditor General and **Mr David Corner**, Director, National Audit Office gave evidence.

**Ms Paula Diggle**, Treasury Officer of Accounts, HM Treasury, was in attendance.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

#### A FOOT ON THE LADDER: LOW COST HOME OWNERSHIP ASSISTANCE (HC 1048)

*Witnesses:* **Mr Peter Housden**, Permanent Secretary, Department for Communities and Local Government, and **Mr Jon Rouse**, Chief Executive, Housing Corporation, gave evidence.

**Q1 Chairman:** Good afternoon and welcome to the Public Accounts Committee, in which today we are considering the Comptroller and Auditor General's Report *A Foot on the Ladder: Low cost home ownership assistance*. We are joined by Mr Peter Housden, Permanent Secretary at the Department for Communities and Local Government, and Mr Jon Rouse, the Chief Executive of the Housing Corporation. We have visitors today from the Commission of Budgetary and other Public Finance Control of the Parliament of Slovenia. They are very welcome. I should thank you, Mr Housden, for arranging for the Committee to visit a low-cost housing scheme in Greenwich last Wednesday, which I enjoyed and found very informative. One thing that I found out is that you have to develop a priority need to get on one of these schemes, and, as I understand it, you can show a priority need simply by putting yourself on a council house waiting list. That is true, is it not?

**Mr Housden:** Yes.

**Q2 Chairman:** How effective are your gateways into the scheme in ensuring that public money goes only to the people who really need it, who cannot afford to buy equity without the help of the scheme?

**Mr Housden:** First, thank you, Chairman, for the opportunity to discuss the Report with you, and to our National Audit Office colleagues for their co-operation throughout the process. You are right to say that anyone can put themselves forward to a local authority as a case of priority need. That does not, however, qualify them in any sense for low-cost home ownership support from the Government. Strict criteria are applied across the scheme now, in particular a maximum household income of £60,000 and the applicant being able to demonstrate that, in

the area in which they live and are seeking to buy accommodation, they cannot afford to buy on the open market. As I think you will have seen on your visit and as I did on mine, we ensure, through the HomeBuy agents through whom the scheme is now co-ordinated, that the applicant and the agent have access to an independent financial adviser so that it is clear that the rigorous test of eligibility criteria has been applied. As you might imagine, these are very popular schemes, so it is important that public money is properly targeted.

**Q3 Chairman:** Let us try to pursue further the matter of whether the money is getting to those who need it. Please look at figure 8 on page 14. You might wish to explain it to my colleagues as it is quite complex. As I understand it, the figure shows that many households that have the same income as recipients of low-cost home ownership assistance have received no help at all. Why is that?

**Mr Housden:** I think that this chart and paragraph 16 of the text that relates to it show that the overall programme is targeting lower incomes in the first-time buyer segment of the market.

**Q4 Chairman:** I am sure that it is attempting to target them, but that does not deny the question that I put to you does it?

**Mr Housden:** Indeed. That is quite right, but I think that the general proposition is that there is a relationship between lower incomes and support. There are two things to say here: first, the headline income does not tell the whole story, because this goes back to the question that I was talking about before, of an individual assessment, beyond those qualifying criteria, of the applicant's capacity to borrow. We do look very carefully at their

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outgoings and circumstances. Secondly, the scheme, particularly in its key worker component, is not simply targeting those with lower incomes. It is about protecting public services in particular areas of employment. Finally, we look at the evidence alongside the evaluations that we have had of the key worker schemes, which suggests that there is very little dead-weight in all of this and that the targeting is actually effective.

**Q5 Chairman:** Let us continue this argument. I am not sure that you have answered my question, but I put it and others can come back to it. Many households with the same income as recipients of low-cost ownership assistance have not received any help. Let us move on for a moment and look at figure 12 on page 23. Home loans cost the taxpayer more; they can accept that. They can be afforded only by those with higher incomes, but they are getting higher subsidies. Why is that?

**Mr Housden:** What you are dealing with here is a cost that is broadly analogous, in terms of public subsidy, between the new open-market HomeBuy product and other forms of shared ownership.

**Q6 Chairman:** I am talking particularly about HomeBuy loans now. You can get a HomeBuy loan only if you are on a relatively higher income and yet you receive a higher subsidy. Why is that?

**Mr Housden:** This is the open-market HomeBuy scheme.

**Chairman:** Yes.

**Mr Housden:** This is targeting people at the upper end of the range. The same criteria apply: they must have a household income that does not exceed £60,000.

**Q7 Chairman:** I am sure that various criteria arise, but that does not answer the question that I put to you.

**Mr Rouse:** May I chip in? In considering the difference between the two products, you must remember that low-cost home ownership has several objectives. One of those is to give social tenants the opportunity to move out of social rented homes, thereby freeing up homes for letting. Another is to target key workers and, as Peter has already said, to gain recruitment and retention benefits from that.

**Q8 Chairman:** We all accept all that. Now answer the question that I put to you.

**Mr Rouse:** The answer flows from those two points. In considering the public subsidy issue, you have to take into account all the benefits, which include not incurring costs on recruitment and retention for those public sector key workers. In the nursing sector, for example, that cost has been independently calculated as resulting in annualised savings of £90 million for every 1% improvement in reduction of NHS turnover by 2007–08. In terms of social tenants, given how much it costs to produce each new social rented unit, open-market home buyers are a very cost-effective means of freeing up a letting.

**Q9 Chairman:** You could approach that question from the other direction, if it is such a good scheme. Paragraph 42 says, “It is therefore better value for money for the taxpayer that those already in, or looking to move into, social rented accommodation are encouraged to part-purchase a property.” If it is right that there are cost savings—it must be—what steps are you taking to ensure that more social housing tenants get such help in future?

**Mr Rouse:** The first thing that I would say is that we certainly share the NAO’s view of the principle, which is that helping social tenants into low-cost home ownership of all types is a good thing because it frees scarce social rental units for re-letting. Product choice is very important for achieving that. We have social HomeBuy now, which enables some social tenants to take a share in their own home; new build HomeBuy, which starts at a 25% initial equity stake and obviously helps with affordability; and open market HomeBuy for those who can afford a bit more and choose to buy in the open sector. However, the NAO has specifically recommended that we should increase the number of social tenants from about 15% to 20%. We accept that challenge. We do not think that delivering it will be easy; we think that it will be hard. The NAO itself found only 8,000 social tenants during the year in question who could have afforded low-cost home ownership. Of course, we do not know whether those social tenants would have wanted to enter into low-cost home ownership, and choice is a very important matter.

**Q10 Chairman:** In a moment, another Member, Mr Khan, will be asking you questions. We all know that there is a real problem in London with the recruitment of key workers. Presumably that is an important impetus behind the scheme. Paragraph 23 says, “The Department has not been able to separately identify the impact of this assistance from the effects of other measures public sector employers have been taking to improve recruitment and retention”. Mr Housden, you are paying people key worker living assistance when you are unable to identify its impact.

**Mr Housden:** We evaluated the two variants of the scheme: the starter home initiative, which ran from 2001 to 2004, and key worker living, which took its place in 2004. Both independent evaluations spoke closely with employers to reach a balanced view about whether that element of the overall package—you are quite right to say that it is not a factor on its own—was actually making a difference. Their responses were very positive. It forms part of an overall package of benefits, but they were clear that the targeting was appropriate and that value for money was being delivered by the programmes.

**Q11 Mr Khan:** Thank you, Chairman. One of the Government’s wishes is to increase home ownership from 70% to 75%. What are the timelines for doing so?

**Mr Housden:** Very much depends on the spending review decisions made in the 2007 comprehensive spending review. No firm timetable has therefore

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been set for achieving 75%, because it will clearly depend on the resources available to low-cost home ownership schemes going forward.

**Q12 Mr Khan:** During the past six years, we have helped 40,000 households that might not otherwise have done so to own their own property. The annual demand for low-cost homes is approximately 60,000. Aren't we just faffing around the edges? Will we really make any dent in that demand?

**Mr Housden:** The demand for public support to help people acquire such a valuable and appreciating asset will always be substantial. That goes back to the Chairman's opening questions about the importance of targeting demand.

**Q13 Mr Khan:** Properties on the open market that may have been rented out are now being bought—you know about the historical right-to-buy scheme. Is there not a problem of impact on the supply of housing available for rent if more and more are being bought?

**Mr Housden:** You mean more privately rented accommodation?

**Q14 Mr Khan:** Generally, property available for rent that will be bought.

**Mr Housden:** Yes, indeed. There are a number of pressures, and you are right that strong demand exhibits itself in several ways. The Government's programme, of course, is about increasing the supply of socially rented housing, which is currently at a level of about 20,000 a year, with an aspiration to increase that to 30,000 if resources allow. Low-cost home ownership is at 40,000 so far, and you are right that the projections are for provision of 100,000 new, low-cost home ownership opportunities by 2010. Of those, some 30,500 would constitute key worker support. Those are the broad orders of magnitude. Does it make a difference? In terms of the overall numbers of transactions in house purchasing, it is very small—something like 1% in the overall scheme of things.

**Q15 Mr Khan:** Nationally?

**Mr Housden:** Yes, nationally.

**Q16 Mr Khan:** What is it for London?

**Mr Housden:** It is 1% overall, but if one considers first-time buyers—a particularly pressurised segment, in which affordability is a worry—it is 4% overall and 7% in London. Given the housing pressure and the pressure on employment in London, those are not negligible numbers. I think that Ministers will think carefully about that as they frame their priorities for the future. Clearly it is making a difference.

**Q17 Mr Khan:** Have you heard stories about property developers or estate agents using such schemes by buying properties from people who have taken advantage of the scheme, so as to make a profit in, say, two or three years' time?

**Mr Rouse:** In the case of new build HomeBuy products, the housing association has a first right of refusal to buy the property back. If it does not want to, or cannot, it can nominate someone from the housing waiting list as a purchaser. The upshot should be to avoid properties produced for low-cost home ownership leaking out of the affordable housing sector. Even when somebody staircases out to 100% ownership, we can get the property back at the at the point of onward sale.

**Q18 Mr Khan:** What percentage of properties is bought back by registered social landlords?

**Mr Rouse:** I do not know the answer to that. I can let you have a note.<sup>1</sup>

**Q19 Mr Khan:** Can you do that?

**Mr Rouse:** Yes

**Q20 Mr Khan:** Why is it that the RSLs keep the profit when the properties are sold off, rather than it coming back to you?

**Mr Rouse:** There are two elements to that. The first is that the grant is paid into the recycled capital grant fund, so that that is not lost at all and is all recycled back into social housing activities.

**Q21 Mr Khan:** You say that it is not lost. It is up to the RSL how to reallocate it.

**Mr Rouse:** No, there are tight controls over what they can spend it on. There is a statutory determination and there is the capital funding guide. That is very restrictive. The money can be spent only in the same way as social housing grant. The regional housing board's priorities must also be complied with.

**Q22 Mr Khan:** So any concern that we had about RSL "A" giving its chairman and board a massive pay rise from such profits would not be borne out in reality.

**Mr Rouse:** As well as being the investor in the housing association sector, the Housing Corporation is also the regulator, and we take governance issues extremely seriously. Clearly, the whole remuneration and pay policy set by a board—including on severance, pensions and so on—is an area in which we expect to exercise regulatory control.

**Q23 Mr Khan:** Good. One of the things that we know is that there is a commercial advantage in property ownership compared with social housing. The Report mentions that. So in addition to people's aspirations to own their own homes, home ownership makes sense financially, because of the

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<sup>1</sup> *Note by witness:* The right of first refusal, for housing associations, to buy back from owners who have purchased their homes outright or have staircased 100% ownership is a relatively recent innovation and flows from the 2004 Housing Act. It was introduced more widely through the HomeBuy programme from April 2006 and since this date HomeBuy Agents are now issuing leases that include this provision. Information on buy back is not currently held centrally but given the time period the numbers are likely to be insignificant.

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saving. Bearing that in mind, why do we not assist people who cannot quite afford the 75%, but who could afford a lower percentage, to get them into home ownership?

**Mr Rouse:** That is one of the NAO's recommendations. It suggests creating a version of the shared equity product that would start at a lower percentage share. The NAO had the opportunity to present its recommendations to the shared equity task force set up by the Government, and we used to have a product something like the one recommended by the NAO, which was called do-it-yourself shared ownership. There are issues with it, however. It is pretty expensive, because if the Government have to take a higher equity stake, fewer people can be helped. There is a trade-off there.

**Q24 Mr Khan:** On that, is there a risk that RSLs will target assistance to those who are in the higher income brackets within the threshold rather than to those in the lower income brackets, because the risk is obviously less severe for the higher income bracket?

**Mr Rouse:** That is a different question. The interesting thing is that the NAO Report describes that as a "theoretical risk". It goes on to say that the checks and balances—RSLs' control of eligibility—should ensure that that does not actually happen.

**Q25 Mr Khan:** The Chairman asked a similar question in a different way—whether people could jump the queue simply by joining a housing waiting list and using that as a pathway in. My question is linked to that, but is more of a criticism. How is it that only 15% of those on housing waiting lists are buying the properties using this assistance? Why is it not a lot higher?

**Mr Housden:** On housing waiting lists, as indicated earlier, any person can put themselves forward to have their case for priority need assessed against those criteria. The Housing Corporation's guidance to its HomeBuy agents is very clear that the first priority in allocating funds should go to existing social tenants, for the reasons drawn out in the report. Alongside that is the consideration of key worker issues in relation to priority housing need. Part of the evaluation that takes place at local level—part of the individual look at circumstances—looks at priority need. On new build HomeBuy products, the shared ownership products, there are very close and—we hope—developing relationships between RSLs and local authorities, which should result in us getting the nominations right. That way, the totality of the social investment in socially rented and low-cost home ownership housing in a given area has the maximum impact on cases of priority need. Not everybody on the housing waiting list is going to be in a financial position to buy, even with state support. We worry a lot about the sustainability of home ownership. You are right to challenge us on whether the risks are balanced properly.

**Q26 Mr Khan:** My time has run out. Is there a danger that social housing for rent is being sacrificed because of our wish to have more property owners?  
**Mr Housden:** Those are balances that Ministers have to strike.

**Q27 Mr Khan:** Are you happy with the balance at the moment?

**Mr Housden:** It is not a matter on which my opinions count. It is a matter for Ministers to balance. You can see where matters are numerically in the current spending review.

**Q28 Mr Khan:** Let us imagine that I am a Minister, and you are my permanent secretary. Can you reassure me that the policy is not having a detrimental effect on those who can afford only to rent social housing?

**Mr Housden:** In whatever scheme you go for to balance socially rented housing with low-cost home ownership, you should be clear that you are creating sustainable home ownership and that you are targeting resources effectively.

**Q29 Mr Khan:** Thank you. You can stop calling me "Minister" now, and I can stop dreaming. We know that £500 million is spent each year on the scheme, which is a phenomenal amount, and irrespective of how the review goes, the sum may go higher, but the graphs may not be going that way. Bearing that in mind, how can you justify the £63 million that could have been diverted elsewhere had we given a higher initial share to people who could afford to buy—32% of all purchasers would have been able to afford a larger initial share?

**Mr Rouse:** That figure is important. We see it as a theoretical maximum of saving that could have been achieved. There are good reasons why we believe that to be the case. What if social tenants had not wanted to borrow up to the maximum?

**Q30 Mr Khan:** Did you ask them?

**Mr Rouse:** Each case is treated on its merits. We give guidelines of three—

**Q31 Mr Khan:** You are not being too rigid?

**Mr Rouse:** I think that we have become more flexible over time. Since April 2006, using the three and three and a half times multiples as guidelines, we are getting better value.

**Q32 Mr Khan:** My final question is how do we ensure that the key-sector workers who benefit from the scheme and who, for good reasons, may cease to be key sector workers, give back the benefits they gained?

**Mr Rouse:** This is the control given if people cease to be key workers? We have recently done a sample—a spot survey—to see whether anybody is escaping the controls. We looked at 100 random cases. We found no examples.

**Mr Khan:** Thank you.

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**Q33 Mr Curry:** I think I ought to say at the start that when Mr Rouse refers in his CV to having spent time as Private Secretary to the Minister of Housing and Local Government, that was to me. It is nice to see that it does not seem to have scarred him too badly.

**Q34 Chairman:** Has it scarred you? You can tell us the truth.

**Mr Rouse:** It was an enjoyable and illuminating experience.

**Q35 Mr Curry:** Mr Housden, what has happened to the average price of houses since these schemes were introduced?

**Mr Housden:** The average price of houses has continued to rise and has risen more quickly than average earnings: hence our worries about affordability.

**Q36 Mr Curry:** So how do you reflect that? In order to buy a standard house, in so far as that exists, what adjustments do you have to make to the income capability in order to maintain it within people's reach?

**Mr Housden:** I hope that I am addressing your point. First, it clearly varies much by geography. The evidence is that that variation has got starker and more variegated even within regions. The case-by-case analysis and the geography are important. Thereafter, it is about broadening the range of products that are available. You have seen from 2004 a wider range of payment plans, that are targeted at different levels of income. Lastly, you have to be sure, through the HomeBuy agents, that you have a consistent method of drawing the maximum sustainable contribution from the applicant.

**Q37 Mr Curry:** Could you help me through what seems to me to be almost a vicious cycle? The problem for people trying to buy a house is that house prices are high. Therefore the Government help them to get in. In the most recent initiative the Government provided money to sustain the price. That is the scheme with the Nationwide, the Yorkshire Building Society and another building society. The Government actually take a stake in the house and therefore sustain the price of the house and the housing market, making it even harder for people to get in. Is there not a sort of perverse cycle at work here? Do not you have an interest in this? Would not it be good if house prices came down, yet the Government policy is sustaining them?

**Mr Housden:** You are right to say that there is a difficult balance to strike here because the scale of the state's investment and intervention in this market is really important. The larger that is, the more public funds that go in this way, the larger the impact is likely to be on house prices. I suspect that we are still at the very marginal levels in the indication that we are talking about here. The second point concerns the way in which—I am sorry I have lost my thread here.

**Q38 Mr Curry:** I was asking you why the Government have taken actions to support house prices where you could define the problem as being that house prices are too high.

**Mr Housden:** I beg your pardon. It is a question of scale. The second issue to balance is the extent to which the Exchequer, and thereby the taxpayer, should benefit from the individual rise in equity and house value as these schemes go forward. You see across the range of these products that the equity share that the Government take in all of this comes back. So as house prices rise, more money comes back into the Exchequer and more is then available.

**Q39 Mr Curry:** It comes back in so far as people sell?

**Mr Housden:** Yes, or lose eligibility.

**Q40 Mr Curry:** How does that break down between selling and losing eligibility?

**Mr Housden:** The majority is selling.

**Q41 Mr Curry:** We know that people in social rented housing tend to stay for quite a long time. How long do people tend to stay in this accommodation? What is the tenure?

**Mr Rouse:** One of the problems is that the scheme is not really old enough to have those figures. For example, open market HomeBuy has been operating in its current form only from October and previous to that from April 2004, so it is actually too soon to have that data. We do not know how long people are going to stay.

**Q42 Mr Curry:** If it is too soon to have that data, was not it too soon to keep adding to the criteria—the categories of key workers? The initial list was quite a restricted list, but the list now is pretty extensive. Does not that dilute the impact of the thing? How often do you add to it? What is the process by which you become a key worker?

**Mr Housden:** The important thing is that it is tackling real problems, and the involvement of regional housing boards in setting the criteria for key worker assistance in their area is a sensitive and flexible one.

**Chairman:** You are speaking too softly.

**Mr Housden:** I am sorry. I do beg your pardon. The questions are about key worker eligibility and its definition. My point was that the regional housing boards' role in this is important because they are asked to advise and define key worker entitlements in their area. In some senses it is a real choice for them because it then affects the judgments about how they spend a limited pot for affordable housing in their area, so that which they devote to key workers will not be available to them for other purposes. They do, therefore, have an interest in reaching an appropriate judgment.

**Q43 Mr Curry:** The categories may differ from region to region?

**Mr Housden:** They may indeed.

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**Q44 Mr Curry:** Can we look at the charts on page 17, which are the regional variations? I am looking at the relationship between the market value of the first-time buyers and those that are supported. By and large, I would expect to see that they are not dissimilar because the object is that these people would be first-time buyers if they could afford it; the earlier chart that was referred to on page 14 suggested that some perhaps could do so. I was rather surprised to see that in the north-east the market value of the low-cost home ownership product was £30,000 more than the first-time buyer product. In Yorkshire, my neck of the woods, it is £23,000 or £24,000; it is a little bit less in the west midlands but it is still significant. In the north-west it is over £20,000. Does that make you wonder whether you have got the calculations right?

**Mr Housden:** There are some specific factors.

**Mr Rouse:** The first thing, which you will have noticed already, is that the sample size is very small for those regions. Low-cost home ownership is still a relatively marginal product in those regions although I think that will change going forward. We tend to use low-cost home ownership differently in the north of England. There are two particular purposes for which we use it more than in the south of England. One is a tool for regeneration, so you may, for example, have a household trapped in a property that they own but which is in a housing market renewal area, and has a relatively low value. Shared ownership gives them a way out of that into a property where they can at least keep some equity share. The second thing is that we do more family shared ownership in the north of England. We find there is a particular demand for it in the north of England and they obviously tend to have lower values. For example, in Yorkshire and Humber, 25% of family housing is in low-cost home ownership, which is by far the largest percentage of any region.

**Q45 Mr Curry:** How do you define the area in which somebody works? The reason I ask is that in some of the large northern cities there is a surplus of social housing stock over demand, which leads to the market renewal programmes. So ostensibly there should not be a difficulty in acquiring a socially rented property, provided that you can bear to live where it is, which I suppose, being brutal, is the problem. If you are in Leeds or Manchester, how far away would you regard it as being a reasonable commute in order to move to somewhere where you could buy?

**Mr Rouse:** The first thing to say about the northern low-cost home ownership programme is that it is not principally about key workers. The key worker programme is very much focused on London, the eastern region and the south-east. The place where you work is not the most important issue; there is not a strict definition around that.

**Q46 Mr Curry:** There are, of course, some instances where you have not been able to find owners for everything—people willing to buy—have you?

**Mr Rouse:** This refers to the key worker units that were left empty.

**Q47 Mr Curry:** Is that because of a fear of ghettoisation? It must be ghastly with nothing but public sector workers all around you.

**Mr Rouse:** We first discovered this problem in about January 2005, down in Hampshire and we found out, over time, that there are a number of reasons for it. First, on your point about ghettoisation, key workers do not necessarily enjoy living all together; it probably reminds them of being students.

**Q48 Mr Curry:** If they live in blocks as well, it all gets a bit claustrophobic.

**Mr Rouse:** Teachers tend to get on well with each other. I have already mentioned part of the reason. Secondly, if we are being frank, the report makes it clear that in some cases the housing associations were not as good at marketing the products as they should have been. Thirdly, in some areas there was a temporary dip in the housing market and they found themselves in a competitive situation, with the house builders owning low-cost product. The good news is that we have largely solved the problem. As of today, there are only 34 units that have been vacant for over six months, which is 0.8% of all the new-build units that were built.

**Q49 Mr Curry:** I think that I am right in saying that the equity stake held by registered social landlords in these properties is in the order of £750 million.

**Mr Rouse:** That sounds about right.

**Q50 Mr Curry:** Are there any prudential limits on the extent to which they can use that to back borrowing to build new houses? Are those reasonable limits? Would there be a case for allowing them to use that money more dynamically, since it is secure, or indexed?

**Mr Rouse:** This comes back to our dual role as regulator and investor. First, as regulator, we have a role to play in ensuring housing associations' ongoing financial viability. We also have a responsibility for overseeing and keeping an eye on their asset management, including the state of the balance sheet and the asset strength. The relative asset strength of registered social landlords—the housing associations—is one of the things that we take into account in setting our expected grant rates for our investment programme. If housing associations are doing particularly well at a certain time and have strong balance-sheet capacity we would expect to provide less grant.

**Q51 Mr Curry:** To put it the other way round, would you expect to use the assets tied up in property to yield the maximum amount in borrowing? The borrowing is preferential, is it not?

**Mr Rouse:** Housing associations are able to borrow at an extremely competitive rate, because of the regulatory system under which they operate. Since 1988, they have secured some £36 billion of private borrowing because of the regulatory framework, the cost of borrowing and the assets.

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**Q52 Mr Curry:** Kate Barker is going to take us through all this. She has become the great guru. In two days' time, we are expecting the next instalment—number 93—of Barker. Her thesis is that the problem is not that the houses have not been built because of planning constraints. She compares the situation with what is happening on the continent and asks, “Why is the rate of inflation in the United Kingdom so unpredictable and so large, compared with what appears to be a steadier state on the continent?” She finds a remedy for that in planning. If the Chancellor buys that thesis, and it seems he has, will that eventually supplant all the other schemes and solve the problem, or will we still find ourselves with fairly micro schemes?

**Mr Housden:** I think that Kate Barker's first report and the Government's response to it illustrated that planning plays an important, but only contributory, role in tackling the fundamental question of the imbalance of supply and demand. Just this week, a planning policy statement was made about the way in which the planning system can be more actively pursued. There are some important things to consider, including the supply of land, incentives for local development and environmental balance in design. The Government have wanted to take forward a balanced package of those measures. It is not a matter of house building at any cost, but about a sustainable programme.

**Q53 Mr Davidson:** May I seek clarification about key workers? How many people in each of the three original categories—nurses, teachers and police officers—have been helped into ownership?

**Mr Rouse:** I do not have the specific figures, but we can provide them.<sup>2</sup>

**Q54 Mr Davidson:** I find that surprising, given that that is what the scheme was set up for. However, do you have a feel for the number? Are we talking about ones and twos or about tens?

**Mr Rouse:** No, we are talking about thousands in each category.

**Q55 Mr Davidson:** Thousands in each category?

**Mr Rouse:** We have helped almost 23,000 households through the key worker living scheme so, as you can imagine, there are thousands in each of the categories.

**Q56 Mr Davidson:** Can you give us a feel for the balance between the percentages of people in each category who would have been eligible? Is there a greater take-up among nurses than among teachers and so on?

**Mr Rouse:** The information exists, but I do not have a detailed breakdown at my fingertips. We are talking about 23,000 overall since 2001, and you are right to say that take-up has generally been from nurses and front-line health service workers, teachers and policemen.

**Q57 Mr Davidson:** Chart 5 mentions nurses, teachers and police officers, so it is not unreasonable of me to ask you how many of them have been helped into co-ownership. However, you are not able to tell me.

**Mr Rouse:** I have some figures but you cannot add them all up to make the total; there are fields. We have managed to help 1,841 teachers between 2004–06. Between April 2004 and August 2006 some 2,000 nurses were helped 743 Metropolitan police officers and 13% of all Thames Valley police officers have received housing assistance. The Metropolitan Police believe that the housing assistance available from key working living has attributed to the decline in leavers from 16% in 2003 to 4% in 2006.

**Q58 Mr Davidson:** Are there any major differences between the numbers helped as a percentage of the overall stock of workers? Is there a greater take-up of the scheme among nurses than among teachers or police officers?

**Mr Rouse:** You can get a feel from those numbers, if I put them in order. I would like to check them and come back to the Committee, but I estimate that health staff and nurses would be at the top of the list, then teachers, and then community safety—the police. All three groups have benefited greatly.<sup>3</sup>

**Q59 Mr Davidson:** I accept that if even one person has gained access to the scheme, there is a benefit. I am trying to clarify the scale. Has there been any impact on the numbers of nurses, teachers and police who take up the scheme as a result of the widening of the categories in the two tranches that we have listed here? Have they lost out in competition with other categories?

**Mr Rouse:** There is no evidence that they are being squeezed out. The increase in the categories, as Peter said, is partly to do with the priorities having been set by the regional housing board. I think that it is good that we are now being more sensitive to different regional needs.

**Q60 Mr Davidson:** So do I, but that is not the point that I was making. Are you saying that nurses, teachers and police officers have no unmet need?

**Mr Rouse:** In overall terms of ability to access the housing market, there is unmet need in all three categories. However, not everybody—nurses, teachers or community safety officers, including the police—will be able to afford those schemes.

**Q61 Mr Davidson:** Can I ask you whether nurses, teachers and police officers have an unmet need under the key workers scheme?

**Mr Rouse:** The answer that I am trying to give is that demand has always outstripped supply.

**Q62 Mr Davidson:** So is that a yes?

**Mr Rouse:** It probably is.

<sup>2</sup> Ev 19–20

<sup>3</sup> Ev 19–20

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**Q63 Mr Davidson:** Fine. Can I clarify, then, whether the expansion of the categories covered by the scheme has had the effect of squeezing out some of the original categories?

**Mr Rouse:** I do not think that there is any evidence of squeezing out, but I do think that regional sensitivity is a good thing.

**Q64 Mr Davidson:** Let us tackle the matter in a different way. Either there is unmet need or there is not. If you are saying that there is unmet need but that a lot of other categories have been allowed in, it seems reasonably obvious that some of the people who would otherwise have accessed the limited resource have been squeezed out. The issue is then whether the money should be increased or whether some other adjustment should be made. I am just trying to clarify that. I am not asking you to defend the scheme willy-nilly.

**Mr Housden:** You are on to a real point. Our close and developing dialogue with employers is about the exact issue that you describe. Health service workers form a very wide occupation group. Which people, where, would they prioritise? Where are they finding recruitment difficulties in their lower income groups? Who should be helped in that sort of area? I hope that the targeting is becoming more and more refined in that sense.

**Q65 Mr Davidson:** Is there evidence of clusters of take-up, so that nurses in one hospital would, say, be more likely to take up the help than nurses in another hospital? Would more policeman or women in one station be more likely to take it up than in another station? Can you tell us anything about that?

**Mr Rouse:** You probably cannot break it down to a level of an individual station, but certainly we have experienced—

**Q66 Mr Davidson:** Sorry, why not?

**Mr Rouse:** We just do not have statistics at that level.

**Q67 Mr Davidson:** You have not collected them. It can be done, but you have not done it. Is that what you are saying?

**Mr Rouse:** What we can say is that, certainly, in terms of, for example, at the level of a hospital or broadly within a sub-region, we can see a higher levels of take-up in one area than in another. That was exemplified—

**Q68 Mr Davidson:** Sorry, when you say higher levels of take-up, does that mean that people are taking the houses in that area, or that people who are working in that area are taking up the scheme?

**Mr Rouse:** People who are working in that area are taking up the scheme.

**Q69 Mr Davidson:** So why cannot you tell me then which police station or hospital people are working at? You must know that if you are able to tell me that there is a greater take-up from people working in an area.

**Mr Housden:** The 23 HomeBuy agents who cover the country could tell you very precisely. I was at the HomeBuy agent who covers north London last week, and they were saying that they have marketing people who liaise with employers. They were saying that it is striking that some employers are much more open, and provide a lot more facilities for their staff to know about and think the schemes than others. They target, through a regular programme of visits, to make sure that awareness of the scheme is high. Nobody has any interest in choking off any real demand; it is a question—

**Q70 Mr Davidson:** I understand that, but my point, as I work through these questions, is that is it quite easy to have a situation in which a police officer in a particular station was making greater use of the scheme because they knew more about it, whereas that station was not necessarily the station that had the greatest difficulty in retaining officers.

**Mr Rouse indicated assent.**

**Q71 Mr Davidson:** By nodding, you seem to support that thesis, which means that the scheme is not necessarily targeted on those functions that deserve to be helped by the scheme the most. Is that fair?

**Mr Housden:** I think that you are pointing to a risk, which was apparent in the early phases of the scheme. However, it is about refinement, and the homing down on to a number of HomeBuy agents from a large number of people gives us a chance to be much more consistent. To take your example, engaging with a particular police authority and a police force should enable us to give us a very good view from them about where their real needs are and to feed those into the scheme.

**Q72 Mr Davidson:** May I finish this point? An education authority, for example, will vary quite widely. Some schools will be less attractive than others, and the incentive of assistance with housing would perhaps help hard schools in working-class areas more than schools in a leafier suburb. Yet, the system does not seem to recognise that. It would indiscriminately be available to teachers in that authority.

**Mr Rouse:** We have to distinguish between the information that we hold at a national level—and I will take away your view that we should hold more finely targeted information than we do—and the local level. At the local level, the HomeBuy agent will have that localised knowledge, will be in contact with all the main employers and will have a good understanding of their patch. They will target their products accordingly. However, that targeting happens at a local level, which I think is the appropriate level.

**Q73 Mr Davidson:** Could we have something to confirm that that is the case?

**Mr Housden:** Certainly.<sup>4</sup>

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<sup>4</sup> Ev 20

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**Q74 Helen Goodman:** I would just like to clarify who this £500 million is being spent on. Would it be fair to say that about a third of it went on the key workers, and that two-thirds went on the rest? Of that, 15% goes to the social rented sector, but you are hoping to push the figure up to 20%.

**Mr Rouse:** That is the challenge that has been set for us by the NAO.

**Q75 Helen Goodman:** That leaves us with about half the money being spent on people who are being brought into home ownership and who would not otherwise have been home owners. The policy question for Ministers, therefore, is: "Is that transfer of people good value for money, or would it be better to spend it on some other aspect of the housing programme?"

**Mr Housden:** Yes.

**Q76 Helen Goodman:** One thing I am not quite clear about is that, if we look at chart 12, the amount of Government grant needed to provide a low-cost home ownership home was less than half that of providing a social-rented home. It looks from this as if it costs about £50,000 to provide a social-rented home, but that is not the average subsidy to a person over their whole tenancy in the social-rented sector, is it? What is that?

**Mr Rouse:** I am sorry. I do not have that figure. I do not have the lifetime figure including housing benefit. I do not know what the average is.<sup>5</sup>

**Q77 Helen Goodman:** Because this is about £250 million, which could potentially be used on extending the socially rented sector, is not it?

**Mr Rouse indicated assent.**

**Q78 Helen Goodman:** I have a rather different perspective, looking at the charts on page 9, because I have a constituency in the north east, and I just wonder why we are spending all this money pumping yet more money into the south east housing market when so little is coming into our region. It would be very helpful if you could tell us how many people could rent, on average, for the £250 million, so we get some sense of what the real opportunity cost is.

**Mr Housden:** In your early analysis you were absolutely right to say that the challenge for Government is to reach a judgment about whether it would be best to spend the money here or there, in terms of different categories; but remember that the fundamental criterion for any assistance and low-cost home ownership is that the individual would not be able to afford a house on the open market. That is the first test.<sup>6</sup>

**Q79 Helen Goodman:** Yes, but it is a switch from people in the rented sector to the home owners sector. It does not have any impact whatsoever on the length of council house waiting lists or the number of homeless people.

**Mr Rouse:** It does have some impact on council waiting lists because, of that proportion you were talking about between the social tenants and the key workers, a number of the people who go into low-cost home ownership come off local authority waiting lists.

**Q80 Helen Goodman:** Yes, but I stripped that out, did not I?

**Mr Rouse:** It is not just the existing social tenants; it is the people coming off local authority housing waiting lists into low-cost home ownership instead of sitting on the housing waiting list.

**Q81 Helen Goodman:** So are you confident that, for example, in the west midlands and the eastern region, where the low-cost home ownership price is higher than the first-time buyers' and you have got a significant number of people going through the scheme, you are not impacting on the level of house prices in those two markets?

**Mr Rouse:** No, because the numbers are far too small to have any inflationary impact whatsoever in terms of the number of sales going through in any given year.

**Q82 Helen Goodman:** Even by region?

**Mr Rouse:** Certainly there is no risk of that in the west midlands and east midlands.

**Mr Housden:** If I may underline the strength of that point, the position in regional housing markets is so very varied and the pattern of need in them is important: that is why Ministers have been keen to get regional housing boards to look hard at where their priorities in affordable social housing would be. Clearly, Ministers have to make a decision about the total pot.

**Q83 Helen Goodman:** I do not think we should go down that path because we have got real problems with our regional spatial strategy in our county. There are six of us who wish it to be completely overturned, so I do not think that is going to help your case. Can we turn to something rather different, which is the money that the registered social landlords retain and that you are not counting at the moment? Could you describe to me how this interacts with the housing revenue grant, because another concern I have is that we have to surrender money to the centre and our authorities are not benefiting from this because we are not particularly participating in these schemes. Are you taking account of the £63 million when you are working out how much money people have to surrender through the housing revenue account?

**Mr Rouse:** The two things are distinct: one is revenue and one is capital. Also, housing associations are independent organisations and are obviously not related to local government in that way. What I would say is that the grant that gets repaid into

<sup>5</sup> Ev 21–22

<sup>6</sup> *Note by witness:* Around 4,000 social rented units could be provided with £250 million. This estimate is based on the national average grant rate (£62,000) of providing a social rented unit in the Housing Corporation's 2006–08 programme ie 4,033 units.

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recycled capital grant fund can be spent anywhere in that region on more social housing, so the housing association has the ability to move resources around and to reflect different levels of need in the region.

**Q84 Helen Goodman:** Yes, but once again we are just recycling money in the wealthy areas and excluding the poorer areas, are we not? Not only do those areas get the grant in the first place, but they can then recycle it as well.

**Mr Rouse:** I think that recycling in the region is a fair way of doing things. It follows the regional housing strategies. Many of the receipts will be generated in areas of high housing need, and the money will also be spent in areas of high housing need.

**Q85 Helen Goodman:** But we have council house waiting lists and we are not taking part in this scheme. How can you say that there is not housing need just because we are not taking part in it?

**Mr Rouse:** I was not saying that there is not housing need. I fully understand that there is housing need in almost all parts of England—that is certainly true. But, clearly, the distribution of resources between regions is a matter for Ministers and will be considered as part of the Comprehensive Spending Review and thereafter.

**Q86 Mr Dunne:** I would like to pick up on the allocation of key worker funding in particular. As we have heard, almost half the funds are being spent on key worker programmes in London, the south east and the east. Is that a purely political decision, or do you have any influence over it, Mr Rouse?

**Mr Rouse:** How far the scheme is extended to key workers is a matter for the regional housing boards, and they had the opportunity last time round to specify other groups of key workers. With two very limited exceptions, the other regions decided not to extend the scheme to other key workers last time round, which is why it remains focused in London, the south-east and the eastern region.

**Q87 Mr Dunne:** So you are saying that it was entirely down to the regional housing board to decide whether it wished to participate in the key worker scheme?

**Mr Rouse:** I am saying that the regional housing boards had the opportunity in their regional housing strategies to put forward other groups that they wanted to benefit from low-cost accommodation schemes.

**Q88 Mr Dunne:** Any groups of key workers? Are you saying that they did not have any groups to put forward, for example, in the west midlands?

**Mr Rouse:** With two small exceptions, they decided not to specify in that way.

**Q89 Mr Dunne:** Is it the case that the key worker programme applies only to land that is publicly owned, as has been alleged by one of the housing associations in my area, or is that just a misunderstanding?

**Mr Rouse:** No, absolutely not.

**Q90 Mr Dunne:** Do you accept that there is discrimination against rural areas in the allocation for key workers? As Mrs Goodman said, there are plenty of key workers in areas where the scheme does not apply, so they are missing out on the opportunity to get on to the home ownership ladder.

**Mr Housden:** I think that the same logic applies as regards where the scheme is applied and the advice of regional housing boards. We have, within the broader parameters of the scheme in terms of low-cost social housing, sought to ensure that sensitivities around low-cost housing in rural areas are protected. So the capacity of registered social landlords to dispose of properties and so forth is constrained in rural areas.

**Q91 Mr Dunne:** If we look at the midlands for a moment, we see that the west and east midlands together have 19% of the population, but only 9% of Government funding under all housing programmes. Do you regard that as equitable?

**Mr Rouse:** I can only repeat what I said earlier, I am afraid, which is that that is very much a decision for Ministers in terms of the formula that they set in allocating the regional housing pots after the spending review. That is not a matter for Peter or myself.

**Q92 Mr Dunne:** What is hidden by the regional figures is the variation, which you touched on before. In my constituency, I happen to have one of the highest ratios of house prices to incomes, because average incomes are very low and house prices have been driven up very high. What can we do to encourage regional housing boards to change the policy allocation?

**Mr Housden:** There are two things, I suppose. There is the total proportion of public expenditure that goes on affordable housing; we could push the quantum up. Secondly, within that quantum, there is the possibility of influencing the judgment of regional housing boards and Ministers about where the balance should be struck in terms of the different sorts of support that could be available. Both Jon and I have been at pains to stress that the housing market is very pressured in a number of locations. It is not simply about London, the southeast or even the south of England. The programmes seek to make a difference—we would argue that in important cases, they are doing so—but they are clearly not a panacea for the gap that Mr Curry referred to between rising house prices and incomes.

**Mr Rouse:** Can I add something? There is an important role for local authorities in terms of the planning system and use of Section 106. One of the things that we must try to ensure as values increase in places like the west midlands, Yorkshire, the north-west and the north-east is that local authorities that have not traditionally shared in land value through Section 106 catch up quickly, recognise that there is an opportunity and extract that gain from the planning system to develop more affordable housing.

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**Q93 Mr Dunne:** Indeed, but of course it puts up the price of the affordable housing itself. The more they do that, the higher the price of affordable housing.

**Mr Rouse:** It increases supply, which is a good thing.

**Q94 Mr Dunne:** It increases the supply of more expensive housing. It does not necessarily bring down the cost of the housing.

**Mr Rouse:** If it is affordable housing, it will obviously be lower cost.

**Mr Housden:** Your point before about public sector land is important. It goes with the question of Kate Barker's review. English Partnerships' work on the first-time buyers' initiative has been bringing in public sector land for potential housing use in a way that it would not have done hitherto. That has expanded the supply at that end of the market for low-cost home ownership opportunities.

**Q95 Mr Dunne:** How is the housing corporation using the new HomeBuy agents? Note 3 to table 3 on page 8 refers to 23 registered social landlords who are now HomeBuy agents. Does that cover the entire country, or just the priority areas for key workers?

**Mr Rouse:** It covers the entire country. They are now a one-stop shop, a single gateway for all low-cost home ownership products. If you are interested in low-cost home ownership, there is one website and one place you can contact, and they will take you through the whole system.

**Q96 Mr Dunne:** Do you anticipate that the HomeBuy agents will have a sufficient understanding of housing requirements in their local area to be able to judge where they should prioritise their tasks?

**Mr Rouse:** It is one of their roles and responsibilities under our contract with us. They have to work closely with local authorities, with the relevant regional housing board and obviously with the housing associations to ensure that they have that detailed understanding. They were appointed by a competitive process.

**Q97 Mr Dunne:** I put it to you that it is a very large area to understand if there are only 23 covering the entire country. For example, they will not have the same detailed knowledge as an individual registered social landlord would have about that area. I ask you as a follow-up, if you would like to comment, what you would say to the registered social landlord in my area who tells me that it has provided an extra tier of bureaucracy costing them £80,000 a year to administer for no benefit.

**Mr Rouse:** There are two questions there. All the agents appointed have the experience of working in those sub-regions and localities. They were chosen partly because they demonstrated to us that they would be credible providers of services in those sub-regions. To the housing association that feels that it is just another layer of bureaucracy, I would say that I think that it has added consistency and transparency for the consumer, and it is the consumer's interests that I am more interested in.

**Q98 Mr Dunne:** I would ask you to look at that after a year's experience. The impression that I get is that all the HomeBuy agent does is ask the local registered social landlord to provide the answers to the questions that they are asking. They do not have an understanding of local needs.

**Mr Housden:** That is a legitimate challenge. The position that we moved from in low-cost home ownership, however, is one in which schemes were being individually designed and crafted by a much larger number of RSLs. The experience for customers was, as Jon was saying, often confusing and difficult, because the criteria varied. It was anything but a one-stop shop. You might have to go around the houses to find anything coherent. I think that you—

**Q99 Mr Dunne:** Sorry to interrupt, but one must now travel great distances to people who are very remote, particularly in rural areas, and who have no understanding of local conditions. I think that you need to look at it again.

**Mr Rouse:** What I take from what you are saying is that there may be an issue in areas of sparser population where agents are covering bigger geographical areas. That is a reasonable challenge, and we will go away and have a think about it.

**Q100 Mr Dunne:** I come to my final question. In relation to the right to buy, we meet many people, some of whom argue that the right to buy is limiting the available housing stock for rental from social landlords, while others argue that it raises capital for reinvestment to provide more social housing. Who is right?

**Mr Housden:** I think that you have seen right to buy receipts, fundamentally now under the new pooling arrangement, coming back—

**Mr Khan:** I cannot hear you.

**Chairman:** Again, you are speaking very softly; you must try to speak up.

**Mr Housden:** I apologise. Under the pooling arrangement you are seeing right to buy receipts coming back into the Exchequer for recycling. In that sense, they are benefiting the public purse and giving Ministers a broader span of responsibility. There are people who retain the right to buy and to acquire a social tenancy through an RSL, and the key thing is the close relationship between a local authority, which has the overview of housing need in its area, and registered social landlords in that area. Customers are best served where those relationships are close and each sees the complementary part that they can play in meeting our housing need.

**Chairman:** Thank you. Mr Williams.

**Q101 Mr Williams:** Mr Housden, can I ask you to turn to page 31 and look at figure 16? It has a footnote, no. 2, at the bottom of the page, which says, "From October 2006, half of the equity loan under this scheme"—the open market HomeBuy scheme—"will be provided... by commercial lenders... the lenders will charge the purchaser a premium on the interest rate on their main mortgage." How does that work?

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**Mr Housden:** This is the open market HomeBuy scheme, in which the lender—there are now four—will make an offer to the purchaser. It is a conventional mortgage up to 75% of the value of the property, and on top of that, the lender will take a 12.5% equity stake. The borrower pays a conventional mortgage on the 75%, and for five years, they have no charges from the lender for that equity loan. Between years five and 10, they pay a capped rate of 3% and then from year 11 onwards, the charge could increase to the lender's standard variable rate. It is an interestingly flexible scheme, because it has reduced by half the amount of Government grant required to get people into low-cost home ownership. By the way in which the payments step up, it encourages the borrower to—in this horrible jargon—"staircase": to buy a bigger proportion of the house as time goes on. Again, that brings money back for investment in other social housing.

**Q102 Mr Williams:** It sounds very complicated. Do people fully understand what they are letting themselves in for?

**Mr Housden:** They all have access to independent financial advisers to ensure that the scheme that they go for suits their interest.

**Q103 Mr Williams:** So, how does the interest paid under that scheme compare with a normal market rate from a normal building society?

**Mr Housden:** We think that it is about 20% cheaper than conventional borrowing for the same house.

**Q104 Mr Williams:** What is the incentive for the commercial lender to lend at such a rate?

**Mr Housden:** The commercial lender uses it as a tool to sell more mortgages. Your 75% conventional mortgage and your equity stake come from the same lender. They are in the market place seeking to attract more business.

**Q105 Mr Williams:** I see. But are people paying a concession rate? Or are they paying a premium rate?

**Mr Housden:** Yes.

**Q106 Mr Williams:** Which is it?

**Mr Housden:** They are paying less than they would through conventional borrowing.

**Q107 Mr Williams:** In exchange for that, there seems to be quite a generous arrangement. The second sentence says that in addition, the lender "will also receive half the gains made from any increase in the value of the share of the property not bought by the purchaser". Why should they do that?

**Mr Housden:** That is where this becomes commercially attractive for them, because their equity stake—their 12.5%—will, on current trends, appreciate in value over the duration of the loan. The amount that they get back will of course depend on whether the purchaser has bought increasing shares in it. If they have staircased, then the lender

will get less. That is partly why, in their commercial judgment, they can offer this loan at, overall, 20% less than a conventional mortgage.

**Q108 Mr Williams:** So what would happen if the property did not make a profit, and somebody had to move and sell it, and made a loss?

**Mr Housden:** The equity stake is a first charge on the mortgage, so if it were 75% and 12.5%, the first 87.5% of the proceeds would go to the lender in the conventional way. The equity stake is a joint first charge on the mortgage, so any proceeds from sale would go first to the lender to repay the outstanding mortgage and equity loan. The remainder would then be used to repay the Government's equity loan.

**Q109 Mr Williams:** I read somewhere in my briefing that people are actually protected against loss; or is that under a different scheme altogether? I read it somewhere in the briefing yesterday, and I am not sure whether it is this scheme.

**Mr Rouse:** They are not entirely protected against loss. There are two ways in which they may lose out: one is that there is an opportunity cost to them from the outset on the capital weighting of the product. It carries a higher capital weighting in terms of their total borrowing. The second is that, under most of the schemes, if there were any downturn they would only get the cash value of the amount back when, because of inflation, it would obviously be worth more as an opportunity cost.

**Q110 Mr Williams:** So we will need to wait a year or two, or several years, before we see how effectively the scheme works and whether it is attractive to the purchaser as well as to other commercial lenders.

**Mr Rouse:** Yes, absolutely. It is only early days.

**Q111 Mr Williams:** Okay, then. I switch to a point in the supplementary briefing that we received from the NAO. It said that there was a general lack of control over registered social landlords to ensure that purchasers bought the appropriate share of a property that they could afford. That must have been in the early days of the schemes. It said that some registered social landlords marketed fixed proportions rather than invite the applicants to buy what they could afford. It is interesting that that was done as an alternative to the recommended income multipliers, which were not used. Why were they not used?

**Mr Rouse:** There are a couple of things that I would say. The first is that we at the corporation, and indeed the housing associations, are always trying to promote what we call sustainable home ownership. Quite a lot of the people who come into low-cost home ownership products do so from a position of some vulnerability in their financial strength. It is partly about their debt level, but they may also have a long-term limiting illness or a degree of job insecurity. There are a number of reasons why they might come in. Some of them, particularly social tenants, might be tentative about coming into home ownership, even though it is a good thing. Simply blindly applying income multiples of three or three

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and a half times will not necessarily lead to sustainable home ownership. That is why, although we have now adopted the multiples and were very happy to do so, we are only saying that they are a guide. At the end of the day, you have to take into account the individual household's circumstances.

**Q112 Mr Williams:** But you do not know whether they would, because they were never offered the opportunity. They were just told that they could have a certain flat amount. The NAO has estimated that, in 2004–05, if buyers had been able to buy a larger initial share of their home, it would have released £63 million for use elsewhere. That is massive money.

**Mr Rouse:** The key point is that that would have been the case if they had been willing to borrow that amount, and capable of it. Even with the NAO's modelling, that is an unknown. The only thing that we know from the NAO's modelling is that they had an average personal debt level of £3,000, and something about their level of outgoings. Having said that, I think that we accept the move to income multiples, as recommended by the NAO, as a guideline. We would not advocate, going forward, the use of fixed amounts. I think that one of the reasons why RSLs use—

**Q113 Mr Williams:** That is enough on that for a moment. The point that the NAO has made is that an estimated £63 million would have been released. In making that calculation, did the NAO take into account the willingness of people to buy a higher share than they were allowed to buy?

**Mr Corner:** We did not specifically question individuals, no.

**Q114 Mr Williams:** So we do not know whether they could or not. You say that they could not, but what evidence do you have to say that they could not?

**Mr Rouse:** No, all I am saying is that we do not know and therefore the £63 million must be a theoretical maximum, because we do not know whether they would have been willing to—

**Q115 Mr Williams:** Ah, well, this is different. You gave me the very clear impression that you knew quite well that these people would not take it up.

**Mr Rouse:** No, I did not say that.

**Q116 Mr Williams:** Now we have a situation in which £63 million out of—what was the amount in that year?

**Mr Rouse:** About £500 million in total.

**Q117 Mr Williams:** That is a very big percentage. That £63 million could have been used elsewhere. On the average cost involved per household, how many extra households could we have been talking about?

**Mr Rouse:** The figures are in the Report.

**Q118 Mr Williams:** It may be that I have not seen the Report, so you tell me.

**Mr Rouse:** Just bear with me. The figures, as estimated by the National Audit Office, would be 3,420, but I repeat: the £63 million is a theoretical maximum based on a pretty crude piece of modelling that did not take into account the individual circumstances of those households or their willingness to take on that level of borrowing.

**Q119 Mr Williams:** So did you change the system after that?

**Mr Rouse:** We moved to use of income multiples of three and three and a half times income, but as a guideline, not a prescription, because we want sustainable home ownership. We do not want to push people—

**Q120 Mr Williams:** What percentage extra did you then get purchased at that level?

**Mr Rouse:** We do not know yet, because the income multiples have not been in use for long enough.

**Q121 Mr Williams:** When did they start?

**Mr Rouse:** In April 2004 for the KWL scheme and more broadly in April 2006.

**Q122 Mr Williams:** I see. That was as a result of the investigations by the National Audit Office?

**Mr Rouse:** In part because of that, yes.

**Q123 Mr Williams:** In part. You were going to do it anyway?

**Mr Rouse:** I think that as part of our ongoing review of low-cost ownership and the changes we were making in the three products, we were moving in that direction, but the NAO Report was very helpful on that score and a number of other scores.

**Q124 Mr Williams:** You mean the NAO thought of it and you have taken it up—which is what the NAO is about—but you were not going in that direction of your own volition?

**Mr Rouse:** I think that we were heading in that direction, but the NAO Report was—

**Q125 Mr Williams:** But you cannot give any evidence to prove it; 3,400 people who could have had houses did not have them.

**Mr Housden:** I think that the point that we are trying to make is that the NAO study made a set of perfectly reasonable assumptions about all this, but the principle that we would want to stick with, and that Ministers think is important, is the individual assessment of need. You are absolutely right to press us on the amount borrowed and similarly on the amount of deposit that the borrower, the purchaser, brings forward, because to the extent to which we get that right there is more money to spend to respond to more demand. As the schemes mature, we are learning more about the way in which you can do that sensibly, but the idea of individual assessment—

**Q126 Mr Williams:** I have finished my questioning; I will just make this observation. You refer to reasonably sensible assumptions, whereas you, Mr Rouse, tried to give the impression that it was utterly

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unrealistic. Why do not the two of you get together, decide which of you was right and send us a note to tell us?<sup>7</sup>

**Q127 Mr Mitchell:** We are not talking about flea-bite stuff here; we are talking about schemes that are pretty inadequate. In 2004–05, they helped 11,000 households, but the demand was 60,000. Is not the real problem that we just have not been building enough social and more particularly council housing? Kate Barker said that we should be building 17,000 more social houses a year. Alan Holman said it should be more than that. Shelter now seems to be talking about 22,000 more. In the face of that tragic failure, these schemes are really just a fig leaf to conceal the Government's nakedness by perhaps chucking a little oil on the raging fire of house prices. Nice image, that, but what is your answer?

**Mr Housden:** You illustrate very powerfully the dilemma that Ministers face. You are quite right to say that the Holman research and the Shelter arguments talk about an inadequate level of response to the demand for social rented housing—still less is there the ability to tackle the backlog. I think that there is quite a bit of evidence that there is some pent-up demand within the system. One issue that Ministers will need to consider in the spending review is how much money they can allocate for that and how much value they can get from it. A lot of the Kate Barker stuff, and the Government's response to it, is about getting greater value and efficiency.

**Q128 Mr Mitchell:** Ministers have concentrated on a war with councils—trying to force them to privatise. That seems counterproductive, given the scale of the problem.

**Mr Housden:** Ministers will want to balance against that, Mr Mitchell, as you began by saying, the extent to which they want to see low-cost home ownership extended to people who otherwise could not afford it. As a number of contributions have shown today, the point is how you can maximise the impact of that spending on priorities.

**Q129 Mr Mitchell:** But the proportion of support for affordable houses by these schemes has increased from 13% at the turn of the century to 30% now. Why are they pouring more money into such schemes, rather than into social, publicly rented housing?

**Mr Housden:** It is a reflection of their relative priorities.

**Q130 Mr Mitchell:** Is the emphasis—an over-emphasis, in my view—on ownership dictated to you by Ministers? Is this what Ministers say that they want, with a prime emphasis on ownership?

**Mr Housden:** I think that we began with Mr Khan's statement, which I understand to be correct, that the Government's aspiration is to move 75% of the

population into home ownership; it is currently at 70%, or thereabouts. So, yes, I think that this is a Government priority.

**Q131 Mr Mitchell:** Okay, but that is not necessarily the public's aspiration. The Shelter survey, "Home Truths: the reality behind our housing aspirations" says that people's first priority in terms of housing is feeling safe in their neighbourhoods—in other words, getting on with their neighbours. The second priority is affordability. Ownership is only the third priority. Ministerial aspirations are totally at variance with public aspirations.

**Mr Housden:** The surveys that I have seen suggest that the desire to own a home is very strongly felt in the population.

**Q132 Mr Mitchell:** Particularly among the possessing classes, like us, who benefit so enormously from it, helped by subsidies for Members of Parliament. But for ordinary people, particularly the less well-off, there is the question of affordability—whether they can afford ownership. For those people who cannot afford it, is not social housing and council housing now essential?

**Mr Rouse:** This is not an either/or question. The social rents to housing programme is increasing significantly; we will be up at 30,000 units—

**Q133 Mr Mitchell:** From a low start point.

**Mr Rouse:** Relatively low.

**Q134 Mr Mitchell:** The lowest build since the 1920s.

**Mr Rouse:** That is in terms of overall housing supply, which is a slightly different issue. However, we will have 30,000 social rented units next year. The Chancellor has already said that social housing will be a priority in the comprehensive spending review. We shall have to see what that means; we are aware of what the Barker numbers are. Ultimately, it will be a decision for the Chancellor and other Ministers.

**Q135 Mr Mitchell:** Yes, but the right to buy led to a lot of repossessions, because people could not afford to keep up the payments. If they buy, people can become asset rich and cash poor. What if they are hit by something like the storm two nights ago, for example? I noticed as I drove down that a number of former council houses had had their roofs badly damaged by that storm. People cannot afford the penalties of ownership in many cases. People really want publicly owned rented houses.

**Mr Rouse:** Your comment underlines the importance of pursuing sustainable home ownership through these programmes and not pushing people into unaffordable home ownership. One of the things that we are proudest of is that, on the key worker side, we have had only seven repossessions in the first years of the programme.

**Q136 Mr Mitchell:** What I am saying is that more is being done for that section and less is being done for those people who cannot afford ownership. That is correct.

<sup>7</sup> Ev 22

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**Mr Rouse:** I have already said that the social rented programme is increasing. We will be up to 30,000 units next year. The Chancellor has already said that this will be a priority in the spending review. We will have to see what that means.

**Q137 Mr Mitchell:** Our priorities have been totally distorted by ownership. I am delighted to learn from *Inside Housing* that you are trying to push the housing associations to put more into building, but you are going to be hated by them because they are being pushed into borrowing more on their assets to fund the delivery of new homes. I am glad that you have taken up the ideas that were put forward by the all-party group on council housing. We have been saying for some time that housing associations are the fat slugs of the housing market. They accumulate large reserves and make big surpluses. They sell off property and they do not put the money back into new housing as a major part of the new housing drives that the country needs. That being the case, is not the selling of housing association houses to people—for whom it is a bad deal, because they pay mortgage and rent so they pay a lot more—a kind of subsidy to the housing associations? Recommendation 5 on page 33 of the Report says, “We estimate that Registered Social Landlords have benefited from additional cash worth up to £56 million from purchasers who bought the remaining share of low cost home ownership properties funded by Housing Corporation grant”. In other words, through the scheme people pay a subsidy to the housing associations that do so little about housing.

**Mr Rouse:** There were quite a lot of questions there, so let me deal with the point about the £56 million. That sum can be spent by housing associations only on permissible purposes, which are broadly concerned with social housing activities. It is not money that disappears somewhere else—it goes into social housing. There is a legitimate question, which is asked in the Report, about whether the taxpayer and the Government should share in that uplift in resources.

**Q138 Mr Mitchell:** Why did you not let them take a share of it?

**Mr Rouse:** There are two dimensions. One is that it is a policy decision for Ministers. There is also a legal dimension, however, because it is not legally certain that the relevant part of the statute—section 27(2) of the Housing Act 1996—allows us to permit it. We need clarity on that before we can give Ministers the choice of going down that route.

**Q139 Mr Mitchell:** The problem with the right-to-buy policy was not so much selling off council houses and giving people the right to buy them, but the fact that those that were sold were not replaced. There was no new build, and that created a real disaster in social housing. You are now doing the same with housing associations.

**Mr Rouse:** No.

**Q140 Mr Mitchell:** You are not forcing them to use the money for new build, to replace the houses being sold off.

**Mr Rouse:** There are two points on that. First, any receipts that they make from the right to acquire or social HomeBuy go into the disposal proceeds fund, which can be used only to build more social rented housing. There is no loss of grant resources from those two different products. More generally, in setting grant rates we take into account the asset strength of housing associations and their available resources.

**Q141 Mr Mitchell:** Do you want to push the housing associations into doing more new building?

**Mr Rouse:** The headline writer of *Inside Housing* certainly suggests that we do.

**Q142 Mr Mitchell:** Is that your intention?

**Mr Rouse:** Our intention is to invite housing associations to be partners with us in building as many social housing units as we can, consistent with their retaining financial viability.

**Q143 Mr Mitchell:** My final question is this. Only 15% of the people who buy under assisted schemes were in social rented housing in the first place, so not much of that housing is freed up for other people, is it?

**Mr Rouse:** Those are 1,200 units that go to people each year, so it is something. We have already accepted the recommendation that we try to increase that percentage, and the people who were taken off the housing waiting list into low-cost home ownership should also be taken into account. That reduces pressure on the social housing stock.

**Q144 Mr Mitchell:** Why were so few social housing tenants helped in 2004–05?

**Mr Rouse:** Some 1,200 were. We have accepted that we need to try to target more. It will not be easy, however. We know, for example, that more than 60% of social housing tenants are on benefit. On new lettings, 40% of social housing tenants have some sort of support need. There is not a large target market of potential home owners out there, but we will try to do more, particularly by working with local government.

**Mr Housden:** I wanted to come back to your important point about affordability for people on lower incomes. One of the consequences of the increasing gap between average earnings and house prices is that the risk of a larger and larger proportion of people not being able to get on to the housing market has increased. One of the facets that you see is that parents who own a property are providing substantial deposits to enable their children to follow them. One of the aspects of the low-cost home ownership scheme is the state seeking to support people who are not in that position to enable them to move forward. You are quite right to say that there is a judgment to make about relative priorities, but I think that this is responding to the dynamic of the housing market as it now is.

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**Q145 Mr Mitchell:** That is the last resort of the desperate—to get your parents to borrow to give you the deposit on a house. The real need is an increasing proportion of the population want publicly rented council or social housing—it does not matter which—but we are building less and they are not getting it.

**Chairman:** All right, you have made your point. Thank you very much. The last questioner is Mr Bacon.

**Q146 Mr Bacon:** Thank you very much, Chairman. That was an interesting contribution from Mr Mitchell, which I will not bother to pursue right now, although I could. Mr Rouse, can I clear up a couple of points from things that you said earlier and then move on to some other questions? You mentioned a figure of £90 million in relation to nurses. Could you remind us quickly of what that was and who calculated it?

**Mr Rouse:** It has been estimated—

**Q147 Mr Bacon:** By whom?

**Mr Rouse:** I will have to get the details, but it has been estimated that for each 1% reduction in turnover of staff and having to use temps to fill vacancies, particularly in London, achieves the equivalent of a £90 million saving in resources.

**Q148 Mr Bacon:** Who estimated it?

**Mr Rouse:** I do not have the source to hand, but we can get you that.

**Q149 Mr Bacon:** That was really my question. Perhaps the NAO—the NAO has done some work on agency nurses—and you could between you send us a note on that. It would be interesting to see it, and to see the provenance of the figure. You said in relation to Mr Khan’s question about what proportion of properties have been bought back by RSLs that you did not know. Is it that it is not known, or that you do not know?

**Mr Rouse:** I think that it probably is known, but I do not have the answer to hand. We will have to provide that answer separately, which is what I said to Mr Khan.

**Q150 Mr Bacon:** Another question of Mr Khan’s that I do not think was properly answered was about whether you have heard stories about estate agents and property developers using the scheme to make money. You gave the answer as to why it should not be happening, but Mr Khan’s question was, “Have you heard stories about this happening?”

**Mr Rouse:** The reason that I did not really answer was that I did not quite understand—you might be able to help me—what was being driven at.

**Q151 Mr Bacon:** I understood him to ask the question, which was clear and in plain English, “Have you heard stories about estate agents and property developers using these schemes”—plural—“to make money?” It sounds to me like a simple question; have you heard such stories?

**Mr Rouse:** There is a little bit of experience in Milton Keynes, which bubbled up a couple of years ago, of estate agents in a high housing market getting shared homeowners to place a premium on their shared ownership product. That is something that we have now tried to stamp out through the terms of the lease.

**Q152 Mr Bacon:** Did it happen anywhere else?

**Mr Rouse:** The only area in which we were aware of it happening was Milton Keynes, and we took action as a result. We had a lot of dialogue with one of the Members of Parliament for Milton Keynes, who is now, of course, the Chairman of the Select Committee on Communities and Local Government.

**Q153 Mr Bacon:** Thank you. Will you turn to paragraph 24, which states that, under the key working living initiative, from April 2004 there is a specification that “key workers repay the assistance they had received within two years of leaving key worker employment”? Do you know how many people have done that—left key worker employment and within two years repaid the assistance that they received? Does anybody know?

**Mr Rouse:** I do not know.<sup>8</sup>

**Q154 Mr Bacon:** It does not surprise me that you do not know. The paragraph goes on to state, “Despite these requirements, some Registered Social Landlords and key worker employers told us they were only starting to consider what controls they might put in place to ensure that this repayment is made.” Currently, therefore, there is a risk that the assistance would not be repaid as required. It seems fairly elementary, as a risk management device—we know how much notice you take of risk management, or at least how much notice you are told to take by the Cabinet Office and the Treasury—to put in place a method of checking how many properties are in the position in which the person has left the employment. Surely that would be a relatively simple thing for somebody to keep track of, if you have contact with the people who own the properties. Could you send us a note on where you think things stand in that regard?

**Mr Rouse:** We will do that. I believe that controls were in place. There was a charge on the property and there were requirements on the key worker and on the employer to tell us if he moved out of employment. Having said that, the report makes recommendations for us to put in place additional controls. We have already put in place two of the three measures recommended by the National Audit Office.<sup>9</sup>

**Q155 Mr Bacon:** The Report, published in July 2006, says that some Registered Social Landlords are only now starting to consider what controls they might put in place.

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<sup>8</sup> Ev 23

<sup>9</sup> Ev 23

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**Mr Rouse:** But those were the controls on registered social landlords. In terms of the clawback arrangements, the controls on employers and employees were in place from April 2004 and there was a requirement on both.

**Q156 Mr Bacon:** A requirement on the employer and on the employee? The key thing is the property, and the charge on that. Surely that is a matter that involves the registered social landlord.

**Mr Rouse:** Yes, and it was the requirement on both the employee and the employer to tell the RSL if the employment circumstances changed. Having said that, I accept, in terms of completion, the triangle that bringing the RSL into the equation as well is a good idea.

**Mr Bacon:** Rather.

**Mr Rouse:** That is why we have accepted the NAO's three recommendations and we have implemented two of them. I would say—

**Q157 Mr Bacon:** No, let us move on. We do not have much time. Please make a note and, if there is a bit of time at the end, carry on and add that thought. The very beginning of the preface says, "In 2005 only 36% of new households could afford to buy a property compared to 46% in the late 1980s." That is shocking when you consider that the late 1980s were a time of excessive property price rises. I remember that, because I was leaving university and for the first time trying to find somewhere to buy in London. The market was extremely overheated at that time, yet 46% of households could afford to buy a property. Now, however, the figure is only 36%, so it has gone down markedly. What do you think is the single biggest reason for that?

**Mr Housden:** I think rising house prices is a phenomenon throughout the advanced world. We can see that all over the place. The analysis that we respond to is one that says that it is partly a function of economic stability and partly a function of consumers recognising that houses are appreciating assets—they learn from experience. Credit has been more readily available for people to back their choices. What we are seeing, therefore, is a worsening of the affordability ratios. The whole basis of the Government's response to Kate Barker's report was to put in place a series of measures to increase supply. I have mentioned a number of demand factors, but such things as the way in which land comes on to the market affect supply.

**Q158 Mr Bacon:** You got there. It is about supply. Despite global trends, consumer awareness and credit, at the end of the day, it is about supply. We do not have a shortage of CDs, jeans or food—at least, not in the advanced developed world. Why do you think that is?

**Mr Rouse:** I cannot speak about those industries.

**Q159 Mr Bacon:** I would like you to. Any lay person could address the question. Why do we not have a shortage of jeans, Mr Housden? Why do we

not have a shortage of food? Why can you go down the street and buy whatever food you want, when you want to?

**Mr Housden:** I think that it is essentially because none of those products requires land.

**Q160 Mr Bacon:** Right. Exactly. Thank you, you got there. So although you said earlier that you thought that planning was only one component among many—I paraphrase, but basically that is what you said—the supply of land is absolutely critical, is it not?

**Mr Housden:** It is.

**Q161 Mr Bacon:** Mr Leigh, our Chairman, represents a constituency in Lincolnshire. It is very large, but its population is only 646,000, less than one tenth of the size of that of London. Norfolk, the county I represent part of, has a population of 800,000. It is England's fourth largest county. We have lots of land, Mr Housden. Yet the problems that we have heard described today of affordable housing in London and the south east are just as bad in rural areas such as mine. I see Mr Dunne nodding out of the corner of my eye. I am sure that they are just as bad in Shropshire where property prices are extremely high also. This is because the supply is not there to meet the demand. This is where I could, but I will not, get into a long argument with Mr Mitchell. What people are most interested in is not necessarily a particular form of ownership, but simply an increase in the supply of housing. It may take a public ownership form; it may not. But at the moment we do not have enough supply to meet the demand. Do we? Significantly so. That is the basic problem is it not? We do not enough supply.

**Mr Housden:** I think you are right. There are important issues, particularly in rural areas around the protection of the green belt. There are some important things that are within the Government's purview, particularly relating to the way in which planning policies work at local level and around brownfield sites and public land. The changing patterns of hospital use over the years have seen English Partnerships bring a number of former NHS sites into use in that way for housing. The Government agree with you, Mr Bacon, that this is fundamentally an issue about supply and planning is a critical aspect of it.

**Q162 Mr Bacon:** Planning is a particularly critical aspect of how many small houses that are suitable for first time buyers are available on the market to buy. Planning determines that to a very large extent.

**Mr Housden:** Yes. In the planning policy statement issued this week, Ministers were keen to give greater impetus to local authorities to plan more effectively for the delivery of more affordable housing and for, example, they lowered the threshold on the size of developments where they may require social housing to be part of the overall mix. That is particularly important in rural areas where the size of developments, in terms of numbers of dwellings, will tend to be smaller than in urban areas.

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**Q163 Mr Bacon:** The Chairman is telling me that I have run out of time. May I just ask one more question to Mr Rouse? I was looking at an interview that you gave to *The Times*, in which you reflected upon your time at the Commission for Architecture and the Built Environment. You said that your new homes were fantastic and you were quick to rubbish criticism of social housing. You added, however, that design costs more. I should like you to expand on that in view of my experience looking at Government computer systems, hospitals both large and small and schools. I visited two schools in Northern Ireland that cost exactly the same amount. They both cost £7.7 million and were designed for the same number of pupils. One was very well designed; the other was appallingly designed. My experience is that poor design costs you more. I take it that when you said that design costs you more, you meant employing an architect as opposed to not employing one. You are not quoted as saying that good design costs you more, but that is what you meant, was it not? At the end of the day the reverse is presumably true. Poor design costs you more in the long run over the whole life of a building.

**Mr Rouse:** There is the key.

**Q164 Mr Bacon:** As housing is paid for by most people over its life, though a mortgage—

**Mr Rouse:** When I made that statement it was about initial capital costs. I completely agree with you. Over the whole life, good design costs less. You will have seen that in hospital schemes and in school schemes. It is true in affordable housing too. It is particularly important in terms of affordable housing. For example, good design can mean better energy efficiency, which can mean lower fuel bills, to give just one example.

**Q165 Mr Bacon:** And lower crime.

**Mr Housden:** Yes, good community safety. That is another good example. If we are both talking about the whole life of the building, I completely agree with that good design costs less.

**Q166 Mr Bacon:** I do not want to try the Chairman's considerable patience, so would you mind sending us a note with a further amplification of that at as much length as you desire?<sup>10</sup>

**Chairman:** Mr Williams has the last question.

**Q167 Mr Williams:** I am slightly puzzled. Could I come back to that footnote to figure 16? The footnote indicates that if there is a profit, the commercial lender would benefit. I then asked a question. I felt that I had read somewhere that they would on the other hand be protected if a price went down. You both denied that. Was that because you felt that it would be wrong for them to have such protection?

**Mr Housden:** I think I said that when such a property is sold, the interests of the lender—in this case, a 75% mortgage and 12.5% equity stake—are

a first charge on the proceeds of the sale. To that extent, the lender is protected, yes. It has first call on what is secured from the sale.

**Q168 Mr Williams:** I was asking about when the property falls in value and is sold. You gave the impression that the lender would not be protected.

**Mr Rouse:** We added two things together and both are true. The lender has the primary charge, so if the property does not fall by more than 12.5%, it is, essentially, protected. However, on taking out value, I made the point that, at least in some cases, it would be taking out the cash value rather than the real value, in terms of the inflationary impact, and that therefore there was not entire protection. Two points—both true.

**Q169 Mr Williams:** I have asked the NAO. It says, as it says in its briefing, that the lender will be protected if property prices fall. Mr Rouse, how does that contradiction arise between the two assessments?

**Mr Rouse:** I go back to Peter's point: lenders are protected up to a 12.5% fall in the property price.

**Mr Corner:** We agree with that

**Mr Williams:** You agree with that.

**Q170 Mr Mitchell:** Given that there is a shortage of it, could not public rented housing be built more cheaply by councils rather than housing associations? Councils pay a lower rate of interest, pay their staff less and do not have what some housing associations have—the “golden tap” syndrome of over-embellishing. Would not council house provision be cheaper than comparable housing association provision?

**Mr Rouse:** All I can say is that housing associations put in a very large amount of their own resources and can borrow extremely cheaply and off the public sector borrowing requirement. They have borrowed £36 billion since 1988—almost the same as the amount of public money that has gone in. At the same time, they have managed to meet the decent homes standard by 2010 across almost all their properties, with virtually no extra investment from the public purse.

**Mr Mitchell:** I accept that you have tried to push them into shape, but I asked Mr Housden the question.

**Mr Rouse:** I am sorry.

**Mr Housden:** The accounting treatment to which Jon referred is crucial; the ability of the registered social landlord sector to borrow on the private market off public sector borrowing requirements is fundamental. In that sense, it delivers very good value for money.

**Q171 Mr Mitchell:** But council housing is cheaper to build. The Audit Commission itself said, I think, that it costs £1,300 less over the lifetime of a house for the council, rather than the housing associations, to do the repairs and renovation. That is from an earlier report.

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**Mr Housden:** I think the report makes it clear that within the housing association sector, the unit cost of providing low-cost home ownership is falling significantly and will be one third lower in 2007–08.

**Q172 Mr Mitchell:** But the unit cost of providing public rented housing is lower if it is built by councils rather than housing associations. Yes or no?

**Mr Housden:** I am not sure.

**Q173 Chairman:** We shall have to leave it there. To summarise, I am sure that these schemes are very worthy. It may be—it is a big “if”—that you can help 100,000 people into low-cost housing by 2010, but that would still leave half a million people in need of such housing. Furthermore, I believe the National Audit Office when it tells us that there are so many inefficiencies and so much wastage and poor targeting in the scheme that you are wasting up to £100 million a year—enough to help 4,000 people. It seems to me that, given that people are living longer, that there has been a dramatic increase in the number of people living alone and that there are high levels of immigration, you are just scratching the surface. Until you dramatically streamline the planning system and dramatically increase the housing supply, we shall not get a grip on the problem. I shall give you a chance to come back to me on that, as it is only fair.

**Mr Housden:** Thank you, Chairman. I think that the report is a fair and balanced account of the progress that has been made. This is a relatively new area of public policy, which aims to provide a range of low-cost home ownership. We can show a clear trajectory of improvement in customer experience and in terms of value for money. There are some important suggestions for further improvement,

however, some suggestions depend on the relative priorities of Ministers. Changes to schemes, and so forth, are proposed that Ministers will have to decide. That said, we accept that and consider this is a useful contribution. Finally, the broader context you describe must be right and is shared by the Government. This is a systemic issue about the availability of land and about tackling supply issues as well as being responsive to demand.

**Chairman:** That is very fair—we are all agreed. Mr Bacon has one more point to put to you.

**Q174 Mr Bacon:** It is a question relating to paragraph 29, which talks about houses that were built, but not sold. In some cases, houses have not been sold for over six months and in some cases that could be three years or more. Could you send us a note specifying how many houses fell into this category and for how long each house was unsold before it was finally sold? Paragraph 30 goes on to describe what was done to amend that situation policy-wise, but if you could send us a note with the details that would be very helpful.<sup>11</sup>

**Mr Housden indicated assent.**

**Mr Rouse indicated assent.**

**Q175 Mr Mitchell:** I would like a note as well. I did not know whether a council house was cheaper to build and maintain via the council compared to a housing association. An update to the figures given by the National Audit Office some years ago in a Report would be useful.

**Mr Housden:** I am happy to do that.<sup>12</sup>

**Chairman:** Thank you very much—go away and release more land.

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<sup>11</sup> Ev 24

<sup>12</sup> Ev 24–25

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**Supplementary memorandum submitted by the Department for Communities and Local Government and the Housing Corporation**

Questions 53 & 58 (Mr Ian Davidson): *Clarification of the number of key workers helped in each of the original three categories—nurses, teachers and police officers.*

To clarify, since 2001, as at October 2006, just over 23,000 key workers have received assistance through the Key Worker Living (KWL) and Starter Home Initiative programme’s (SHI 2001–04).

A detailed breakdown of how many key workers from each sector benefited from each programme is supplied below. The tables show that the health sector is the biggest beneficiary of our key worker housing assistance, with 40% of assistance going to health workers, the education sector (teachers and nursery nurses) comes second with 35%, and the community safety sector (police and fire and rescue services) comes third with 15%.

Under the SHI we did not collect information on the exact role of the front line health workers that benefited from the scheme. However we now collect comprehensive data on beneficiaries of Key Worker Living (KWL) and since its launch in 2004 we have helped 2,812 general nurses—this does not include healthcare assistants, paramedics etc.

10% of those helped come under the “Other” category. “Other” beneficiaries under the SHI and KWL are mainly local authority workers performing roles equivalent to those eligible in the health, education and community safety sectors. 1218 SHI beneficiaries also come under this category by default because they were

helped using resource provided under the Approved Development Programme to meet the pipeline of demand in the closing months of the SHI programme. Less detailed information was collected on these individuals.

Details of the numbers assisted in the various sectors are set out below.

1. Health sector

<i>Source of assistance</i>	<i>Numbers assisted</i>
Starter Home Initiative 2001–04	3,895
Key Worker Living	5,311
<b>Total</b>	<b>9,206</b>

2. Education sector

<i>Source of assistance</i>	<i>Numbers assisted</i>
Starter Home Initiative 2001–04	3,196
Key Worker Living	5,077
<b>Total</b>	<b>8,273</b>

3. Community Safety (includes Police; fire service Probation Officers; and Prison Officers)

<i>Source of assistance</i>	<i>Numbers assisted</i>
Starter Home Initiative 2001–04	1,321
Key Worker Living	2,043
<b>Total</b>	<b>3,364</b>

4. Others (includes local authority planners, social workers and clinical staff etc)

<i>Source of assistance</i>	<i>Numbers assisted</i>
Starter Home Initiative 2001–04	386
SHI second key workers	306
Funding from Approved Development Programme to help those eligible under Starter Home Initiative	1,218
Key Worker Living	411
<b>Total</b>	<b>2,321</b>

Question 73 (Mr Ian Davidson): *Assurance that HomeBuy Agents are able to ensure that key worker assistance impacts on those employers most in need and that assistance is not solely benefiting those who are best able to present themselves.*

The Key Worker Living programme currently covers the South East, London and East of England Regions. The independent Key Worker evaluation (September 2006) commissioned by the Department found that most interviewees considered this focus to be correct. In terms of targeting by sector, all HomeBuy Agents stated that in general they targeted groups of key workers within 40/40/20 (Education, Health and Community Safety) profile of the programme.

HomeBuy Agents ensure that Key Worker Living assistance reaches those employers (and employees) most in need and ensure that assistance is not solely benefiting those who are able to best present themselves, through effective marketing and targeting of key worker professions. HomeBuy Agents have a rigorous assessment process that is designed to ensure that only those who cannot afford to purchase receive assistance. HomeBuy Agents must be able to demonstrate at audit that those receiving assistance satisfy the aims and objectives of the scheme. One of the roles of the HomeBuy Agents is to foster and maintain close working relationships with employers working closely with them to identify the most appropriate communication and marketing channels. These can include pay slip campaigns, articles on the intranet or simply setting up a stand in the canteen. The Department hosts quarterly meetings with both the sponsor employers and HomeBuy Agents to ensure that this is being carried out. The independent evaluation and the HomeBuy Agents customer satisfaction survey provides clear evidence that Key Worker Living assistance is reaching those in greatest need.

Question 76 (Helen Goodman): *Average subsidy to a person over their whole tenancy in the social rented sector.*

This note attempts to answer the question by looking at Housing Benefit (HB) payments to tenants. The note looks at Local Authority and Registered Social Landlord tenants separately. In both cases the results are illustrative as it is necessary to make an assumption around the length of residence of a social tenant.

A second form of subsidy to social tenants over their tenancy is that which arises due to rents payable being below the market rent. This is sometimes called the “economic subsidy” and its value is equal to the discounted sum of the difference between social rents on a given property and the market rents that could be obtained on that property (net of management, maintenance and major repairs) over the life of the tenancy. An analysis of the value of the economic subsidy is being carried out as part of John Hills’ Aims of Social Housing Assessment for Ruth Kelly. The aim is for John Hills’ findings to be published early in the New Year.

#### HOUSING BENEFIT

Approximately 60% of social tenants are in receipt of Housing Benefit.

The average weekly HB payment per recipient in the social rented sector at May 2006 is as follows (£ per week):

	<i>Registered Social Landlord (£ pw)</i>	<i>Local Authority (£ pw)</i>
North East	56.52	45.83
North West	58.62	49.43
Yorks & Humber	56.95	46.45
East Midlands	61.20	48.08
West Midlands	59.57	51.33
East	65.85	56.86
London	94.95	92.46
South East	72.65	61.43
South West	63.33	53.02
<b>England</b>	<b>67.88</b>	<b>61.04</b>

Source: DWP, Housing Benefit and Council Tax Benefit Quarterly Summary Statistics: May 2006.

The mean length of residence in the social sector is as follows:

<i>Tenure</i>	<i>Years</i>
Local Authority	13.7
Registered Social Landlord	10.3
<b>All social renters</b>	<b>12.2</b>

Source: CLG, Survey of English Housing, table 806.

Combining the two can provide an illustrative estimate of the average amount of Housing Benefit subsidy to a social tenant over an average tenancy length.

In addition we assume that Housing Benefit payments increase in line with rental increases assumed at RPI + 0.5%. The figures below are Net Present Values for the mean length of tenancy in each sector (using a real discount rate of 3.5%).

	<i>Registered Social Landlord</i>	<i>Local Authority</i>
North East	£28,272	£30,424
North West	£29,843	£33,190
Yorks & Humber	£30,367	£30,424
East Midlands	£30,367	£31,807
West Midlands	£29,843	£34,573
East	£33,508	£37,339
London	£49,215	£58,082
South East	£36,649	£40,796
South West	£31,937	£35,264
<b>England</b>	<b>£33,508</b>	<b>£36,647</b>

Source: internal CLG calculations using DWP and CLG data.

Over an average length of tenancy in the LA sector (13.7 years) and assuming average HB payments to LA tenants (£61 pw) a tenant entering the sector in 2006 would receive £36,647 in HB payments (England). A tenant entering the RSL sector would receive £33,508. In both cases the amount received varies across the country.

Question 126 (Mr Alan Williams): *Reasonableness of the NAO's assumptions that if all purchasers had borrowed up to the maximum they could afford then the annual savings would be £63 million which would have been released to help 3,420 more households into home ownership.*

The savings that the National Audit Office (NAO) calculated were a result of a desk based assessment.

The NAO examined the gross annual incomes of those (non-key- workers) households helped into homeownership in 2004–05. They then compared the value of actual purchases by households with the maximum the household could borrow; assuming lending multiples of  $3 \times$  joint income and  $3.5 \times$  single income. They reduced the gross annual incomes by £3,000 across the board for debt payments. Based on the assumptions above they found that overall, 32% of households could have purchased more than they did. They calculated that the average amount by which households under each scheme “under-borrowed” as ranging from £12,171 for Homebuy to £20,918 under Shared Ownership.

To calculate the savings the NAO assumed that all of those who could have borrowed more did so by an amount equal to the average value of “under-borrowing”. The savings were therefore at the upper-end of savings (as they necessarily rest on a number of modelling assumptions and assume everyone who could borrow more, would borrow more (and at their maximum).

The NAO (as confirmed in their response to Q113) did not talk to prospective purchasers or to existing social rented tenants. The Housing Corporation therefore felt that it was reasonable to say that the £63 million should be regarded as a hypothetical maximum of the savings achievable by maximising home buyers borrowing.

All the identified savings can only be achieved in practice if the detailed assessments of an individual applicant's financial circumstances by HomeBuy Agents result in higher numbers being able to maximise their share sustainably. Of necessity it assumes a standard approach to all homebuyers, whereas the HomeBuy Agent service emphasises appropriate bespoke assessment with the principle goal to ensure that purchasers buy the maximum share that they can afford, whilst ensuring that this purchase is sustainable . . . It is not desirable or sustainable to simply apply income multipliers without taking into consideration other influencing factors. As the scheme matures we are learning more about the best way of doing this Research (by Sharp Research Services “understanding the financial potential of current and possible low cost home ownership purchasers”—August 2006) suggests a number of reasons why buyers purchase at income levels below the standard multiples. The research found those on lower incomes and lacking other capital reserves are more vulnerable to other factors including ill health, unforeseen change in circumstances, caution exercised by first time buyers not willing to over commit financially and the impact of mortgage repayments on other outgoings, play a significant part in the purchasers decision making process.

The Housing Corporation published in October 2006 a revised version of its “Capital Funding Guide” (the online document which sets out the conditions of grant). The revised guide states that RSLs should encourage purchasers to buy the maximum share that they can afford and sustain. RSLs should use, as a guide (but that they are not limited to and therefore can and should use higher or lower income multiples were appropriate) three times joint and 3.5 times single household income multiples for all low cost home ownership purchasers (this was already the case for Key Workers since April 2004). The guide also states that RSLs should ensure a rigorous affordability check is carried out which includes looking at savings and outgoings, to assess the sustainability of the purchase.

The recent report of the Shared Equity Task Force set out our plans to take forward further work on affordability assessments in the new year.

Question 148 (Mr Richard Bacon): *Requested the source of the statistic provided by Jon Rouse that in the nursing sector the cost had been independently calculated as resulting in annualised savings of £90 million for every 1% improvement in reduction of NHS turnover by 2007–08.*

The source is the Department of Health's “Efficiency Map”, which has been designed by the Productive Time Delivery Board and shows in a coherent way how a number of key modernisation initiatives will generate efficiency gains across all local health communities.

#### MANAGING OVERHEAD COSTS—IMPROVING STAFF RETENTION

Staff turnover incurs costs relating to recruitment, training and reduced productivity (less experienced staff). It is estimated that a reduction of turnover by 1% (to 13%) would result in annualised savings of £90 million by 2007–08. Improved pay and better career opportunities through effective local application of Agenda for Change, together with local HR strategies, such as Improving Working Lives, should enable

reduced turnover and cost savings. Many organisations are also using an increasing evidence base to develop progressive people management policy such as increase team working and staff involvement, which reduce stress, turnover and sickness absence and improve patient care.

Department of Health—The Efficiency Map Published: 13 May 2005 Author: Productive Time Delivery Board; DoH.

Question 153 (Mr Richard Bacon): *How many people had left their eligible employment since 2004 and repaid their assistance.*

The clawback provisions were introduced in April 2004 with the launch of the KWL initiative; the provisions require a person leaving eligible employment to repay assistance within two years for OMHB or five years for NBHB (initially also two years but recently extended to five years). There have been no documented cases of clawback to date although we know that the clawback provisions have been activated in a small number of cases and the grace period has yet to elapse. This is to be expected, as a purchaser would have had to have left their employment immediately after purchase, between April and November 2004, for the repayment period to have expired.

Question 154 (Mr Richard Bacon): *Clawback arrangements.*

We have taken a number of steps to ensure that clawback systems are in place and working effectively. The Housing Corporation has obtained assurance from HomeBuy Agents and 40 developing RSLs (as at 10 November) that they have controls for implementing and monitoring clawback in place. In addition the Capital Funding Guide as been strengthened to ensure that HomeBuy Agents and developing RSLs in receipt of KWL funding have systems in place to monitor and deal with clawback issues. Communities and Local Government has undertaken a further clawback audit (following the first audit in August 2005) covering over 100 key workers who have received assistance since 2004. HomeBuy Agents asked to check that key workers were still living in the property and still eligible for assistance. This exercise did not uncover any irregularities and of the three key workers identified as part of this audit and who have resigned the HomeBuy Agents were aware of this and had invoked clawback proceedings.

Question 166 (Mr Richard Bacon): *What Jon Rouse meant in his Times Interview regarding “poor design” costing more.*

*“Poor design costs you more in the long run over the whole life of a building”* discuss

Good design in the affordable housing sector is about being fit for purpose, reaping social and economic and environmental benefits. It makes homes healthier, safer and produces homes that enable young people to study and flourish. Secured by Design schemes protect homes and neighbourhoods against crime and vandalism. Lifetime Home design produces houses and flats that can be adapted at little cost to meet the changing needs of residents.

In addition, homes with good architectural quality develops good community spirit; considerations for the site location to have good transport links and access to amenities such as schools, retail and leisure centres are essential to the sustainability of the community. Furthermore, recent studies by CABE encourage developments to consider the requirements for better public open spaces, and to also having more and appropriate play areas for children. Typically the cost of design—good or bad—is about 1% of the lifetime cost of a building. It makes very good sense to get it right first time. Further detail on this subject is available in our publication “Affordable Housing—Better by good design”.

On the other hand, the Corporation considers the costs of poor design to be loss of community pride leading to a breakdown in the community spirit and civic trust, and loss of sense of safety and security. In economic terms these costs are reflected in poor property values or capital gains, failure to attract employment and investment into the area; in maintenance and running costs and in high environmental impact.

The Corporation has implemented several measures to ensure good design in our investment programmes including:

- we maintain Quality Standards for the schemes funded by us;
- our lead investment partners are required to have an active Design Champion;
- quality visits are undertaken by our regional Innovation and Development staff use the “Building for Life” criteria to assess schemes; and
- we encourage enhanced standards by rewarding them within our VFM (value for money) assessment framework.

Question 174 (Mr Richard Bacon): *Asked what was the total length of time it took to sell each of the individual homes classed as voids at six months.*

The NAO reported that by March 2006, there were 94 key worker properties defined as being void—ie not occupied six months from the date of practical completion. The position from March 2006 to the present on the sale of the properties and the time taken for the sale to take place is set out at Annex B. There are a number of reasons for the voids including legal issues and flood damage to the properties.

The position on voids is improving all the time—the current long term void rate (ie units older than six month) is 0.8%. This represents only 34 units out of a total of 4,284 built for key workers.

We no longer have a problem with long term voids because:

1. We developed (with the Housing Corporation) a flexible (cascade) mechanism which allows units to be sold to other priority groups, such as social tenants and first time buyers, and switched to intermediate rent or social rent where local evidence demonstrates that this is needed.

2. The Corporation is working with RSLs to improve the marketing of properties.

3. The Housing Corporation no longer fund key worker specific new build schemes—key workers access all our new build properties as a priority group alongside social tenants and those on local authority waiting lists in priority need of a social rented home.

Of the 36 properties currently under offer, 17 are in London, 15 in the South East and four are in the East of England Region.

## Annex B

### VOID UNITS FOR SALE SINCE MARCH 2006

	<i>No Void at March 2006 Units</i>	<i>No Under Offer Units</i>	<i>Occupancy Profile</i>								<i>Total</i>	
			<i>April</i>	<i>May</i>	<i>June</i>	<i>July</i>	<i>August</i>	<i>Sept</i>	<i>Oct</i>	<i>Nov</i>		
London	34	17	3		11		1			2		34
South East	48	15	7	2	3	1		1	3		16	48
East	12	4	3		1		2		2			12
<b>Total</b>	<b>94</b>	<b>36</b>	<b>13</b>	<b>2</b>	<b>15</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>7</b>	<b>16</b>		<b>94</b>

Notes: 96 units void at March 2006

13 Occupied after seven months  
 15 Occupied after eight months  
 30 Occupied after nine months  
 31 Occupied after 10 months  
 34 Occupied after 11 months  
 35 Occupied after 12 months  
 42 Occupied after 13 months  
 58 Occupied after 14 months  
 36 Currently under offer

Question 175 (Mr Austin Mitchell): *asked for a comparison of the cost of construction and maintenance by registered social landlords and local authorities.*

#### Construction

In the RSL sector, the total average cost of providing a social rented unit is £133,941, of which £62,000 is the average public subsidy in the form of grant.

The remainder of the cost is provided from RSLs' own resources, private finance or developers' contributions through planning obligations (S106 planning agreements).

Statistics are not collected on the construction costs of new council housing.

*Maintenance*

The table below sets out the average costs per unit per annum for maintenance in both the local authority and registered social landlord sector in 2005–06.

<i>Sector</i>	<i>Planned and routine maintenance</i>	<i>Major Repairs</i>	<i>Total</i>
Local authority	£818	£1,700	£2,518
Registered Social landlords	£871	£881	£1,752

*Source:* 2005 Global Accounts of RSLs and 2006 electronic annual account returns and statistical returns from local authorities.

The larger part of the differences in annual spend per dwelling is likely to reflect the different levels of work undertaken in the two sectors rather than different levels of efficiency between the sectors in procuring the works. This will in turn reflect differences in the condition of the stock held by local authorities and registered social landlords, requiring more works to be undertaken on some dwellings. From the data returns it is not possible to compare the cost of undertaking a similar piece of work in the two sectors ie whether one sector is getting better value for money from its spend.