



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

A review of the Homebuy scheme in Wales

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Introduction

Since the introduction of Homebuy in Wales in 1995/6, real house prices have more than doubled while earnings have increased by less than half. The *Review of Low Cost Home Ownership Policies in Wales*¹ was commissioned from the Cambridge Centre for Housing and Planning Research in light of growing concern about difficulties faced by first time purchasers and increased demand for low cost home ownership products, including Homebuy and to fulfil the commitment made in the National Housing Strategy to review and develop existing Low Cost Home Ownership schemes to make them more relevant to local housing strategies.

The objective of the review was to assess the effectiveness of low-cost home ownership schemes in meeting policy objectives, and any wider consequences that such schemes have had on local housing systems. The overarching aim was to advise on whether the objectives of the scheme have been and are being, realised as intended and, if not, whether revisions are needed to the design of the scheme and arrangements for its administration.

The report of the review identifies Homebuy as the most successful low cost home ownership product currently available. It is simple to administer and offers better value to the purchaser than the shared ownership scheme, which it has largely replaced. However, the way in which the scheme is currently operated is not without problems. In particular, the report identifies: -

- a lack of targeting by local authorities or Registered Social Landlords (RSLs) to identified groups or for strategic purposes
- that a high proportion of purchasers were unlikely to be in circumstances that would lead to an offer of rehousing from a social landlord
- that Homebuy appears to have allowed some purchasers to acquire property larger than dictated by their immediate needs, or in more favourable locations than they would otherwise have been able to afford.

In relation to the impact of the scheme, the report observes that Homebuy purchases are marginal in relation to the size of the market for home ownership, even where there is most activity and the scheme is therefore unlikely to add to inflationary pressure on housing markets.

¹ The report is available on the Welsh Assembly Government website

The report suggests a number of policy issues for consideration, including: -

- refocusing the Homebuy programme to support identified strategic objectives, such as reducing demand for social housing, increasing availability of social housing and preventing homelessness, supporting rural communities
- reviewing arrangements for setting purchase price limits and financial eligibility
- achieving better fit between size of property purchased and the immediate needs of the purchaser
- the use of repurchasing covenants to retain availability of property to future Homebuy purchasers

This paper is a response to the report's findings and conclusions.

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1. Refocusing Priorities

- 1.1. The Review notes that in the three years 2002 to 2005 the average number of Homebuy purchases was 215 each year compared with an average of 56,000 sales of homes each year in the same period. Homebuy therefore accounted for only 1.5% of the bottom quartile of housing market sales in this period. Doubling or trebling the size of the programme would result in Homebuy being little more than one tenth of the bottom decile of the market. SHG funded Homebuy is and will remain marginal in relation to the total market for home ownership. It is clear that the Welsh Assembly Government cannot meet the demand for low-cost home ownership on its own.
- 1.2. Local authorities are making increasing, though variable, use of planning obligations to deliver affordable housing without public subsidy, using section 106 agreements. The following is an example of how this might work.

Under the agreement a developer will sell an agreed proportion of land or completed dwellings to a RSL at a discount, typically 30% of open market value (OMV) but sometimes more (or less). The RSL may then sell the dwelling to a Homebuy purchaser. If the RSL has acquired the dwelling at 70% of its open market value, then the dwelling could be sold with a 30% Homebuy loan without requiring any SHG. Provided repurchasing covenants are in place, the value of the initial discount can be preserved in perpetuity, allowing the RSL to either repurchase the property to make it available to a subsequent Homebuy purchaser, or to recycle the discount to assist a subsequent Homebuy purchaser at a different location.

We are encouraging provision of affordable housing using section 106 agreements and intend to issue guidance on the operation of the Homebuy model for this purpose.

- 1.3. Community Land Trusts may make a contribution by helping to meet the specific needs of some rural communities. We also expect the private sector to develop more equity-sharing products that can make home ownership more accessible to households on lower incomes.
- 1.4. There will inevitably be many more households seeking assistance than can be helped using current or future public resources. Measures like those outlined above may have the potential to become a significantly bigger source of low-cost home ownership opportunities than the SHG funded programme. For example, in Cardiff, over 100 purchasers have been helped through the use of section 106 agreements since 2005/6. **We will therefore work with local government and the private sector to help meet the demand from the rising number of households in the**

intermediate market that cannot afford conventional purchase, but might have no other priority in housing need terms, through mechanisms which do not require grant input.

- 1.5. In order to achieve value for money SHG-funded Homebuy will be targeted so that relatively modest numbers will have greatest impact. We will target assistance to those whose needs could not be met using schemes that do not require public subsidy and/or to support identified strategic objectives.

2. Targeting Social Housing Grant (SHG)

- 2.1. Current procedures require only that an applicant for Homebuy must be able to demonstrate inability to purchase an eligible property without assistance. Beyond that, strategic targeting of investment is left to the discretion of local authorities and participating housing associations.
- 2.2. The review identifies that: -
 - Few authorities or associations have any strategic policy for targeting Homebuy. Little use is made of Homebuy to support other objectives, such as sustaining rural communities. Although in 2005, around 65% of Homebuy purchases were in local authorities that are predominantly rural, almost all purchases were in or near larger towns, rather than in rural villages.
 - Housing associations keep separate waiting lists for Homebuy applicants. They generally deal with applicants in date order rather than applying any test of housing need or priority. A high proportion of purchasers were household types that were unlikely to have been in circumstances that would lead to an offer of rehousing.
 - Homebuy has allowed significant numbers of households to purchase dwellings larger than their needs dictate and better quality or more desirable homes than they would otherwise have been able to afford. There must therefore be some question as to the rigour with which some participating housing associations have applied the current requirement that applicants must demonstrate that they are: -
 - a) not adequately housed and
 - b) unable to buy a home suitable for their needs without assistance.
- 2.3. In future we wish to target SHG-funded Homebuy to improve the supply of social housing either directly or indirectly. The average cost to the public purse of providing a new social tenancy is greater than that required for an equivalent Homebuy option. Enabling an existing

tenant to purchase a property in the market can free up a property for re-letting. Helping those on waiting lists that would otherwise be likely to become social tenants is a cost-effective way of meeting that need. However, while this may be a cost-effective way of creating a new tenancy there is a risk of reinforcing the image of residual welfare housing by encouraging economically active residents to move out of the area. Where a sitting social tenant purchases their existing home, a receipt is generated that can be recycled to produce more social housing. Moreover, giving tenants the opportunity to purchase their homes with Homebuy as a more affordable alternative to the Right to Buy or Right to Acquire could contribute to a strategy for promoting sustainable, mixed-income communities by offering more choice of tenure to existing and potential residents.

2.4. **SHG-funded Homebuy will be restricted to those households that would otherwise have priority for social rented housing or be otherwise targeted to support clearly identified strategic objectives.**

Examples of the former are: -

- People on housing waiting lists that are nominated by their local authority as being in housing need
- Existing owner-occupiers threatened with homelessness as a consequence of changed circumstances such as relationship breakdown or reduced income
- Existing social housing tenants in areas of housing shortage whose homes are suitable for re-letting to people in priority need

Examples of the latter could include: -

- To support clearance and redevelopment proposals where existing owner-occupiers have insufficient equity to repurchase within the local area
- To support rural communities (although as noted above, Homebuy has been little used for this purpose)
- To provide assistance to key workers where affordability problems are a barrier to recruitment or retention.

3. Earnings-related purchase price limits

- 3.1. Current value limits for Homebuy purchases are based on the Acceptable Cost Guidance (ACG), used to benchmark value for money for SHG funded new build. The limits are related to the ACG for property types considered suitable for different household sizes. The purchase price limit is set at the highest ACG band in each local authority area. This has resulted in Homebuy applicants in the majority of local authority areas being able to access at least the lower half of the housing market and in some areas above the average house price.

- 3.2. Establishing value limits in relation to local markets (e.g. median or lower quartile) would be difficult to deliver on a consistent basis. It would in any event mean that Homebuy would be meeting the needs of relatively better-off households in higher value areas than in lower value areas. If the policy intention is to provide assistance to lower income groups this approach may not consistently produce the desired result.
- 3.3. An alternative approach would be to determine maximum values by reference to defined income levels. If the target household is identified as suggested above it should be possible to determine income thresholds for the target households. From these could be derived the maximum values that could be purchased with the assistance of a maximum Homebuy mortgage. The following table illustrates how this might work. An earnings threshold of 70% of median has been used for illustrative purposes only, as have all other values.

Median earnings	£25,000
Income at 70% of median	£17,500
Maximum mortgage at 4 x income	£70,000
Maximum affordable value at 50% equity	£140,000

- 3.4. It may be the case that a value limit so established would, in some high value areas, limit the availability of Homebuy because few suitable properties would be available at or below the value limit. Responding to this by increasing value limits in such areas would have the effect of assisting those higher up the income scale, while home ownership would remain inaccessible to lower paid households. Varying value limits according to local market conditions effectively means varying the income threshold at which Homebuy can provide a housing solution. The incomes of people in broadly comparable employment are unlikely to vary significantly in different parts of Wales. If the Homebuy product were to be targeted at households with incomes within defined bands there would not appear to be a clear rationale for varying the income threshold in different parts of Wales. It would follow that a single value limit could be applied across Wales.
- 3.5. **We see merit in this approach. Further work is needed to establish the income base and the appropriate mortgage multiplier but we aim to establish a new value-limit mechanism in 2007/8, based on the foregoing principles.**

4. Restricting size of property

- 4.1. Once the value limit is established there is currently no restriction on the type or size of property, provided it gives adequate security for the loan.
- 4.2. The Review identifies that, where value limits as currently determined are relatively high, households have tended to use Homebuy to purchase dwellings larger than immediate requirements and of better quality than they might otherwise have afforded. These deficiencies may be partly addressed by imposing limitations on the size of dwelling to be purchased and by reviewing the way in which purchase price limits are set.
- 4.3. **In future, regardless of purchase price limits, the size of dwelling purchased should reflect the current size of the household with a maximum excess of one bedroom above current needs.** RSLs operating the Homebuy scheme will be required to ascertain the value of dwellings in reasonable proximity to the area in which the applicant proposes to purchase and to set a lower maximum purchase price where property of a suitable size may be available below the value limit.

5. Variable equity shares

- 5.1. The current scheme offers a standard 30% equity mortgage to qualifying applicants, although 50% equity mortgages are available in rural areas. There is some evidence that numbers of people in receipt of 30% mortgages, although having satisfied the scheme operator that they could not purchase without assistance could have purchased with a smaller equity mortgage. If the value limit for the SHG-funded Homebuy product is established as discussed above, the equity mortgage may be calculated as a residual sum according to the means of the applicant, with a conventional mortgage varying upwards from a minimum 50%, to an upper limit of 90% on the ground that those able to afford to purchase above that level are likely to be able to meet their needs without assistance. In areas where values are lower in relation to earnings, households at the earnings threshold would be expected to purchase relatively higher equity shares than equivalent households in higher value areas. Within the same area, households with earnings above the threshold would similarly be expected to purchase a higher equity share of a property at or below the value limit than a household at the income threshold.
- 5.2. **We will introduce variable equity Homebuy mortgages in 2007/8, where the residual equity will be based on the maximum mortgage offer available from a conventional mortgagee.**

6. Cash deposits

- 6.1. The Review identifies the fact that less than 20% of purchasers have contributed anything from their own resources toward a deposit; of these, around 60% have contributed deposits of less than £5k. The Review identifies that a significant proportion of 100% staircasing sales take place within the first three years after initial purchase, suggesting that many Homebuy purchasers are in a position to trade up within a short period of purchase. Homebuy is not intended to enable people who would have purchased in any event to do so sooner.
- 6.2. **In future, applicants will be required to contribute a minimum cash deposit of £3,000.** The purchaser will be required to have additional savings to pay the fees and other costs associated with the purchase and will be able to retain some additional savings to cover improvements or future maintenance liabilities, but any remaining capital assets exceeding £10,000 should be used towards the purchase. Provided the maximum purchase price has been established in relation to the market and the needs of the applicant the effect of savings should be to increase the proportion of equity that is purchased, rather than to increase the value of the property purchased.

7. Housing Benefit and eligibility

- 7.1. Under current rules people who are receiving Housing Benefit or have done so in the twelve months prior to application are excluded from the Homebuy scheme. The review questions the usefulness of this rule on the ground that a household paying a social rent may not be in receipt of Housing Benefit while a household on the same income but paying a market rent might. We accept that financial eligibility should be based only on an assessment of a household's ability to sustain the costs of home ownership.
- 7.2. **People who have received Housing benefit will no longer be excluded from the Homebuy scheme.**

8. Recycling staircasing receipts

- 8.1. The relatively early staircasing referred to above results in the original subsidy being returned for recycling, although under present rules, the association retains any surplus arising from increased value. Rapid house price inflation since 1995 suggests that associations have generated surpluses of around £6m. These

surpluses may only be used to support the association's housing activities but are not otherwise ring-fenced.

- 8.2. **We will consult on a proposal to require, in respect of future Homebuy approvals, all surpluses arising from disposals of future SHG-funded Homebuy properties to be recycled for purposes specifically approved by the Welsh Assembly Government.**

9. Repurchasing covenants

- 9.1. The Review suggests that, where it is desirable to ensure that property originally sold on Homebuy terms remains affordable to future purchasers, arrangements for repurchasing should be strengthened. We agree, and the current General Consent Order under section 9 of the 1996 Housing Act, by which the Welsh Assembly Government controls disposals by RSLs that are registered in Wales, is being re-drafted to require all Homebuy disposals to be subject to a re-purchasing covenant. The covenant will require the owner, when selling the property, to offer the RSL the option to repurchase at open market value or to nominate a qualifying household to purchase the property on Homebuy terms.
- 9.2. **We will consult with the sector on arrangements to ensure that the funding necessary to effect the repurchase will be available.**

10. Alternative delivery mechanisms: neutral tenure

- 10.1. Virtually all Homebuy in recent years has been purchased on the open market (DIY Homebuy). SHG has not been made available in recent years for purpose-built Homebuy because, since 2002, RSLs have been able to offer any housing built with SHG for rent or on Homebuy terms, according to local needs and circumstances. The principle of neutral tenure is that applicants should be allocated accommodation according to their needs and relative priority but those with sufficient income to purchase equity with assistance from Homebuy would be given the opportunity of doing so.
- 10.2. The Review suggests the possibility that the tenure neutral approach could be applied to all social housing lettings. To do so would convert what is currently an option for RSLs into what would effectively be a "Right to Homebuy" for all RSL tenants. We see merit in this idea but recognise that it would almost certainly need to be linked to strengthened arrangements for recycling grant into replacing or repurchasing properties sold under such arrangements. **We will consult on the introduction of a requirement that RSLs offer**

Homebuy to tenants and prospective tenants in SHG-funded developments, or housing transferred from local authorities.

- 10.3. Dwellings sold to tenants on Homebuy terms generate a receipt that may be re-invested in the programme. A tenure-neutral approach means that it is not necessary to pre-determine the final balance of tenure on new developments or to fix it in perpetuity, as dwellings sold subject to a suitable covenant could be re-purchased for social housing use. The tenure neutral approach has received a positive response in rural areas and has been successfully piloted, but has not been received with great enthusiasm by RSLs generally. This may be wholly or partly because of letting policies/nomination arrangements that prioritise households that are in the most difficult circumstances and thus unlikely to be in a position to purchase a minimum equity share. While this may be true of new tenants it may not be true of all existing tenants. And the circumstances of a new tenant may change in future, allowing a Homebuy purchase to become a realistic option.

11. Advertising and scheme administration

- 11.1. The Review indicates that little or no advertising takes place. This is attributed to the fact that potential demand is far in excess of supply. Current Homebuy waiting lists are longer than can be satisfied, although the Review questions whether all those on current lists could be considered to be in any acute or urgent need of housing.
- 11.2. If SHG-funded Homebuy were to be more effectively targeted as described above, coupled to a neutral tenure approach, a supply of potential customers would result from the application of standard allocation policies and/or referrals from local authorities and broad advertising may be unnecessary, other than to raise general awareness.
- 11.3. There is a case for wider and more open publicity for non-SHG funded Homebuy opportunities and for a more consistent approach to the screening and prioritising applicants. **We will therefore consult on a proposal to appoint a smaller number of RSLs, or consortiums of RSLs as agents to administer SHG-funded market Homebuy within defined areas, which could reflect housing market areas covering several local authorities, rather than having several dozen RSLs engaged in low levels of activity in overlapping areas as is now the case.** Such agents would be required to produce and publish appropriate promotional materials, including web-based applications. They might also usefully act as vehicles to advertise the availability of purpose-built Homebuy and similar products delivered through mechanisms that do not require grant. This arrangement should lead to improved

consistency and facilitate closer monitoring of the administration of the scheme. Any disposals made under neutral tenure arrangements would nevertheless be administered by individual landlords.

12. Allocation of resources

- 12.1. The way the SHG programme is distributed and managed is designed to strike a balance between national and local priorities. Allocations of SHG are generally based on the merits of bids made by local authorities and the evidence presented. Where a local authority sees Homebuy as a solution to local problems it is able to bid for resources for that purpose. In recent years we have met all bids for Homebuy in full. The lack of strategic policy on the part of local authorities for targeting Homebuy and lack of rigour by RSLs in screening applicants highlighted in the *Review* question whether this approach is sustainable.
- 12.2. The appointment of a small number of agencies to administer Homebuy could provide a more rigorous and consistent approach to the screening and prioritisation of applicants across their designated areas, provided all applicants within an area were considered in relation to an allocation for that area. Otherwise applicants in similar circumstances but on different sides of a local authority boundary would be treated differently. Authorities are unlikely to bid for resources that may not be used within their areas. A separate budget line for Homebuy would solve this problem but the Welsh Assembly Government has no strong evidence on which to base such a budget allocation.
- 12.3. The *Review* notes that the relative incomes of those purchasing through Homebuy have shifted upward in recent years as house prices have increased more rapidly than incomes. The change in house prices relative to incomes has resulted in Homebuy helping more dual income households that are higher up the income scale, rather than lower paid households borrowing at the higher multiples currently available.
- 12.4. This evidence suggests that households that might have been potential Homebuy customers when the scheme was introduced are now excluded from the property market and will therefore be in need of affordable rented accommodation. The neutral tenure approach outlined in section 10, if widely adopted, might offer a longer term route to home ownership for such households.
- 12.5. Without evidence based, strategic policy to inform the setting of a Homebuy budget line there is a clear risk that many of the criticisms the Report makes in relation to targeting would be perpetuated. This could result in some more or less arbitrary top slice from the SHG

budget being applied to the potentially unlimited aspirations of first time purchasers at the expense of identified housing needs.

- 12.6. **We will in future expect all bids for SHG to fund Homebuy to be supported by clear strategic objectives, clear evidence of needs and the priority of Homebuy in relation to other possible solutions.**

13. Summary of responses

13.1. *We will:* -

- a) issue guidance on the operation of the Homebuy model for the purpose of satisfying section 106 agreements (*para 1.2*)
- b) work with local government and the private sector to help meet the demand from the rising number of households in the intermediate market that cannot afford outright purchase, but might have no other priority in housing need terms, through mechanisms which do not require grant input (*para 1.4*)
- c) restrict SHG-funded Homebuy to those households that would otherwise have priority for social rented housing or be otherwise targeted to support clearly identified strategic objectives (*para 2.4*)
- d) establish a new purchase price limit mechanism, based on income (*para 3.5*)
- e) require the size of dwelling purchased to reflect the current size of the household with a maximum excess of one bedroom above current needs (*para 4.3*)
- f) introduce variable equity Homebuy mortgages, where the residual equity will be based on the maximum mortgage offer available from a conventional mortgagee (*para 5.2*)
- g) require applicants to contribute a minimum cash deposit of £3,000 (*para 6.2*)
- h) remove the exclusion of Housing Benefit recipients from the Homebuy scheme. (*para 7.2*)
- i) in respect of future grant approvals, require properties disposed of by RSLs on Homebuy terms to be subject to a covenant requiring the owner, when selling the property, to offer the RSL the option to repurchase at open market value or to nominate a

qualifying household to purchase the property on Homebuy terms (*para9.1*)

- j) expect all bids from local authorities for SHG to fund Homebuy to be supported by clear strategic objectives, clear evidence of needs and the priority of Homebuy in relation to other possible housing solutions (*para12.6*)

13.2. *We will consult on: -*

- k) a proposal to require, in respect of future Homebuy approvals, all surpluses arising from disposals of future SHG-funded Homebuy properties to be recycled for purposes specifically approved by the Welsh Assembly Government. (*para8.2*)
- l) arrangements to ensure that the funding necessary to enable RSLs to purchase homes under repurchasing covenants will be available (*para9.2*)
- m) a proposal to require RSLs to offer tenants and prospective tenants of SHG-funded developments, or new stock transfers, the opportunity to purchase their dwelling, or allocated dwelling, on Homebuy terms. (*para10.2*)
- n) a proposal to appoint a smaller number of RSLs, or consortiums of RSLs as agents to administer SHG-funded market Homebuy within defined areas, which could reflect housing market areas covering several local authorities (*para11.3*)

14. Conclusions

- 14.1. The reforms to the Homebuy scheme set out in this paper are designed to remove or minimise the weaknesses identified in the Review of Low Cost Home ownership Policies in Wales. In particular they should result in more effective targeting of SHG to more clearly defined objectives. The changes set out in section 13.1 will be introduced as soon as is practicable. We will consult on the proposals set out in 13.2 in the first quarter of 2007/8. Where necessary we will discuss the potential effect on forward allocations of SHG for Homebuy in 2007/8. It may also be necessary to invite further information from authorities to support bids they have submitted for SHG to fund Homebuy in 2008/9.
- 14.2. It is likely that significant numbers of people on current Homebuy waiting lists will not meet the stricter application of eligibility criteria for access to SHG-funded Homebuy. We would expect such people to be given priority access to schemes produced without SHG through partnerships between local authorities, RSLs and the private sector.