

LOCAL GOVERNMENT AND HOUSING COMMITTEE

LOW COST HOME OWNERSHIP SCHEMES

Purpose

1. To inform the Committee of the current position concerning Low Cost Home Ownership schemes and outline some possible ways forward for the future.

Summary/Recommendations

2. The paper gives an overview of the Low Cost Home Ownership programme to assist people of modest incomes to own their own homes and thereby create more stable, mixed tenure communities. The Committee is invited to endorse the proposals put forward to develop the programme.

Timing

3. This paper is to be considered on 20 June 2001.

Background

4. At present 72% of homes in Wales are owned privately but research has revealed that 87% of those questioned aspire to own their homes by 2010.

5. Low Cost Home Ownership (LCHO) is the generic title for a range of publicly assisted schemes to support people on relatively modest incomes into home ownership. The schemes are targeted at people who genuinely need help, eg due to relatively high property prices, or being in less secure employment. However, once they become owners they should have sufficient resources to meet all the associated costs, including mortgage repayments and maintenance bills.

6. The number of Welsh households is expected to increase by around 12% between 1996 and 2016. However, over the period the population is only projected to rise by around 3%. A significant rise in the proportion of single person households and a reduction in married couple households would result in lower average household incomes which could make it more difficult for many people to purchase on the open market. Around half of Welsh households have an income of less than £10,000 pa.

7. In the past, helping people on modest incomes to achieve their aspiration to home ownership has been regarded as sufficient justification to support LCHO as an end in itself. Specific allocations of resources have been made and output targets set. Housing has been built specifically for potential LCHO customers. Such policies may have had the unwanted side effect of emphasising the distinction between public sector and private sector housing.

8. Since the National Assembly has given local authorities effective control of the Social Housing Grant budget and removed centrally set targets, the proportion of the programme devoted to LCHO has declined sharply. In its present form it is clearly not perceived by many local authorities as a very useful tool for meeting priority housing needs. This may be because LCHO has come to be seen as separate from mainstream social housing. There have been no stated policy objectives, other than the implication that encouraging home ownership has intrinsic merit. LCHO can, however contribute to broader policy objectives in the following ways:

a. To help meet the need for affordable housing in areas of shortage by assisting existing tenants and those on waiting lists to buy a home of their own.

This has the disadvantage of potentially reinforcing a perceived image of social housing as housing of last resort but could free up existing stock where demand is acute if economically active people are helped to purchase elsewhere. It may therefore be useful in limited circumstances.

b. To help meet rural housing needs.

Action has already been taken on this front.

c. To promote tenure diversity on new and existing social housing estates.

Development of more flexible tenure models could blur the distinction between ownership and renting by offering people more tenure choice and the opportunity to move between tenures without moving house. It could help promote more stable, mixed-income communities.

d. To assist owner-occupiers whose property is required for clearance or redevelopment.

Homebuy equity loans can help people where the proceeds of their former dwellings are not enough to purchase replacement dwellings outright.

9. Current LCHO schemes include the following:

a. Right to Buy, enables secure tenants of local authorities to purchase their homes at a

discount on its market value of between 32% and 60% for houses (and 42% and 70% for flats), subject to an overall maximum of £24,000 (in Wales). The scheme has resulted in the sale of around 110,000 homes in Wales. However, it has been criticised as removing some of the more desirable homes from the social rented sector. It is also relatively expensive and is estimated to cost the public purse £10,000 for each property in terms of rent foregone and the cost of replacement provision.

b. Right to Acquire enables qualifying tenants of Registered Social Landlords a right to purchase their homes if they were provided using Social Housing Grant, or transferred from a local authority after April 1997. A flat rate discount of 25% of the market value is allowed to qualifying tenants, subject to an overall maximum of £16,000. As this is a new scheme there have been relatively few sales to date.

c. Homebuy allows people to buy a home in the private market with an interest free equity loan from a Registered Social Landlord for 30% of the value of the property. The loan is repayable at 30% of the current market value when the home is sold. The National Assembly has recently increased the proportion of the equity loan to 50% in rural areas, where wages are often below the Welsh average. The scheme, which was developed in Wales, is simple to understand by all parties and has recently been introduced in England.

d. Homefinder extends the principles of the Homebuy scheme to local authorities. However, Homefinder and other LCHO schemes are not generally regarded as a priority by local authorities. They must therefore compete with the organisations' other spending priorities.

e. Shared Ownership allows people to own a minimum share of 40% of the value of their home and pay rent on the remainder which continues in the ownership of the registered social landlord. However, the legal arrangements can be complex and the combined outgoings on mortgage repayments and rent on a 40% share are similar (in most cases) to the mortgage repayments on 70% of the value of an equivalent property under the Homebuy scheme. As a result, Shared Ownership is now rarely used.

Consideration

10. The consultation paper "Better Homes for people in Wales" put forward a number of changes to LCHO including; making Homebuy more flexible, dispensing with Shared Ownership, giving all social housing tenants the option to purchase their homes on Homebuy/ Homefinder terms, and making all social housing "tenure neutral".

11. Respondents to the consultation paper warmly welcomed the new 50% equity threshold for **Homebuy** in rural areas. The availability of the scheme is determined by the extent to which local authorities prioritise Homebuy in their Social Housing Grant programmes. For 2001-2002, local authorities have made provision for 70 dwellings at an estimated grant cost of £1.5m. The

National Assembly will provide an additional £1.5m to double this programme to 140 dwellings in the current financial year.

12. Some respondents argued for restricted access to the **Right to Buy**. This is not a devolved matter and would require changes to primary legislation affecting both England and Wales. The Assembly is able to change the areas to which restrictions on the resale of properties purchased under the Right to Buy apply and is seeking the views of local government, RSLs and others on the case for review. The consultation will also invite views on whether to use the same areas for restrictions on the Right to Acquire.

13. There was qualified support for giving existing and prospective tenants the **option to purchase** using more flexible *Homebuy* equity loans. Some respondents saw it as an aid to achieving more sustainable communities but concern was expressed that it could lead to the loss of more popular rented stock whilst doing little to combat social disadvantage in areas of low demand.

14. The idea of providing "**tenure neutral**" housing (ie not specifically identified as "for rent" or "for LCHO") was thought to have potential. Although, difficulties were recognised in reconciling the principle of customer choice inherent in offering housing according to "the needs, means and preferences" of individuals with existing allocation policies which are based on priority needs alone.

15. Although welcoming the introduction of a lower minimum *Homebuy* equity threshold many respondents recognised the risk that some people on the margins of affordability could face difficulties in sustaining ownership in the long term. There was substantial support for the introduction of **flexible Homebuy** that would enable people to move between tenures without moving house. The ability to staircase down as well as up, or to convert to rent and back to *Homebuy* could offer an alternative in times of domestic difficulties to the destabilising effect of mortgage repossession or homelessness.

16. There was general agreement that the **Shared Ownership** scheme should be discontinued in favour of a more flexible *Homebuy* scheme.

17. In England, applications are currently being assessed to implement the **Starter Homes Initiative**. The scheme is intended to assist key workers on lower incomes into home ownership in areas where house price affordability is a significant problem and where there is a demonstrable excess demand for housing. In Wales, the housing of key workers has not been identified as a significant problem justifying the establishment of a separate initiative. People experiencing such difficulties are able to access the existing LCHO schemes. However, the Assembly will keep the situation under review.

18. A **research** project to evaluate the effectiveness of the LCHO programme in England and Wales is due to start in July. The project will be funded by DETR and the National Assembly and is expected to be completed by the end of March 2002.

19. In addition, a working group established to improve the **local housing strategy** process has recommended that future strategies should be based upon a much more robust analysis of local housing needs and demands. In particular, authorities need to improve their understanding of local private housing markets and take this into account in framing their strategic plans. An assessment of the demand for LCHO will form part of this process.

Proposed action

20. It is suggested that the Assembly should:-

- review existing procedures and grant schemes to remove obstacles to the more flexible use of Homebuy to facilitate "tenure neutral" housing
- enable social landlords to offer existing tenants the option to purchase their existing dwellings
- allow social landlords to offer a prospective tenant the option to purchase the offered dwelling
- allow *Homebuy* owners to staircase down as well as up, and
- enable Registered Social Landlords to repurchase properties sold under *Homebuy*.
- discontinue the existing Shared Ownership scheme when the new *Homebuy* procedures are published.

21. The aim of these measures will be to increase the flexibility of existing schemes to assist in developing mixed tenure, sustainable communities. It is not envisaged that the above options would be appropriate in all cases. It will be for local authorities and Registered Social Landlords to determine what is best for the communities they serve. The Assembly will wish to treat any early proposals for "tenure neutral" housing as pilots and will agree monitoring arrangements with Registered Social Landlords and local authority partners.

Cross-cutting themes

22. Supporting LCHO particularly on large estates of social housing complements Assembly's aims of promoting social inclusion and sustainable development.

Action for subject committee

23. To note and consider the action proposed for the future.

Contact point

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