EXPLANATORY MEMORANDUM TO THE

SOCIAL LANDLORDS (ADDITIONAL PURPOSES OR OBJECTS) (AMENDMENT) (ENGLAND) ORDER 2005

2005 No. 2863

1. This explanatory memorandum has been prepared by the Office of the Deputy Prime Minister and is laid before Parliament by Command of Her Majesty.

2. Description

2.1 This instrument amends two existing orders which specify additional permissible purposes or objects for bodies to be eligible for registration as social landlords. The definition of ”qualifying lending institution” in those orders is amended so that all lenders who are authorised persons, and who have permission under the Financial Services and Markets Act 2000 to enter into regulated mortgage contracts as lender, can benefit from having a first charge over properties bought under low-cost home ownership schemes. The social landlord will have a second charge.

2.2 Its purpose is to widen the number of lenders available to those buying under low-cost home ownership schemes so that they have greater freedom of choice when selecting a mortgage lender.

2.3 The instrument also prescribes an additional permissible purpose or object for such bodies, namely that of disposing of houses on shared ownership leases (which will include disposals to sitting tenants).

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None

4. Legislative Background

4.1 Section 2 of the Housing Act 1996 (“the 1996 Act”), specifies the bodies that are eligible for registration with the Housing Corporation as social landlords with the Housing Corporation. For two categories of body (a society registered under the Industrial and Provident Societies Act 1965 and a company registered under the Companies Act 1985) the section sets out the conditions that must be satisfied for registration. In addition to the core purposes or objects there are permissible purposes or objects. . The Secretary of State has power under section 2 to specify additional permissible purposes, objects or powers, and also to make provision in respect of the priority of mortgages entered into in pursuance of any additional purposes, objects or powers. In the Social Landlords (Permissible Additional

Purposes or Objects) Order 1996 ("the 1996 Order") and the Social Landlords (Additional Purposes or Objects) Order 1999 ("the 1999 Order"), the Secretary of State has specified additional purposes and objects, and made provision regarding the priority of mortgages entered into in pursuance of the additional purposes and objects. This is in respect of loans advanced by 'qualifying lending institutions' for the purchase of homes under the low cost home ownership schemes permitted by the Orders (e.g. Homebuy loans, available to key workers, social tenants and others on modest incomes, and the Key Worker Living schemes, available only to key workers).

4.2 The existing permissible purposes in section 2(4) of the 1996 Act include the disposal of houses on shared ownership terms, but only in the circumstances mentioned in paragraphs (b) and (c) of that subsection, namely, where the houses were constructed, acquired, repaired or improved, or created by the conversion of houses or other property, for disposal on those terms. However, disposals by way of shared ownership more generally are not permissible purposes. The nature of shared ownership terms is defined in section 2(6) of the 1996 Act.

4.3 The Order makes provision to facilitate the Social HomeBuy scheme by adding as a permissible purpose or object for registered social landlords disposing of houses on shared ownership terms (which will include disposals to sitting tenants). By virtue of the definition of "house" in section 63(1) of the 1996 Act 'houses' includes flats.

4.4 The Order also amends the current definition of "qualifying lending institution" in the 1996 and 1999 Orders. These orders provide that a mortgage securing a liability to make any payment required by an assured percentage covenant or an equity percentage covenant to a registered social landlord will rank immediately after any legal charge in favour of a qualifying lending institution to secure an advance by that institution for the purposes of acquiring the house.

4.5 A "qualifying lending institution" was originally defined in those Orders to mean a bank, building society, insurance company or friendly society, or the Housing Corporation. Following the enactment of the Financial Services and Markets Act 2000 ("the 2000 Act") , this definition was amended by articles 535(c) and 581(1) of S.I. 2001/3649 from 1 December 2001 to mean:

- the Housing Corporation

- a person who has permission under Part 4 of the 2000 Act to accept deposits or to effect or carry out contracts of insurance, or

- an EEA firm of the kind mentioned in paragraph 5(b) or (d) of Schedule 3 to that Act which has permission under paragraph

15 of that Schedule (as a result of qualifying authorisation under paragraph 12 of that Schedule) either

(i) to accept deposits; or
(ii) to effect or carry out contracts of insurance.

4.6 Since October 2004 all firms who enter into regulated mortgage contracts have needed to be authorised persons for the purposes of the 2000 Act, and have permission under that Act to undertake that activity. Regulated mortgage contracts are defined in article 63(1)(a) of the Financial Services and Markets (Regulated Activities) Order 2001 as contracts where a loan is made to a borrower for the purpose of purchasing a home for that person, and the loan is secured by a first charge on the property.

4.7 This Order amends the definition of "qualifying lending institution" so that all lenders who are authorised persons for the purposes of the 2000 Act and who have permission to enter into regulated mortgage contracts under that Act will fall within the definition.

5. Extent

This instrument applies to England .

6. European Convention on Human Rights

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

7.1 Registered social landlords are independent, private sector, non-profit making voluntary bodies. They are the main developers of new social rented housing for people on low incomes in housing need. In addition, registered social landlords provide low cost home ownership housing and products to assist social tenants, key workers and other first time buyers on modest incomes into home ownership. Such schemes help free up the social rented properties for others in housing need, reduce pressure on waiting lists for social housing and aid the recruitment and retention of key public sector workers.

7.2 The Homebuy equity loan scheme was introduced in April 1999. The scheme, operated by registered social landlords, offers social tenants and others on housing waiting lists, nominated by the local authority, an equity loan equivalent to 25% of the value of a property purchased on the open market or newly built by a registered social landlord (e.g. a housing association). Homebuy purchasers repay the equity loan at 25% of the value of the property when they sell.

7.3 The Key Worker Living programme, introduced in March 2004, includes two low cost home ownership schemes, and is targeted at front line public sector workers in London, the South East and East of England where the high cost of housing is contributing to serious recruitment and retention problems. The first scheme follows the Homebuy equity loan model, and the second is a form of shared ownership. There are about 2,500 Homebuy sales annually and we expect Key Worker Living to provide up to 16,000 homes for key workers over the next 3 years.

7.4 The Government's new HomeBuy scheme for helping around 100,000 households into home ownership by 2010 was set out in a consultation document "*HomeBuy- expanding the opportunity to own"* published on 1 April. The proposals involve three variants of HomeBuy. Social HomeBuy will enable tenants of participating registered social landlords (and local authorities) to purchase a minimum 25% share in the home they currently occupy at a discount, even if they cannot afford to buy all of it. New Build HomeBuy will enable social tenants, key workers and other priority first time buyers to buy a minimum 25% share in a newly built home, generally provided by a housing association. Open Market HomeBuy will enable priority first time buyers, primarily key workers, to buy a home on the open market, with the help of an equity loan provided by a registered social landlord to cover the remainder of the purchase price. The New Build and Open Market HomeBuy options will operate in a similar way to the current shared ownership and Homebuy equity loan schemes respectively. The Social HomeBuy product is a new option and is not currently available but it will be run on a shared ownership basis. The new HomeBuy schemes will commence in April 2006, but at least three registered social landlords are keen to pilot the Social HomeBuy option before the end of 2005.

7.5 Registered social landlords may acquire and build properties for sale on shared ownership terms and dispose of the entirety of an interest in properties to tenants at a discount. However, the permissible purposes of registered social landlords are not currently sufficiently wide to enable them to sell properties to tenants on shared ownership terms at a discount. The new wider permissible purpose will also allow more flexibility in the design of future low cost home ownership products. However, RSLs must still have the consent of the Housing Corporation before actually disposing of any properties.

7.6 Where more than one loan is secured on a property, the charge which is registered first at the Land Registry takes priority. The Homebuy scheme involves two loans - a mortgage provided by a lender and an equity loan provided by a registered social landlord. Without a guarantee that their loan will always have a first charge, and be repaid ahead of the equity loan from the sale proceeds, lenders would refuse to lend to Homebuy purchasers because their security would be put at risk. The policy of restricting the list of lenders from which purchasers can raise a mortgage also stemmed largely from concerns about the potential vulnerability of the original client group for low cost home ownership

products (e.g. social tenants) to unscrupulous lenders. The existing definition of “qualifying lending institution” in the 1996 and 1999 Orders does not actually prevent other lenders from providing mortgages, but without a guaranteed first charge on the property they are unlikely to do so.

7.7 The existing qualifying lenders were considered to be reputable lenders in order to protect the interests of Homebuy purchasers.

7.8 There has been general agreement between the Office of the Deputy Prime Minister, the Council of Mortgage Lenders, the Housing Corporation and Registered Social Landlords that, because the current definition of "qualifying lending institution" is too narrow, it denies Homebuy and Key Worker Living borrowers a greater choice of lenders from whom they may obtain a mortgage. The existing definition excludes wholly owned subsidiaries of building societies (which are not themselves building societies) and mortgage and finance companies.

7.9 Finding an acceptable extended definition of lenders that meets the policy objective to protect the interests of the consumer and the housing association, but at the same time is sufficiently wide to include all legitimate lending institutions and does not limit competition in the mortgage market, has proved difficult. However, the coming into force of the regulatory regime for mortgage lending under the Financial Services and Markets Act 2000 provides the opportunity to meet all these policy requirements. The Council of Mortgage Lenders, together with the Housing Corporation, is very supportive of this solution.

7.10 Widening the definition of "qualifying lending institutions" to include all lenders who have permission under the Financial Services and Markets Act 2000 to enter into regulated mortgage contracts will:

(a) give the low cost home ownership purchasers affected the necessary protection from unscrupulous lenders;
(b) not limit competition in the mortgage market by restricting legitimate lenders from offering mortgages to such purchasers; and
(c) give the low cost home ownership purchasers affected the option of being able to obtain a mortgage from a wider pool of organisations in line with other first time buyers.

8. Impact

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8.1 A Regulatory Impact Assessment has not been prepared for this instrument as there is no adverse impact on business, charities or voluntary bodies

8.2 The impact on the public sector is neutral. The Homebuy equity loan is currently a second charge and extending the number of lenders from whom Homebuy purchasers may obtain a mortgage has no additional impact. Social HomeBuy is a voluntary scheme for registered social landlords.

8.3 A final Regulatory Impact Assessment, which covers the impact of the Social HomeBuy option, in which participation by social landlords is voluntary, has been prepared as part of the Government's response to the consultation on the new HomeBuy scheme. This is attached.

9. Contact

Carole Wendland at the Office of the Deputy Prime Minister (Tel: 0207 944 3634 or e-mail: carole.wendland@odpm.gsi.gov.uk) can answer any queries regarding the instrument.

FINAL REGULATORY IMPACT ASSESSMENT (RIA)

HomeBuy: Expanding the Opportunity to Own

1. Purpose and Intended Effect of Measure

Objective

Our overall objective is to offer as many people as possible the opportunity to own a home, provided that they can sustain the commitments that go with home ownership.
The aim of these proposals is to make it possible for many more council and housing association tenants to own a share of their own home and help over 80,000 first time buyers by 2010. Subject to the outcome of our discussions with the Council of Mortgage Lenders, around an additional 20,000 will be helped. This will in turn contribute to our wider objectives of:

- **Creating mixed, sustainable communities**: enabling people to buy their home can create a better balance of housing types and tenures, and a mix of incomes, for instance if it encourages people on higher incomes to stay in predominantly social rented areas. This can help to promote more

sustainable communities and to tackle concentrations of deprivation which have a negative impact on people's life chances.

- **Achieving value for money**: home ownership can be an appropriate and cost-effective means of helping people in housing need, both from the perspective of the individual and from that of the Government.

- **Freeing up social housing**: if people move out of a social rented home to take up a home ownership opportunity, this frees up social homes for those in greater housing need, such as homeless households.

- **Increasing overall supply**: if a home ownership subsidy is used to build a new home, or if receipts from the sale of existing homes are ploughed back into new housing, this increases the overall supply of affordable housing and can help to meet housing need.

- **Aiding recruitment and retention of key workers**: in areas of high demand for housing, providing assistance for key workers to buy a home near to their place of work can help to address recruitment and retention difficulties.

- **Addressing asset based wealth inequalities**: homes are not just places to live; they are assets. Housing now accounts for over 40% of wealth, compared to just over 20% in 1971. Almost all homeowners benefit from a significant and growing asset which gives them – and their children – financial security, choice and opportunity. But this huge increase in wealth is unevenly spread. Supporting people on lower incomes to achieve home ownership can help to encourage social mobility and address these economic inequalities.

Background

Since 1997, our existing low cost home ownership schemes have successfully helped half a million people to own a home. But there are a wide range of schemes, each of which makes a different offer to customers. That is why the Home Ownership Task Force recommended that existing low cost home ownership products should be simplified and our proposals seek to achieve this. The table below provides a breakdown of the current low cost home ownership package, demonstrating the different benefits that result from each scheme.

Table 1: Current Low Cost Home Ownership Package

Scheme	Eligible Groups	% of Initial Equity Purchased	Charges	Increasing equity share	Repayment of Equity
Homebuy	LA / Housing Association tenants or households nominated by the LA	75%	No	Owners can buy the remaining 25% but cannot staircase up in	Repaid from sale proceeds at point of sale or voluntarily at any point.

	from the housing register.			stages.	
Shared Ownership	Priority given to LA/Housing Association tenants or those on waiting lists.	Variable but minimum share is 25%.	Rent is paid on the unowned equity share.	Owners can staircase up in stages to full ownership. On some rural schemes this is limited to 80%.	Household can choose to staircase to 'full' equity ownership or sell their equity share voluntarily at any point.
DIYSO	Determined by LAs running the scheme.	As per shared ownership	As per shared ownership	As per shared ownership	As per shared ownership
Key Worker Living: HomeBuy	Key workers in eligible groups.	Variable depending on key workers affordability. Maximum equity loan is £50,000 (or £100,000 for some teachers).	No	Owners can buy the remaining unowned equity but cannot staircase up in stages.	If a key worker leaves eligible employment they must repay within 2 years of leaving post. Otherwise it is repaid from sale proceeds at point of sale or voluntarily at any point.
Key Worker Living: shared ownership	Key workers in eligible groups.	As per shared ownership	As per shared ownership	As per shared ownership	If a key worker leaves eligible employment they must sell share or staircase up to full ownership within 2 years of leaving post. If remaining in post can staircase up or sell equity share voluntarily at any point.
Cash Incentive Scheme	LA tenants	100% with variable level of grant.	No	N/A	Determined by LAs running schemes
Right to Buy - LA & Housing Association sales	Secure qualifying LA tenants & secure Housing Association tenants pre-1988	100% - discount off open market value linked to length of tenancy and region	No	N/A	From January 2005 any discount is repayable if the property is re-sold within 5 years. Prior to this it was 3 years.
Preserved RTB - Housing Association sales	Former LA tenants in stock transferred to a Housing Association.	100% - maximum discount of between £16,000 and £38,000 off open market value linked to length of tenancy and region.	No	N/A	See Right to Buy - LA & Housing Association sales
Right to Acquire	Qualifying assured tenants. Applies to homes	100% - maximum discount of £9,000 to	No	N/A	See Right to Buy - LA & Housing Association sales

	built /acquired with public funds after 1/4/97 and also to those transferred from LAs to RSLs after 1/4/97.	£16,000 depending on LA area irrespective of length of tenancy.			
Voluntary Purchase Grant	Housing Association tenants with agreement of Housing Association.	See Right to Acquire	No	N/A	See Right to Buy - LA & Housing Association sales

Rationale for Government intervention

Table 1 illustrates different arrangements and charges that are made for each scheme. Table 2, which draws on information presented in the Home Ownership Task Force report, shows that the monthly costs of owning 50% of a home under Shared Ownership can be higher than the monthly costs of owning 75% of the same home under HomeBuy.

Table 2: Comparative monthly costs of 75% ownership under HomeBuy and 50% ownership under Shared Ownership

Local authority area	**Daventry**	**Carrick**	**Camden**
Property value	£80,000	£120,000	£200,000
Monthly costs (mortgage) for 75% ownership under existing HomeBuy	£320	£480	£800
Monthly costs (mortgage and rent) for 50% ownership under Shared Ownership	£298 - £330	£448 - £495	£746 - £825

(Mortgage costs are based on a 4% 25-year capital repayment mortgage, which costs approximately £5.33 per month for each £1000 borrowed. Due to variation in the ways Housing Associations set Shared Ownership rents, monthly costs for 50% ownership under Shared Ownership are presented as a range, reflecting the range of potential rent costs.)

Without reform, the current suite of low cost home ownership options will not increase the numbers accessing home ownership without significant additional funding and will increasingly fail to meet the needs of our target groups.

Consultation

Within government

All relevant Government departments have been consulted on the impact of *HomeBuy - expanding the opportunity to own*.

Public consultation

The stakeholder and public consultation was held from the 1 April - 24 June 2005. A Partial RIA formed an annex to the consultation document. A further technical annex was published to support the RIA on 6 June and is attached as an annex to the RIA. The Office of the Deputy Prime Minister received 236 responses to the consultation. Changes to the proposals in light of the consultation responses are highlighted throughout the RIA.

Options

The options considered for the reform of the low cost home ownership package were:

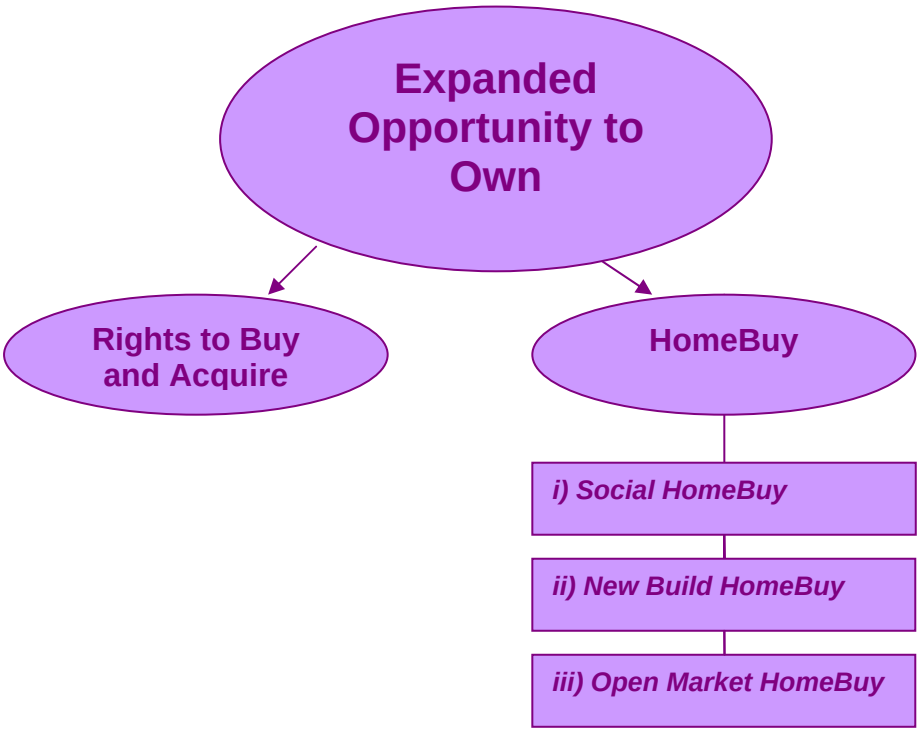
- **Option A:** Do nothing
- **Option B:** Simplify the low cost home ownership range of options into two key strands – Right to Buy/Acquire and HomeBuy (including new Social HomeBuy)

Option A: Do Nothing

This provides a baseline against which to compare our proposals. Without adapting the current suite of low cost home ownership options, we will not be able to achieve our objective of making buying a home a possibility for many more council and housing association tenants and 80,000 other aspiring first time buyers (with around a further 20,000, subject to the outcome of the discussions with the CML). While no additional financial cost would be imposed, we would not be able to generate benefits in terms of extending home ownership to those who could not otherwise afford it, generating receipts to re-invest and freeing-up social lets.

Option B: Simplify the entire low cost home ownership package into two key strands, Right to Buy/Acquire and HomeBuy (including new Social HomeBuy)

We propose to streamline the low cost home ownership package, creating a simpler, fairer, more affordable and cost effective system through a new offer.



Our proposals would offer those needing assistance to buy a home two key strands; an ownership discount, through the modernised Right to Buy and Right to Acquire schemes, for eligible existing social tenants who wish to buy their own home; and equity sharing, through an extended and more affordable HomeBuy scheme, with three variants to suit different circumstances. For this proposal we will work with providers with the aim to trial schemes from April 2006.

Alternatives Considered

The following ideas were considered but do not meet all of the objectives and thus provide the necessary reform of the low cost home ownership programme:

- Extend the Right to Buy to housing association tenants

Extending the Right to Buy to housing association tenants would only benefit a small number of households. We estimate that only 10-15% of those who would be eligible for the extended Right to Buy (42,000 to 63,000) could afford the longer term costs of home ownership. The Right to Buy does not work for everyone and is expensive for the taxpayer – since 1980, we have lost 1.7 million council homes and 100,000 housing association homes.

- Introduce new Social HomeBuy to the existing package of schemes

Introducing Social HomeBuy to the existing package of low cost home ownership schemes would provide tenants with a flexible alternative to the Right to Buy. It enables tenants to buy a share in their home at a discount with the chance to increase that share and become full owners over time if they want to. This provides a more attractive alternative to the extension of the Right to Buy as it will provide help where it is most needed rather than producing large windfalls for a few. It would be voluntary, enabling social landlords to manage the impact on their finances. In addition councils could be asked to keep sales proceeds to reinvest in housing, for the quick replacement of social homes in areas of greatest need. It would also help some tenants who do not currently have a Right to Buy/Right to Acquire (about 45% of housing association tenants).

But simply introducing Social HomeBuy on its own will not extend the assistance we offer to our other target groups such as first time buyers who are forced to live in private rented accommodation because they cannot afford to buy a property without help.

Costs and Benefits

Sectors and groups affected

The sectors and groups affected by our proposals are social landlords, existing social tenants, those on the housing register, key workers and first time buyers wishing to access low cost home ownership.

Our proposals will ensure greater fairness and equity for those households who enter into low cost home ownership by reducing some of the inequalities in the arrangements and charges that exist with the current suite of options demonstrated in Table 1. It will further extend the groups eligible for help into home ownership and lower the income levels needed to access HomeBuy schemes.

The HomeBuy schemes will be voluntary, so landlords will be able to manage the impact of the changes on their finances.

Race equality assessment

Table 3 shows that a lower proportion of people belonging to black and minority ethnic (BME) groups were owner-occupiers (50%), compared to their white counterparts (73%). Recent research shows that a higher proportion of the people belonging to BME groups were living in social rented accommodation (30%) compared to the white ethnic group (18%). A higher proportion of people from BME groups were also living in private rented accommodation (20%), compared to their white counterparts (10%).

Table 3 Tenure, by ethnic group (%)

	All White	Black Caribbean	Black African	Indian	Pakistani	Bangladeshi	Chinese	Mixed	Other	All ethnic minority groups
Owner-occupier	73	47	26	75	66	36	48	45	42	50
Social renter	18	44	50	10	18	52	13	37	28	30
Private renter	10	8	24	15	16	12	39	18	30	20

Source: ONS Labour Force Survey: England 2004

An additional impact of the introduction of Social HomeBuy for social tenants and the extension of New Build HomeBuy and Open Market HomeBuy to qualifying first time buyers in private rented accommodation is that BME groups will be more likely to benefit from the proposals than white households as they are more likely to be renting in the first place. A recent review of the research about housing and BME communities[1] highlighted that there was a longer term aspiration for owner occupation among BME communities which sometimes coincided with a negative views of social rented housing.

The 2001 Census found that 7.9% of the population are from BME communities.
Evidence[2] from sales of low cost home ownership products in 2003/04 shows that BME households are already successfully accessing low cost home

[1] ODPM (2003) Housing and Black and Minority Ethnic Communities: Review of the Evidence Base, ODPM: London
[2] ODPM (2003/04) CORE sales database for low cost home ownership products: London

ownership products. 14.8% of all sales were to BME households, 8.1% of which were Black/Black British households, compared to BME groups making up only 7.9% of the population. Of the people helped through the Key Worker Living programme from April 2004 to June 2005 18.5% are from BME groups. By extending the opportunities for low cost home ownership through our proposals, a larger percentage of BME households should be able to achieve home ownership.

We have also considered the regional spread of BME groups accessing low cost home ownership. Table 4 illustrates that, although the proportions of BME take up of LCHO schemes[3] is broadly similar to the proportions of BME households in the region for the south; BME households that have purchased homes through the LCHO scheme are proportionally higher in London and Wales.

Table 4: Comparison of BME population in sample with population in Region (%)

Ethnic group	**BME in LCHO sample**	**BME in region**[1]
London	65	26
South	3	3
Midlands and North	1	5
Wales	5	2

1. ONS Labour Force Survey: 2004
Source: LCHO Evaluation 2002, page 143

Health impact assessment

Sensible checks on applicant's financial capacity to sustain home ownership should ensure they are capable of maintaining their homes to a decent standard.

In addition, as a result of the consultation, we have said that we will ensure that systems will be flexible enough to meet the needs of particular groups, such as those with long term disabilities. Details are set out in the Government Response, but this includes:

- Where appropriate New Build schemes are not available, buyers will be able to purchase homes through Open Market HomeBuy on a leasehold basis - similar to the new build schemes - subject to mutual agreement. This will enable purchasers to select a home in the location of their choice and that is suitable for their needs

[3] Office of the Deputy Prime Minister and Welsh Assembly (2002) *Evaluation of the Low Cost Home Ownership Programme*, ODPM: London

- The Housing Corporation will continue to allow additional flexibility around the size of property purchased for an individual's needs, for example, in order to accommodate a live-in carer.

- Shared ownership lease arrangements for Social HomeBuy and New Build HomeBuy, and exceptionally for Open Market HomeBuy, will enable maintenance/repair services to be provided through the landlord, if appropriate. However the purchaser would remain financially responsible for the maintenance and repairs

Rural considerations

We propose to apply the same exemptions to Social HomeBuy as those which apply to the existing Right to Acquire scheme. This means that we will exempt any properties in areas designated as rural by order of the Secretary of State (generally settlements with a population of 3,000 or less to ensure the affordable homes in these areas, where replacement would be difficult, remain affordable in perpetuity.

In addition, because of the voluntary nature of Social HomeBuy, social landlords in larger rural areas would not be required to offer the scheme where they did not feel it appropriate to do so. However, it may be that social landlords in larger rural areas have good reasons for offering Social HomeBuy, and we will not prevent them from doing so, where this is appropriate and in line with strategic priorities for the area. Our HomeBuy proposals give landlords rights of pre-emption and nomination, which should ensure that affordable housing is not lost from the sector, where social landlords wish to retain it.

Breakdown of costs and benefits

We published a supplementary document setting out key data underpinning our proposals during the consultation period in June. This is attached as an annex to the RIA.

Option A: Do Nothing

Economic Benefits

- No disruption to the current financial arrangements for funding and managing the affordable housing sector.

Economic Costs

- If no change is made to the current suite of low cost home ownership options, more social housing grant may have to be invested in shared ownership to make it more affordable to the target eligible groups.

- The economic disparity between the costs of the different low cost home ownership products as exemplified in Table 2, would not begin to be addressed.

Social Benefits

- No additional benefits.

Social Costs

- Option A will not enable the introduction of Social HomeBuy; this will restrict access to low cost home ownership opportunities for social tenants and reduce opportunities to create mixed tenure communities.

Environmental Costs and Benefits

- No additional costs or benefits.

Option B: Simplify the entire low cost home ownership package into two key strands, Right to Buy/Acquire and HomeBuy (including new Social HomeBuy)

Economic Benefits

The consultation document suggested two options for charging on unowned equity for the new products:

Option One:

- For at least the first five years, buyers pay no charge on the share of equity retained by the landlord up to 25% of the equity, but pay an annual charge of a maximum of 3%[4] on the rest.

- For New Build and Open Market HomeBuy, the annual charge of a maximum of 3% will extend to the entire equity share retained by the landlord after five years. Under Social HomeBuy the 'top' 25% would continue to have no charge.

Option Two:

- A maximum 3% charge is imposed on the equity share retained by the landlord from the start.

[4] 3% of the capital value of the equity retained at the time of initial purchase. This increases by RPI plus 0.5 to 1.0% per annum – similar to social rent.

The consultation document also suggested the minimum shares that buyers would have to purchase through their own means, i.e. through savings and/or a mortgage. These were:

- For New Build and Social HomeBuy, 50% of the value of the home.

- For Open Market HomeBuy, 75% of the value of the home

As a result of responses to the consultation, the minimum share a household should now be able to afford to buy to enter into Social HomeBuy or New Build HomeBuy is 25%. Rent levels will be capped at 3% for all unowned equity with a target rent of 2.75%. The maximum limit on the annual increase of charges is RPI plus 0.5%. For Open Market HomeBuy the minimum share is around 75%, and a modest rent may be charged on the unowned equity.

The benefit analysis has been updated to reflect these changes.

Economic Benefits of Social HomeBuy

Our analysis shows that, if Social HomeBuy was taken up by 5,000 households a year, it:

- would cost around £30 million a year to reimburse housing associations for the discounts they give and;

- would enable re-investment in new supply, and free up social lets earlier. If the receipts are fully invested in new supply, we estimate that an additional 9,000 households will be lifted out of temporary accommodation over the period up to 2010.

Social HomeBuy in the housing association sector

- Replacing a unit sold through the Right to Acquire produces an average net financial cost to Government of £1,000 per unit.

- As a result of i) reducing the minimum purchase to 25% for Social and New Build HomeBuy and ii) revising the rental arrangements, the benefits to Government are likely to increase. Over a thirty year period, we estimate that Social HomeBuy will have a net benefit to Government of between £4,000 and £15,000 per unit.[5]

Social HomeBuy in the local authority sector

- Replacing a unit sold through the Right to Buy nationally produces a net financial cost to government of £15,000 per unit.

[5] This assumes a discount equivalent to the level of Right to Acquire and an unowned equity share of between 25% and 75%.

- Again, in the LA sector, the potential benefits to Government could be greater than first envisaged as a result of the revised equity share and charging arrangements. The net benefit to Government over a 30 year period of HomeBuy in the local authority sector will be between £7,000 and £18,000 per unit.[6]

Economic Benefits of New Build/Open Market HomeBuy

- The potential benefits for Government from New Build HomeBuy will also increase. For both New Build and Open Market HomeBuy, the net financial impact per unit is likely to range between a benefit of £11,000 and a benefit of £25,000.

- The potential benefits for purchasers will also increase, as landlords will have a 3% cap set on the level of rent they can charge on un-owned equity, with a target rent of 2.75%.

Table 5: Comparative monthly costs of existing shared ownership schemes and New Build HomeBuy

Local Authority Area	Daventry	Carrick	Camden
Property Value	£80,000	£120,000	£200,000
Monthly costs (mortgage and rent) for 50% ownership under shared ownership	£298-£330	£448-£495	£746-£825
Monthly costs (mortgage and rent) for 50% purchase under New Build HomeBuy	£305	£458	£763
Monthly costs (mortgage and rent) for 25% purchase under New Build HomeBuy	£244	£366	£610

(Mortgage costs are based on a 4% 25-year capital repayment mortgage, which costs approximately £5.33 per month for each £1000 borrowed.)

Summary of Economic Benefits

- Addresses asset based wealth inequalities.

- Provides the opportunity to staircase to full ownership in minimum 10% tranches.

- Creates a transparent and more affordable charging system for un-owned equity.

- Provides landlords with an equity share, allowing them to share in the growth in value of the property and to use receipts to reinvest in new affordable housing and regeneration.

[6] This also assumes a discount equivalent to the level of Right to Acquire and an unowned equity share of between 25% and 75%.

- Social HomeBuy not only provides a wider group of social tenants with the opportunity to buy their home but represents better value for money than the Right to Acquire, the Right to Buy or building homes through Social Housing Grant for the public purse.

- Generates receipts for re-investment.

- Frees up social lets, helping get more homeless households out of temporary accommodation.

Economic costs

- Social HomeBuy will be voluntary, so there will be no enforced costs on landlords. The new charging arrangements will only apply to units funded from April 2006, for which landlords will bid to provide. There will be an economic cost to Government - if Social HomeBuy was taken up by 5,000 households a year, it would cost around £30 million a year to reimburse housing associations for the discounts they give. Any such cost will be met from within existing resources.

- There will be no additional cost to Government of introducing Open Market and New Build HomeBuy. HomeBuy is replacing products currently funded through the National Affordable Housing Programme run by the Housing Corporation.

Social Benefits

- Creates cost-effective home ownership opportunities for up to 300,000 council and housing association tenants and up to 80,000 people renting, living with family or on the housing register. Around a further 20,000 could benefit subject to the outcome of discussions with the CML.

- More social rented units funded from receipts so more homeless households are housed.

- Contributes towards more sustainable communities with mixed tenures.

- Potential to share in equity growth (although property values can go down as well as up).

Social Costs

- No additional social costs but participants must be clear that property prices can go down as well as up.

Environmental Costs and Benefits

- No additional environmental costs or benefits.

The table below demonstrates the effect the proposals will have on the range of products available from April 2006. The number of products has been reduced from 10 to 6, streamlining the low cost home ownership package. Inequalities between products, such as HomeBuy and Key Worker Living HomeBuy have been addressed creating a simpler, fairer and more affordable system.

Table 6: New Low Cost Home Ownership Package

Scheme	Eligible Groups	% of Initial Equity Purchased	Charges	Increasing equity share	Repayment of Equity
Social HomeBuy	LA / Housing Association tenants with agreement of participating landlord	Variable but minimum share is 25%	Maximum rent of 3% is paid on the unowned equity share (target rent 2.75 %.)	Owners can staircase up in minimum 10% tranches to full ownership.	Household can choose to staircase to 'full' equity ownership or sell their equity share voluntarily at any point.
New Build HomeBuy	Priority given to LA/Housing Association tenants, those on waiting lists, keyworkers and first time buyers prioritised by Regional Housing Boards.	Variable but minimum share is 25%.	Maximum rent of 3% is paid on the unowned equity share (target rent 2.75 %.)	Owners can staircase up in minimum 10% tranches to full ownership.	Household can choose to staircase to 'full' equity ownership or sell their equity share voluntarily at any point. If a key worker leaves eligible employment they must repay within 5 years of leaving post.
Open Market HomeBuy	Priority given to LA/Housing Association tenants, those on waiting lists, keyworkers and first time buyers prioritised by Regional Housing Boards.	Variable but minimum share is around 75%. Maximum equity loan is £50,000 (or £100,000 for some teachers in London).	Modest rent may be charged on unowned equity share.	Owners can staircase up to full ownership by redeeming the equity loan in minimum 10% tranches.	Repaid from sale proceeds at point of sale or voluntarily at any point. If a key worker leaves eligible employment they must repay within 2 years of leaving post.
Right to Buy - LA & Housing Association sales	Secure qualifying LA tenants & secure Housing Association tenants pre-1988	100% - discount off open market value linked to length of tenancy and region	No	N/A	From January 2005 any discount is repayable if the property is re-sold within 5 years. Prior to this it was 3 years.
Preserved RTB - Housing Association sales	Former LA tenants in stock transferred to a Housing Association.	100% - maximum discount of between £16,000 and £38,000 off open market value linked to length of tenancy and region.	No	N/A	See Right to Buy - LA & Housing Association sales
Right to	Qualifying assured	100% -	No	N/A	See Right to Buy -

Acquire	tenants. Applies to homes built /acquired with public funds after 1/4/97 and also to those transferred from LAs to RSLs after 1/4/97.	maximum discount of £9,000 to £16,000 depending on LA area irrespective of length of tenancy.			LA & Housing Association sales

There will continue to be a separate branding and funding stream for products for key workers through Key Worker Living but, with the exception of "clawback" if the key worker leaves eligible employment, all aspects of the products will be the same as above.

Small Firms' Impact Test (SFIT)

The proposal's impacts on small businesses should be minimal: HomeBuy will be a voluntary scheme affecting housing associations and local authorities. The consultation responses did not indicate any negative impact or unintended consequences on small firms. We have consulted the Small Business Service who confirmed that they are content with the proposals and agree that there appears to be no adverse or significant impact on small businesses.

Competition Assessment

Negotiations with the Council of Mortgage Lenders and lenders themselves on the joint public/private funding of equity loans under HomeBuy are continuing.
As part of these negotiations, we will be seeking to ensure there is a range of lenders offering competitive products, so that potential buyers are offered value for money.

Enforcement, Sanctions and Monitoring

Enforcement and Sanctions

As there are no changes to the Right to Buy/Acquire being proposed, the current system of regulation will continue.

The HomeBuy scheme is being introduced on a voluntary basis. Funding for HomeBuy schemes allocated by the Housing Corporation will come with grant conditions to ensure the policy is implemented correctly. In addition, grant is only paid in arrears. Housing associations will continue to be regulated by the Housing Corporation and local authorities by the Audit Commission. The Housing Corporation will be able to impose contractual conditions for any non-housing association providers of HomeBuy.

Monitoring and review

The monitoring system for the current low cost home ownership options will be adapted to monitor the new offer on an on-going basis. In order to review the proposals, we intend:

- To put management information in place to monitor aspects such as take-up; and

- develop an evaluation strategy that will enable us to assess the delivery, implementation and impact of these new products. This is in addition to the on-going evaluation of our current Key Worker Living scheme.

Implementation and Delivery Plan

The new products will be introduced through the National Affordable Housing Programme bidding round run by the Housing Corporation for the financial years 2006/07 and 2007/08. Social landlords and developers will be able to bid for funding to provide these products on a voluntary basis. Local authorities are invited to introduce Social HomeBuy from April 2006.

Summary and Recommendation

Option	Total cost per annum Economic, environmental, social	Total benefit per annum Economic, environmental, social
A - Do nothing	- More social housing grant may have to be invested in shared ownership to make it more affordable to target eligible groups. - Disparity of economic costs between products available would not be addressed. - Social HomeBuy would not be available to social tenants. - No additional environmental costs	- No disruption to the current financial arrangements for funding and managing the affordable housing sector - No additional social or environmental benefits

mplify the entire low cost home ownership package into two key choices, Right to Buy/Acquire and HomeBuy (including new Social HomeBuy)	- No enforced costs for social landlords as HomeBuy is voluntary - Small cost to Government of repaying any discounts offered under Social HomeBuy in the RSL sector. - No additional environmental or social costs	- Addresses asset-based wealth inequalities - Creates a transparent and more affordable charging system for un-owned equity - Provides landlords with an equity share allowing them to share in the growth in value of the property and use receipts to reinvest in new affordable housing and regeneration - Widens the group of social tenants with the opportunity to buy their home and represents better value for money than the Right to Acquire/Buy. - Frees up social lets, helping get more homeless households out of temporary accommodation - Contributes to more sustainable communities - No additional environmental benefits

It is therefore recommended that the new HomeBuy products are introduced from April 2006.

Declaration and Publication

I have read the regulatory impact assessment and I am satisfied that the benefits justify the costs

Signed …Yvette Cooper ……..

Date 12th October 2005

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