Government Response to the House of Commons Communities and Local Government Committee Report on the Department for Communities and Local Government Housing and the Credit Crunch

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Introduction

The Government welcomes the report from the Select Committee on Housing and the Credit Crunch. The Government also welcomes the Committee's support for the action we have taken in response to the challenging circumstances, and for our long-term housing supply objectives. We have considered the Committee's comments carefully and we set out our responses to each of their recommendations and conclusions below. The Committee has indicated that it wishes to return to this subject to review progress on key areas and we look forward to the Committee's continued engagement.

House building targets

1. We were pleased to note at our oral evidence session on 16 December 2008 that the Government is intending to conduct research on the likely impact of the credit crunch upon housing demand, and look forward to seeing the results. (Paragraph 9)

The economic environment has changed significantly over the last year. We have therefore updated the Communities and Local Government (CLG) Affordability model, which was developed in response to the Barker Review of Housing Supply in 2004, to reflect the tighter credit conditions we are seeing. The updates to the modelling will be reflected in the upcoming refresh of National Housing and Planning Advice Unit (NHPAU) supply range advice.

2. We accept that, in the short term at least, the Government's housing targets may not be met. The targets were set, however, in response to housing need and demand: they set the context for the vigorous policies needed to improve delivery over the long term, whatever the short term barriers. The credit crunch does not reduce levels of demand for new housing, nor does it affect the need to address years of undersupply. We strongly support the Government's continued commitment to the housing targets set in its 2007 Housing green paper. (Paragraph 13)

We welcome the Select Committee's support for the Government's long-term housing supply delivery ambitions. Our latest 2006-based projections indicate that the number of households is expected to grow by an average of 252,000 a year to 2031, which underlines the urgent need to deliver a step-change in housing delivery to ensure that we provide enough homes for future generations.

We are pressing ahead with measures which will facilitate recovery and enable long-term growth. As part of these measures we are exploring ways of strengthening incentives in the housing and planning delivery grant (HPDG) and streamlining planning and development control in response to the Killian-Pretty review. We will continue to engage with local and regional planning bodies to ensure that the supply of developable land and housing numbers in regional spatial strategies are maintained. We are also accelerating the disposal of surplus public sector sites to maintain the supply of land to support housing growth and undertaking a series of infrastructure reviews with key Government Departments to ensure investment and planning is synchronised and effective. The current situation has raised important questions about how best to secure timely and effective long-term supply. Further work on our long-term strategy is underway with a view to announcing our conclusions at the time of the Pre-Budget Report in autumn 2009.

3. The Government set its current targets for new social rented housing in a time of greater prosperity. Even then, the targets did not adequately cater either for projected levels of new need or for the backlog of need. (Paragraph 18)

See response to recommendation number 4

4. A greater proportion of the total number of households are now likely to need access to social housing as a result of current economic conditions. We recommend that, in response, a greater proportion of the new homes built each year be designated as social homes. We also consider that this may be a wise move given the continuing uncertainty over low cost home ownership sales which we note below. Although it is not possible on the basis of the evidence we have received for this short inquiry to determine precisely what proportion that should be, we have previously endorsed the estimates of the need for social housing produced by Shelter, and recommend that the Government carefully examine that organisation's most recent assessment in deciding what the appropriate division should be between new social rented housing and other forms of non-market housing. (Paragraph 18)

The Department's estimate of newly arising need was based on the methodology used by Alan Holmans, Senior Research Fellow at the Cambridge Centre for Housing and Planning Research, Cambridge University. Kate Barker used similar estimates in her 2005 *Review of Housing Supply*. These estimates of newly arising need for social rented housing that cannot be met in the market or by existing stock suggested that there is need for at least 40,000 new social rented properties per annum. The figure of 40,000 for annual need is composed partly of need arising due to newly forming households (demand-side factors) and partly due to loss of stock as a result of supply-side factors such as Right-to-Buy.

The targets set for 2008-09 to 2010-11 recognised the need for more social housing by proposing an increase in the supply of affordable homes to 70,000 by 2010-11, of which 45,000 were for new social rented homes. We have also expressed an ambition to go further in subsequent years to reach 50,000 new social rented homes per annum in the next spending review period.

Given the current market downturn, CLG has been taking steps to help maintain delivery against these challenging targets. As part of the packages announced on 2 September 2008 and at the Pre-Budget Report, we brought forward £550m from our 2010-11 affordable housing budget to deliver up to 7,500 more social rented homes over the next 18 months. At Budget 2009 the Chancellor announced a £400m fund to stimulate housing development, including affordable and social rent, in the short-term and boost capacity in the house building industry which will strengthen delivery. The Chancellor also announced £100m of additional resources (£50m grant/£50m partial borrowing) for local authorities to build new social housing to enhanced environmental standards.

The Government recognises the need for further fresh estimates of social housing need. CLG have therefore commissioned a team from Heriot-Watt University, led by Professor Glen Bramley, to develop an updated model to estimate the number of households with an unmet need for social or affordable housing, or other housing related support. The contract was awarded in August 2008 and developing the model is expected to take around twelve months.

This research is intended to improve the Department's capacity to estimate the numbers and types of household in each region who are likely to be in need of different types of housing in future. It is hoped that this will allow CLG and organisations such as the Tenant Services Authority (TSA), Homes and Communities Agency (HCA) and NHPAU to understand more about the drivers of social housing need and how housing requirements might evolve under alternative economic, demographic and policy scenarios.

5. The evidence suggests a strong underlying demand for low cost home ownership (LCHO) homes, but much of that demand cannot be realised due to the restricted availability of mortgage finance. Whilst the Government attempts to address the shortage of available loans we recommend that, in the short-term, it scale back its targets for the completion of new LCHO homes and focus on building new homes for social rent. This would provide an opportunity to clear the backlog of unsold LCHO stock. Targets can be increased again if and when it becomes clear that demand for low cost housing has become effective. (Paragraph 21)

Demand for low cost home ownership homes remains high. Take up of the Government funded Open Market HomeBuy (shared equity) option exceeded the initial budget for 2008-09, and further funding was identified. Take up is expected to remain high for 2009-10. There are no indications first time buyers are having significant problems accessing mortgage finance for shared equity purchases.

However, many first time buyers, who would formerly have been able to access homeownership through the Government funded New Build HomeBuy (shared ownership) option are unable to buy because of the increased need for significant deposits. Purchasers are no longer able to obtain 95-100 per cent mortgages on the share they are buying. Some housing associations are therefore finding it more difficult to sell their shared ownership properties, contributing to the volume of unsold stock.

To respond to those problems the Government announced in July 2008, a new 'rent first, buy later' option – Rent to HomeBuy – to address difficult market conditions and to assist both first time buyers and providers. Rent to HomeBuy allows eligible households to rent a new build property at less than market rent (i.e. 80 per cent) for a pre-specified period (up to five years), with the first option to buy a share of the property during or at the end of that period. Households benefit from an affordable rent until they have saved for a deposit and providers receive a rental income in the short term, with a view to a capital receipt later. Eligibility for the scheme is the same as for the HomeBuy Direct scheme – that is households earning less than £60,000 who could not otherwise afford to buy a suitable property on the open market without assistance.

The HCA is providing funding for the conversion of units already built or planned as New Build HomeBuy as well as for schemes where providers are planning to offer Rent to HomeBuy from the outset. In December 2008 housing associations were given complete flexibility to switch stock between "New Build HomeBuy" and "Rent to HomeBuy". Where providers require additional grant to support the switch, the grant agreement with the Homes and Communities Agency is being linked to a deal on further development. This aims to ensure more homes for social rent. An additional £400m to unblock stalled developments was also made available through the Budget 2009. An element of these funds will be used where appropriate, to support conversion of further New Build HomeBuy units to Rent to HomeBuy or social rent.

6. We are encouraged that the Government and housing associations are already pursuing several different rental options for the large and growing number of households who are neither owner occupiers nor qualify as social tenants. Creative solutions need to be found to meet the needs of such households, and we urge housing associations to continue innovating in order to meet those needs. (Paragraph 24)

We welcome the Committee's support for intermediate rental options. Housing associations have shown strong commitment and flexibility in developing schemes in response to local demand that meet such needs. Intermediate rental properties have played an important role for housing associations and tenants, particularly in recent months. The Government is also encouraged by the progress being made on new schemes like Rent to HomeBuy, which allows tenants to rent a new build property from a registered social landlord (RSL) at 80 per cent of market rent or less for up to five years. They then have the first option to buy a share of the property at the end of – or during – this period.

Around 1,700 Intermediate Rent properties were completed in 2008-09; as well as over 1,100 Rent to HomeBuy properties. The £400m budget package includes additional resources to support these programmes as part of a package to enable stalled sites to progress.

7. Falling land prices have the potential to make a useful contribution to addressing the housing shortage and enabling development activity to continue throughout the economic downturn. There will be opportunities for housing associations to buy good sites even if development then proceeds cautiously. As a major landowner the public sector has a vital role to play in making land available in ways which produce the best social outcome, which might involve a lower initial price in return for a share of long term asset appreciation due to development. We welcome the measures the Homes and Communities Agency will be taking to achieve this and intend to revisit this issue later in 2009 to assess what progress has been made. (Paragraph 27)

The Government recognises the role of public sector land and the contribution that falling land prices could make towards our drive to meet our housing targets in the current economic conditions. Through the surplus public sector land (SPSL) programme CLG, with HM Treasury, HCA and other departments, are taking steps to ensure that disposal of this land brings good public benefits. For example, we have now gained agreement that land value can be used to support improved energy performance and other quality standards. As the committee acknowledges, the price of land for development has fallen over the past year. The current market could therefore provide opportunities for developers, including RSLs, to purchase land where doing so meets their long term business needs.

The Committee stated it's wish to return to this subject in 2009 for a progress report. The HCA continues to make progress on the SPSL programme. They have now fully engaged with the main landowning central Government Departments (MOD, DOH, DfT, DEFRA and their agencies) and are in the process of establishing a working relationship with a further group of land owning agencies (Royal Mail, BBC, Network Rail). Our land supply now has the capacity to deliver circa 350,000 homes, although not all of this can be delivered by central Government departments, their agencies and local authorities by 2016. Current forecasts taking account of various housing market scenarios provide a range of possible outcomes by 2016 ranging from 275,000 units down to 180,000 units.

8. House building levels will need to increase dramatically following the end of the economic downturn if there is to be any hope of meeting the Government's housing targets in the longer term. It is therefore vitally important that steps be taken to retain skills and capacity within the house building sector. We welcome the Government's measures to redeploy skilled workers in refurbishment programmes. Increasing targets for new social homes as we have recommended would enable the Government directly to support the construction industry, providing a more effective outlet for skills and capacity which might otherwise be lost. (Paragraph 31)

The Government recognises that the delivery of affordable housing can provide a valuable fiscal stimulus and help maintain capacity in the construction industry. At Budget 2009 we announced a £400m fund to stimulate housing development in the short-term and boost capacity in the house building industry, as well as £100m to help local authorities build new social housing to enhanced environmental standards.

This is in addition to £550m previously brought forward from the 2010-11 budget to provide 7,500 social rented homes sooner than would otherwise have been the case. The 2008 Pre-Budget Report also announced that the Government would bring forward £250 million to sustain and accelerate the decent homes programme and £175m on major repairs.

We understand the important role skills and capacity play in the construction industry and continue to work to ensure sufficient people in the sector are well equipped with the right skills for the upturn when it comes. DIUS and CLG have been working together to use public procurement to boost construction training and apprenticeship places. In the November Pre-Budget Report, a commitment was made that Government Departments and Agencies should, when they let a new construction contract, consider making it a requirement that the successful contractors have apprentices as a proportion of the project workforce.

9. The viability of some developments may only be assured if there is increased public subsidy for the social housing element. However, the evidence submitted to us suggests that the greatest barrier to new development is the state of the housing market. Even if section 106 requirements are reduced, the developer will not make a profit unless homes can be sold at the end of the project. This relies not on public subsidy but on the availability of mortgage finance and on consumer confidence. (Paragraph 34)

On 19 January HM Treasury announced a range of measures designed to reinforce the stability of the financial system, increase confidence and capacity to lend, and in turn to support the recovery of the economy. These build on measures announced on 8 October last year.

As part of this, the Government is negotiating quantified and legally binding lending commitments with the banks participating in the Asset Protection Scheme and extended Credit Guarantee Scheme. Such lending commitments– on commercial terms, and subject to market demand – have already been agreed with Royal Bank of Scotland and Lloyds Banking Group.

10. As the cost-benefit of environmental standards will be felt in the long term it would be short-sighted to reduce standards in a panic response to short-term financial constraints. Overall, the evidence suggests there is enough flexibility in the system to make it unnecessary to amend building requirements. (Paragraph 37)

We agree with the committee's view about the importance of environmental standards. In recognition of this, Budget 2009 announced an investment of £105m in reducing emissions from housing, as part of a wider £1.4bn package to stimulate the low-carbon economy. We will continue to improve standards over time as we move towards zero carbon homes for new homes from 2016, using the range of levers at our disposal. These include the planning system, building regulations, the code for sustainable homes and HCA's social housing and regeneration programmes.

The Government has already put tackling climate change firmly at the centre of good local planning. The Climate Change Planning Policy Statement, published as a supplement to PPS1, backed in statute by the Planning Act 2008, places duties on regional and local planning to take action on climate change. We have also provided guidance to assist local planning authorities, which is made available via the Planning Advisory Service.

Building Regulations are reviewed periodically. We will be consulting in May 2009 on amendments to improve energy efficiency requirements of Part L of the Building Regulations by 25 per cent in 2010. This forms the first step along the trajectory to zero carbon housing development announced in our *Building a Greener Future* policy statement in July 2007. In December 2008, the Department issued a consultation on the *Definition of Zero Carbon Homes and Non-domestic Buildings* proposing a detailed definition to underpin the zero carbon policy, based on a flexible but demanding hierarchy of measures. We are currently considering the responses to the consultation, with a view to publishing a further policy statement later this year.

11. We support the Government's conclusion that the national clearing house should only be used to buy properties which are suitable for social rent or affordable housing, not to mop up inappropriate unsold stock. However, a balance must be struck between the need to adhere strictly to standards and the urgent and very basic need of potential tenants for a home. We welcome the Government's pragmatic approach to this issue. (Paragraph 41)

We welcome the Committee's support for our approach to buying developer unsold stock for social rent and affordable housing. The HCA criteria for assessing bids made clear that they would purchase properties at the right price, in the right locations and offering good standards.

The stock purchased has been above average in terms of unit layout and size. Over 30 per cent of the units purchased are family sized homes of 3 + bedrooms. The latest developer stock figure shows that we have now spent £350m as at the end of March 2009. This funding is expected to deliver 9,600 affordable homes of which majority is for social rent.

12. The Government is willing to purchase unsold homes from developers through the national clearing house. We believe it should also be willing to buy unsold family homes, for which there is a particular need in the social rented sector, on the open market. We recommend that it direct some of the money from the national affordable housing programme to the purchase of suitable properties which have not sold on the open market for a period of a year or more. Priority should be given to the purchase of homes where the transaction would enable elderly home-owners to gain access to much needed sheltered accommodation. The refurbishment of these existing homes for social rent will help utilise skills and capacity in the construction industry which might otherwise be lost. (Paragraph 45)

The Housing Corporation, and now the HCA, have always been able to purchase property on the open market. In 2007-08 almost 7,000 properties were purchased on the open market through the national affordable housing programme. As with the purchase of unsold stock from developers, where proposals to purchase suitable properties on the open market meet HCA criteria, and represent value-for-money, they could be funded through the national affordable housing programme.

13. We welcome the Government's investment of £975m in the provision of good quality social rented housing. However, this money has been taken from the budget for future years. It is not additional money. In 2010-11, the year from which the Government has taken money, it has set a target for the construction of 45,000 new social rented homes. We have observed that this target needs to be higher. Meeting even the Government's existing targets will not now be possible without additional funding in that year. The Government's approach of borrowing from the future to pay for investment in social housing now is understandable and, in our view, right. The minister's inability to say how that borrowing will be paid off, however, is worrying. Notwithstanding the additional social housing which, we hope, will be made available from the money taken from 2010-11, the need for yet further such housing will still be there in that year. The funding to meet that need must also be there. We recommend that, to demonstrate its ongoing commitment to building new social homes, the Government increase its budget for new social housing, without which even the Government's targets cannot be achieved, let alone the higher targets that we advocate. (Paragraph 48)

We agree with the Committee that bringing forward funding from 2010-11 to provide new social rented homes was the right thing to do in the current economic climate. Bringing this funding forward will allow us to provide around 7,500 social rented homes sooner than originally planned, providing much needed rented homes and supporting employment in the housebuilding industry.

The Government recognises the importance of continued delivery of new affordable housing, both to meet new demand for affordable housing for vulnerable groups and to provide a fiscal stimulus to the wider economy. That is why at Budget 2009 the Chancellor announced an additional £400m fund to stimulate housing development in the short-term and boost capacity in the house building industry and £100m to allow local authorities to build new social housing to enhanced environmental standards. It is important to note that this is new funding for housing.

Financial viability of housing associations

14. We welcome the Government's statement that it will seek to ensure that critical regeneration schemes are not abandoned or seriously undermined by the credit crunch. We intend to return to this subject later in 2009 to assess the progress that has been made in this area. (Paragraph 50)

We remain committed to ensuring that critical regeneration schemes are supported during the current period of economic difficulty, with relevant Government Departments working closely with their national and regional agencies and local partners to identify such schemes and provide assistance wherever practicable.

We announced further funding support for regeneration activity in the 2008 Pre-Budget Report, giving the regional development agencies and the HCA an additional flexibility to bring forward £100m and £80m respectively from 2010-11 to 2009-10 to assist critical schemes. We are currently working closely with agency colleagues to determine how best this additional resource might be utilised in this new financial year.

15. The Government has taken some welcome steps to improve cash-flow and stimulate building activity by increasing the social housing grant money available to housing associations. The Homes and Communities Agency has also shown a willingness to increase grant rates where necessary in order to ensure the continued viability of developments. It is likely that, as the economic downturn continues, fewer developing housing associations will be able to continue building without such an increase. We urge the Homes and Communities Agency to continue to respond flexibly to the changing economic situation, but there is a limit to what it can do without an overall increase in its budget. We recommend that the Homes and Communities Agency's budget be increased. Without that it will be impossible to meet even the Government's targets for new social homes, let alone the higher targets that we advocate. (Paragraph 56)

We welcome the Committee's support for the Government funding streams to revitalise building activities. The Government recognises that the HCA needs additional funding to support its programmes in the face of current challenges. Budget 2009 announced £635m of additional resources for the HCA. This includes £400m to unlock currently stalled developments by providing development finance, additional funding for social and affordable housing and help for first time buyers. The HCA will use the rest of the funding to support homeowners having difficulties with their mortgages and to increase the energy efficiency of social housing.

16. We welcome the Government's commitment in principle to allowing local authorities to build new social housing. We also welcome the decision that the Homes and Communities Agency should accept bids for social housing grant from local authorities and arm's-length management organisations, as well as housing associations. We recommend that local authorities take advantage of this change by coming forward with new initiatives to increase housebuilding, including providing land at nil cost. This approach to increasing house building rates will only bear fruit if all three of these elements come together. (Paragraph 57)

We welcome the Committee's support for our proposals to help provide new social housing by removing some of the financial barriers facing local authorities. We also welcome the Committee's encouragement of local authorities to make land available for new social housing. We announced in the Budget a £100m funding for local authorities to support new building over 2009-10 and 2010-11. This will enable local authorities to deliver new social housing on land they already own that can be developed only by them.

Local authorities will be invited to bid for grant funding that will enable them to undertake additional prudential borrowing to build new social homes. Funding will be prioritised to developments that meet higher environmental standards. Details of how the scheme will operate will be announced by the HCA shortly.

17. We welcome the proactive approach being taken by the Tenant Services Authority (TSA) to facilitating dialogue between housing associations and the lenders upon whom they rely so heavily. It is too early to judge what effect this is having on the borrowing conditions faced by housing associations. We intend to revisit this issue later in 2009 to assess what progress has been made. (Paragraph 60)

We welcome the Committee's intention to revisit the TSA's dialogue with housing associations and lenders for a progress report in 2009. In the meantime, the TSA will maintain a regular dialogue with the Council of Mortgage Lenders (CML) and its Social Housing Panel, which includes representatives of all the major lenders, as well as undertaking bilateral discussions with individual lenders. This will facilitate discussions at a sector level on the overall implications of lenders' current terms for new and existing debt.

Home ownership

18. The ability of housing associations to build new affordable homes is critical to the attainment of the Government's housing targets. If, because of market failures, they are no longer able to cross-subsidise their development activities at the same high rate as before, we see no alternative but for the Government to replace this funding with a higher average percentage rate of social housing grant. This inevitably means each allocation of social housing grant will produce fewer units than before, but this is a better outcome than funding allocations remaining partially unspent because associations are unable to bring viable schemes forward. (Paragraph 64)

The committee is right to note that recent market conditions have created new challenges for the housing association sector. The downturn in the housing market has made it more difficult for associations to cross-subsidise social rented schemes through the sale of low cost home ownership properties. This is why the Government has given the HCA increased flexibility in the use of social housing grant, including the flexibility to convert unsold new build HomeBuy properties to rent to HomeBuy and social rent where appropriate. This increased flexibility has helped keep delivery of social housing on track in current market conditions. As a result indicative figures from the HCA show that social rented completions in 2008-09 were 5 per cent above target.

In the longer term, we will keep grant rates under review in order to ensure that social housing grant delivers the best possible value for money and delivers the maximum number of homes from our investment.

19. We welcome the proactive approach being taken by the Tenant Services Authority to managing the contingency planning of housing associations and look forward to an update on its effectiveness later in 2009. (Paragraph 66)

We welcome the opportunity to update the Committee on the development and effectiveness of the TSA's contingency planning for the housing association sector later in 2009. We look forward to providing this update. The TSA approach is intended to enable the regulator to proactively identify the risks to which the sector is, or may be, exposed and to enhance its framework for dealing with individual cases of stress in a timely and effective manner.

20. Buyers should not be encouraged by the availability of low cost home ownership schemes to take risks with the purchase of a home. We are satisfied, however, that, through the provision of a substantial equity loan, HomeBuy Direct has been designed to offer maximum security to both buyer and lender even in a falling market. (Paragraph 70)

The government supports sustainable home ownership, for those households earning up to £60,000 who could not otherwise afford to purchase a suitable property. HomeBuy Agents around the country undertake robust affordability checks for purchasers going for any of our HomeBuy schemes to ensure as far as possible that homeownership is a sustainable option for them. The Rent to HomeBuy scheme ensures that in the current market conditions there is another option for those that cannot afford to enter homeownership at the moment. Our HomeBuy schemes offer greater protection to first time buyers than purchasing on the open market as any risk of falling property prices is shared between the purchaser and the loan provider.

21. We accept that each of the low cost home ownership (LCHO) schemes offered by the Government has been created in response to a perceived need and commend Government on its responsiveness. However, if the schemes are to be effective, it is important that both buyers and lenders understand the range of products available. We recommend that the Government rationalise its LCHO programme to make it easier to understand and use, reducing the number of named schemes to three, covering shared-equity, shared-ownership and rent-to-buy. (Paragraph 72)

As of April 2008, there were three HomeBuy products available to purchasers: Open Market HomeBuy (shared equity), New Build HomeBuy (shared ownership), and Social HomeBuy (shared ownership). In July 2008, rent to HomeBuy was introduced. An additional product, HomeBuy Direct, became available in February 2009, in order to assist more first time buyers and to help retain capacity in the house building industry to respond when market conditions improve. What is important is that all schemes are delivered through the HomeBuy Agent single point of contact, which assesses eligibility, advises buyers on which schemes are most appropriate for their needs and handles the application process. As we go forward we will keep all these products under review in order to ensure they are supporting the housing market.

22. Although the savings generated by the stamp-duty exemption will be extremely welcome to those who benefit, their impact on the overall affordability of homes in the UK is marginal. We recommend that the Government not renew this measure in September 2009 but instead direct the revenue it raises from the lowest bracket of stamp duty land tax receipts towards its national affordable housing programme, which has a greater potential to benefit low income households. (Paragraph 75)

We introduced a stamp duty holiday to demonstrate our support for homebuyers at a time of difficult conditions. In bringing forward this measure we had to strike the right balance between supporting those homebuyers who need it most now and taking the necessary decisions to keep the public finances on a sustainable path. This is why the holiday is limited to transactions up to the value of £175,000. In light of the continuing difficult climate, we have extended this holiday until the end of 2009.

The Government does not hypothecate revenues from a specific tax to a specific department or for a particular purpose. Revenues could be volatile from year to year and hypothecating the revenue from the tax for a specific purpose could subject it to unpredictable changes in income. Income from taxes is pooled so that funding can be prioritised across the range of government activities in the most efficient way.

Stamp duty, like all other taxes, is kept under review.

23. Whilst the levels of repossession being experienced should be kept in perspective, it is important not to dismiss the severity of the problem for those involved or the value to home owners and lenders alike of keeping people in their homes. (Paragraph 76)

See response to recommendation number 24

24. We are concerned that the measures in place to limit repossessions, including the new pre-action protocol and FSA guidelines, cannot be enforced. We have received worrying reports of the precipitate behaviour of lenders when dealing with customers who have fallen into arrears with their mortgage payments, implying a lack of commitment to the principle of using repossession as the last resort. We recommend that the Government use the establishment of its new Lenders' Panel closely

to monitor lenders' repossession behaviour. It should consider what sanctions should be imposed upon lenders if they fail to comply with FSA guidelines or the new pre-action protocol. (Paragraph 81)

We welcome the Committee's interest in the key area of preventing repossessions. We are determined to do everything possible to enable homeowners to remain in their own home, recognising the benefits that this has for the families involved, communities, wider housing market, lenders and the exchequer. Therefore we have developed a 6-pronged approach to supporting homeowners concerned about repossession:

- mortgage rescue scheme, a £285m scheme to help up to 6,000 of the most vulnerable homeowners facing repossession to remain in their home
- £200m reforms of income support for mortgage interest could help prevent a further 10,000 repossessions
- homeowners mortgage support will enable people who suffer a temporary loss of income stay in their home by deferring a portion of the interest payments on their mortgages for up to two years. Commenced 21 April 09
- government has funded a further 74 Court Desks (40 funded directly by CLG); so that there are now 174 out of 200 county courts with a court desk in place. These are successful in preventing immediate repossession in up to 85 per cent of cases when people attend court
- more funding has been made available for National Debtline and the Citizens Advice Bureaux to help consumers with money problems – this includes £5.85m additional investment to March 2011 in telephone advice and £10m to March 2011 to expand face-to-face debt advice capacity
- mortgage pre-action protocol was introduced in November 2008 and supports the existing FSA regulation of mortgages (aimed at protecting borrowers)

In addition to this, a repossession prevention fund of £20m was announced at budget to enable local authorities to extend small loans to families at risk of homelessness through repossession or eviction.

The FSA's regulating regime also has a role to play. The regime affords borrowers important protections, and requires lenders to treat their customers fairly. FSA regulation also requires borrowers to treat repossession as a last resort. This regulation is supported by the new mortgage pre-action protocol introduced in November 2008 and sets out clear guidance from the judiciary on what steps the courts expect lenders to take before bringing a claim.

The protocol recommends, in particular, that borrowers and lenders should take all reasonable steps to discuss with each other, or their representatives, the cause of the arrears, the borrower's financial circumstances and the proposals for repayment of the arrears. The court's powers in relation to mortgage cases are governed by section 36 of the Administration of Justice Act 1970 (as amended by section 9 of the Administration of Justice Act 1973). Under this provision if, for example, somebody is able to discuss and make payments towards the arrears or place the property on the market to affect a sale and the lender was unreasonably refusing to agree, the court would have the power to stay or adjourn.

25. The Government's mortgage rescue scheme offers welcome assistance to vulnerable households at risk of homelessness if their homes are repossessed. But it will assist fewer people than had been generally assumed when it was first announced: expectations raised by those initial announcements led to a confused response to the scheme from the public and risked confusion in its administration. The Government's more recent announcement of the details of the scheme, including a helpful frequently asked questions document, may be sufficient to ensure that is not the case. When we return to this subject later in 2009, we will assess whether the funds made available through the scheme have been sufficient to meet the needs of those it is intended to support. (Paragraph 85)

We recognise that the scope of the two-year mortgage rescue scheme is relatively limited compared to the anticipated levels of mortgage repossessions in 2009 and 2010. At the time the scheme was designed last summer, using available data, the number of repossessions were significantly less challenging than they are today.

However, the scheme's underlying principle remains – to help up to 6,000 of the most vulnerable households (families with dependent children, or those containing elderly, ill or disabled people) avoid the trauma of repossession over the next two years. It targets those families who can no longer afford their repayments, and who would be legally entitled to homelessness assistance if repossessed. The mortgage rescue scheme is only one element of the Government's approach to preventing repossessions, which includes support for more households through Support for Mortgage Interest (SMI) or homeowners mortgage support.

We are confident that the scheme is able to evolve to reflect the rapidly changing market conditions. In November 2008 we announced an enhancement to the scheme so that such households are not excluded by having more than one loan secured on their home. And in response to feedback, at Budget 2009 we announced that the scheme's criteria will be expanded to include households previously excluded due to negative equity. This change came into effect from 1 May. The Budget also announced a repossessions prevention fund, to be administered by local authorities, which will allow them to provide small loans to homeowners facing repossession.

As part of the Mortgage Rescue Scheme's monitoring arrangements, headline data will be published on regular basis on the CLG website. Data for January – March was published on 30 April 2009. A copy is available at:

http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/repossessions/

We will continue to keep the scheme under review to ensure any impediments to delivery are addressed effectively.

26. We recommend that the Government implement the Office of Fair Trading recommendation on sale-and-rent-back schemes as a matter of urgency to protect the growing number of households falling behind on their mortgage payments from exploitation by unscrupulous landlords. (Paragraph 86)

We have considered the recommendation of the Office of Fair Trading on sale and rent back scheme and concluded that further consultation is needed. HM Treasury published a consultation document on 6 February 2009, proposing that companies offering sale and rent back agreements are brought within the scope of FSA regulation. The consultation closed on 1 May 2009. It is available at:
http://www.hm-treasury.gov.uk/consult_sale_rent.htm.

The FSA has published a separate consultation paper on the detail of its proposed new regime. The paper is entitled *Regulating sale and rent back: an interim regime* and was published in February 2009. The consultation closed on 1 May 2009. A copy is available at:
http://www.fsa.gov.uk/pages/Library/Policy/CP/2009/09_06.shtml.

27. We welcome the work being done by the Government on providing a support scheme which caters for households which have lost one of two incomes or which have had a significant reduction in income. Many such households could legitimately be entitled to support for their mortgage payments in order to prevent unnecessary repossession. The new mortgage support scheme is a step in the right direction but, because it takes the form of a further loan, may deter households unwilling to take on more debt at a time of financial uncertainty. We will return to this subject later in 2009 to assess the actions taken by Government. (Paragraph 90)

The Government is grateful for the Committee's support for the homeowners mortgage support (HMS) scheme. This new scheme, available from 21 April, will enable eligible borrowers who suffer a temporary loss of income to reduce their mortgage interest payments for up to two years. Although the support is not a payment holiday, it also does not take the form of a new loan, in that households defer a proportion of their monthly interest payments which is added to the remaining balance of the mortgage and paid back when the homeowner leaves the scheme. HMS offers households valuable breathing space to get their finances back on track without the fear of losing their home.

We recognise that the scheme will not be appropriate for all households. It is designed to help households through a short term loss of income and not to sustain home ownership where it is unaffordable in the long term. A key element of the scheme is that households must seek independent money advice to ensure that the scheme is appropriate for them and that they are able to meet repayment plans. It is also worth stressing that the scheme is only one element of our support for households in this position – other options, including mortgage rescue scheme or Support for Mortgage Interest (SMI) may be more appropriate and independent money advice is available to help households choose the best option for their circumstances.

28. We welcome consideration being given by the Ministry of Justice to extending the period of notice a lender is obliged to give a tenant that their home is at risk of repossession. We recommend that the Government also produce guidance stipulating that lenders repossessing properties where there is a sitting tenant make arrangements for the professional management of the property for a minimum of six months after repossession or until the end of the contractual tenancy period if sooner. (Paragraph 93)

The Government has worked with the Civil Procedure Rules Committee to revise the rules around the period of notice. Under the Civil Procedure Rules (CPR Part 55.10(2)) from April, lenders must notify the occupier of the property within 5 days of getting a date for a possession hearing. This gives occupiers the maximum time possible to get independent advice and to make alternative arrangements.

We note the committee's recommendation on allowing a sitting tenant to remain in a repossessed property. We encourage lenders to consider letting a tenancy run on in this way, using rental payments to cover the mortgage costs, at least until the tenant has had a reasonable period of time to find alternative accommodation. We are discussing this area with lenders and supporting their efforts to establish some clear principles of good practice and considering whether any further action is necessary.

Conclusion

29. It is vital that CLG, both at official and at ministerial level, maintain pressure on the Treasury to ensure the measures which will revive the mortgage markets are implemented as soon as possible. (Paragraph 95)

The Government announced in the Budget on 22 April that a scheme to support mortgage lending would be available immediately and until October. It builds on recommendations in Sir James Crosby's report on wholesale mortgage funding, published in November. The scheme extends the funding options available under the existing credit guaranteed scheme to residential mortgage–backed securities. It offers a credit guarantee and a liquidity guarantee to be attached to triple-A rated securities. It aims to improve liquidity in the markets and increase the mortgage funding available to households.

CLG will also be working closely with the FSA on its review of mortgage lending, due to report in September, and continue to work with HMT, BERR and key players in the industry on ways to improve mortgage availability and long term stability in the mortgage market, for example through the Home Finance Forum.

30. We recommend that all local authorities develop a comprehensive and imaginative strategy for meeting housing needs in their area. They should also ensure that they take a comprehensive approach to making advice available to people in their area on the options available. (Paragraph 96)

We recognise the importance of local authorities having a comprehensive strategy in place to meet their housing needs and having integrated advice for local people.

The Housing green paper *Homes for the future: more affordable, more sustainable* published in July 2007 called on local authorities to develop a strategic approach to housing as part of their place shaping role. As part of this, authorities are encouraged to play a stronger role in assessing and planning for the current and future housing needs of all local residents across all tenures, and to understand their local housing market. They are also expected to make use of the full range of housing and planning land use powers, and to work with a wide range of partners, including developers, to deliver new market and affordable housing to create sustainable communities.

In addition, we published a statutory guidance, *Creating Strong, Safe, and Prosperous Communities* in July 2008, which reaffirmed the need for local authorities to take full and proper account of housing as part of the strategic vision for their area. We have also developed enhanced housing options (EHO) Trailblazer programmes which offer personalised advice on a wide range of housing options to anyone in housing need, intervening before the point of crisis. The first phase of Trailblazers has already begun, with the majority starting from April 2009 and running to March 2011. £10.2m funding will support the Trailblazer projects and fund a comprehensive evaluation and the subsequent dissemination of good practice.

31. In the introduction to this report and in a number of places throughout we have indicated our intention to return to the subject later in 2009, to consider the situation further. We look forward to considering progress, and urge the Government in the meantime to focus on ensuring all possible measures are taken to achieve the aim of a decent home for all, despite the credit crunch. (Paragraph 101)

The Government welcomes the Committee's intention to return to this subject in 2009. Since this inquiry in December 2008 we have made significant progress on a number of measures taken to increase confidence, stability and fairness in the housing market. Some of these are set out below:

- **HomeBuy Direct:** Due to the high level of interest from developers, we have expanded the scheme from 10,000 to 18,000 homes, and the level of funding available for the scheme has been raised from £300m to £400m. The scheme is operational and the first sales have gone through. As a result of the Budget, an additional £400m has been made available to kick-start stalled housing developments through a variety of funding mechanisms, including HomeBuy Direct.

- **Decent Homes:** We brought forward £250m to sustain and accelerate the decent homes programme and £175m for major repairs allowances for council houses to assist the construction industry through the downturn. Significant elements of this will support expenditure above existing national budgets provided to schemes previously identified by partners in the ALMO and transfer programmes. In the Budget the Chancellor also announced money for cavity walls insulation in the social sector. The HCA will run a capital grant programme for local authorities ALMOs and registered social landlords totalling £84m over the next two years.
- **Repossessions:** Enhancement of income support for mortgage interest came into effect on 5 January. We rolled out the mortgage rescue scheme to all local authorities in England on 16 January and launched the homeowners mortgage support on 21 April. At Budget 2009, we increased funding of £80m for the mortgage rescue scheme to respond to high demand for the Government mortgage to rent option and also expand the scheme so it is available for those who are in negative equity. A repossession prevention fund worth £20m also was announced at Budget 2009 to enable local authorities to extend small loans to families at risk of homelessness through repossession or eviction, as part of our work to prevent homelessness.
- **Mortgage finance:** The Government remains committed to supporting a sustainable mortgage market with an adequate supply of mortgage finance. Earlier this year, the Government announced quantified lending agreement with two banks participating in the asset protection scheme and the extended credit guarantee scheme, with institutions committing to provide significant additional lending at loan to values (LTVs) up to and including 90 per cent. At Budget, HM Treasury announced a new scheme to support the residential mortgage-backed securities market, building on Sir James Crosby's Review on mortgage finance. The scheme offers two forms of guarantee (credit and liquidity) and will run until October, with the option to extend for three years.
- **Additional funding:** As part of the £1bn package announced in the 2009 Budget, a £400m fund to stimulate housing development in the short-term and boost capacity in the house building industry which could deliver an additional 9000 homes. This fund will help restart stalled construction activity across the country, retaining jobs and skills, and boosting the supply of homes over the next year – benefiting first time buyers and social tenants. The fund will unlock currently stalled developments, leveraging in private development finance through a combination of reducing up front costs with equity, gap and infrastructure funding, and additional funding for social and affordable housing, including help for first time buyers. Spend will be prioritised to higher standard sites.

Despite the downturn in the economy, we continue to take appropriate action where necessary to create thriving, sustainable, vibrant communities that improve everyone's quality of life.

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