

High Speed 2 (HS2) Property Price Support Scheme (PPSS) Consultation

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1 Introduction

Background

- 1.1 High Speed 2 (HS2) is the largest planned infrastructure project in the UK. It will create a step change in rail capacity and connectivity between London, the West Midlands, Manchester and Leeds.
- 1.2 Communities and businesses along the line of route of HS2 are at the heart of everything the Government does. It is right therefore that the Government has a support package that fairly compensates those whose properties are affected by the project. A range of statutory and non-statutory financial support schemes have already been rolled out in full in the three phases of HS2: Phase 1 (London to West Midlands); Phase 2a (West Midlands to Crewe); and, Phase 2b (West Midlands to Manchester and Leeds).
- 1.3 A property bond, or in industry parlance, a Property Price Support Scheme (PPSS) for HS2 attracted support in past property compensation consultations. In its response to the Phase 2b property compensation consultation, the Government committed to re-examine the case for a PPSS, considering the benefits and risks of introducing such a scheme for those affected by HS2. A technical consultation was launched in May 2018.

Consultation Purpose

- 1.4 The purpose of the consultation was to gather up to date evidence on the suitability, benefits and risks of introducing a PPSS for HS2. A PPSS is a tool that provides eligible property owners with a mechanism to ensure that no financial loss is suffered as a result of generalised blight. A PPSS therefore has the potential to help support the normal functioning of the property market by reassuring property owners and mitigating generalised blight.
- 1.5 There is not a single type of PPSS. There are varying assumptions on how a scheme could operate and the costs associated with it, and while the consultation was not focussed on the form of the PPSS itself, comments on this specific point have been considered as part of the overall consultation.
- 1.6 The key issues this consultation sought evidence on were:

** The effect of a scheme on housing markets close to HS2*

Any scheme of this type would be a major intervention to the private property market and so it is crucial that the Government understands the broad effects a scheme would have on local housing markets.

** The effect of a scheme on cohesion in communities affected by HS2*

One of the objectives of the non-statutory schemes introduced for HS2 is to maintain community cohesion in areas affected by plans for the railway. The Government must consider how a scheme would affect local communities.

** The financial risk to Government of introducing a scheme*

A key part of any assessment will be whether a scheme can provide value for money to the tax payer. It will be important to understand the potential cost exposure of a scheme and how to reliably forecast this cost.

** The operation of a scheme*

The impact on the property market and communities along the route could vary according to how the scheme operates. The Government will therefore need to understand the variable effects of different operational models to identify an optimal model.

** The eligibility requirements of a scheme*

The Government will need to ensure that any eligibility requirements developed are fair, and in line with the Government's objectives for the non-statutory schemes.

Consultation Process

- 1.7 The consultation process was owned and managed by the Department for Transport (DfT) and analysis undertaken by SSard Ltd.
- 1.8 The consultation ran from 15 May to 9 July 2018 and was available on the www.gov.uk website. DfT raised awareness of the consultation by contacting key industry stakeholders and wrote to all MPs along the HS2 route. Due to the technical nature of the consultation, there was no wider advertisement of the consultation with the general public.
- 1.9 In total there were fourteen responses received of which three were sent on behalf of organisations.

Aims of Consultation Report

- 1.10 The aim of this report is to provide a summary of the consultation responses received including the overall sentiment amongst consultees, illustrative quotes, and specific suggestions. It is worth acknowledging that the consultees supplied comments which demonstrate that considerable thought had been put into their response.
- 1.11 The following chapter summarises the responses to each of the questions, with the final chapter providing a brief overall summary.

2 Summary of consultation responses

2.1 This chapter summarises the responses to each question.

Question 1

How could a Property Price Support Scheme (PPSS) support the functioning of the housing market in areas affected by HS2? Explain the reason for your answer and include any evidence to support your view.

2.2 The majority of consultees would welcome a PPSS believing it would help support the housing market. It was pointed out by one consultee that there are two aspects to supporting the market: maintaining sales volumes; and supporting house prices. The PPSS has the potential to achieve both, depending on how it is set up.

2.3 Some typical responses are provided below to illustrate. These highlight the importance of the scheme being independently operated and owners being able to sell at a realistic unblighted price:

- *“The introduction of an independently operated Property Price Support Scheme would be of great benefit to affected property owners. The introduction of such a scheme would support the housing market bringing confidence to buyers, sellers and their agents.”*
- *“At this point local estate agents will not even take on properties in these zones ... a PPSS where the difference between blighted and unblighted price is paid will potentially allow a lower house price to be marketed on the free market.”*
- *“A support scheme could help residents to sell/move if they need to.”*
- *“As a property owner 500m from the proposed HS2 route, the PPSS is a welcomed initiative.”*

Question 2

How could a PPSS lead to a reduction or eradication of generalised blight in an area? Explain the reason for your answer and include any evidence to support your view.

2.4 The general sentiment amongst consultees was summed up succinctly in one response: *“It would not reduce it but would deal with the impact.”*

2.5 To reduce the general blight one consultee thought the level of support provided would need to be increased: *“PPSS Support to the blighted areas should be substantially increased to offset, the damage, noise, and hideous sight of overhead power lines, and upheaval, through our beautiful countryside”.*

2.6 One view was that to be successful, the PPSS should cover new as well as existing owners i.e. it should be transferable.

- 2.7 One other consultee stressed the importance of introducing a PPSS to minimise long term blight and stagnation of the local housing market: *“The housing market in areas blighted by HS2 will remain stagnant for many years if the Government does not take steps to create free movement for owners of blighted property. The introduction of an independently operated Property Price Support Scheme would be of great benefit to affected property owners.”*
- 2.8 Nevertheless, it was pointed out that a PPSS would not address the physical blight effects: *“Noise blight will always be there!”*.

Question 3

Would a PPSS influence owner-occupiers’ willingness to remain in their properties in areas where HS2 may have an impact? And if so how? Explain the reasons for your answers and include any evidence to support your view.

- 2.9 Many respondents felt that a PPSS would likely encourage owners to stay in their properties. A typical comment was: *“When homeowners have peace of mind that the value of their property will remain at ‘without HS2’ values for ever ... they will be willing to stay in some cases to ‘see how it impacts them’ or see how it goes.”*
- 2.10 While this was the majority viewpoint, others thought it would have less impact and would wish to move irrespective of PPSS - *“The reason I chose the property was for its quiet and tranquil rural location. The quiet and tranquil aspect will be lost as a result of HS2.”*
- 2.11 One respondent noted that people living in the impacted area can suffer from anxiety and stress irrespective of whether they stay or sell.

Question 4

How can demand for a PPSS and the potential cost to the government be accurately forecast? How can we have confidence in this forecast? Explain the reason for your answer and include any evidence to support your view.

- 2.12 A number of consultees thought it would be possible for an independent expert to forecast the potential cost. One response noted: *“This can be done – by an accurate property count on those affected by impartial, professionals, for an accurate cash total”*.
- 2.13 One consultee referred to the need for an insurance product to protect the government from financial losses: *“A Universal Property Bond PPSS would require the creation of a Homeowners Mutual insurance entity which would be responsible for the administration of the PPSS. This would be funded by a small levy (approximately 0.04% of house purchase price) when a home is purchased, payable by the Vendee.”*
- 2.14 Another approach suggested analysing the composition of households and their attitudes by surveying all properties affected: *“To establish the time at which owner-occupiers may benefit from a PPSS scheme, the Government could write to all property owners within the designated PPSS boundary to ask when they are likely to want to relocate, and if so, at what stage – pre-construction stage, construction stage or operational stage, or perhaps, within the next 3 years, 3-6 years, 6-9 years, etc”*.
- 2.15 There were comments noting that PWC did undertake an extensive study for DfT in 2014 and developed a “sophisticated cost model” which could be updated with new evidence if available.

- 2.16 A further suggestion was the proposal for a blight map that would define the government’s exposure: *“the ability to use Cartography and other tools to analyse blighting factors and to ascertain the value of the homes within those areas affected.”*

Question 5

Would a value or a time based PPSS be most appropriate for HS2? Value based PPSS - this requires the government to pay a ‘top up’ (difference between sale price and un blighted value) in the event that an ‘un blighted’ price cannot be achieved by the owner. Time based PPSS - this requires the government to acquire qualifying property at the ‘pre-impact’ price if the property is not sold in the open market within a defined time frame. Explain your reason for selecting either time or value PPSS and include any evidence to support your view.

- 2.17 A value based scheme was preferred by the majority of those expressing a preference, with one consultee believing the property owner should have the choice. The comments provided below help to illustrate the reasons for the preference for a value based scheme, a key factor being that it means the property owner can take a “wait and see” approach:
- *“Having seen both schemes in action at Stansted and Hinkley, it is my view that a value-based PPSS works better as there is no incentive to sell on the open market with a time-based PPSS.”*
 - *“The PPSS has to be value based. Property prices may rise or fall in the coming years. For the scheme to fairly benefit both owner-occupiers and the tax-payer it's essential that the scheme values property at its unblighted value, in market conditions that are current at the time of sale.”*
 - *“Value based is much preferred as this give[s] affected property owners another option to 'wait and see'..... The time based is 'forcing' people to sell.”*
- 2.18 One consultee suggested that the time based scheme has the benefit that *“it can address the situation where no-one is prepared to purchase the property ... and the operator makes the purchase himself”* giving confidence both to potential purchasers and mortgage companies.

Question 6

We know that blight could change over time and at different stages of the project, including: after route announcement but before details of the environmental impact are known; after the announcement of details of the environmental impact but before the start of construction; and from the start of construction until the start of operation of the railway.

Do you believe that a PPSS should apply for all the stages above? Explain the reason for your answer and include any evidence to support your view.

- 2.19 There was strong support for PPSS to apply at all stages of development to allow the homeowners freedom on when they decide if they would like to sell their property: *“Property owners should not be restricted in any manner when it comes to the sale of their property. Therefore all options at all times should be available to a property owner.”*
- 2.20 The point was also made that the period of compensation would be with effect from the safeguarding of the route and that this necessitates prompt production of blight maps by the promoter. An advantage, therefore, of making the scheme available from route announcement is that it can reduce local opposition to the scheme.

Question 7

Should the scheme be different for each stage or should a single scheme cover all stages above? Tick the relevant boxes below and explain the reason for your answer and include any evidence to support your view.

- 2.21 Most respondents felt that a value based PPSS scheme which covered all stages of the project would be most beneficial as this would ensure consistency for those affected and could be more easily understood: *“Differing schemes will generate confusion and misunderstanding and be more expensive to administer. A simple scheme that is easily understood and remains constant throughout the project cycle is most likely to provide the confidence needed to maintain the housing market.”*
- 2.22 An exception that was suggested is adapting the scheme for the first year of operation: *“This is to allow ‘buy-back’ of the PPSS from the final owner for the properties that have not been bought by HS2 at any point.”*

Question 8

Is there a risk that a scheme with a defined boundary will indicate that blight exists and so spread further blight? Explain the reason for your answer and include any evidence to support your view.

- 2.23 There were mixed views expressed concerning scheme boundaries. An issue expressed a number of times concerned the difficulty of defining an area affected by blight. At one extreme this would mean taking a case by case approach where eligibility would be based on where the home owner can demonstrate a loss in market value compared with the unblighted price. Another view was that anywhere within a 1 km buffer should be considered blighted (and therefore an area much larger than the 300m compensation zone).
- 2.24 An alternative solution proposed was to produce detailed blight maps which will distinguish between the various blighting factors: *“Accurate blight maps should have the effect of providing confidence to homeowners whose homes are outside of the area that they will be unaffected.”*
- 2.25 It was pointed out that local conditions need to be taken into account, and that current boundaries are too rigid and therefore can be unfair.
- 2.26 There was a recognition that any defined geographic boundaries would be crude approximations of the blighted area and will therefore inevitably provoke criticism.
- 2.27 Overall, the view was that a boundary is beneficial so long as it is accurate since it sets a limit on the affected area.

Question 9

If you believe there is a risk that a scheme with a defined boundary could spread further blight as described above, how could this risk be prevented or mitigated?

- 2.28 Consultees considered that the risk can be minimised through the provision of accurate, independent information. For example, one consultee responded: *“Accurate blight maps, produced at the same time as the Environmental Impact Assessments, will provide, by strong evidence, integrity to the defined boundary. In the unlikely event that a homeowner outside the boundary successfully proves that they are blighted then they will receive compensation. Valuations would be carried out by blight experts in conjunction with local valuation offices.”*

- 2.29 One proposed solution was to adopt a ‘hybrid approach’ in which a tight boundary is defined, but then there is allowance for applications beyond that boundary where there is evidence of blight.

Question 10

Should a PPSS only be introduced as a responsive tool in specific areas where blight has been identified? Explain the reason for your answer and include any evidence to support your view.

- 2.30 The majority felt that a PPSS should **not** be introduced as a responsive tool to areas identified by blight since this has the potential to be unfair, and relies on accurate assessment of blighted areas. *“PPSS should be proactively available to any property owner within a blighted area of the proposed HS2 route”.*

Question 11

The following are potential methods to determine geographical eligibility for a PPSS:

- **No boundaries - where a resident is able to self-identify that their property value has been affected by HS2.**
- **Existing boundaries - set by the current suite of HS2 non-statutory schemes: 120m (Rural Support Zone) and 300m (Homeowner Payment) from the line in rural areas.**
- **Fixed boundaries outside this area - If you support this approach please indicate the suggested boundary and the rationale for this boundary.**
- **Variable boundaries based on physical environment, which could include a blight ‘map’.**
- **An assessment of impact akin to the 'Need to Sell' location criterion.**

What do you think are the advantages and disadvantages of each approach? Explain the reason for your answer and include any evidence to support your view.

- 2.31 The responses to the question about geographical eligibility are very mixed, likely due to each respondent’s experience. There was concern expressed over the complexity and subjectivity of some of these options and therefore the difficulty of applying them consistently. In particular: No boundaries; Variable boundaries based on physical environment; An assessment of impact akin to the 'Need to Sell' location criterion. It was also acknowledged that where there is more flexibility such as with the No boundaries option it is subject to abuse with claims made by people simply because they object to the scheme.
- 2.32 The use of simpler fixed boundaries could be seen to be arbitrary and unfair.
- 2.33 There were suggestions for a composite or hybrid approach based on a simple fixed buffer area (such as 1 km or 1 mile) plus claims outside of this made on a case by case basis.
- 2.34 A common view was that the geographical eligibility of PPSS should be clear and demonstrable.

Question 12

When considering a PPSS, should the following criteria be included? Tick Yes or No for each criterion and explain your answers below.

The homeowner should have a compelling reason to sell.

- 2.35 This criteria was widely rejected by consultees: *“Why should we sell at our age for a loss when we have worked all our lives?”*

Evidence that the homeowner had no knowledge of HS2 prior to purchasing the property.

- 2.36 While a few anonymous consultees did agree this should be included, the majority thought it should not, for example because *“People out of the area will be affected who don’t know about HS2”*.

- 2.37 One consultee made the distinction between value and time based schemes. For a value based scheme *“there is no problem with including a prior knowledge requirement”*, however for a time based scheme having no prior knowledge clause would be inconsistent.

The PPSS should expire once the railway is operational.

- 2.38 This option was rejected by the majority of consultees, though one consultee considered that once the railway has been in operation for a year this would be *“the natural end point to the scheme”*

The owner-occupier choosing to sell should have to accept any reduction in value.

- 2.39 Just one of the consultees agreed to this criterion.

The PPSS bond should be transferable upon sale of the property.

- 2.40 There were mixed views on whether the PPSS should be transferable with no clear consensus.

- 2.41 A couple of additional comments and suggestions were made:

- *“Property owners should not be negatively affected by the construction of HS2, either by property value loss or a loss of enjoyment in living in the property. Demonstrating a compelling need to sell is therefore not a valid criterion to be able to move if the property can no longer be enjoyed with the existence of HS2.”*
- *“it is essential for achieving a reduction in generalised blight that the PPSS transfers with the sale of the property. This enables the purchaser to benefit from its terms (and so reflects this in the price he is willing to pay the vendor).”*
- *“The Universal Property Bond PPSS does not require the homeowner to have a compelling reason to sell. The bond protects the homeowner’s property value (linked to the house price index) The bond is value based and does not expire. The owner occupier choosing to sell does not have to accept any reduction in value linked to the blight. The bond is transferred to the new owner for the purchase price (and once again linked to the house price index). A small fee, approximately 0.04% of the purchase price, is paid to the Mutual insurance company. The resulting funds (approximately £85m pa) pay for future claims and Reinsurance premiums, thereby ensuring there is no further government expenditure.”*

Question 13

What do you think will be the best PPSS model for HS2? Explain the reason for your answer and include any evidence to support your view.

- 2.42 The most common (though not the only) view on the best PPSS model is a value based compensation scheme which gives the difference between the blighted and unblighted value. This means that property owners are not forced to sell and it should run alongside other schemes. The scheme should also offer clarity and offer an honest price for the property.
- 2.43 One respondent also suggested that those affected should be offered an up-front sum: *“The model would be best as an up-front lump sum payment that reflects in value financial support for all the stress and blight that it has caused.”*

Question 14

How can we ensure that any PPSS can be easily understood by residents?

- 2.44 The message from consultees was to be clear and consistent in communications and generally keep it simple. Communications should use language which can be easily understood. There should be face to face engagement events to help explain it and provide reassurance. These points are further illustrated by some of the consultees’ own responses:
- *“The terms of the PPSS should be defined in language that is easy to understand. Independent advisors from the companies appointed to administer the scheme could attend HS2 engagement events to provide a ‘face to face’ explanation of the scheme. Homeowners inside any designated PPSS boundary should be informed of the scheme by letter and leaflet.”*
 - *“Make it simple, & stop agencies introducing panic.”*
 - *“Keep it simple. Treat everyone equally and fairly. Be consistent.”*
 - *“Providing assistance rather than trying over-hard to make the scheme simple and accessible is probably the better strategy”.*

Question 15

What could be the potential impact of introducing a PPSS for HS2 on the equality and diversity of communities living along the HS2 route? Explain the reason for your answer and include any evidence to support your view.

- 2.45 The general view was that if PPSS is introduced effectively and equitably it can have a positive impact on the equality and diversity of communities: *“The scheme would protect communities from becoming insular as it supports free movement. The scheme would support directly affected communities by placing them on an equal footing with the wider community.”*
- 2.46 It can also help to keep communities together: *“Should help to maintain the current owner-occupier balance and so keep the communities together rather than bringing in short term tenancies which are unpopular with most owner-occupiers.”*
- 2.47 However, one consultee suggested that the type of scheme could have an impact with a time based scheme decreasing diversity by supporting prices.

Question 16

In general, what advantages and disadvantages do you see in having a PPSS for HS2?

- 2.48 The potential advantages of introducing PPSS identified by consultees were:
- those affected would be fairly compensated;
 - the housing market would be sustained and confidence in the market restored;
 - people would be encouraged to remain as homeowners;
 - there would be less financial impact on the Government;
 - it gives the scheme proposer a direct interest in minimising adverse environmental impacts;
 - it would provide comfort and support to those affected by HS2 and would instil confidence in those homeowners that the Government were supporting them and treating them all fairly.
- 2.49 No disadvantages were noted, as long as *“checks and balances are in place to avoid abuse of the scheme”*, and the boundaries are drawn accurately.

Question 17

Add any further comments below introducing a PPSS for HS2

A range of responses to this question were received, including:

- comments on the structure of the scheme;
 - good communications required;
 - boundaries and entitlement to join the scheme;
 - too many schemes; and
 - fair compensation should be paid
- Specific comments and suggestion included:
- *“there should be an external administrator of the PPSS scheme”*;
 - *“there is an opportunity to test the workings of a bond by offering up some of the homes currently owned by HS2 at auction with a guarantee to protect the purchase price. The response to this opportunity would be of great interest and allow all stakeholders to test the theory. If it can be demonstrated that the homes can be sold and a reasonable price obtained it would go quite some way to providing the evidence that is currently lacking”*;
 - *“lessons should be learnt from EDF Hinkley point”*;
 - *“it will be necessary to consider any interactions between schemes”*;
 - *“if it is a value based top-up there is the question of whether it uses the actual sale price or a RICs estimate”*;
 - *“if it is a time based scheme it is important to get the mortgage companies’ support”*;
 - *“much of the opposition to HS2 would fade away if only home owners were fairly treated and not expected to carry a financial burden and loss.”*

3 Overall summary and conclusions

- 3.1 This consultation into a PPSS for HS2 provides some useful feedback but is based on a relatively small sample (fourteen), with many of the consultees personally affected by HS2. There is insufficient consistency and sample set in the response to draw a statistical conclusion or provide a mandate to government that can be delivered with confidence.
- 3.2 Amongst consultees there was strong support for a PPSS since they consider that it has the potential to ensure homeowners are fairly compensated, to sustain the local housing market, and encourage local people to stay in their homes.
- 3.3 The majority considered that the best format of the PPSS would be a value-based compensation scheme which gives the difference between the blighted and unblighted value.
- 3.4 There was broad support for PPSS to apply at all stages of development.
- 3.5 There was no consensus on how best to define the geographical boundaries of the scheme, though whatever mechanism was used should be clear and demonstrable to avoid uncertainty and abuse. A hybrid approach was suggested whereby a relatively tight area is defined but that there is a mechanism for including properties outside this area which are still affected by blight.
- 3.6 A number of key success factors were identified from the consultation responses:
- The scheme should be supported by clear and simple information, and events to enable face-to-face contact;
 - Accurate blight maps are needed to clearly demonstrate the affected area;
 - Its administration should be independent and objective;
 - It must be seen to be fair.
- 3.7 A few suggestions were made for improving the scheme:
- An insurance product might be used to protect the government from financial losses;
 - The mechanism should be piloted prior to full deployment.
- 3.8 There is no data quantum from which to draw an estimate of the cost of a PPSS to the government. Given the favourable response to a PPSS, there could be an opportunity for a further phase in which specific questions about the structure of a PPSS be asked and from which an estimated cost/liability be derived.

