Department for Communities and Local Government

Government Response to the Communities and Local Government Committee's Report on Financing of New Housing Supply

July 2012

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by Command of Her Majesty

July 2012

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Introduction

The Government welcomes the report from the Select Committee on the Financing of New Housing Supply and the Committee's interest in the actions we are taking to increase housing supply. We have considered the Committee's comments carefully and have set out our responses to each of their recommendations and conclusions below.

Private investment

1. **We heard about a number of steps that public sector organisations can take to encourage institutional investment in the private rented sector, addressing the key barriers of scale, suitability of stock and yield. We recommend that all public bodies, both local and national, consider the potential for contributing their land alongside institutional finance to support build-to-let initiatives. We urge local authority pension funds to be alert to the benefits of investment in residential property, whilst ensuring transparency and security for their investors. We would hope that their doing so would pave the way for private funds also to invest in residential property. Finally, we encourage local authorities to consider taking a flexible approach to affordable housing requirements in planning obligations on a case-by-case basis, where this will help to stimulate build-to-let investment and will not be to the detriment of the wider housing needs of the area. (Paragraph 22)**

   The Government shares the Committee's wish to encourage more institutional investment in private rented housing and in removing barriers to investment in rented housing by pension funds where this is appropriate. That is why we commissioned Sir Adrian Montague to carry out an independent review of the barriers to institutional investment in privately rented housing.

   Sir Adrian, assisted by a reference group drawn from key external interests, has considered the issues raised in this recommendation. His review is expected to report in summer 2012. We will look carefully at his report and recommendations and respond to them.

2. **Housing associations should play a role in attracting institutional equity investment, either by expanding into market renting and providing the economies of scale required by investors or by using finance from institutions to bring investment into social rented housing. We encourage housing associations to explore such opportunities and to establish a dialogue with potential investors. (Paragraph 26)**

   The Government supports the expansion of housing associations into the private rented sector where it is appropriate for the association's business model.

Real Estate Investment Trusts (REITs)

3. **We recommend that the Government put in place measures to address concerns about the distinction between trading and investment specifically in the context of residential REITs. We further recommend that the Government allow the creation of private, unlisted residential REITs. (Paragraph 32)**

   The Report refers to the joint HM Treasury and Department for Communities and Local Government consultation on reforms to the Real Estate Investment Trust regime which was launched in April this year and closed on 27 June. The consultation sought views on the potential for Real Estate Investment Trusts to support investment in social housing. We will carefully consider the responses alongside the Committee's recommendation.

Self Invested Personal Pensions

4. **Self Invested Personal Pensions could provide another source of finance for rented housing. We recommend that the Government look in detail at the contribution SIPPs could make and the risks and benefits for those investing in SIPPs. If satisfied about these risks and benefits, it should bring forward proposals to facilitate their investment in residential property. (Paragraph 34)**

   The purpose of Self-Invested Personal Pensions (SIPPs) is to enable individuals to save for their retirement. Like other registered pension schemes, contributions to a SIPP and investment returns benefit from tax relief.

   Current pensions tax rules restrict direct investments in residential property in SIPPs and other pension products where the individual has the option to choose how the assets of the pension fund are invested. These restrictions are intended to prevent individuals using tax-relieved funds to acquire homes or other assets that may create an opportunity for personal use, rather than for the purposes of securing future retirement income.

   SIPPs and other schemes are permitted to indirectly invest in residential or commercial property through one or more genuinely diverse commercial vehicles where there is sufficient diversity of ownership and assets to prevent private use of those assets. For example, SIPPs may invest in residential property through a vehicle such as a UK Real Estate Investment Trust.

   The restriction on direct investment in residential property applies only to those schemes such as SIPPs where the beneficiary has the option to choose how the assets of the pensions funds are invested. Most registered pension schemes, where the investment powers rest solely with the scheme trustees, and not with the scheme members, can already invest both directly or indirectly in residential property without any tax disadvantage, as it is highly unlikely that there will be personal use of property investments by the scheme's members.

These rules are intended to strike a sensible balance between allowing investment-regulated pension schemes to invest in a range of assets and the need to protect pensions tax relief from potential abuse.

Housing Investment Fund/Housing Investment Bank

5. **We support the establishment of a pilot housing investment fund run by housing associations, and recommend that, in discussions with the National Housing Federation, the Government explore how it can give its backing. The pilot should consider the viability of a fund, its ability to attract investment, and any risks to the Treasury arising from Government support. Subject to the success of the pilot, the fund could be increased in scale. We further recommend that the Government work with the Confederation of Cooperative Housing on the Confederation's proposals for an investment fund. (Paragraph 40)**

   We note the Committee's recommendation on a housing investment fund. The Government, with the Homes and Communities Agency, is currently engaging with the Confederation of Cooperative Housing and others to look at ideas for a private sector investment fund.

6. **We consider that there is merit in the suggestion that a national housing investment bank be established. In other European countries such banks have proved effective at channelling investment into new housing development. The work already underway to create a Green Investment Bank offers a useful opportunity; there is a clear case for allowing this bank to invest in housing as well as green infrastructure. We recommend that the Government consult on proposals for the extension of the Green Investment Bank's remit to include the funding of new housing and, potentially, of wider infrastructure projects. (Paragraph 41)**

   The Government notes the recommendation to establish a national housing investment bank and will keep this under consideration.

   However, the Government is already providing £1.3bn of investment to unlock housing growth:

   - The Growing Places Fund is providing £770m[1] to deliver key infrastructure needed to promote economic growth, create jobs and build houses. It is up to Local Enterprise Partnerships and their local authority partners to determine which projects should be funded to boost the local economy and get people into work. We have provided flexibility for Local Enterprise Partnerships to establish local investment funds, enabling them to recycle funding for other projects once development is completed.

   - Get Britain Building will invest £570m in housing development, unlocking viable sites which in the current climate are having difficulty attracting finance from traditional lenders. Investments take the form of loans to

[1] £730m in England and £40m to the Devolved Administrations through Barnett consequentials.

developers and equity shares in schemes rather than traditional grant, and are made on a commercial basis to promote good value for the taxpayer. Work has started on some sites and more will follow through summer 2012. Further bids have been invited to the fund and the minimum eligible size of site has been reduced from 25 to 15 homes to improve access for small and medium-sized enterprises.

In addition, Government is providing £4.5bn, which is levering in a further £15bn of private investment from providers, to deliver up to 170,000 new affordable homes for rent and affordable home ownership from 2011-15. For the 2011/12 financial year HCA has delivered a total of 51,665 affordable homes for rent and affordable home ownership[2].

Under the FirstBuy equity loan scheme, Government and 100 house builders will provide £400m worth of equity loans, supporting up to 20,000 short term jobs in the house building industry. Demand for FirstBuy is strong[3] and by spring 2013 the scheme will have helped almost 10,500 deposit constrained aspiring home owners to buy.

The Government-backed industry-led NewBuy Guarantee scheme will allow potential home buyers without access to large deposits to purchase new build homes, boosting supply significantly. The Home Builders Federation estimates that there will be at least 25,000 additional new homes built as a direct result of the scheme. 25,000 additional home completions would generate economic benefits worth £750million and support up to 50,000 additional jobs.

More broadly, Government has a suite of measures to improve the availability and cost of credit to businesses across the economy. The £1.2bn Business Finance Partnership scheme will diversify the sources of finance available to smaller and mid-sized firms, reducing their dependence on bank lending. These funds will be matched by private sector co-investment. The Government and the Bank of England have also announced a new Funding for Lending scheme which will provide funding for banks linked to their performance in increasing lending across the economy. This complements the existing National Loan Guarantee Scheme, which delivers a 1 percentage point reduction in the cost of loans to smaller businesses. On the 26 June 2012, the Chancellor announced the National Loan Guarantee Scheme was to be extended to include businesses with a turnover of up to £250m.

Private Rented Sector

7. **We recommend that the Government bring forward a set of proposals to simplify the tax and regulatory structures that apply to private landlords. These proposals should aim to create an environment in which small private landlords are encouraged to expand their portfolios and invest in new build housing. (Paragraph 46)**

[2] From official HCA Stats 2011-12 (11 June 2012)
[3] 2,994 FirstBuy sales had been recorded by the end of March 2012, and over 6000 households have placed reservations to purchase a property through the scheme.

The Government is determined to identify and remove unnecessary regulations. The Red Tape Challenge has included an in-depth examination of legislation and regulations. We would welcome further advice on regulations which could be removed in order to reduce the burdens on small businesses or individuals. We note the Committee's recommendations on taxing private landlords. All taxation is kept under review as part of the Budget process.

Affordable Housing Delivery

8. It is important that local authorities are fully signed up to the delivery of the Affordable Homes Programme within their areas. The Homes and Communities Agency should work with councils to ensure that any concerns they may have, for instance about the affordability of rents, are addressed. (Paragraph 50)

Local authorities are asked to confirm that schemes for new affordable supply meet local strategic priorities and needs identified in their local investment plan. The Homes and Communities Agency seeks information on whether new schemes have local authority support. This is intended to ensure that local authorities take the strategic housing role in their area and that proposals that do demonstrably meet priorities articulated in local investment plans are taken forward.

Government funding in the period to 2015 is targeted at providing properties let at an Affordable Rent (with an element for affordable home ownership). This can be up to 80% of market rent, but in areas where market rents are high, such as London, there is scope for Affordable Rents to be set considerably lower than this, subject to agreement with the Homes and Communities Agency. The current Affordable Rent levels range from 79.5% of the market rent in the North West to 65% in London. This enables us to provide considerably more affordable rented homes than would have been possible under the traditional model of funding.

9. We recommend that the Government, before the end of 2012, bring forward proposals for delivery of affordable housing post 2015. These proposals should recognise the need for housing available at both "social" and "affordable" rents, each with a separate allocation system. They should aim for a rebalancing of subsidy arrangements away from housing benefit and back towards "bricks and mortar"; this would give rise to a number of immediate problems which the Government would need to address. Finally, the proposals should consider how housing associations can be encouraged to invest in new housing without stretching their capacity to the extent that they do under the Affordable Rent model. (Paragraph 60)

We note the Committee's recommendations. It should be noted that there are currently over 4 million social rented properties and that social rented properties will therefore continue to make up the overwhelming majority of affordable homes at the end of the current Affordable Housing Programme.

The assessment of bids for the Affordable Homes Programme includes the social housing regulator's assessment of the impact on housing association viability.

This includes confirmation that a housing association would continue to meet the regulator's Governance and Viability Standard.

We have heard interesting ideas about delivering new affordable homes from many bodies including the Country Land and Business Association and will look carefully at these.

Section 106 Agreements

10. **We recommend that the Government, at the earliest opportunity, clarify the relationship between the Community Infrastructure Levy and section 106 agreements, and how together they can be used to maximise affordable housing delivery. It should take care to ensure that the introduction of CIL does not lead to a reduction in the number of affordable homes delivered through contributions from developers. (Paragraph 66)**

The Planning Act 2008 established powers to create the Community Infrastructure Levy in England and Wales. The Community Infrastructure Levy regulations 2010 made first use of these powers and came into force on 6 April 2010. The Government decided that this tariff-based approach provides the best framework to fund new infrastructure to unlock land for growth. The Community Infrastructure Levy is fairer, faster and more certain and transparent than the system of planning obligations made under section 106 of the Town and Country Planning Act 1990. From 2014 onwards local authorities will be restricted on how they can use section 106 planning obligations to collect contributions. Planning obligations are currently the main delivery mechanism for affordable housing

The Community Infrastructure Levy receipts cannot currently be used for affordable housing, but we are considering whether to reinstate affordable housing as levy infrastructure in order to allow funds to be spent on this. If we reinstate affordable housing, we will consider excluding such housing from the rules on limits of pooled contributions under section106 following a council's adoption of the Community Infrastructure Levy.

We have created a framework in which adoption by local authorities of the Community Infrastructure Levy should not have a detrimental effect on affordable housing supply. Economic viability is vital in charge setting and that is why it is embedded in the Community Infrastructure Levy Regulations and charge setting process. In the Localism Act we have made safeguarding overall viability of development across an area clearly part of the statutory purpose of the Community Infrastructure Levy and, therefore, the examination test.

11. **We recommend that the Government leave local authorities to decide whether or not to reopen section 106 agreements in cases where development has slowed down or stalled. (Paragraph 67)**

The Government is concerned about the high number of stalled housing schemes and the lost economic growth they represent. Unrealistic section 106 agreements negotiated in different economic conditions can now be an obstacle to development. We want to ensure that there is realistic consideration of section 106 requirements, allowing development to proceed whilst providing adequately for local infrastructure needs.

We wrote to all local authorities in March 2011 to press the importance of renegotiation of section 106 agreements and many local authorities have already renegotiated agreements to help bring forward development. This is to be welcomed. We want to ensure this good practice is taken up elsewhere, where it will make a difference to development and enable stalled developments to come forward to create the new homes and jobs we need.

As outlined in the Housing Strategy published in November 2011 we intend to take further steps to help unlock sites in this regard.

Direct Payments

12. We remain concerned about the potential impact of direct payment arrangements on the finances of social housing providers. There is a clear risk that these arrangements will have a detrimental effect on providers' capacity to invest in new housing supply. They could also create uncertainty amongst those providing finance, leading to increases in the cost of borrowing. We welcome the Government's commitment to introduce demonstration projects to consider the issue in more detail. We recommend that the Government set out clear criteria by which the success of these projects will be judged, and that it fully involve social housing providers and lenders in the process. We further recommend that the Government only proceed to direct payment to social tenants if and when any issues identified by the pilots have been fully resolved. (Paragraph 70)

The Government agrees that it is important that providers' capacity to invest in new housing supply is protected. The Universal Credit White Paper states that: "*we also recognise the importance of stable rental income for social landlords to support the delivery of new homes and will develop Universal Credit in a way that protects their financial position*."[4]

Direct Payments demonstration projects are testing how best to implement direct payments to meet our objectives, including the protection of landlord finances. The demonstration projects are being independently evaluated by a research consortium led by the Centre for Regional Economic and Social Research at Sheffield Hallam University. This will inform the design of Universal Credit.

The projects have been designed and implemented through close work between the Department for Work and Pensions, the Department for Communities and Local Government, local authorities and housing associations. An advisory group of national-level organisations is meeting regularly through the course of the projects.

[4] http://www.dwp.gov.uk/docs/universal-credit-full-document.pdf - page 20, chapter 2, paragraph 31

Housing Associations

13. **We encourage housing associations—individually or collaboratively—to consider the potential of retail bonds which, as well as raising finance, could prove a useful way of enabling people to invest in their local community. There needs to be a clear regulatory framework covering retail bonds both to address any risks to housing association balance sheets and to ensure that the consumer is properly protected. (Paragraph 73)**

    The Government is keen to attract further private finance into the affordable housing sector. The regulatory framework now permits the registration of for-profit providers and a number of companies have already registered, adding to the sector's diversity and potential financial capacity. In addition, a joint HM Treasury and Department for Communities and Local Government consultation on reforms to the Real Estate Investment Trust regime, which closed on 27 June, asked for views on the potential for Real Estate Investment Trusts to support investment in social housing. We will carefully consider the responses.

    We agree that the risks associated with any option and its fit with a housing association's business model should be fully considered, including where smaller housing associations may wish to become involved as part of consortia or make use of a collaborative finance vehicle such as The Housing Finance Corporation.

    The social housing regulator recently published its Sector Risk Profile. A copy can be found at:
    http://www.homesandcommunities.co.uk/sites/default/files/our-work/sector-risk-profile-120607.pdf

    This provides advice on the major risks facing the sector. We have seen no evidence that the absence of a specific regulatory framework is preventing housing associations from issuing retail bonds and there are no plans to introduce one.

14. **We encourage housing associations to enter into equity sharing arrangements with local authorities and developers where this can contribute to the building of new homes. It is also important that financial innovation does not become the preserve of the larger housing associations. Smaller housing associations should consider entering into smaller scale joint ventures and also raising finance by working together or using intermediaries to generate scale. The Government should foster an environment in which they can do this. (Paragraph 86)**

    See response to recommendation number 13

15. **We recommend that the Government consult on proposals for the future financing of housing associations. This consultation should invite views on the treatment of the historic grant on housing association balance sheets. The outcomes of the consultation should be used to inform the Government's proposals on the future delivery of affordable housing. The Government**

must also ensure that appropriate regulation is central to its proposals. (Paragraph 87)

The Department has an ongoing programme of engagement with interested parties about options for future financing of housing associations. We will use this engagement to ensure the affordable housing sector's expertise informs spending decisions, including the treatment of historic grant.

Local Authority Borrowing

16. **We recommend that the Government lift the cap on local authorities' borrowing for housing, and allow councils to borrow in accordance with the Prudential Code. We are also concerned at the Government's warning that it will "take action" if public borrowing increases as a result of Housing Revenue Account reform. It is important that it does not place any further constraints upon local authority borrowing for housing. The cap is already unnecessary, and further borrowing restrictions would have a detrimental impact upon the contribution councils can make to new housing supply. (Paragraph 93)**

The Government agrees that the prudential regime continues to be highly effective in facilitating and regulating council borrowing. However, the very widely supported reform to the Housing Revenue Account system for funding council housing has given council landlords direct control over a very large rental income stream. Our reforms must not jeopardise the Government's first economic priority, which is to reduce the national deficit. Borrowing made possible by any income stream, including housing rents, must be affordable not just locally but within the national fiscal framework. The prudential borrowing rules were designed to focus solely on local affordability. It is for this reason that the Government also has reserve powers to address any nationally unsustainable increase in borrowing. The housing borrowing cap will help to ensure that such exceptional measures do not become necessary.

17. **We are disappointed that the Minister has ruled out allowing local authorities to pool or swap Housing Revenue Account borrowing headroom. Such arrangements could help to make best use of councils' borrowing capacity, enabling more homes to be built. In our experience, the Government is usually enthusiastic about local authorities collaborating, sharing services and pooling resources to achieve better value for money; we consider that it should take a similar attitude to joint working on housing finance. We recommend that the Government consult on proposals to enable local authorities to 'trade', swap and pool borrowing headroom. This should be subject to councils' agreeing that any borrowing under these arrangements will still be in accordance with the Prudential Code. (Paragraph 96)**

The Government does not think it is the right time to make changes that would enable individual councils to borrow more for housing than currently allowed under the caps.

18. **We consider that Arm's Length Management Organisations should be free to adopt one of the new ownership models, subject to approval from the council and tenants. As well as promoting the involvement of tenants in the management of their housing, these models could also enable ALMOs to raise additional finance for the building of new homes (although any borrowing should continue to be affordable and sustainable). We are encouraged by reports that Gloucester City Homes will be consulting its residents on proposals to establish a 'community owned, council owned' organisation. We recommend that the Government give its support to those ALMOs wishing to adopt the new models, which would enable them to borrow prudentially to build more homes. (Paragraph 101)**

    The Government fully supports the involvement of tenants in the management of their homes and the principle of community owned assets. However where a local authority has a controlling interest in a housing body then it is likely that the debt of that body would be classified as public sector debt. The Government has made clear that as part of its strategy to address the national deficit, the level of public sector housing debt must be controlled. One tool for achieving this is the cap on borrowing introduced under Self-Financing. These caps do not apply to debt supported by the rental income from social housing held outside the Housing Revenue Account. We would therefore have concerns if a new ownership model left the debt in the public sector but removed the constraints on borrowing applied by the borrowing cap.

    We are aware that one of the new models, Council to Community (CoCo) would be a form of stock transfer, and we would continue to consider this as part of the emerging stock transfer policy, which we will consult on in due course.

19. **We recommend that the Government thoroughly examine a move to the General Government Financial Deficit rules and then consult on proposals. (Paragraph 103)**

    The Government uses a range of measures of public borrowing and debt, including the General Government Financial Deficit measure. Public Sector Net Borrowing, which includes borrowing of public corporations, is the key indicator used in setting fiscal policy and for assessing changes in the public finances. This is a prudent measure of public borrowing which Government intends to continue using.

20. **The bond markets could offer local authorities an alternative source of finance from the Public Works Loan Board. We welcome the Local Government Association's work to explore the possible establishment of a financial institution to issue bonds on behalf of councils. There are also good arguments in favour of local authorities issuing retail bonds to raise finance for housing: as well as potentially giving more authorities access to the bond market, they could also enable people to invest their money in a way that brings social benefits to their local area. We recommend that the Government work with local government to enable councils to raise finance through the issuance of retail bonds; in doing so, it should establish whether**

there are any current restrictions on bond finance that can be eased. (Paragraph 106)

Local authorities are completely free to borrow by bond issuance if they choose. Borrowing by this route, as from the Public Works Loan Board, must still be affordable under the prudential system and is still subject to the housing borrowing cap. The key question for authorities is whether bonds can offer better value for money than Public Works Loan Board loans, taking account both of interest charges and other costs of issuing bonds (for example, the costs of due diligence, transaction fees and obtaining credit ratings).

Retail bonds were once commonly issued by local authorities but have fallen into disfavour, apparently because of the administrative burden. They would be worthwhile if public-spirited local purchasers were content with interest below the market rate, but the amounts that could be raised on that basis are probably very limited.

Local Authority Land

21. We urge local authorities and developers to work together wherever possible to make land available for development in a way that meets the needs of local people. We encourage councils to enter into partnerships with developers, and to maintain equity involvement in the development to secure best value for the taxpayer. (Paragraph 107)

We share the Committee's wish that more land is made available for development to meet local needs. We have put in place incentives, such as the New Homes Bonus, to encourage local authorities to act in ways that support growth and give them a share in the economic benefits.

On 7 May the Housing Minister published *Accelerating the release of surplus public sector land – progress report one year on* and placed a copy in the Library of the House. This describes other measures we have put in place to accelerate land release, including Build Now, Pay Later, and the establishment of an expert advisory group led by Tony Pidgley, Chairman of the Berkeley Group, to provide commercial expertise.

22. The provision of local authority land can make a contribution to the financing of new housing supply by helping to reduce the risks of development and to make it viable for the private sector developer and social landlords. It can also help ensure that the maximum number of affordable homes is delivered. We encourage all councils to consider how they can release land to support the delivery of new homes, whilst securing full value from the development. There are a variety of ways to do this, in line with the localism agenda. (Paragraph 110)

See response to recommendation number 21

The Right to Buy

23. We recommend that the Government ensure "like for like" replacement of homes sold under Right to Buy, so that each socially rented property is replaced by a new home of the same type for social rent. In order to achieve this, we further recommend that the Government commit to making additional resources available in the event that "like-for-like" replacement cannot be delivered under the proposed levels of discount. (Paragraph 122)

The Government's aim is to replace all additional homes sold under the Right to Buy scheme with homes let at an affordable rent. We do not believe that a like for like commitment is needed as individual local authorities are best placed to decide on the appropriate replacement housing mix to meet the needs of their area.

Should additional funds be needed, local authorities will be able to bid to the Homes and Communities Agency or Greater London Authority for a share of any pooled Right to Buy receipts. The combined local sales receipts and pooled receipts will substitute for grant funding for up to 30% of total costs of replacement affordable housing.

24. We recommend that the Government reconsider its decision not to opt for a local model for the replacement of additional homes sold under the new Right to Buy arrangements. We further recommend that the Government grant exemptions from increased discounts to places such as rural villages and other areas where social housing is limited and cannot easily be replaced. These places could otherwise be left with no social housing stock if there is significantly increased take-up of the Right to Buy. (Paragraph 123)

The Government considered in detail the possible models for delivering the replacement homes. The option we chose, based on local agreements, is consistent with our localist principles. It will deliver our commitment to one-for-one replacement nationally whilst ensuring value for money. So far, nearly 80% of eligible local authorities have either signed agreements or have told us they will sign agreements..

Our decision to allow receipts to fund up to 30% of the cost of the replacement homes will reflect any increased costs in the development of new affordable homes in rural areas.

We do not believe it would be fair to take the Right to Buy away from tenants just because they live in rural areas. In large parts of the countryside such as National Parks, Areas of Outstanding Natural Beauty and areas designated by the Secretary of State, owners of ex-Right to Buy homes can only resell them to people who have lived or worked locally for at least three years. Social landlords also have a right of first refusal when an owner wants to sell on. We believe this strikes a fair balance between helping rural tenants to realise their aspirations for home ownership and maintaining a supply of affordable housing in rural areas.

25. Some councils will be unable to meet the Government's requirement that Right to Buy receipts only fund 30% of the cost of the replacement homes,

and will therefore not have the option of local delivery. This is especially true for those authorities with limited borrowing headroom, either because they have taken on debt under the Housing Revenue Account reform or because, often through no fault of their current administration, they are burdened with historic debt. The Government must ensure that these authorities are not precluded by their debt from replacing properties sold under the Right to Buy. (Paragraph 124)

Drawing on evidence from the 2011-2015 Affordable Homes Programme, the Government is clear that it should be possible to fund new homes let at Affordable Rent levels with no more than 30% of the cost of the new homes coming from the Right to Buy receipt. As in the Affordable Homes Programme, the remainder of the cost will come from borrowing against the net rental income stream from the new property and cross-subsidy from the landlord's own resources.

Councils without headroom under the borrowing caps but who wish to replace homes locally, can work with housing associations and other organisations to build replacement homes. Local authorities will also be able to bid to the Homes and Communities Agency or the Greater London Authority for a share of any pooled Right to Buy receipts. In addition, local authorities will be able to keep all the sale receipts from newly built or newly acquired homes, provided these receipts are invested in affordable housing, regeneration projects or repayment of housing debt.

26. **In the longer term, in line with the spirit of localism and moves to self-financing, we recommend that the Government give councils greater freedom to decide on the best housing solutions for their communities. The Government should consult on allowing local authorities to apply to the Government for an exemption to the Right to Buy where the council can demonstrate that housing is limited and cannot easily be replaced. (Paragraph 125)**

One of the core principles of the reinvigorated Right to Buy scheme is the level playing field it provides to local authority tenants who wish to buy their home. It would be unfair to allow councils to remove this right.

It is important to note that under the new scheme every additional home sold will be replaced by a new home let at an affordable rent, with receipts from sales recycled towards the cost of replacement. As noted above, it will be for the local authority to decide on the appropriate housing mix when considering replacement homes.

27. **We recommend that the Government work with housing associations wishing to introduce the Right to Buy to explore how their proposals might work in practice. If it is satisfied about levels of risk and value-for-money for the taxpayer, it should allow housing associations to run pilot projects. Any introduction of the Right to Buy should be a matter for individual housing associations. (Paragraph 128)**

Housing associations are already able to sell properties to sitting tenants at a discount on a voluntary basis and use the proceeds to build new homes, subject to the Homes and Communities Agency's consent to the disposal, in its capacity as regulator of social housing. The regulator has stated that, subject to consideration of the reasons for disposal, it will normally consent to voluntary disposals to sitting tenants.

The regulator's normal policy is that any discount offered should not exceed the discount available under the Right to Buy. A provider would need to demonstrate why any discount greater than this would be appropriate. In addition, the regulator has given a general consent for unregistered housing associations to make disposals to sitting tenants provided that any discount offered is no higher than that available under Right to Buy.

If the property that the housing association has chosen to dispose of has been funded by grant from the Homes and Communities Agency or the former Housing Corporation, grant would need to be repaid or recycled into further affordable housing.

Local Authorities: Conclusion

28. We have seen that local authorities, working in partnership, have the potential to make a significant contribution to the financing of new housing supply. There is, however, a risk that local government will not be able to make the most of this potential because of constraints placed upon it by central government. The moves towards self-financing under Housing Revenue Account reform are positive and could significantly increase the finance available for housing supply. However, the cap upon borrowing, the refusal to allow councils to share headroom, and the centrally-imposed Right to Buy proposals will all place restrictions on councils' ability to finance the building of new homes. The local government sector should be trusted to manage its own finances in accordance with the Prudential Code. We urge the Government to give councils the freedoms they need to provide finance for new housing supply. (Paragraph 129)

We welcome the recognition by the Committee of the importance of the self-financing reform and the new flexibilities this gives local authorities. For reasons set out in earlier responses, it has been necessary to include some safeguards on the amount of public debt to fund council housing that local authorities can support as a result of this reform.

NewBuy Guarantee

29. We recommend that the Government review the NewBuy Guarantee after the first year of its operation, to assess its impact upon mortgage finance in other parts of the market. It should also consider how many properties sold under the scheme have fallen into negative equity, and the impact this has had on buyers. (Paragraph 132)

There will be a review of the NewBuy Guarantee scheme in 2014. This review will examine the impact of the policy on price, demand and supply of new build properties.

It should be noted that the risks associated with high loan to value borrowing are the same whether a consumer buys a NewBuy mortgage or a different product.

30. **We recommend that the Government bring forward changes to the NewBuy Guarantee to allow smaller builders to become fully involved in the scheme. In doing so, it should work closely with the Local Developers' Forum and other smaller builders to ensure that the changes address their key concerns. It should also promote opportunities for smaller builders and smaller lenders to work together. (Paragraph 135)**

The NewBuy Guarantee scheme has always been open to all builders and lenders. At last count there were 23 builders operating under the scheme, of which six are outside the top 25 developers by volume[5].

Government has helped ensure that smaller builders are able to access NewBuy and two major lenders have entered into an arrangement where smaller builders can participate collectively in a 'multi-builder cell'. We expect other lenders to follow this lead. We will continue to support the Home Builders Federation and the Council of Mortgage Lenders in their work to attract smaller builders and lenders. We will also follow up the suggestion of working with the Local Developers' Forum.

"Intermediate" Products

31. **There may be some merit in introducing a version of the NewBuy Guarantee to underwrite investment in shared ownership and shared equity mortgage products as long as the individual risks are clearly recognised. We recommend that the Government bring forward proposals to establish such a scheme, making clear that it will only be provided if a number of steps are followed to make the product more transparent for the consumer. (Paragraph 143)**

Housing associations can benefit from the current NewBuy guarantee scheme if they develop properties for sale on the open market. The guarantee is not available for shared ownership properties or shared equity mortgage products. This is to reduce the risk of a home buyer benefiting from a double subsidy. We do not have any plans to relax the eligibility criteria.

Public Land

32. **We welcome the Government's commitment to release land for development and the progress it has made so far in doing this. We support the Build Now, Pay Later initiative and recognise that it has an important role to play in stimulating development. We would also, however, encourage the**

[5] 'The top 25 Housebuilders', Housebuilder Magazine, October 2011, pages 24 and 25.

Government to be mindful of other approaches to making land available—such as joint ventures or partnerships with developers—where these offer a better deal for the taxpayer. (Paragraph 147)

See response to recommendation 21

Self/Custom Build

33. We recommend that the Government work with mortgage lenders to identify and overcome the barriers to lending to self builders. We further recommend that the Government establish a fund to incentivise local authorities to support pilot "volume self build" schemes by allocating sites and taking a flexible approach to planning (whilst ensuring continued compliance with energy and safety regulations). We see no reason why the first pilots could not be up and running in two years' time and ask that the Government report back to us in 2014. (Paragraph 155)

The Housing Minister recently led a cross-industry trade visit to the Netherlands with developers, lenders, local authority planners and other key industry partners, to see what can be achieved by large-scale custom build housing schemes. Government is working in partnership with industry to proactively engage with local authorities on the potential for self build housing. Further work is planned with locally elected members, housebuilders, housing associations, lenders and investors.

The Government has also recently announced a range of surplus previously-used public sector land for self builders, including a larger site of up to 60 homes at Trevenson Park in Pool, Cornwall which would make it the nation's first-ever large-scale self-build project.

Although the Government is encouraged by the predicted growth in self build mortgages over the next three years, it is working closely with the self build sector to expand the pool of lenders who offer self build mortgage finance. One outcome of this work is a toolkit called Lending Information for Self Build in the UK, prepared by the Building Societies Association, which provides information on self build mortgages.

Government has also launched a new £30million investment fund to make development finance available for larger scale self-build projects, the first time this has been done in the United Kingdom. This new fund offers short term loans to community groups, builders and other small organisations looking to start group self-build projects.

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