National Audit Office

Report
by the Comptroller
and Auditor General

Department for Communities and Local Government

The Help to Buy equity loan scheme

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National Audit Office

Department for Communities and Local Government

The Help to Buy equity loan scheme

Report by the Comptroller and Auditor General

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Comptroller and Auditor General
National Audit Office

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This report examines the design, implementation and outcomes of the Department for Communities and Local Government's equity loan scheme, Help to Buy.

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Contents

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This report can be found on the National Audit Office website at www.nao.org.uk/2014-help-to-buy

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Key facts

12,875	9,600	£518m
households helped into home ownership by Help to Buy equity loans in the first nine months	further households approved in principle and waiting to complete their purchases	in equity loans made in the first nine months

£40,200	average equity loan against an average property price of £201,800
£8.3 million	fees paid to Help to Buy agents
£44,700	average household income of buyers using Help to Buy
1:3.4	average income-to-mortgage ratio, excluding the equity loan
1:4.4	average income-to-housing debt ratio, including the equity loan
89 per cent	percentage of completed sales that are to first-time buyers

Summary

The Help to Buy equity loan scheme

1 The Department for Communities and Local Government (the Department) published its housing strategy, *Laying the Foundations*, in November 2011.[1] In it, the government set out what it sees as the three main barriers to home ownership:

- Potential home owners cannot afford mortgage finance.
- Lenders restrict access to mortgages to buyers with big deposits.
- Developers do not build enough new homes, partly because potential buyers cannot raise a mortgage.

2 The government announced the Help to Buy scheme (the scheme) on 20 March 2013 as one of several measures to address these barriers and support the housing market. It opened the scheme to the public 12 days later, on 1 April 2013. The scheme's objectives are to turn the desire for home ownership into demand for new homes, by improving the affordability of, and access to, mortgage finance and to encourage developers to build more new homes.

3 The Department has allocated £3.7 billion to the scheme and expects to make equity loans to 74,000 households across the three years 2013-14 to 2015-16.[2] This scheme is much larger than the Department's previous home ownership support initiatives.

4 Under the scheme, the government offers buyers of newly built homes an equity loan of up to 20 per cent of the purchase price. This supplements the buyers' own deposit, which mortgage lenders normally require to be at least 5 per cent. Borrowers then raise a repayment mortgage of, typically, 75 per cent of the property's value. Mortgages that are 75 per cent or less of a property's value often have a lower interest rate and so are more affordable. To help manage the risks of negative equity and defaults, mortgage lenders limit the number of higher loan-to-property-value mortgages they make.

1 Department for Communities and Local Government, *Laying the Foundations*, November 2011, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/7532/2033676.pdf

2 £3.5 billion was announced in the Budget and £240 million had been allocated to Firstbuy and was rolled over to the Help to Buy equity loan scheme.

5 The value of the loan at any point in time is based on a percentage of the property's value. This means that if the property's value increases, the value of the government's equity loan will also increase in proportion. It also means if their home's value rises, the buyer will have to pay back more, in cash terms, than they borrowed. For example, if when a buyer sells their home or wishes to repay part of the loan, the value has increased by 10 per cent compared to when they bought it, they will owe the government 10 per cent more, in cash terms. The reverse is also true. Participants may repay part, or all, of the equity loan at any time during their mortgage and must pay the government back after 25 years, or when the mortgage is paid back, for example if the home is sold.

6 The 20 per cent equity loan is interest-free for five years. From the start of the sixth year, borrowers pay a fee of 1.75 per cent on the outstanding loan, increasing 1 per cent above the Retail Prices Index each year. Payments of this fee do not repay the equity loan capital.

7 Homes bought through the scheme must be newly built and have a purchase price of £600,000 or less. Unlike previous government schemes, such as FirstBuy and developers' own schemes, developers do not make any equity contribution and there is no household income limit for buyers taking part in the scheme.

8 The Department provides the finance for the scheme. The Homes and Communities Agency (the Agency) administers the scheme through its network of 13 Help to Buy agents (Figure 4).

Scope of our report

9 We examine the Department's and the Agency's performance in designing and implementing the scheme to improve affordability and accessibility of homes and stimulate new housing supply. We consider whether:

- the Department used evidence and expertise to design a scheme that will seek to maximise outcomes and minimise costs and risks to the taxpayer;
- the Department and Agency are implementing the scheme effectively and efficiently; and
- the scheme increases home ownership for eligible buyers, improves affordability and accessibility of mortgage finance and increases housing supply.

We show how we assessed value for money in Appendix One and the evidence we have used to reach our conclusions in Appendix Two.

10 We do not examine the separate Help to Buy mortgage guarantee scheme in this report.

Key findings

How well the scheme has been designed and implemented

11 **The scheme's size and design matches the Department's intention to make a substantial impact on the housing market.** The Department wanted to maximise the potential demand for the scheme to create the biggest impact possible. For this reason it set a maximum budget of £3.7 billion, much larger than previous shared equity schemes. For example, its immediate predecessor, FirstBuy, had a budget of £250 million. The Department estimates that the £3.7 billion could support 74,000 home purchases from 2013-14 to 2015-16, but how long the money lasts will depend on how many people take up the funding and how much each buyer takes. The Department chose not to target the scheme, as it had with previous equity loan initiatives, on any particular type of buyer. It also put a relatively high cap on property prices at £600,000. Around 96 per cent of all newly built properties sold between April and December 2013 cost £600,000 or less (paragraphs 1.4 to 1.5 and Figure 2).[3]

12 **Early demand for the scheme has been strong.** Some 12,875 buyers completed purchases through the scheme in its first nine months (April to December 2013). The Department made equity loans of £518 million on these purchases. At the end of December 2013, around a further 9,600 completions were in the pipeline (paragraph 2.1 and Figure 5).

13 **The Department's and the Agency's pragmatic approach got the scheme up and running quickly.** The Department introduced the scheme quickly to take advantage of the traditional Easter and summer markets. It did so successfully, and the scheme opened to the public on 1 April 2013. The scheme is similar to previous initiatives so the Department and the Agency used existing structures, such as Help to Buy agents (previously known as HomeBuy agents) that were already in place (paragraphs 2.7, 3.13-3.14).

14 **The speed of the scheme's introduction meant that there were some issues that the Department and the Agency needed to address during scheme implementation.**

- Some buyers (205, which was 1.6 per cent of completed cases at 31 December 2013) have bought a property with a deposit contribution of less than 5 per cent. This increases slightly taxpayers' exposure to costs if these properties are repossessed (paragraph 3.25).
- Implementing the scheme quickly meant the Agency did not finalise new terms and conditions for Help to Buy agents immediately. Agents therefore received £1,000 for each of 1,462 transactions, rather than the £600 they now receive (paragraph 3.15).

3 National Audit Office analysis of Land Registry data (© Crown copyright 2013).

The scheme's costs

15 **The Department expects to make back its investment in cash terms after 15 years.** In its central estimate the Department expects a gross return in cash terms of £4.8 billion by 2040-41. Once it has invested in the scheme, the Department's return will depend on market factors which it has limited ways to influence. The Department's financial modelling indicates that the scale and timing of the cash return will vary substantially based on when buyers pay off their equity loans and the value of the Department's equity loans at the time (Figure 9 and paragraph 2.11).

16 **Cash flow will vary from year to year and in some years the impact of this could be unaffordable for the Department.** The scheme will also involve income and expenditure in cash terms, which will impact the Department's and the Agency's ability to manage their budgets. Regardless of the scheme's impact on the market, it is a long-term financial commitment with uncertain returns. The Department will receive income from fees on the equity loans and from increases in the value of its equity loan. It will make losses if properties are sold for less than their purchase price. Under current accounting arrangements the Agency bears this risk on its statement of financial position. This creates a risk of over- or underspending in-year, if income is higher or lower than expected or the value of the properties remaining in the scheme changes. The Department and the Agency have used their experience of previous schemes to develop a credit-risk model to monitor this situation. The Department and the Agency have committed to monitoring this (paragraphs 2.8 to 2.11 and 3.26 to 3.28).

17 **The Department's central estimate of the scheme's economic cost is £494 million in today's terms.** The economic cost takes into account the effect of inflation and discounting, over the potential period of the loans. As with the cash flow, the eventual economic cost will depend on market factors and when buyers redeem their loans. The Department modelled a range of scenarios based on a variety of assumptions about these factors. This indicated that the economic cost could be between £16 million in the best-case scenario and £1,227 million in the worst-case scenario (paragraph 2.12 and Figure 10).

18 **The Department estimates that at least a quarter of sales through the scheme will have to result in new homes being built if economic benefits are to exceed costs.** The Department considers that between 25 and 50 per cent of sales will result in new homes being built, with associated economic benefits of £500 million and £1 billion respectively, in these scenarios. Developers report that the scheme is encouraging them to build more, more quickly, so the scheme could lead to some net increase in the supply of new homes. We cannot, however, verify the Department's figures at this stage. The Department has not evaluated previous, similar schemes' influence on home-buyers' behaviour or home building levels, to develop more robust estimates. Nor has it yet collected information from buyers or developers on what they would do, or would have done, without the scheme (paragraphs 2.5 and 2.13 to 2.14).

The scheme's impact

19 **The evidence so far indicates that the scheme is helping buyers access the housing market, although we cannot say how many sales would have gone ahead anyway.** So far, 89 per cent of Help to Buy equity loan sales have been to first-time buyers. By comparison, since 2005 around one-third of property sales have been to first-time buyers. Seventy per cent of Help to Buy homes are at the lower end of the price spectrum (£75,001 to £225,000) compared to 54 per cent of all newly built homes. The majority of buyers taking part in the scheme (over 98 per cent) have put down a deposit of 5 per cent or more. Most buyers (70 per cent) put down a 5 per cent deposit. In around 3 per cent of cases the buyer was able to provide a deposit of 25 per cent or more. In 2012, home buyers in the UK put down, on average, a 32 per cent deposit (paragraph 2.2).

20 **The Department does not have a joined-up approach to evaluating the combined impact of its housing market initiatives.** Help to Buy is part of a package of measures to stimulate the housing market and housing supply. We found in our report on the New Homes Bonus that evaluating individual schemes' contribution to broad objectives like increasing housing supply is challenging because there are several overlapping schemes with similar aims.[4] Other economic factors are likely to have an important impact. The Department has committed to reporting on the Help to Buy scheme in its 2014-15 annual report. However, it does not have an integrated evaluation plan to assess the impact of related or complementary initiatives, or a common set of measures for the different schemes (paragraphs 3.31 to 3.33).

Conclusion on value for money

21 So far, Help to Buy equity loans are improving access to mortgage finance and making mortgages more affordable to buyers, particularly first-time buyers. The Department and the Agency got the scheme up and running quickly and it is, for the most part, running smoothly. By enabling people to make purchases more easily, the scheme appears to have boosted developers' confidence.

4 Comptroller and Auditor General, *New Homes Bonus*, Session 2012-13, HC 1047, National Audit Office, March 2013. Available at: www.nao.org.uk/report/the-new-homes-bonus-2/

22 The Department expects to recover the scheme's costs in cash terms. In helping buyers invest in property, however, it is committing up to £3.7 billion as a long-term investment in the property market. This money cannot be used for other purposes until it is recovered. The cost to the taxpayer, in present value terms, is uncertain at this stage but is likely to be significant. Each new home built as a result of additional demand through the scheme will provide economic benefits but the Department cannot yet quantify robustly how many of the people accessing the scheme would have bought a home anyway, or how many additional homes will be built as a result. For these reasons, we cannot yet say whether the scheme will provide value for money. To provide value for money, the Department and the Agency need to reduce and manage the risks to taxpayers' money. This will be challenging, given the limited levers the Department has to influence the housing market once it has invested in the scheme. In addition, it should quantify the scheme's impacts through robust evaluation.

Recommendations

a **The Department should monitor the effectiveness of its actions to minimise the number of buyers accessing the scheme with a deposit of less than 5 per cent and take further action if required. It should clarify rules such as this from the outset of future similar schemes.** This will help the Department and Agency to manage and monitor the level of risk exposure for taxpayers.

b **The Department should continue to refine its financial modelling to produce more precise estimates of likely cash flows for the life of the scheme.** Potential unplanned gains or losses in any one year could create a sizeable underspend or an unaffordable overspend.

c **The Department should undertake a formal evaluation.** Its evaluation should assess how many buyers have bought a home who otherwise would not have and how many new homes have been built as a result. Quantifying the scheme's benefits is critical to assessing whether it is value for money and to deciding whether or not to continue with the scheme or pursue similar schemes.

d **The Department should urgently communicate its plans to developers, lenders and buyers concerning what will happen when the scheme ends in 2016.** This will help respective parties to decide whether to continue to participate in the scheme.

Part One

About the scheme

Background

1.1 The Department for Communities and Local Government (the Department) published its housing strategy, *Laying the Foundations* in November 2011.[5] In it, the government set out what it saw as the three main barriers to home ownership:

- Potential home owners cannot afford mortgage finance.
- Lenders restrict access to mortgages to buyers with big deposits.
- Developers do not build enough new homes, partly because potential buyers cannot raise a mortgage.

1.2 Since 1970, the level of private home-building in England has not met demand. One of the Department's objectives is to increase the number of new homes built. This will contribute to short-term economic growth and address the long-term need for more new homes. The government estimates that 232,000 additional households in England could require homes each year to 2033 but in 2012 only 115,600 new homes were built in England (**Figure 1** overleaf). This was an increase on 2010 and 2011 but home-building remains at historic low peacetime levels. This is the background against which successive governments have tried to increase rates of home building.

The Help to Buy scheme

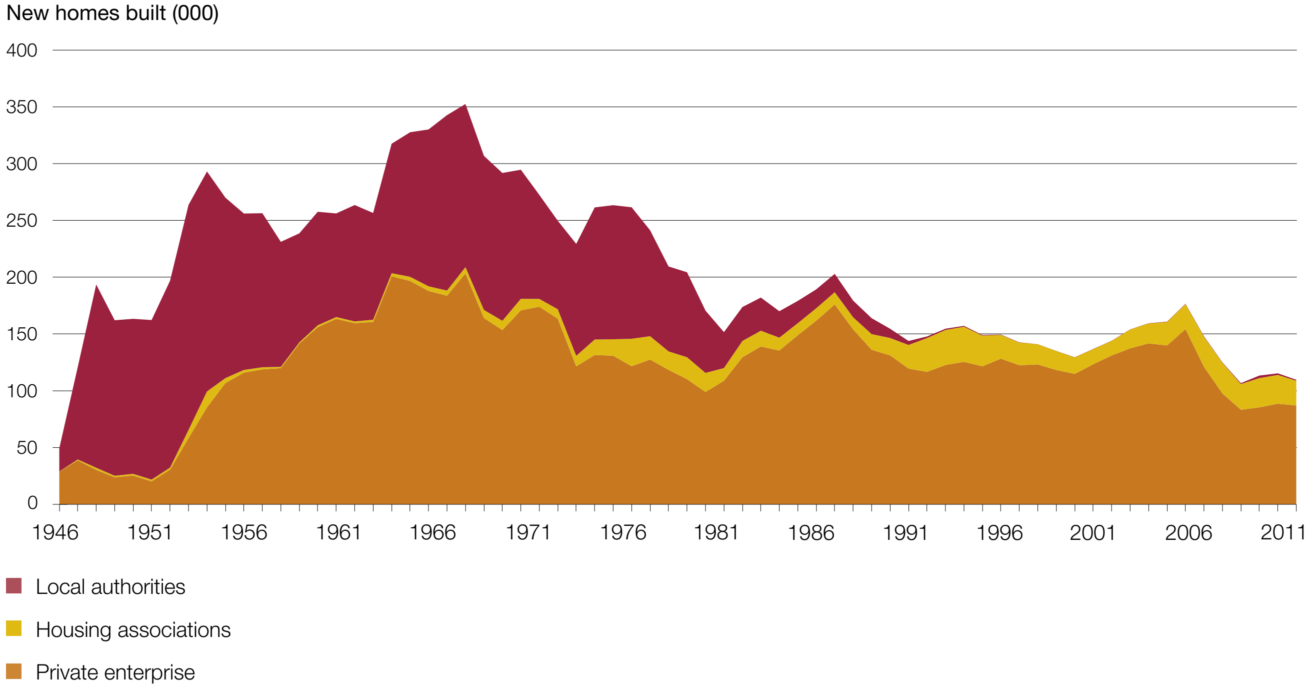
1.3 The government announced the Help to Buy home equity scheme (the scheme) on 20 March 2013 and opened it to the public on 1 April 2013. The scheme is the latest of several measures to increase confidence in the housing market, reform the planning system and encourage new housing, including affordable housing. The Department's objectives for the scheme, set out in its business case, were to:

- support creditworthy, but deposit constrained, households to buy a newly built property;
- increase the supply of new housing; and
- contribute to economic growth.

5 Department for Communities and Local Government, *Laying the Foundations*, November 2011, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/7532/2033676.pdf

Figure 1
New homes completed in England, 1946 to 2012

Private home building in England has shown no consistent growth



Notes

1 Data for earliest years are less reliable than for later years. Definitions may not be consistent throughout the series.

2 Some data for October 2005 to March 2007 are missing.

Source: Department for Communities and Local Government, table 244, 'Permanent dwellings completed, by tenure, England, historical calendar year series'

1.4 The scheme has a budget of up to £3.7 billion, earmarked to support an estimated 74,000 home purchases over the three financial years from 2013-14 to 2015-16. The scheme is demand-led. This means the number of buyers that can access it, and how long the money will last, both depend on the number of people that take up the funding and how much funding each buyer takes. The Homes and Communities Agency (the Agency) has, however, agreed annual forecasts with developers participating in the scheme.

1.5 Compared to previous, similar schemes, the Help to Buy equity loan scheme has fewer restrictions on who can access it (**Figure 2** overleaf). Unlike its immediate predecessor FirstBuy, for example, the scheme is not restricted to first-time buyers. It is open to all buyers, with some exceptions including those purchasing a second home, or buying-to-let. Although the Department's business case dated 27 March indicated that the scheme was designed for buyers that are 'deposit constrained', there is no check on whether a buyer could provide a deposit of more than 5 per cent. There is no upper household income limit and the maximum eligible property value of £600,000 is higher than all other similar schemes. Around 96 per cent of all newly built properties sold between April and December 2013 cost £600,000 or less.[6] Unlike previous government schemes such as FirstBuy and developers' own schemes, developers do not have to make any equity contribution.

How the scheme works

1.6 In a typical case, the government lends the buyer 20 per cent of the property's value. Buyers usually provide a 5 per cent deposit, and borrow the remaining 75 per cent via a conventional mortgage from a bank or building society. From the buyer's perspective, buying a home using the scheme is similar to buying a home using conventional finance. **Figure 3** (on page 15) gives illustrative examples of homes bought through the scheme.

1.7 The value of the loan at any point is based on a percentage of the property's value. This means that if the property's value increases, the value of the government's equity loan will also increase in proportion. It also means that buyers would have to pay back more, in cash terms, than they borrowed, if their home's value has increased by the time they sell or choose to repay part of the loan.[7] The reverse is also true. Borrowers may repay parts, or all, of the equity loan at any time after the first year of owning their home. Repayments must be at least 10 per cent of the property value and they must repay their loan in full after 25 years, or when the mortgage is paid back, for example if the home is sold. If a home is repossessed, the mortgage lender gets their money back first because the government holds a second charge, behind the lender.

6 National Audit Office analysis of Land Registry data © Crown copyright 2013.

7 For example, if at the time a buyer sells their home or wishes to repay part of the loan the home's market value has increased by 10 per cent compared to when they bought it, they will owe the government 10 per cent more, in cash terms.

Figure 2
Home ownership support initiatives since 2006

Previous schemes have been similar in principle, but varied in their detail

Scheme name	Operational between	Eligible properties	Eligible buyers	Other features	Households assisted
Help to Buy mortgage guarantee	January 2014 to 2017	The home can be newly built or second hand Under £600,000 Not shared equity or shared ownership Not a second home Not rented out after purchase Not bought with any other publicly funded mortgage scheme	Offered to applicants with a deposit of 5 to 20 per cent of purchase price No upper income limits Available to non-first-time buyers	£12 billion of government guarantees will be made available, aiming to support £130 billion of high loan-to-value mortgages. Scheme run by HM Treasury	742
FirstBuy	Launched in 2011, subsumed into Help to Buy from April 2013	Maximum purchase price £280,000 New build only	First-time buyers earning £60,000 or less	Developers and government each contributed 10 per cent of purchase price as equity loan	10,633
HomeBuy Direct	February 2010 to March 2013	New build only	First-time buyers earning £60,000 or less	Equity loan of up to 30 per cent of property value, provided equally by government and developer	9,338
NewBuy	March 2012 to September 2013	New build properties up to £500,000	UK citizens and those with a right to remain indefinitely in the country	Mortgage guarantee scheme funded by developers and guaranteed by government. Developers put 3.5 per cent of the value of every NewBuy home sold into a 'pot' that is used to protect the lender in the event of a default	4,450
First Time Buyers' Initiative	2007 to 2010	New build only	Restricted mainly to key workers with incomes under £60,000	Equity loan	2,962
HomeBuy Kickstart	2010 to June 2012	New build only	First-time buyers earning £60,000 or less	Part of a wider scheme to unlock sites and support the construction of high-quality mixed tenure housing developments	2,889

Notes
1 Eligibility for NewBuy is set to change to be more in line with Help to Buy equity loan.
2 Figures for households assisted at the time of our review.

Source: National Audit Office

Figure 3
Examples of home purchases financed with the scheme

Illustrative examples

Matthew bought a four bedroom detached house in the South East. A first-time buyer, he put down a 5 per cent deposit of £17,800. The purchase price of £356,000 was financed by a mortgage of £267,000 and an equity loan through Help to Buy of £71,200.

Tracey and her family now live in a four bedroom house in the North East. The purchase price of £170,000 was financed by an equity loan of £34,000 and a mortgage of £127,500. The family put down a deposit of £8,500, a mixture of savings and equity from their current home.

Jenny and Dave are first-time buyers. They raised a deposit of £7,000 for a one bedroom flat in Greater London that cost £140,000. They took out an equity loan of £28,000 to top up their mortgage of £105,000.

Note
1 Names are fictional.

Source: National Audit Office

1.8 The equity loan is interest-free for five years. From the start of year six, the government charges a fee of 1.75 per cent of the outstanding loan's value. This fee will rise annually by 1 per cent above the Retail Prices Index. This fee payment will not count towards repaying the equity loan capital.

Administering the scheme

1.9 **Figure 4** overleaf shows the main roles and responsibilities under the scheme. As with previous schemes, the Department sets the policy and oversees the Agency, who implement the scheme. The Agency manages the scheme with support from its appointed Help to Buy agents.

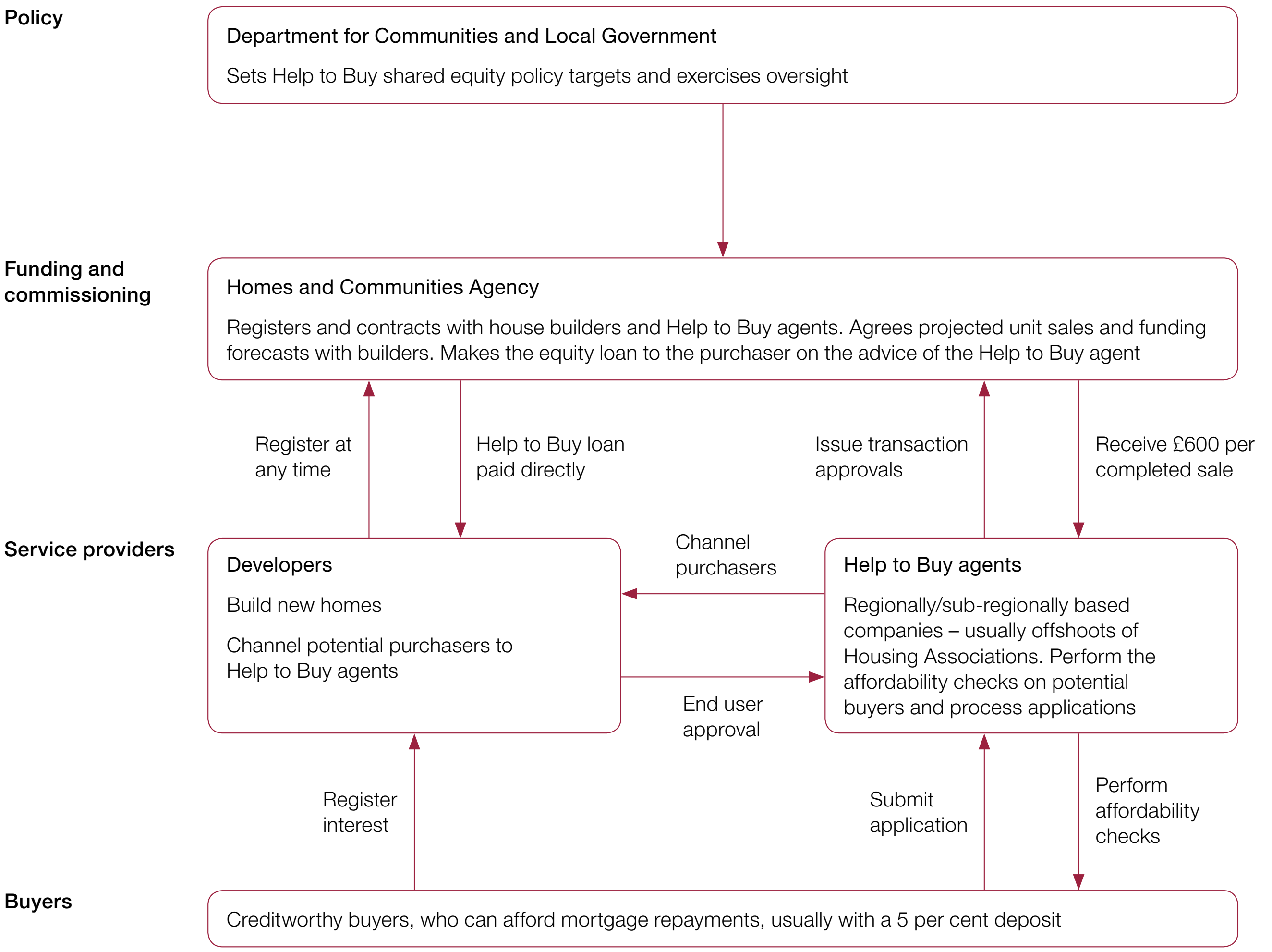
Scope of our report

1.10 In this report we examine the Department's and the Agency's performance in designing and introducing the Help to Buy equity loan scheme, and progress against the objectives to improve affordability and accessibility of homes and stimulate new housing supply.

1.11 We have not examined the separate Help to Buy mortgage guarantee scheme in this report.

Figure 4
Roles and responsibilities for the scheme

The Department is responsible for the Help to Buy scheme, with buyers, developers, agents, and the Homes and Communities Agency playing important roles



Source: National Audit Office

Part Two

Effectiveness and costs

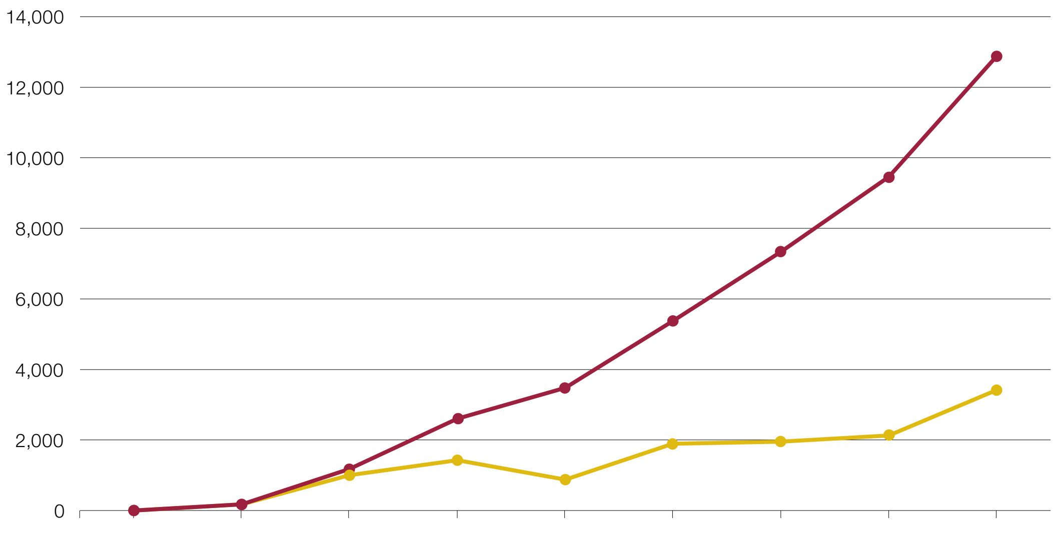
Households using the scheme

2.1 The Department for Communities and Local Government (the Department) aims to help 74,000 households across three years. Based on early take-up, it is on target to do so. Some 12,875 households, containing 27,713 adults and children, bought a home through the Help to Buy scheme (the scheme) in its first nine months (**Figure 5**). At the end of December 2013, around a further 9,600 completions were in the pipeline.

Figure 5

Number of Help to Buy completions by month, in 2013

The number of buyers accessing the scheme has increased steadily



	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cumulative number of households	–	175	1,175	2,602	3,480	5,375	7,331	9,464	12,875
Number of households	–	175	1,000	1,427	878	1,895	1,956	2,133	3,411

Note

1 12,875 completed Help to Buy equity loan sales between 1 April and 31 December 2013.

Source: National Audit Office analysis of Homes and Communities Agency data

2.2 The scheme appears to be helping buyers access the housing market as intended, particularly first-time buyers and others buying properties at the lower-cost end of the market.

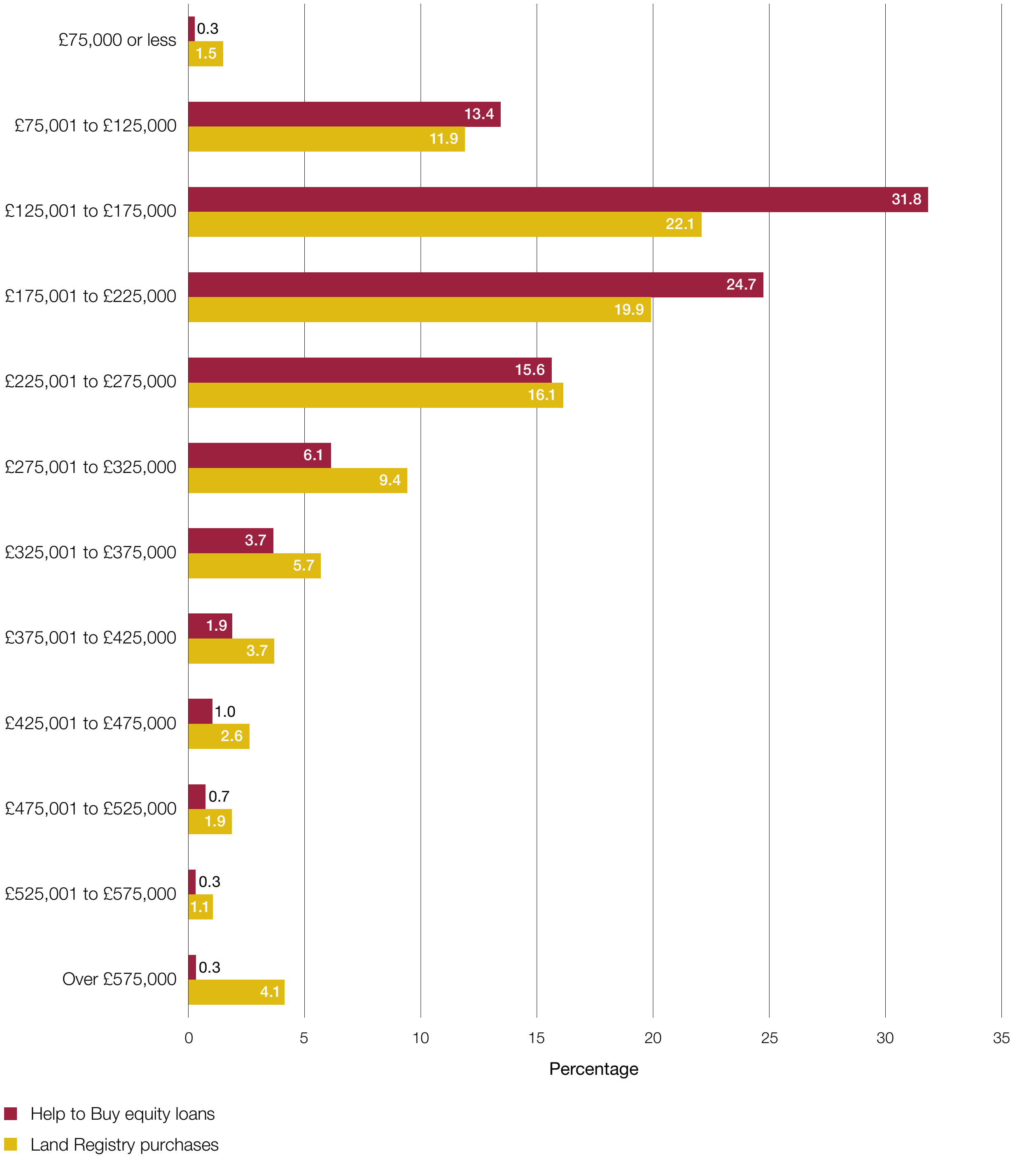
- At 31 December, 89 per cent of Help to Buy equity loan sales have been to first-time buyers, with sales to first-time buyers representing at least 86 per cent of sales in all regions. By comparison, since 2005 around one third of all property sales have been to first-time buyers.
- More of the prices of Help to Buy purchases are at the lower end of the price spectrum – £75,001 to £225,000 – than the purchase prices of all newly built homes.[8] The median purchase price of homes bought through the scheme was £183,000 (the mean average was £201,800) although some properties were bought at higher prices, up to the scheme maximum of £600,000 (**Figure 6**).
- Help to Buy equity loan buyers have a total average (mean) household income of £44,700. The median is £39,900. On average, the mean incomes of buyers of all newly built homes is higher at £61,000 (October to December 2013). The average (mean) income-to-mortgage ratio, excluding the equity loan, is 1:3.4.
- The Department's initial business case stated the scheme was to be aimed at 'deposit-constrained' potential buyers although later versions do not explicitly state this aim. The majority (over 98 per cent) of buyers taking part in the scheme have put down a deposit of 5 per cent or more. Most buyers (70 per cent) put down a 5 per cent deposit. In around 3 per cent of cases the buyer was able to provide a deposit of 25 per cent or more. In 2012, home buyers in the UK put down, on average, a 32 per cent deposit. This does not mean, however, that some buyers could not have put down a larger deposit. The Department does not collect this information from buyers. The average (mean) equity loan is £40,200 (£36,400 at the median).

8 National Audit Office analysis of Land Registry data © Crown copyright 2013.

Figure 6

Help to Buy equity loan purchase prices compared to purchase prices of newly built homes

Buyers using the scheme purchase homes that are cheaper, on average, than those bought by all buyers



Note

1 12,875 completed Help to Buy equity loan purchases from 1 April to 31 December 2013.

Source: National Audit Office analysis of Homes and Communities Agency and Land Registry data © Crown copyright 2013

Location of homes bought

2.3 The scheme appears to have been more popular with buyers in the North and the Midlands than in London and the East and South East regions (**Figure 7**). More new homes purchased in the Midlands, the North East, Yorkshire and the Humber were bought with the scheme than in other regions. While 15 per cent of purchases of newly built homes in England were in London, only 6 per cent of Help to Buy equity loan purchases were in the capital. In around a third of London boroughs (9 of 32) no Help to Buy equity loans have been made.

2.4 Average Help to Buy equity loans are lower in the North West and the North East, Yorkshire and the Humber regions, but larger in London and the East and South East region, reflecting relative property prices in these regions. The type of homes bought also varies by region: flats are most common in London, but in the Midlands and North West more than one quarter of homes bought through the scheme are detached houses (**Figure 8** on page 22).

Longer-term outcomes

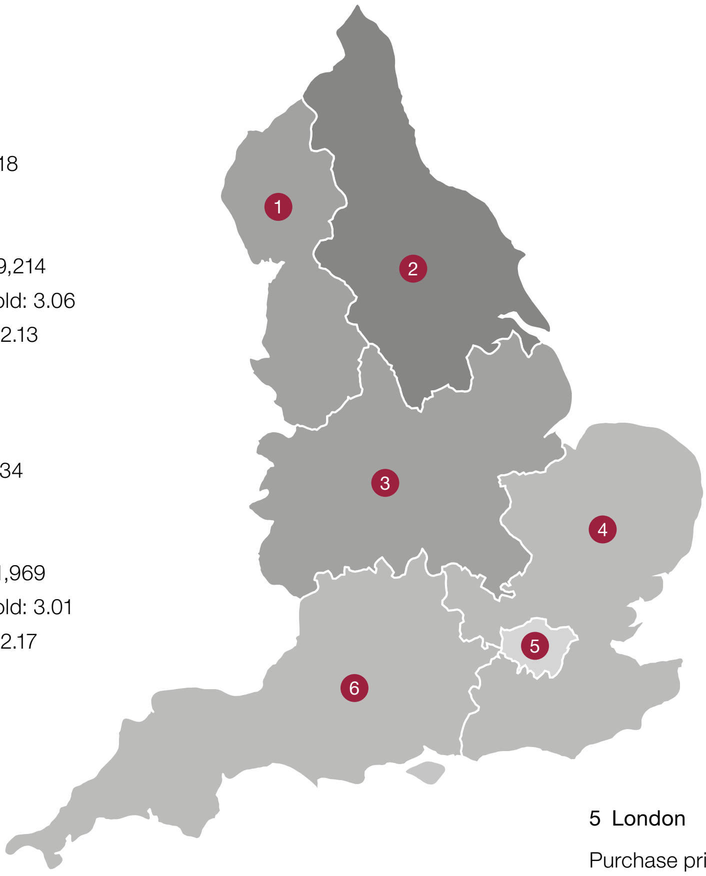
2.5 Developers that we interviewed said that the scheme was contributing to stronger demand. They also said that the scheme has instilled greater confidence among buyers in the housing market. Given this and the scheme's early popularity, particularly with first-time buyers, the increase in effective demand generated may have some impact on new housing supply. It is too early, however, for any impact the scheme may have had to show in the data on new housing supply.

2.6 Quantifying the scheme's contribution to housing supply will, however, be challenging. The Department will need to assess the scheme's added value over and above what would have happened without the scheme. For example, in a recovering economy, developers might have increased supply anyway, or might have speeded up building stalled sites. The government's other initiatives may also be responsible for any increase.

2.7 As the scheme was introduced quickly across England, it was not possible to run a formal controlled trial or similarly scientifically-robust trial to assess its impact. In these circumstances a vital source of information on longer-term outcomes will be buyers and developers. The Department acknowledges that it is hard to measure and quantify whether the scheme is helping more people to buy than otherwise would have bought now, or in the near future. It does not, however, collect any information on what buyers might have done had the scheme not been available.

Figure 7
Characteristics of Help to Buy equity loan sales in different regions

Help to Buy has been taken up more strongly in the North and Midlands



1 North West

Purchase price: £167,018
Deposit: £11,544
Equity loan: £33,361
Household income: £39,214
Bedrooms per household: 3.06
People per household: 2.13

2 North East, Yorkshire and The Humber

Purchase price: £154,757
Deposit: £10,733
Equity loan: £30,819
Household income: £36,373
Bedrooms per household: 3.02
People per household: 2.08

3 Midlands

Purchase price: £183,934
Deposit: £13,134
Equity loan: £36,675
Household income: £41,969
Bedrooms per household: 3.01
People per household: 2.17

4 East and South East

Purchase price: £239,887
Deposit: £18,640
Equity loan: £47,838
Household income: £51,674
Bedrooms per household: 2.82
People per household: 2.19

5 London

Purchase price: £286,181
Deposit: £24,076
Equity loan: £56,872
Household income: £61,138
Bedrooms per household: 2.06
People per household: 1.87

6 South and South West

Purchase price: £219,050
Deposit: £17,388
Equity loan: £43,672
Household income: £46,198
Bedrooms per household: 2.87
People per household: 2.25

Help to Buy equity loan sales as a percentage of total, new build sales

- 37.2 to 39.3
- 35.8 to 37.1
- 30.6 to 35.7
- 12.6 to 30.5

Notes

1 Averages are means and relate to 12,875 completed Help to Buy equity loan purchases from 1 April to 31 December 2013.

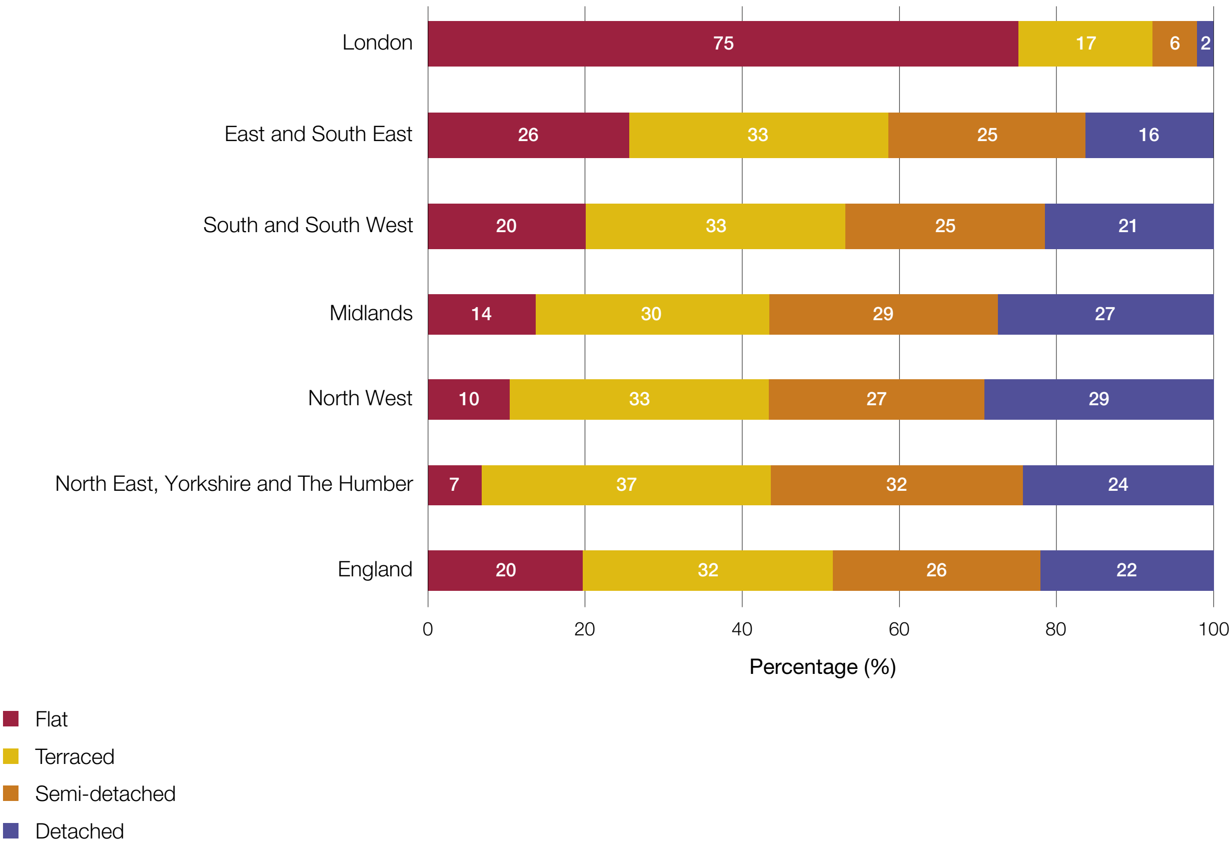
2 Regions shown are Agency operating areas.

Source: National Audit Office analysis of Homes and Communities Agency and Land Registry data.

Figure 8

Type of property bought with Help to Buy equity loans by region

Help to Buy buyers choose different property types depending on where they live



Note

1 Based on 12,875 completed Help to Buy equity loan purchases from 1 April to 31 December 2013.

Source: National Audit Office analysis of Homes and Communities Agency data

The scheme's costs

2.8 As a long-term investment with an uncertain return, the scheme's costs need to be considered in two ways:

- In cash terms, looking at the income and expenditure that affects how the Department manages its budgets in-year.
- In present value terms, considering the value in today's prices, accounting for the time value of money. This type of analysis lets the Department assess whether the scheme is a good use of resources and compare it to other schemes, like for like.

2.9 At this stage the scheme costs can only be estimated. Once it has invested in the scheme, the Department's return will depend on market factors which it has limited levers to influence. The main factors that will affect costs are as follows:

- Sales: the timing and volume in any one year.
- Property prices: if these change, the value of the government's equity loan will increase or decrease proportionally.
- Defaults: the Department holds a second charge and so will only recover a proportion of its equity investment after the lender has covered its costs. The Department has assumed in its own financial modelling that it will not recover any of its investment when properties are repossessed, which is prudent although it will impact on the accuracy of the forecast returns.
- Fee income: this is relatively easy to predict but the total amount collected will vary according to inflation rates and the timing of sales.

Cash costs

2.10 The equity investment will give the government a financial return in two ways:

- From the fee on the outstanding equity loan earned in year six onwards.
- From any gain on the Department's equity share when buyers repay their loan in part or in full, for example when a property is sold.

2.11 The Department has modelled a range of scenarios to estimate what financial returns will arise (**Figure 9**). In its central estimate the Department expects a gross return in cash terms of £4.8 billion by 2040-41. The likely cash flow is hard to predict because it depends on the factors outlined in paragraph 2.9. These factors are largely outside the Department's control. In some years, or across a spending review period, the difference between expectations and outturn could be substantial. This could create a sizeable underspend or overspend for the Agency and the Department. We discuss the Department's financial management arrangements further in Part Three.

Economic benefits and costs

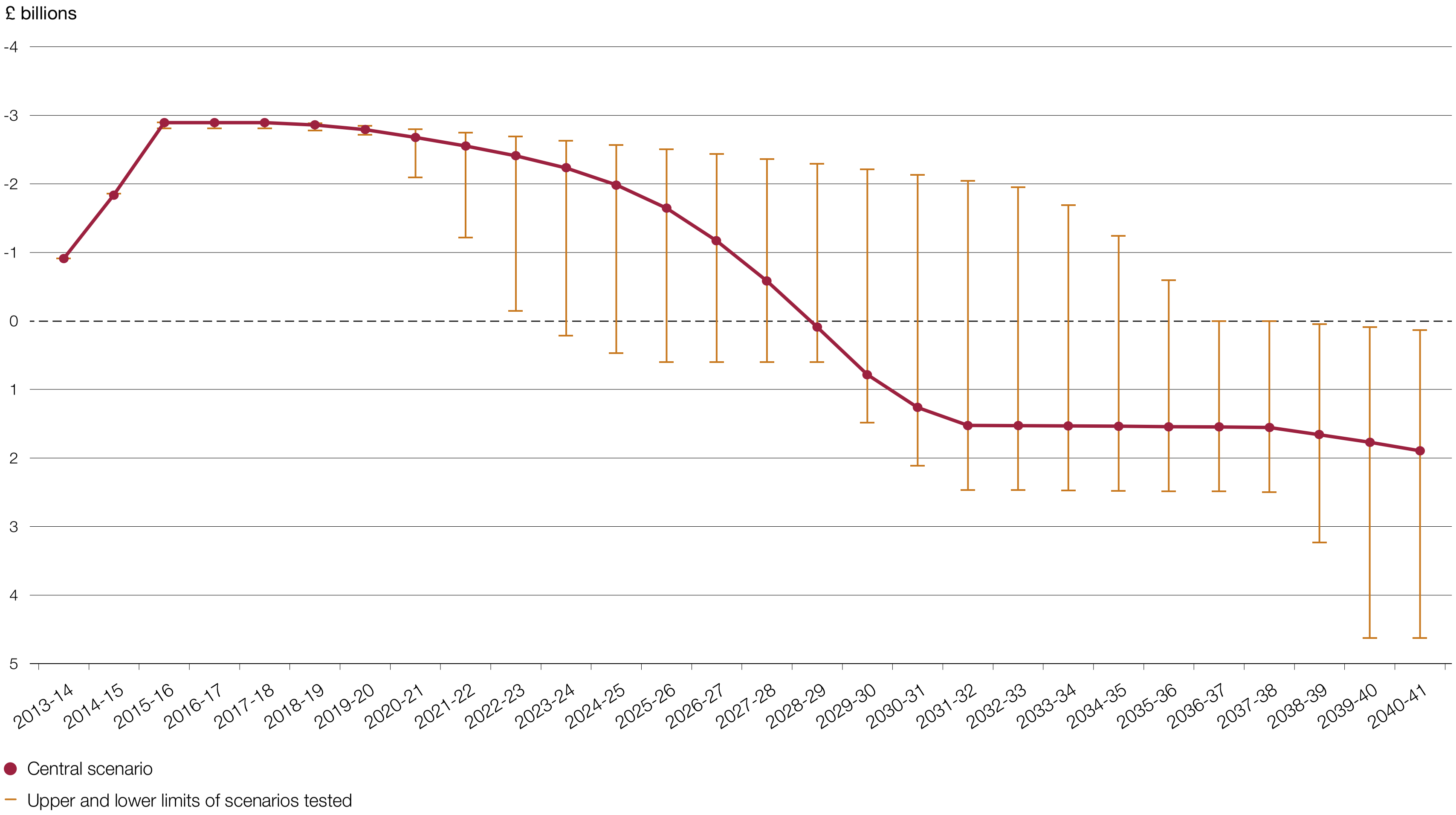
2.12 The scheme's economic costs are uncertain but likely to be substantial. The Department's central estimate for the scheme's costs, discounted to account for the time value of money and the effects of inflation, is £494 million in 2013-14 prices. The Department modelled a range of scenarios based on a variety of assumptions about these and other market factors. This indicated that the economic cost could be between £16 million in the best-case scenario and £1,227 million in the worst-case scenario in 2013-14 prices (**Figure 10** on page 26). This means that the scheme will only be value for money in broader economic terms if there are substantial benefits beyond the financial returns from fees and sales of equity shares.

2.13 The Department has not quantified robustly the scheme's economic benefits. The main economic benefits are likely to stem from building new homes that would not have been built without the scheme and the corresponding jobs created. The Department has only developed estimates of how many additional homes might be built. The Department has not evaluated previous, similar schemes' influence on home-buyers' behaviour or home building levels to develop more robust estimates. Nor has it yet collected information from buyers or developers on what they would do, or have done, without the scheme.

2.14 The Department expects the main economic benefits to come from the economic value of new homes built because of the scheme. The Department considers that between 25 and 50 per cent of sales will result in new homes being built, with associated economic benefits of £500 million to £1 billion respectively, in these scenarios. It estimates in its central case that if more than around 25 per cent of sales through the scheme result in an additional home being built, then the economic benefits will exceed the costs. We cannot, at this stage, verify the Department's estimates of how many additional homes might be built as a result of the scheme for the reasons set out above. This means that assessing the scheme's impact on construction is crucial to deciding whether it is value for money.

Figure 9
Potential net cash position arising from Help to Buy equity loans

The estimated cash flows vary greatly according to assumptions made about house prices and loan redemptions



Notes

1 Figures illustrate the Department's modelling of different assumptions about factors affecting the timing and scale of cash returns.

2 The Department's modelling assumes an investment of £2.89 billion capital in the scheme over the three years to 2015-16. This is based on its assumption in February 2014 that it will support 74,000 cases at the average loan amount to December 2013. This figure may change as average loan amounts increase or decrease. The scheme's maximum budget is £3.7 billion.

Source: National Audit Office re-performance of the Department's financial modelling

Figure 10

The Department's evaluation of the scheme's economic costs

The Department's modelling indicates a net present cost of between £16 million and £1,227 million to 2040-41 in 2013-14 prices

Scenario number	Property price inflation	Redemption rate	Net present value using the Gross Domestic Product Deflator (£m)
1 (the Department's central case)	Stabilising at 4% from 2015-16[1]	Increasing to 15% then dropping to 0% in 2028-29	-£494
2	As above	As 1 above, but with higher levels of repossessions (up to 9.5%)	-£602
3	As above	70% in 2018-19, with 10% in subsequent three years	-£517
4	As above	Set at 10% a year from 2031-32, with remainder (60%) in 2035-36	-£441
5	0% from 2015-16 onwards	Increasing to 15% then dropping to 0% in 2028-29	-£1,153
6	As above	As 5 above, but with higher levels of repossessions (up to 9.5%)	-£1,227
7	6.4% from 2020-21 onwards	Increasing to 15% then dropping to 0% in 2028-29	-£16

Notes

1 Office for Budget Responsibility forecast.

2 This excludes economic benefits.

3 Redemption rate is the rate of houses sold and Help to Buy equity loan returned.

4 Figures are net present values to 2040-41 in 2013-14 prices.

5 The Department's modelling assumes an investment of £2.89 billion capital in the scheme over the three years to 2015-16. This is based on its assumption in February 2014 that it will support 74,000 cases at the average loan amount to December 2013. This figure, and the NPV, may change as average loan amounts increase or decrease. The scheme's maximum budget is £3.7 billion.

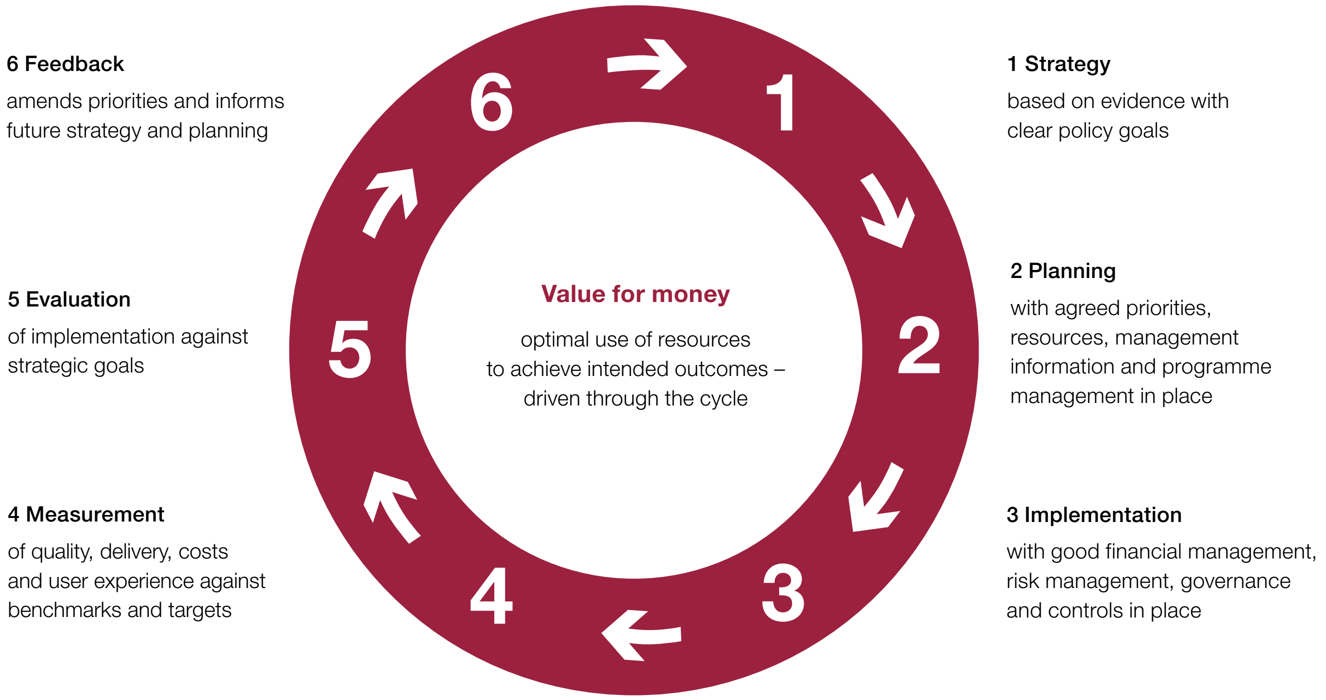
Source: National Audit Office analysis of the Department's modelling

Part Three

Managing the scheme

3.1 We expect value for money in public spending programmes to be progressed through a core management cycle (**Figure 11**). The cycle models the key stages for designing and implementing policy covering: deciding strategy, planning and implementation, measuring results, evaluating impact and feeding back. Given the early stage of our review, we concentrate mainly on the first three stages of the cycle but we also set out our views on its later stages.

Figure 11
Core management cycle



Source: National Audit Office

Strategy

3.2 Assessing the evidence base before implementation helps policy-makers consider and understand the consequences of proposed interventions and enables public bodies to weigh up likely impacts. Clear and realistic objectives are important to increase the likelihood of achieving policy aims.[9]

The scheme's evidence base

Research evidence

3.3 The Department for Communities and Local Government (the Department) designed the scheme with limited evidence on outcomes from past initiatives:

- Our review of the literature found no evaluations of FirstBuy or the First Time Buyers' Initiative. The Department committed to evaluating FirstBuy and HomeBuy Direct in 2013 but, due to the speed with which the Help to Buy equity loan scheme was launched, they could not make the planned evaluations in time.

- We found two evaluation papers on the HomeBuy scheme on existing properties from 2001 and 2008, one from the Department and the other by the Joseph Rowntree Foundation. One report on HomeBuy concluded there was no impact on the supply of housing, although this scheme was not focused on new-build homes (Figure 2). There are also two reports that reviewed existing data, plus our own 2006 report on low-cost home ownership.[10]

Consultation

3.4 Given the speed at which it introduced Help to Buy equity loan scheme (the scheme), the Department could not consult formally with lenders or developers before launch. Instead the Homes and Communities Agency (the Agency) contacted developers after the scheme was launched, setting out details and encouraging them to take part. During implementation, the Agency and the Department also set up weekly meetings with the Council of Mortgage Lenders and mortgage lenders themselves, to encourage participation and to iron out any inconsistencies and points of clarification required. During early meetings, lenders raised several issues about eligibility criteria and practicalities around taking part in the scheme. Our review of papers and minutes from these meetings found that the Department and the Agency responded to these concerns, although we have not seen any evidence of how they reached these decisions.

9 National Audit Office, *NAO Guide: Initiating Successful Projects*, December 2011, available at: www.nao.org.uk/report/nao-guide-initiating-successful-projects-3/

10 Comptroller and Auditor General, *A foot on the ladder: low cost home ownership assistance*, Session 2005-06, HC 1048, National Audit Office, July 2006, available at: www.nao.org.uk/report/a-foot-on-the-ladder-low-cost-home-ownership-assistance/

The scheme's objectives

3.5 The Department considers the scheme's objectives to be clear but some stakeholders were confused by them. The departmental deputy director in charge of the programme approved the business case on 27 March 2013. It identified the objectives of the scheme as to:

- support credit worthy but deposit-constrained households to buy a newly built property;
- increase the supply of new housing; and
- contribute to economic growth.

3.6 The Department's revised business case of 18 April 2013 changed the first of the scheme's objectives to maximising take-up, rather than focusing on deposit-constrained households. The Department said that this was because the scheme is designed to support all aspiring buyers rather than address any particular group's housing need. The objectives do not include any value-for-money criteria, such as maximising the impact per person or per pound spent.

3.7 We have previously concluded that the Department should do more to improve the design and control of programmes where there are multiple initiatives with overlapping aims.[11] Several current initiatives are designed to increase the effective demand and supply of homes including the Help to Buy mortgage guarantee scheme. The Department provided us with an overview of the range of different initiatives but cannot say how the impact of each scheme affects the others. There is, therefore, a risk that the Department does not understand the combined impact of its initiatives or their effects, positive or negative, on one another.

Planning

3.8 The scheme represents a significant investment and is much larger than previous schemes in both size and budget so good planning is essential.

11 Comptroller and Auditor General, *The New Homes Bonus*, Session 2013-14, HC 1047, National Audit Office, March 2013, available at: www.nao.org.uk/report/the-new-homes-bonus; Comptroller and Auditor General, *Financial sustainability of local authorities*, Session 2012-13, HC 888, National Audit Office, January 2013, available at: www.nao.org.uk/report/local-services-financial-sustainability-of-local-authorities; Comptroller and Auditor General, *Regeneration of English Coalfields*, Session 2009-10, HC 88, National Audit Office, December 2009, available at: www.nao.org.uk/report/regenerating-the-english-coalfields/

Assessing the scheme's impact before launch

3.9 The Department announced the scheme on 20 March 2013 and signed off the first version of the scheme's business case on 27 March 2013. The business case presented the Department's attempt at a cost–benefit analysis of the scheme but we do not consider this to be complete. Based on HM Treasury Green Book guidance we would have expected the Department to show its analysis of alternative options for increasing demand for new housing and housing supply.[12] The Department, however, only analysed the costs and some of the benefits of its chosen scheme and should have presented additional information on the other options considered. As a result, we cannot conclude that the Department identified the most effective and efficient way to achieve its objectives.

3.10 The Department carried out some financial modelling to support the scheme's business case. Since launching the scheme, the Department worked to quantify the financial risks and to understand whether they can bear those risks. It is positive that the Department has continued to develop its understanding in this way. Although, given the large scale of the investment and the likelihood that the cash flow will vary from year to year, the Department could usefully have done more dynamic modelling when deciding whether to launch the scheme.

Skills

3.11 A clear scheme specification should set out not only the objectives and predicted outcomes, but also the people resources required. As the scheme was launched quickly the Agency did not immediately have the number of people it would need to administer the scheme in the long term. The Department subsequently approved 18 new posts within the Agency to implement the scheme and the Agency has now filled these vacancies.

Implementation

3.12 Well-managed implementation means making sure the scheme meets the intended policy objectives. All bodies involved therefore need to fully understand the scheme's objectives. Good quality financial and risk management, governance and controls are also essential.[13]

3.13 The scheme went live on 1 April 2013. The Department and the Agency took a pragmatic and efficient approach by building on existing structures and processes. Implementation has, largely, been smooth but we identified some issues where using existing structures and material and the speed of implementation created some risks. Our findings on these issues are set out at paragraphs 3.20 to 3.25 below.

12 HM Treasury, *The Green Book: Appraisal and Evaluation in Central Government*, July 2011. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf

13 National Audit Office, *A short guide to structured cost reduction*, June 2010, available at: www.nao.org.uk/report/a-short-guide-to-structured-cost-reduction-4/

Help to Buy agents

3.14 Like previous schemes, the Agency employed agents to carry out affordability assessments on applicants for the scheme and to administer sales. The Agency rebranded its existing network of 13 HomeBuy agents as Help to Buy agents. These agents are experienced in administering low-cost home ownership and equity loan schemes, having been employed in this capacity since 2009. The volume of cases the agents are dealing with has increased but the affordability checks have been simplified because of the relatively wide eligibility criteria for the scheme. We found that developers and lenders valued the service they receive from Help to Buy agents, with no problems reported.

3.15 Under previous schemes, such as FirstBuy, agents were paid a fee of £1,000 per case completed. The Agency indicated to agents at launch that, for Help to Buy, it intended to reduce this fee and negotiated the fee down to £600 per case completed. This reflects the greater volume of cases anticipated under Help to Buy and the simpler eligibility criteria. However, the Agency did not implement this change until July 2013 because it considered it needed to be responsive to the quick launch of the scheme. It has spent £1.5 million on agent's fees for 1,462 completions agreed at £1,000 each. This is £0.6 million more than had it paid £600 per case. Agents' contracts are due to expire in March 2014 and a re-procurement exercise is under way. One of the criteria against which the Agency will assess the bids will be the fee the agents plan to charge on completing each sale.

3.16 The Agency has reused its existing quality assurance processes to assess agents' performance. Agents self-certify against a set of contractual key performance standards and the Agency reviews the results through formal quarterly meetings and regular informal contacts. It also checks a sample of applications annually. The Agency's internal audit team examined a small number of FirstBuy applications from each of the agents in 2012-13 and recommended that the quality assurance processes should be reviewed. Given the increase in the volume and value of completions under the scheme, we expect the Agency to review the current quality assurance arrangements in 2014 to make sure they are still fit for purpose. The Agency reports it has started work in this area and is reviewing the sample size of cases checked to reflect the strong scheme take-up.

Communicating with potential buyers

3.17 Potential buyers need good information to make informed decisions about whether to take up an equity loan. The Agency produced a buyers' guide, which agents placed on their websites. The amount of information reproduced on agents' websites themselves varied. One agent's information stated incorrectly that the scheme had a maximum household income cap of £60,000. The Department and the Agency have addressed this with the relevant agent.

Governance and accountability

3.18 For effective implementation there must be clear responsibilities and accountability arrangements. The Department and the Agency chose to use monitoring and governance structures from previous schemes which meant that Help to Buy could be launched quickly. The Department and the Agency have experience of implementing similar schemes such as FirstBuy and HomeBuy Direct, which they could apply to the scheme.

3.19 The Department and the Agency have established robust and appropriate governance structures for the scheme. The Department set up a programme delivery group in August 2013. Its remit is to monitor take-up, track finances, clarify the scheme's rules, assess if the scheme is meeting its objectives, direct the scheme's marketing, release official statistics and engage with stakeholders. Key representatives attend the monthly meetings to discuss the scheme's progress and issues around their risks. Officials from the Agency and the Department attend the meetings. A project dashboard setting out key performance information is shared before each meeting and notes assign responsible owners to action points.

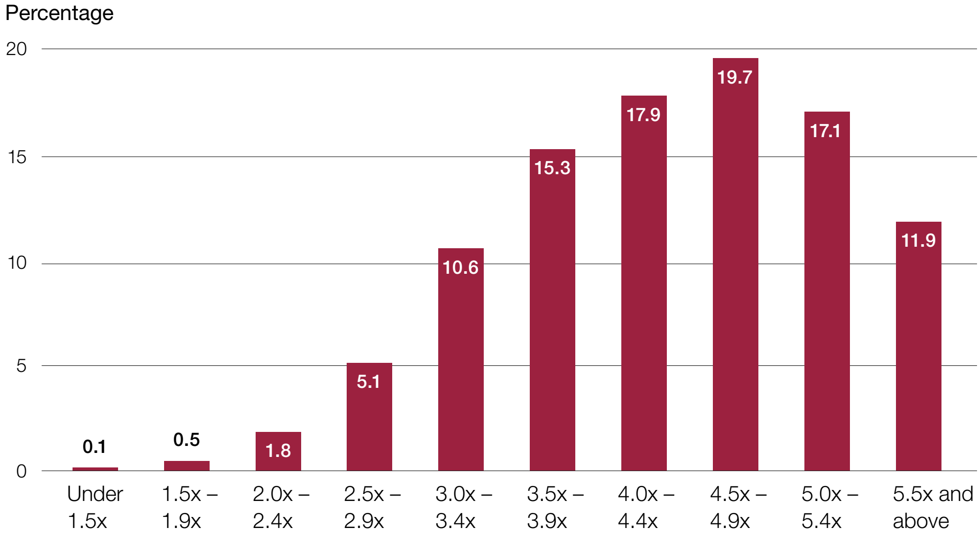
Risk management

3.20 All investment decisions have some level of uncertainty and risk to achieving the expected benefits. When designing a scheme the government should consider and quantify these. As we explained in Part Two, most of the factors that affect the scheme's long-term cost are risks inherent to property prices and housing market activity. Our review indicates that there are, however, additional risks arising from the way Help to Buy was designed and introduced, which the Department will need to watch closely.

3.21 When the equity loan is added to the amount of the mortgage, the average income-to-housing debt ratio is 1:4.4. However, the most heavily geared fifth of borrowers owe at least 5.3 times their income (**Figure 12**). Lower-income households using the scheme have higher average debt, relative to their income, than higher-income households, which might be expected. Help to Buy agents are responsible for checking whether potential buyers can afford the homes they plan to buy.

Figure 12

Ratio of total mortgage and equity loan borrowing to household income



Note

1 12,875 completed Help to Buy equity loan purchases from 1 April to 31 December 2013.

Source: National Audit Office analysis of Homes and Communities Agency data

3.22 Eleven lenders have joined the scheme (compared to 21 for the FirstBuy scheme). At the end of December 2013 most equity loans have been made to buyers accessing mortgage finance from the Lloyds Banking Group or the Nationwide Building Society. The Department said that this might be because of their overall position in the mortgage lending market and, in the case of Lloyds Banking Group, adopting the scheme early on. Stakeholders also said that some lenders are reluctant to lend on new-build properties generally, because of past experience of over-valuations. A concentration of this type could affect the provision of the scheme, for example if any one lender were to decide to change its borrowing criteria, or change its appetite for participation in the scheme.

3.23 The scheme poses risks in the local concentration of Help to Buy properties. Properties have been sold across 4,717 different full postcodes but there are 126 postcodes where the number of properties bought is ten or more. A concentration of properties in particular sites is a risk if, for example, local factors arose that would reduce those properties' value. Because the scheme has pockets of concentration in particular areas, the Department is refining how it monitors movements in property prices. For other equity loan schemes it used regional indices to monitor price movements. For Help to Buy it will consider using data at local authority level, which could allow it to monitor price movements more closely.

3.24 The Department increased the number and range of developers in the scheme. This means it has spread some of the risk arising from a smaller number of developers dominating the scheme. It also supports a wider objective of stimulating economic growth by supporting smaller firms. By mid February 2014, over 1,100 developers had registered. Around 11 per cent of those have made at least one sale through the scheme, though ten developers account for 70 per cent of homes sold through the scheme. Only around 100 developers took part in FirstBuy.

3.25 Some buyers have used the scheme with a deposit of less than 5 per cent. The scheme rules stipulate that the lender will normally require buyers to put forward a deposit of 5 per cent or more of the purchase price. This is so that buyers have a financial interest in the property and reduces the risk to the taxpayer should the value of the property fall. The Agency has, however, made equity loans to buyers with deposits of between 4 and 5 per cent of purchase price. By 31 December 2013, 205 buyers had bought with a deposit of less than 5 per cent (1.6 per cent of completions at that point). One case proceeded through the scheme despite the fact that the borrower did not actually put any of their own deposit forward. The Agency considers it took action to prevent this happening again and we could not identify any further cases where this had occurred. Lenders may still approve mortgages from applicants with deposit contributions of less than 5 per cent because, from their perspective, the applicant still has a deposit of 20 per cent, from the government equity loan. The Department and the Agency are aware of this issue, and are committed to monitoring the impact, but have not yet resolved the issue.

Financial management

3.26 The Department and the Agency will account for the equity loans as an investment. This means that each loan is recorded as an asset in the Department's and Agency's statements of financial position in the following way:

- The value of each loan will be recorded, initially, at its cost.
- Each year, until the home is sold, the 'fair value' of the investment will be estimated using a financial model. The model is based primarily on movements in property prices and will be reviewed at least annually.
- Any changes in the fair value are recognised directly in the Agency's accounts in a fair value reserve.
- When the equity loan is paid off, for example when a property is sold, its sale value may be less than the estimated fair value. In this case, the Agency must recognise a loss, in its statement of comprehensive net expenditure. This may happen if the Department's model has overestimated the property value, or if homes are sold in a 'distressed sale', for example after repossession. The Department and the Agency have committed to monitoring this.

3.27 The Agency has developed considerable experience in managing home equity schemes. It continues to refine its valuation methodology and tell the Department about potential risks. The Department and the Agency plan to discuss future resources required to monitor the scheme. Although many of the factors influencing the scheme's cost are outside the Department's and the Agency's control, good forecasting and risk management are essential to managing public money. This is a long-term task because the equity loans may sit with the Agency for years, if not decades.

3.28 The equity portfolio's value will vary over time. Movements in value could be substantial and the Agency will need to use its experience from managing its existing and expanding asset loan portfolio to manage this actively. **Figure 13** shows the movements in the balances of four previous, similar schemes, in the 2012-13 financial year. This shows that changes in the portfolio's value could result from changes in the value of the properties as well as new additions (properties bought) and disposals (properties sold). With an initial investment balance up to £3.7 billion, impairment losses and other in-year changes to the Help to Buy equity portfolio could be sizeable and have budgeting implications for both the Agency and the Department.

Figure 13

Value of equity loans held by the Department from previous schemes

The scale and direction of movement in equity portfolios' values vary over time

	First Time Buyers' Initiative (£000)	Home Buy Direct (£000)	Kickstart Home Buy Direct (£000)	FirstBuy (£000)
Balance at 1 April 2012	**133,499**	**165,863**	**44,045**	**53,174**
Transfers to the Greater London Authority	–	–	(596)	(5,812)
Balance after transfers to Greater London Authority	133,498	165,863	43,449	47,362
Additions	464	–	2,206	113,770
Disposals	(13,041)	(5,100)	(503)	(200)
Impairment	(163)	19,175	4,538	(7,268)
Fair value adjustment	1,946	1,281	–	(4)
Balance at 31 March 2013	**122,704**	**181,219**	**49,690**	**153,660**
Percentage change in value of portfolio over year	**-8%**	**9%**	**13%**	**189%**

Notes

1 Impairment is a reduction in value below the original cost of the investment.

2 The fair value adjustment is a change resulting from rebasing the notional value of the remaining properties, according to local house price indices and information from sales.

Source: Homes and Communities Agency

Measurement, evaluation and feedback

3.29 Routine measurement, based on good quality monitoring data, is essential to the day-to-day running of the scheme. It supports financial and risk management and allows the Department to report on how the scheme is progressing. Evaluation should be a vital source of information on the cost-effectiveness of government activities, for accountability purposes and as a means to improve existing policies and to better design future policies.[14]

Monitoring and controls

3.30 Developers and agents input data onto the Agency's existing investment management system when the home purchase is legally completed. This system records key data on the properties and buyers and will allow the Agency to monitor its financial commitments. The Agency uses this system to manage several schemes. The Agency reported that it had updated its systems to help it monitor more closely those cases where the buyer has bought a home with a deposit of less than 5 per cent of the purchase price.

Evaluation and feedback

3.31 As discussed in paragraph 3.3, there has been no formal evaluation of the impact of recent schemes. However, the Department has made a commitment to report on the scheme in its 2014-15 annual report.

3.32 The Department has not yet developed a robust and joined-up method of evaluating its housing market initiatives, including Help to Buy. Unless it does so, it will not be able to make informed decisions about what level of funding to allocate to future initiatives. We found in our report on the New Homes Bonus that evaluating individual schemes' contribution to broad objectives like increasing housing supply is challenging because there are several overlapping schemes with similar aims.[15] Wider economic factors are likely to have an important impact. We have also found in recent reports on access to finance for small and medium-sized enterprises[16] and funding and structures for local economic growth[17] that departments, including the Department for Communities and Local Government, have no integrated evaluation plans that assess the impact of their programmes of work. Also, departments tend to lack an overall framework and a common set of measures to compare across different schemes.

14 National Audit Office report, *Evaluation in government*, December 2013, available at: www.nao.org.uk/report/evaluation-government/

15 Comptroller and Auditor General, *The New Homes Bonus*, Session 2013-14, HC 1047, National Audit Office, March 2013, available at: www.nao.org.uk/report/the-new-homes-bonus

16 Comptroller and Auditor General, *Improving access to finance for small and medium-sized enterprises*, Session 2013-14, HC 734, November 2013, available at: www.nao.org.uk/report/improving-access-to-finance-for-small-and-medium-sized-enterprises/

17 Comptroller and Auditor General, *Funding and structures for local economic growth*, Session 2013-14, HC 542, December 2013, available at: www.nao.org.uk/report/funding-structures-local-economic-growth/

3.33 We have previously concluded that the Department failed to develop a robust assessment of the direct impact of its initiatives, including proof of additionality.[18] Again, we have found that the Department has not, evaluated formally whether previous shared equity and equity loan initiatives influenced home-buyers' behaviour or home building levels. Any future evaluation approach will have to address these issues to clearly quantify the scheme's impact.

18 Comptroller and Auditor General, *Regenerating the English Coalfields*, Session 2009-10, HC 88, National Audit Office, December 2009, available at: www.nao.org.uk/report/regenerating-the-english-coalfields/

Appendix One

Our audit approach

1 We examined the design, implementation and outcomes of the Department for Communities and Local Government's (the Department's) equity loan scheme, Help to Buy. We reviewed whether:

- the Department used evidence and expertise to design an equity loan scheme that will maximise outcomes and minimise costs and risks to the taxpayer;
- the Department and the Homes and Communities Agency are implementing the scheme effectively and efficiently; and
- the scheme is improving affordability and accessibility of mortgage finance and increasing housing supply.

2 We developed an evaluative framework based around the core management cycle through which we expect value for money to be achieved in public spending programmes in Figure 11.

3 Our audit approach is summarised in **Figure 14**. Our evidence base is described in Appendix Two.

Figure 14
Our audit approach

The objective of government

The Department for Communities and Local Government aims to increase housing supply, improve the accessibility of mortgages, improve the affordability of high loan-to-value mortgages, and boost construction and economic growth.

How this will be achieved

Help to Buy is a scheme offering buyers of newly built properties worth up to £600,000 an equity loan of up to 20 per cent of the sale price. £3.7 billion has been earmarked to support around 74,000 buyers over three years, 2013-14 to 2015-16. The scheme is managed by the Homes and Communities Agency, an executive agency of the Department, and is provided by developers working with Help to Buy agents.

Our study

Has the Department ensured that the Help to Buy equity loan scheme will achieve its objectives?

Our evaluative criteria

Has the Department used evidence and expertise to design an equity loan scheme that will maximise outcomes and minimise costs and risks to the taxpayer?

Are the Department and Homes and Communities Agency implementing the scheme effectively and efficiently?

Is the scheme improving affordability and accessibility of mortgage finance and increasing housing supply?

Our evidence

(see Appendix Two for details)

We analysed data from the **Agency**.

We interviewed developers and other stakeholders.

We reviewed the Department's **modelling**.

We **reviewed published evidence** on the effectiveness of previous similar schemes.

We **reviewed documents** from the Department and Agency.

We **interviewed** officials from the Department and Agency.

We **interviewed** Help to Buy agents, representatives of lenders, and other stakeholders.

We drew on our **past work**.

We **analysed data** on housing market trends from the Department.

We **analysed data** on Help to Buy from the Agency.

Our conclusions

We conclude on value for money on pages nine and ten.

Appendix Two

Our evidence base

1 We reached our independent conclusion on value for money following our analysis conducted between September and December 2013. Our audit approach is outlined in Appendix One.

2 **We reviewed published evidence** on the effectiveness of previous similar schemes.

3 **We analysed data from the Department and National Home Building Council** to understand housing market trends.

4 **We analysed data from the Homes and Communities Agency** to understand the trends in take-up of Help to Buy, and the characteristics of buyers taking part in the scheme.

5 **We reviewed the Department's modelling** of the scheme, to understand the assumptions they made and to understand their management of risks and future costs.

6 **We reviewed documents** from the Department and Homes and Communities Agency and conducted interviews with Department and Agency officials.

7 **We conducted interviews with Help to Buy agents** to understand whether they are running the scheme prudently.

8 **We conducted interviews with developers and representatives of developers** which explained how the Department drew on intelligence on the functioning of previous similar schemes, how the scheme was implemented, and early outcomes.

9 **We conducted interviews with other stakeholders** to understand the wider context and challenges facing home building, the mortgage market, and construction, and to discover whether relevant stakeholders were consulted in the development of Help to Buy.

10 **We drew on past National Audit Office work** on housing, planning and other Department programmes.

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