National Audit Office

Memorandum
for the House of Commons
Committee of Public Accounts

Department for Communities and Local Government

Extending the Right to Buy

MARCH 2016

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Contents

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Key facts

1.8m
homes sold under the Right to Buy between 1980-81 and 2013-14

1.3m
housing association tenants in England to receive Right to Buy

3 years
the time housing associations or local authorities have to start building a new home for each one sold under the new policy

19,445	additional homes sold under the reinvigorated Right to Buy between 2012-13 and 2014-15
3,054	additional homes sold under the reinvigorated Right to Buy in 2012-13
3,387	new homes acquired or started to be built under the reinvigorated Right to Buy between 2012-13 and 2014-15
5	housing associations piloting the scheme
£103,900	maximum discount obtainable under the Right to Buy in London
£77,900	maximum discount obtainable under the Right to Buy in the rest of England
6.7%	average annual turnover rate of council lettings
30%	maximum proportion of the cost of a new home that can be financed by sales of existing homes under the Right to Buy
Up to 80%	proportion of market rent levels that can be charged as affordable rent
Around 50%	proportion of market rent levels that are charged as social rent
1 million	the number of homes overall the government wants to see built in England between 2015 and 2020

Summary

Background

1 This memorandum has been prepared to support the Committee of Public Accounts (the Committee) consider the approach taken by the Department for Communities and Local Government (the Department) in assessing the impacts and value for money arising from aspects of its Housing and Planning Bill (the bill). Specifically, the scope of this memorandum covers the Department's intention to:

- **give 1.3 million tenants of housing associations** – through voluntary agreement with the housing association sector – **the right to buy their home at a discounted rate**;
- **finance this policy through sales of high-value council homes as these fall vacant**; and
- **ensure a new home is provided** for each one sold by housing associations **on at least a one-for-one basis; and ensure additional homes are provided for those sold by local authorities, with at least two additional affordable homes for each one sold in London.**

2 At the time of writing, the Housing and Planning Bill is still being considered by the House of Lords. To date, the Department has not set out how much it projects the policy to cost or how much it intends to raise from the sale of high-value council homes, among other aspects. The Department states that key details, such as the definition of high-value council homes, will be set out in secondary legislation to follow the bill. As this information is still subject to policy development and has not yet been decided on by ministers, it lies beyond the scope of this memorandum to attempt to analyse the impacts of different potential options for the ultimate design of the policy. We have though, brought together observations on the Department's previous iteration of Right to Buy, examined its published impact assessment on the current bill together with other analyses carried out by the Department and lastly, revisited previous National Audit Office (NAO) and the Committee of Public Accounts' (PAC) reports on earlier housing interventions.

Recent impacts of the reinvigorated Right to Buy

3 **The Department's policy of reinvigorating the Right to Buy, introduced in the last Parliament, is relevant to the design of its new policy of extending the Right to Buy.** In 2012, the Department introduced a policy of reinvigorating the Right to Buy: increasing the discounts available to tenants of council housing who wished to buy their own home and committing to a one-for-one replacement nationally of affordable housing stock for each additional council home sold. Understanding the way in which the Department is assessing the success of this policy, in stimulating property sales and leading to new housebuilding, can provide useful context for examining the Department's plans for forecasting and measuring the success of extending the Right to Buy.

4 **The Department reports it has successfully ensured a one-for-one replacement nationally for each additional council home sold in the first year of reinvigorating the Right to Buy.** One-for-one replacement does not necessarily mean like-for-like: replacement properties can be a different size, and built in a different area, compared to those that have been sold. The pace of replacements will also need to accelerate to keep pace with the target in subsequent years. Under the Department's objective, housing providers have up to three years from the sale of a council property to make a start on using the receipts to provide replacement homes. The Department has taken the housing starts and acquisitions funded by this policy for the three years 2012-13 to 2014-15 together. This yields a total of 3,387, which roughly equates to the approximately 3,054 additional sales attributable to the reinvigorated Right to Buy in 2012-13. To meet the target of replacing the roughly 8,512 homes sold in 2014-15 by the end of 2017-18, however, would require quarterly housing starts to reach around 2,130, a five-fold increase on recent figures of approximately 420 per quarter.

5 **Past experience of similar policies could be used to anticipate some potential impacts of extending the Right to Buy, but the absence of key details at this stage makes this difficult.** Impacts on sales of housing association properties, the building of new homes, and any potential differences in outcomes in different areas, will depend ultimately on the demand for discounts and level of funding released by sales of vacant high-value local authority housing. Secondary legislation will define what 'high-value' means, and a formula will be used to calculate the payment each stock-owning local authority is required to pay. Until there is more clarity about what counts as high-value housing and how often tenancies end, it is hard to estimate the flow of payments and the number of sales to tenants that will be funded and additional properties built as a consequence.

Assessing impacts of extending the Right to Buy

6 **The Department has carried out various analyses on policy options and their potential impacts.** The Department has expanded on the substantive analysis it carried out for its published impact assessments on the reinvigorated Right to Buy in 2012 and 2014. It has modelled both demand for the Right to Buy among housing association tenants, and how much money sales of high-value council homes could raise, and used this analysis to demonstrate that this policy can be cost-neutral to the government. Among its analyses, it has projected impacts of these policies on future housing benefit expenditure. From local authorities it has gathered data on every council home in England (1.6 million properties), as well as updated market valuations. More widely, it has analysed the physical capacity within different local authority areas to build additional housing. Its analysis is an ongoing process; it is currently working with the housing association sector, including 5 pilots, to inform the details of the policy design. It is also working with associations to set out its approach to the delivery of additional properties, and will be establishing a clear methodology for evaluating the number of these which are built as a result of the scheme.

7 **The Department's position is that its impact assessment which accompanies the Housing and Planning Bill was published as an aid to Parliamentary scrutiny and debate, through setting out the strategic intent and high-level impacts of the bill.** The Department has carried out internal analysis to establish the value for money of extending the Right to Buy, including an economic business case assessment, and this work is ongoing. When reviewed against good practice, however, the published impact assessment to the bill has weaknesses. For example, it does not present alternative options for achieving the policy objectives or a summary of other options that were considered at an earlier stage. While it does identify a number of groups who might be affected, positively or negatively, by the intervention, it does not seek to quantify the costs or benefits, and it omits some potential impacts. Additionally, though dependent on certain assumptions, the impact assessment does not state those assumptions clearly, use evidence to justify them, or sensitivity analysis to consider the potential impact of uncertainties relating to them. The Department is clear that in its view it has complied with Better Regulation Framework guidance in terms of the limited scope of the impact assessment produced for the bill.

Past findings on the Department's approach to housing policy and impact assessments

8 **The Department has designed and implemented a number of housing policy interventions in recent years which may be relevant to how it intends to assess the impact of its new policy.** Since the start of the last Parliament, the Committee of Public Accounts and its predecessor committee, supported by our work, have made a number of conclusions and recommendations regarding the Department's approach to housing policy appraisal and evaluation:

- Under the **Disposal of public land for new homes** programme, which ran from 2011 to 2015, the government disposed of land with capacity for an estimated 109,950 homes. In 2015, the Committee concluded it was not possible to assess whether the original programme had delivered value for money because the Department had only collected information on the amount of land released, not on sales proceeds or progress in the actual construction of new homes.
- In April 2013, the Department opened the **Help to Buy equity loans** scheme, with the objectives of increasing demand for new homes, making mortgage finance more accessible and affordable, and encouraging developers to build more new homes. In its 2014 report the Committee found that, contrary to guidance in HM Treasury's *Green Book*, the Department's business case had not assessed whether there were alternative, more effective options that would have delivered the scheme's objectives. The Department responded that it had followed *Green Book* principles, and had considered other options to meet the scheme's objectives, but conceded it could have done more to present this analysis within its formal business case.
- In 2011, the Department introduced the **New Homes Bonus**, designed to provide a financial incentive for local authorities to create more homes in their areas. In our 2013 report, we found the Department's estimates of the number of additional homes it would lead to were unreliable, being based on limited evidence and unrealistic assumptions, and containing an arithmetical error. We found that while the Department was aware the Bonus could result in large cumulative losses for some local authorities, it did not cover this effect in its impact assessment. The Department did not consider substantially different scheme designs, as the main features were set in advance as being seen as key to the policy aim to incentivise and reward housing growth.

- The **Affordable Homes Programme**, launched by the Department in 2011, secured commitments from housing providers to build 80,000 homes for affordable rent by March 2015, 24,000 more than the Programme's initial target. In our 2012 report, we found, positively, that the Department had carried out a cost–benefit analysis of three different implementation options, and selected the best delivery model for the funds available. Reporting later in 2012, the Committee said it was not yet clear whether the Programme would deliver better value for money in the long term, as allowing housing providers to charge higher rents would lead to an increase in housing benefit payments. The Committee recommended the Department carry out research on the impacts of higher rents on tenants, and build the results into future programmes. In its response, the Department said it had already taken account of the impact on tenants, and that the Programme's impacts were positive. It said its impact assessment had reviewed the impacts on housing benefit payments, and demonstrated its preferred approach delivered greater benefits.

- In 2009, the Department launched the **Mortgage Rescue Scheme**, aimed at protecting the most vulnerable households from the negative impacts of repossession and homelessness. Reporting on the Scheme in 2011, we found the Department's impact assessment overstated the Scheme's potential benefits by not including the costs to housing associations. In its response the Department accepted our recommendation that its impact assessments should show how costs and benefits could differ under alternative assumptions.

Issues for the Committee to consider

9 The Committee might choose to ask the Department:

- what are its latest assessments of performance against the objectives of the reinvigorated Right to Buy initiative, and how has it applied this experience to the design and appraisal of its new policy of extending the Right to Buy;

- what are its processes for ensuring it acts on relevant findings by the Committee of Public Accounts and the National Audit Office, and other guidance such as the HM Treasury *Green Book*, when producing impact assessments, and how it has applied them in this case; and

- how it plans to monitor, report on, and evaluate the impacts of extending the Right to Buy?

Part One

Background

1.1 This memorandum has been prepared to support the Committee of Public Accounts (the Committee) consider the approach taken by the Department for Communities and Local Government (the Department) in assessing the impacts and value for money arising from aspects of its Housing and Planning Bill (the bill). Specifically, the scope of this memorandum covers the Department's intention to:

- give 1.3 million tenants of housing associations – through voluntary agreement with the housing association sector – the opportunity to buy their home at Right to Buy levels of discount;
- finance this policy through the sale of high-value council homes as these fall vacant, with the funding to be obtained from local authorities through annual payments;[1] and
- ensure a new home is provided for each one sold by housing associations on at least a one-for-one basis; and ensure additional homes are provided for those sold by local authorities, with at least two additional affordable homes provided for each one sold in London.

1.2 This part of the memorandum sets out:

- Background to the policy.
- Structure of this memorandum.

Background to the policy

1.3 Subject to certain eligibility criteria, tenants of council housing have enjoyed a statutory right to buy their homes at a discount since 1980.[2] Successive governments have amended the eligibility criteria and levels of discounts on a number of occasions since then.[3] To date, just under 2 million council properties have been sold.[4] As a general rule, tenants of housing associations have not had the right to buy on the same terms (aside from those whose homes have been transferred from local authorities to housing associations, who enjoy a preserved right to buy).[5]

1 Housing and Planning Bill 2015-16, clause 67.
2 This was introduced by the Housing Act 1980, and came into effect on 3 October 1980.
3 House of Commons Library, Extending the Right to Buy (England), Briefing Paper 07224, 30 December 2015, pp 5, 6.
4 House of Commons Library, Extending the Right to Buy (England), Briefing Paper 07224, 30 December 2015, p 3.
5 The Conservative General Election Manifesto 1979 had included a commitment to as far as possible extend the same rights to tenants of housing associations, but this was rejected by the House of Lords: Alan Murie, The Right to Buy: History and Prospect, History and Policy, 11 November 2015, pp 3, 4.

1.4 In May 2015, the Department announced it would bring forward a Housing Bill to "offer England's 1.3 million housing association tenants the chance to benefit from the same opportunities council tenants enjoy, with significant discounts to buy their homes." In addition, the Department explained:

> "The Right to Buy policy will in itself increase housebuilding and reduce social housing waiting lists and housing associations will be able to use the revenues from sales to invest in more affordable housing.
>
> The sales receipts will be put toward new affordable homes, which along with government funding will allow one-for-one replacement in the same area.
>
> Rather than one rented property there will be 2 properties, an old one with a new homeowner, and a new one available for those in need on the waiting list.
>
> To fund this policy the Housing Bill will also require councils to sell their most expensive housing when it falls vacant – with the receipts used to provide new affordable homes in the same area, and the surplus used to fund the Right to Buy for housing association tenants. Remaining funds will be invested in a new Brownfield Regeneration Fund to increase the supply of new housing".[6]

1.5 Housing associations raised concerns about the prospect of legislating to extend the Right to Buy, and the implications for their status as independent private bodies.[7] In October 2015, the government announced it had made an agreement with housing associations, via the National Housing Federation, to implement the extended Right to Buy on a voluntary, rather than statutory, basis.[8] The majority of housing associations (323) – between them covering 93% of housing association stock – voted in favour of the agreement, while 37 voted against, 11 abstained, and 213 did not vote.[9] Under the agreement, housing associations would have discretion not to sell a home, for example, where the property was difficult to replace (such as in certain rural areas), if it were sheltered accommodation, or if had been built exclusively with charitable funds. In such circumstances, the agreement says it may be possible for housing associations to offer their tenants the opportunity to use their discount to purchase an alternative property from either their own or another association's stock. As for ensuring at least a one-for-one replacement, housing associations would have up to three years for a new home to be started or acquired following sale of the original property. The agreement also gives housing associations flexibility over the type, tenure and location of replacement homes. For example, they could replace the sold homes with starter homes (homes costing up to £250,000, or £450,000 in London, to be available at a 20% discount to first-time buyers that meet certain qualifying criteria), shared ownership or other part-buy, part-rent models.[10]

6 Department for Communities and Local Government, Press release: Over a million more people given the chance to own their own home, 26 May 2015.
7 House of Commons Library, Extending the Right to Buy (England), Briefing Paper 07224, 30 December 2015, p 17.
8 Department for Communities and Local Government, Press release: Historic agreement will extend Right to Buy to 1.3 million more tenants, 7 October 2015.
9 House of Commons Library, Extending the Right to Buy (England), Briefing Paper 07224, 30 December 2015, p 18.
10 National Housing Federation, *An offer to extend Right to Buy discounts to housing association tenants*, September 2016, paragraphs 2, 9.

1.6 The Housing and Planning Bill, introduced on 13 October 2015, does not itself provide housing association tenants with a right to buy, as this is being taken forward through the voluntary agreement. However, it does contain a provision to enable the Department to pay housing associations to cover the costs of selling homes to their tenants at a discount, which the sector has agreed it will do under the voluntary agreement.

1.7 The bill also contains provisions to enable the Secretary of State to require local authorities to make a payment, calculated by reference to the market value of the high-value vacant housing owned by the authority.[11] The Department expects this to pay for the extended Right to Buy discounts, so that the policy is fiscally neutral.[12] In addition, the provisions place a duty on local authorities to consider selling such housing, and enable the Secretary of State to enter into an agreement with a local authority to reduce the amount of the payment, so long as the money is spent on housing or on things that will facilitate the provision of housing. The Department's stated objective is for these provisions to encourage the more efficient use by local authorities of their housing stock, so that the value locked up in high-value properties can be released to support an increase in home ownership and the supply of more housing.[13]

Latest developments

1.8 At the Autumn Statement and Spending Review 2015, the Chancellor announced that the extended Right to Buy would be piloted by 5 housing associations; these pilots are currently under way.[14] The bill completed its passage through the House of Commons on 12 January 2016, after which it is being considered by the Lords.[15] To date, the Department has not set out how much it projects the policy to cost or how much it intends to raise from the sale of high-value council homes (or what level of payments local authorities will make in respect of this).[16] In December 2015, the minister said that key financial information would be available by the time the bill receives Royal Assent,[17] and the Department states that key details, such as the definition of high-value council homes, will be set out in secondary legislation to follow the bill. As this information is still subject to policy development and has not yet been decided on by ministers, it lies beyond the scope of this memorandum to attempt to analyse the impacts of different potential options for the ultimate design of the policy.

11 These payments would only apply to local authorities which own council housing stock, of which there are currently 165 in England.
12 Department for Communities and Local Government, Housing and Planning Bill: Explanatory Notes, October 2015, pp 54, 55.
13 Department for Communities and Local Government, Housing and Planning Bill: Explanatory Notes, October 2015, p 28.
14 Department for Communities and Local Government, Press Release: Housing association tenants take first step to home ownership, 25 January 2016.
15 Available at: http://services.parliament.uk/bills/2015-16/housingandplanning/stages.html
16 Housing and Planning Bill 2015-16, clause 67.
17 Communities and Local Government Committee, Oral Evidence taken before the Committee, 15 December 2015, Q 348.

1.9 In late 2015, the Communities and Local Government Committee held an inquiry into the policy, reporting on 10 February 2016.[18] In its recommendations, it concluded that key details, such as the overall costs of the policy and the definition of high-value council housing, should have been published at the same time as the voluntary agreement with the housing association sector. It recommended the government publish these details as soon as possible. Among its other recommendations, it said the government should publish annual figures on new homes built, specifying how many homes in each local authority area were sold under, and built using the proceeds from, the Right to Buy.

Structure of this memorandum

1.10 The following parts of this memorandum provide briefing and analysis which may aid the Committee in its scrutiny of the Department's oversight of the value-for-money issues and operational challenges arising from the relevant sections of the bill. The memorandum explicitly excludes consideration of the policy itself:

- **Recent impacts of the reinvigorated Right to Buy for council tenants –** Provides context for analysis of the bill by setting out facts relating to the implementation of key policies on the stock of social housing in the recent past.
- **Assessing impacts of extending the Right to Buy to housing association tenants –** Compares the Department's assessment of impacts arising from the bill against identified good practice in policy appraisal.
- **Past findings on some of the Department's housing interventions and impact assessments –** Summarises relevant conclusions and recommendations made by the Committee of Public Accounts and its predecessor committee, and the Department's responses.

18 Communities and Local Government Committee, *Housing Associations and the Right to Buy*, Second Report of Session 2015-16, HC 370, February 2016.

Part Two

Recent impacts of the reinvigorated Right to Buy for council tenants

2.1 In 2012, the Department introduced a policy of reinvigorating the Right to Buy. Under this policy, the Department increased the discounts available to tenants of council housing who wished to buy their own home. It also made a commitment that there would be a one-for-one replacement nationally of affordable housing stock for each additional council home sold.

2.2 While this does not directly concern the Department's new policy of extending the Right to Buy to housing association tenants, it is relevant in the way it foreshadows the commitment to use the receipts of social housing sales to fund the provision of new housing. Scrutinising the success of the reinvigorated Right to Buy in the last Parliament could assist the Committee in reviewing the Department's plans for forecasting and measuring the success of extending the Right to Buy. In 2012 and 2014, the Department published substantive impact assessments on this policy, on which it has expanded in its internal analysis of extending the Right to Buy (see paragraphs 3.13 and 3.14).

2.3 In this part of the memorandum we:

- summarise the details of reinvigorating the Right to Buy;
- review the impacts on sales and replacements; and
- highlight issues relevant to extending the Right to Buy.

Reinvigorating the Right to Buy

2.4 In 2012, the Department introduced measures to reinvigorate the Right to Buy. Through secondary legislation it increased the maximum discount available to council tenants to £75,000. The following year it raised the maximum available in London to £100,000, and legislated for the maximum discounts to increase annually in line with inflation.[19] The current maximum discounts are £103,900 in London, and £77,900 in the rest of England.[20]

19 House of Commons Library, Extending the Right to Buy (England), Briefing Paper 07224, 30 December 2015, p 6.
20 HM Government, *Right to Buy: buying your council home*, 26 November 2015. Available at: www.gov.uk

2.5 At the same time as increasing the level of discounts, the Department introduced a commitment to ensure that for every additional council home sold, a new home was built or acquired nationally for affordable rent. The government had not made such a commitment when introducing the Right to Buy in 1980, and had placed restrictions on local authorities' ability to use capital receipts generated by the sales.[21] The sale of 1.8 million council homes through the Right to Buy between 1980-81 and 2013-14 has contributed to a substantial reduction in social housing stock owned by local authorities.[22] From 1980 to 2014, the number of homes owned by local authorities fell from 5.1 million to 1.7 million through a combination of Right to Buy sales, other sales and the transfer of council stock to housing associations.[23]

2.6 Under the reinvigorated Right to Buy, the Department has entered into agreements with local authorities, to allow them to use the receipts from selling council properties to provide replacement council homes, subject to certain conditions:

- This applies only to the additional sales receipts estimated to be driven by the increase in discounts available under the reinvigorated Right to Buy; after the local authority deducts certain other costs, these are known as the 'net receipts'.
- The local authority must use the net receipts to fund replacement homes, but in each case this funding must make up no more than 30% of the cost of the new homes. The remainder is to come from borrowing against the net rental income stream from the new property, and cross-subsidy from the authority's own resources, including (in some cases) land.
- The replacement homes must be for affordable rent, which the Department defines as being up to 80% of market rents (as opposed to the social rent levels of the properties being replaced, which are around 50% of market rents).
- Where a local authority does not wish to enter into such an agreement, the additional receipts will be returned to the Department, and redistributed for new affordable rented housing by the Homes and Communities Agency (or, in London, the Greater London Authority).
- Housing providers must make a start to the construction of a new home (or a new home must otherwise be acquired) within three years of the sale of the previous home.[24]

21 House of Commons Library, Extending the Right to Buy (England), Briefing Paper 07224, 30 December 2015, pp 10, 11.
22 Ian Cole, et al, Summary Report: *The Impact of the Existing Right to Buy and the Implications of the Proposed Extension of the Right to Buy to Housing Associations*, Sheffield Hallam University, October 2015, p 7.
23 See footnote 22.
24 Department for Communities and Local Government, *Reinvigorating the Right to Buy and one for one replacement: information for local authorities*, March 2012; House of Commons Library, Extending the Right to Buy (England), Briefing Paper 07224, 30 December 2015, p 13.

2.7 The commitment to one-for-one replacement does not necessarily mean like-for-like replacement. For example, there is no requirement for the replacement property to be the same size, or have the same number of rooms, as the home which was sold. Equally, whether or not the net receipts are retained by a local authority, the Department does not require replacement homes to be built in the same area as the council homes sold. It says it recognises that the net receipts will not be large enough to fund one-for-one replacements in some areas. In these circumstances it allows local authorities to contract housing providers to build replacement homes elsewhere, if they wish.[25]

2.8 The Department says it developed this model for the funding of replacement homes based on evidence it would be successful, gathered from its Affordable Homes Programme (see paragraphs 4.16–4.19).[26] Under its affordable rent model, social housing providers can charge higher rents than previously; housing providers finance a greater proportion of the cost of new homes themselves, through increased borrowing; and the Department pays less grant for each new home provided.[27]

2.9 Some local authorities have reportedly found it difficult to build new homes under the reinvigorated Right to Buy. Factors that have been cited include being restricted to using receipts from sales to cover only 30% of the costs of a new home and practical difficulties some face in funding the remainder through increased borrowing.[28] By the start of February 2016, 14 local authorities had handed back to the Department the receipts they were allowed to keep from reinvigorated Right to Buy sales for new housing. In these cases, the Department recycles the returned receipts to the Homes and Communities Agency or Greater London Authority to fund the provision of new housing under the affordable rent model.

Impacts on sales and replacements

2.10 Sales have risen since the Department increased discounts under the reinvigorated Right to Buy. Total numbers of homes sold have gone up from 2,638 in 2011-12 to 12,304 in 2014-15, totalling 29,509 across the three full years of the policy's operation.[29] Over this same three-year period the total number of housing starts or acquisitions to replace those sold has totalled 3,387. The Department reports that the policy has so far met its objective of leading to a one-for-one replacement of homes within three years of their being sold.[30]

25 Department for Communities and Local Government, *Reinvigorating the Right to Buy and one for one replacement: information for local authorities*, March 2012, pp 9, 10.
26 Department for Communities and Local Government, *Reinvigorating the Right to Buy and one for one replacement: information for local authorities*, March 2012, p 9.
27 Comptroller and Auditor General, *Financial viability of the social housing sector: introducing the Affordable Homes Programme*, Session 2012-13, HC 465, National Audit Office, July 2012, para 1.
28 House of Commons Library, Extending the Right to Buy (England), Briefing Paper 07224, 30 December 2015, p 15.
29 Department for Communities and Local Government, *Housing Statistical Release: Right to Buy Sales July to September*, England, 10 December 2015.
30 HC Deb 2 November 2015 c724.

2.11 The Department's reasoning is as follows:

- In measuring the impact of increasing the level of discounts from 2012-13, the Department only counts the difference between sales in 2011-12 and sales in subsequent years–that is, replacement only applies to these additional sales. In practice, it assumes that in the absence of its policy of reinvigorating the Right to Buy, sales would have proceeded at their 2011-12 levels, roughly 2,500 a year.
- The Department's commitment to ensuring a one-for-one replacement of homes sold only applies to the additional homes sold as a result of increasing the discounts. In practice, the Department subtracts a total of around 2,500 from each year's total sales, to produce the number of homes which must be replaced. For 2012-13, it subtracts 2,890, based on the level sales expected without reinvigoration, from the actual sales total of 5,944, to yield an approximate total to be replaced of 3,054.
- In framing the one-for-one replacement commitment, the Department said that building on the new site must have started (or a new home must have otherwise been acquired) within three years of the sale. In reporting performance against this target to date, the Department has aggregated three years' starts and acquisitions and reported this total against the first year's sales, on the basis that councils have three years to use the receipts. Summing starts and acquisitions for 2012-13, 2013-14, and 2014-15 yields a total of 3,387, which exceeds the sales attributable to the reinvigorated Right to Buy in 2012-13 of 3,054.[31]

Figure 1 sets this out in more detail.

Figure 1
Housing starts and Right to Buy (RtB) sales

	Homes sold (total)	Homes sold (reinvigorated RtB)	Housing starts on site and acquisitions
2011-12	2,638	–	–
2012-13	5,944	3,054	473
2013-14	11,261	7,879	961
2014-15	12,304	8,512	1,953
Total 2012-13 to 2014-15	**29,509**	**19,445**	**3,387**

Note

1 Figures in the 'Homes sold (reinvigorated RtB)' column are calculated by subtracting from the 'Homes sold (total)' column the number of sales which were expected to have taken place without reinvigoration, representing the approximation considered by the Department to represent the number of homes that would have been sold without increasing the discounts in the reinvigorated Right to Buy.

Source: National Audit Office analysis of Departmental data (Department for Communities and Local Government, Housing Statistical Release: Right to Buy Sales July to September, England, 10 December 2015) and analysis by the House of Commons Library (House of Commons Library, Extending the Right to Buy (England), Briefing Paper 07224, 30 December 2015, p 14)

31 This follows the analysis in the House of Commons Library Briefing Paper, Extending the Right to Buy (England). Data are from the Department for Communities and Local Government.

2.12 The Department has not yet reported performance against its objective of replacing the additional homes sold under the reinvigorated Right to Buy in 2013-14, or those sold in 2014-15. As it reports the requirements of these targets, in order for the 2013-14 total to be replaced within three years, councils would need to make 6,816 starts or acquisitions by the end of 2016-17: all the starts or acquisitions from 2013-14 to 2015-16 having been accounted for as replacements for sales in 2012-13, with 1,063 to spare. Similarly, the 2014-15 total would then need to be replaced in full by starts and acquisitions in 2016-17 and 2017-18. To achieve the necessary level of replacements by the end of 2017-18 will require quarterly starts and acquisitions to reach approximately 2,130 in 2017-18. This would be a five-fold increase on the 423 starts and acquisitions recorded in the second quarter of 2015-16, the most recent quarter for which figures are available.[32]

Some issues relevant to extending the Right to Buy

2.13 Extending the Right to Buy aims to encourage the building of more homes which reflect housing need and increase overall housing supply, helping to meet demand for home ownership and housing overall.[33] At the same time, experience, both from the reinvigorated Right to Buy and the wider history of the Right to Buy, suggests the impacts over time could include the following:

- a temporary reduction in local authority and housing association properties to rent for up to three or more years as they replace properties sold as high-value vacant housing or under the extended Right to Buy;
- more properties in the private rented sector as some of those sold under extended Right to Buy or as high-value vacant housing are over time converted to rental accommodation by their new owners;
- a geographical redistribution of properties for rent by local authorities and housing associations, as replacement homes need not be built in the same area as the council homes sold; and
- fewer properties available at social rents longer term, as replacement homes are rented at (higher) affordable rents.

32 Department for Communities and Local Government, *Housing Statistical Release: Right to Buy Sales July to September*, England, December 2015, Table 4.
33 Department for Communities and Local Government, *Housing and Planning Bill 2015-16*: Impact Assessment, pp 4, 5.

2.14 The precise impact on each local housing market will depend on the interaction between the number of properties sold by housing associations and councils (where they still have houses to sell), local prices and demand, and the capacity to build replacement homes. Existing Right to Buy sales are geographically concentrated in areas with lower house prices and with higher proportion of tenants working full-time.[34] By contrast the high-value homes sold by councils to fund discounts may be concentrated in areas, like London, with high property prices and where local authorities have retained their housing stock.

2.15 The level of housing association sales and replacements, and any geographical redistribution, ultimately depends on the funding available for discounts and new building released by sales of vacant high-value council housing. Secondary legislation will define high value and a formula will be used to calculate the payment each stock-owning local authority is required to pay. Until there is more clarity about what counts as high-value housing and how often tenancies end, it is hard to estimate the flow of payments and hence scope to fund discounts and build replacement properties. For example:

- there is considerable uncertainty about the number of high value properties that will become vacant. The average turnover rate for council lettings overall is 6.7% each year, or 4.2% when people moving between tenancies are excluded;[35]
- depending on the benchmarks used to define high value, some councils might be assessed as having no high-value properties; and
- using regional or national benchmarks to define high value implies councils in and around London will provide a disproportionate share of the homes to be sold.[36]

34 The Impact of the Existing Right to Buy and the Implications for the Proposed Extension of Right to Buy to Housing Associations. Headline Findings from the Evidence Review. Centre for Regional Economic and Social Research, Sheffield Hallam University. Available at: www.parliament.uk/documents/commons-committees/communities-and-local-government/Full-Report-for-Select-Committee-141015final.pdf

35 Social housing lettings in England, 2013/14: Continuous Recording (CORE) data. Available at: www.cih.org/resources/PDF/Policy%20free%20download%20pdfs/Selling%20off%20the%20stock%20-%20final.pdf

36 The forced council home sell-off. September 2015. Shelter Table 3 and Table 5. Available at: https://england.shelter.org.uk/__data/assets/pdf_file/0010/1187047/7862_Council_House_Sales_Briefing_v3_FINAL.pdf

Part Three

Assessing impacts of extending the Right to Buy to housing association tenants

3.1 This part of the memorandum covers relevant sections of the Department's impact assessment which accompanies the Housing and Planning Bill, covering:

- reasons for carrying out impact assessments;
- review of the Department's impact assessment; and
- additional information on the operation of this policy, including what is not yet decided and therefore not commented on here.

Reasons for carrying out impact assessments

3.2 The Cabinet Office describes an impact assessment as both:

- a continuous process to help think through the reasons for government intervention, to weigh up various options for achieving an objective and to understand the consequences of a proposed intervention; and
- a tool to be used to help develop policy by assessing and presenting the likely costs and benefits and the associated risks of a proposal that might have an impact on the public, a private or civil society organisation, the environment and wider society over the long term.[37]

3.3 HM Treasury's advice to government departments is that all new policies, programmes and projects should be subject to comprehensive but proportionate assessment, wherever it is practicable, so as best to promote the public interest. The Treasury's guidance to departments on the techniques and issues that should be considered when carrying out assessments is contained in its *Green Book*. The stated purpose of the *Green Book* is to ensure that no policy, programme or project is adopted without first having the answer to these questions:

- Are there better ways to achieve this objective?
- Are there better uses for these resources?[38]

37 Cabinet Office, *Guide to Making Legislation*, July 2015, pp 107, 108.
38 HM Treasury, *The Green Book: Appraisal and Evaluation in Central Government*, July 2011, p 1.

3.4 Guidance for departments on producing impact assessments, where these concern regulations which would affect businesses or civil society organisations, is also set out in the *Better Regulation Framework Manual*.[39] Such impact assessments are also subject to independent review by the Regulatory Policy Committee. This advisory committee, sponsored by the Department for Business, Innovation & Skills, comprises independent experts who provide external challenge on the evidence and analysis presented in regulatory impact assessments.[40]

Previous NAO and PAC reports on impact assessments

3.5 The Committee of Public Accounts has taken an interest in departmental impact assessments and we have reviewed their quality on a number of occasions.[41] In addition to examining impact assessments within the context of wider programmes, we have also carried out cross-cutting studies on the approach taken to policy appraisal, forecasting, and evaluation.[42] Our previously stated view is that each impact assessment should consider the rationale for intervention, the options for achieving the policy objective, and the costs and benefits to government and society of each option. Robust analysis of costs and benefits is at the heart of quality impact assessments and key to their effectiveness in securing value for money from proposed policy interventions.[43]

3.6 In 2010, we carried out a wide-ranging review of departments' approach to policy appraisal. Reviewing 50 impact assessments, selected at random across a number of departments, we rated them for:

- Option development – The number and type of options considered.
- Option appraisal – The breadth and depth of economic analysis, and whether the analysis is proportionate to the topic under review.
- Reliability of appraisal – The strength of the evidence base, the use of sensitivity analysis to test assertions, and the consideration of wider consequences.

3.7 In our report we found that the best impact assessments were providing valuable information to help Parliament and the public judge the merits of proposals. We drew attention to what helped to make impact assessments of a high standard, including a quantification of costs, and with indications that departments were devoting the proportionate resources required to produce them. At the same time, we found there were a number of weaker impact assessments, and highlighted that what tended to reduce their quality was that they did not suitably develop different policy options or support their analysis of costs and benefits with robust evidence.[44]

39 Department for Business, Innovation & Skills, *Better Regulation Framework Manual*, March 2015.
40 Regulatory Policy Committee, *The Regulatory Policy Committee scrutiny process*, 12 June 2014.
41 For example, recommendations in a 2002 report by the Committee led us to carry out a series of reports on departmental impact assessments. Committee of Public Accounts, *Better Regulation – Making Good Use of Regulatory Impact Assessments*, Twenty-sixth Report of Session 2001-02, HC 682, April 2002.
42 For example: Comptroller and Auditor General, *Forecasting in government to achieve value for money*, Session 2013-14, HC 969, National Audit Office, January 2014.
43 Comptroller and Auditor General, *Assessing the Impact of Proposed New Policies*, Session 2010-11, HC 185, National Audit Office, July 2010, para 1.
44 Comptroller and Auditor General, *Assessing the Impact of Proposed New Policies*, Session 2010-11, HC 185, National Audit Office, July 2010, paras 18, 19.

3.8 In 2011, we published a review of a further 45 impact assessments, which criticised the way that departments were handling risk and uncertainty. We found that fewer than half (27 of 45) of the impact assessments we reviewed contained any sensitivity analysis, examining the range of uncertainty that could apply to the projected impacts.[45] In our 2014 report on *Forecasting in government to achieve value for money*, we underlined the importance of sensitivity analysis, finding that without this information, decision-makers cannot manage risks effectively.[46]

3.9 In examining the Department's published impact assessment which accompanies the Housing and Planning Bill, we focused on those sections which relate to the policy of extending the Right to Buy to housing association tenants, and funding this through the sale of vacant high-value council homes. Where we refer to the impact assessment to the bill, we mean solely these sections, rather than the document in its entirety.

Limitations of the impact assessment to the Housing and Planning Bill

3.10 The Department's view is that the purpose of the impact assessment to the bill was to set out in a high-level sense the intentions of its policies to extend the Right to Buy, and to fund this via high-value council home sales. The Department is clear that the impact assessment produced for the Housing and Planning Bill was a high-level, limited exercise to accompany the bill, which it considers to be in line with Better Regulation Framework guidance. According to its understanding of the Better Regulation Framework Manual, government departments are only required to produce impact assessments where a policy would regulate businesses or civil society groups. As local authorities are within the public sector, the Department did not consider it necessary to carry out a formal impact assessment in respect of them. Regarding impacts on housing associations, it regards the voluntary agreement it has reached with the National Housing Federation to form an alternative to regulation, which in its view of the Better Regulation Framework Manual means that it was not required to produce an impact assessment.

3.11 The Department does not suggest it was prevented from publishing a full impact assessment. However, it says that many key details of its policy on the sale of high-value council homes had yet to be decided when it introduced the bill, and on which key decisions remain to be taken at this point in time. It says that, therefore, it would have been very difficult to complete an impact assessment when the detail of the policy had yet to be determined. It also says that it was appropriate for the impact assessment to the bill to remain at a high level of detail, given that the bill itself does not cover the full detail of the policy that will be implemented given the voluntary nature of extending the Right to Buy, and to the fact that the details of the high-value council sales will be set out in forthcoming secondary legislation.

45 National Audit Office, *Options Appraisal: Making informed decisions in Government*, May 2011, paras 2.22–2.25.
46 Comptroller and Auditor General, *Forecasting in government to achieve value for money*, Session 2013-14, HC 969, National Audit Office, January 2014, paras 2.14, 2.15.

Analysis carried out by the Department

3.12 While the Department has not produced or published a full impact assessment for these policies, it has been carrying out a weight of internal analysis on policy options and potential impacts. This work has been carried out according to its internal appraisal guidance, which has been peer reviewed by other departments and an external partner, and is scheduled to be incorporated in a forthcoming version of HM Treasury's *Green Book*.

3.13 Regarding extending the Right to Buy to housing association tenants, the Department has expanded on the substantive analysis it carried out for the formal impact assessments it previously published on its policy of reinvigorating the Right to Buy, published in 2012 and 2014. Among the strengths of the 2012 impact assessment, for example, it:

- presented clear, measurable objectives;
- explored a broad range of options;
- attempted to quantify, and in some cases monetise, the main costs and benefits;
- explicitly stated its assumptions; and
- included an exploration of uncertainty.[47]

3.14 Drawing on this earlier work, the Department's internal analysis for its new policies examines a range of costs and benefits: for example, of funding a discount for Right to Buy tenants, and of using the sales proceeds in part to fund the construction of new dwellings. The Department has used a set of scenarios to model potential demand for the Right to Buy among housing association tenants, based on historical take-up of the Right to Buy, and on the experience of the reinvigorated Right to Buy since 2012. It is currently developing the details of its policy in consultation with the sector, including working with 5 housing associations on a pilot, to gain information on such factors as demand from tenants and administration costs. The Department considers that this internal analysis of extending the Right to Buy to housing association tenants comprises the material one would expect to find in a formal impact assessment, albeit in a different format and aimed at a purely internal audience.

3.15 Regarding the policy on sales of high-value council homes and impacts on local authorities, the Department is carrying out ongoing work, which will be used to provide supporting analysis to assist ministers to take decisions on the design of this policy. As part of this work, the Department has been undertaking a large data collection exercise with local authorities, gathering data on every council home in England (1.6 million properties), as well as updated market valuations. The Department has modelled how much money sales of high-value council homes could raise, and produced costing notes for the Office for Budget Responsibility, demonstrating that extending the Right to Buy could be wholly funded by sales of high-value council homes. As part of these costing notes, it has projected the impacts of these policies on future housing benefit expenditure.

47 Department for Communities and Local Government, *Reinvigorating the Right to Buy and One for One Replacement: Impact Assessment*, March 2012.

3.16 Further details and legal powers concerning this aspect of the policy are to be set out in secondary legislation to follow the bill, once it has achieved Royal Assent: for example, this will define what constitutes a high-value council home and how the requirement for local authorities to make a payment is to operate. The Department has not clarified at this stage whether it intends to publish a formal impact assessment to accompany this secondary legislation.

Our approach to reviewing the impact assessment to the bill

3.17 While acknowledging that the Department has carried out more substantial analysis internally, we have reviewed the published impact assessment to the bill according to good practice criteria for producing impact assessments, as set out in HM Treasury's *Green Book*. The Department is clear that this published impact assessment was not designed to assess the policies' value for money, and that it is not appropriate for us to subject it to such scrutiny. In carrying out our review we are not suggesting that the Department's published impact assessment is characteristic of its internal analysis. The purpose of our review, however, is to reflect on the robustness of the analysis contained in the impact assessment that has been presented to Parliament. Our methodology is set out in Appendix One, and a summary of our findings in **Figure 2**.

Figure 2

National Audit Office review of the Housing and Planning Bill impact assessment

Annual costs (£m)	Annual benefits (£m)	Option development	Option appraisal	Reliability of appraisal	Final rating
Not quantified	Not quantified	Weak	Weak	Weak	Weak

Note

1 This review focused solely on the sections of the impact assessment that examined clauses relating to funding housing associations for extending the Right to Buy, and to high-value council homes sales.

Source: National Audit Office review of Housing and Planning Bill 2015-16: impact assessment

Option development

3.18 Consideration of different ways of achieving a policy objective is important in ensuring the most cost-effective solution is found. There often exists a number of ways of meeting policy objectives and a broad range of options should be explored. A 'do nothing' option should always be present for comparison. As policy development progresses it is sensible for departments to focus their attention on an increasingly narrow range of options. Nonetheless, the Better Regulation Framework Manual recommends that even in the final impact assessment there should be a summary of the other options considered.[48]

48 Department for Business, Innovation & Skills, *Better Regulation Framework Manual*, March 2015, paras 1.5.8 and 1.5.9.

3.19 We have identified three objectives outlined in the impact assessment related to extending the Right to Buy:

- Support housing association tenants so they have the same home ownership opportunities as council tenants.
- Ensure councils effectively and efficiently use their resources.
- Contribute to the government target of a million homes being built over the next five years.[49]

3.20 The impact assessment presents only one option to meet these policy objectives, that is, to extend the Right to Buy to housing association tenants and finance this via sales of high-value council homes:

- In the section entitled 'Implementing the Right to Buy on a voluntary basis', the impact assessment refers to the voluntary agreement between the government and the National Housing Federation, which offers tenants of housing associations the same ownership opportunities as council tenants. It states that in order to implement this agreement effectively the government wishes to set out in primary legislation the means to give grants to private registered providers to compensate them for the discount given.[50]
- The section entitled 'Vacant high-value local authority housing' states that local authorities will be required to make a payment to the Secretary of State. This payment will be based on the value of high-value vacant housing. Local authorities will have to consider selling their high-value housing when it becomes vacant. A portion of the receipts from this payment will be used to provide more housing. Local authorities will have the opportunity to reduce the amount of this payment by agreement with the Secretary of State so new housing can be provided.[51]

3.21 The impact assessment does not present alternatives or a summary of other options that were considered prior to the final impact assessment. It does not provide a comparison to a 'do nothing' scenario. As one option only has been considered we assess the impact assessment as weak against this criterion.

49 Department for Communities and Local Government, *Housing and Planning Bill 2015-16: Impact Assessment*, January 2016, pp 6, 53.
50 Department for Communities and Local Government, *Housing and Planning Bill 2015-16: Impact Assessment*, January 2016, pp 51, 52.
51 Department for Communities and Local Government, *Housing and Planning Bill 2015-16: Impact Assessment*, January 2016, pp 53–55.

Option appraisal

3.22 For policymakers to make informed decisions about the merits of policy proposals impact assessments should identify who will be affected by the proposal and consider the range of possible impacts. Impact assessments should also attempt to quantify and monetise costs and benefits so policymakers can assess the relative merits of different options and whether the benefits justify the costs.

3.23 The impact assessment identifies a number of groups that will be affected by the policy of extending the Right to Buy:

- **Housing associations** – are expected to face additional administrative costs as they help tenants who wish to exercise their Right to Buy. However, as the legislation facilitates grants to these organisations it is anticipated that the financial benefits will outweigh these administration costs.
- **Housing association tenants** – will receive discounts when they purchase their property under the extended Right to Buy.
- **Local authorities** – will be required to make a payment to the government based on the value of their high-value vacant housing. The impact assessment anticipates that the policy will have an impact on the total stock of housing a local authority holds and its sale will incur an administrative cost. However, the impact assessment states that local authorities will benefit from the release of value held in such assets.
- **Local authority tenants** – The impact assessment states that the policy will not directly affect existing tenants as only vacant houses will be sold. However, it states there could be an impact on prospective new local authority tenants or those wishing to transfer to a new council home. It implies this will be due to a temporary reduction in this type of housing stock, but says the policy aims at increasing housing supply.
- **Housing developers** – A portion of the receipts from local authorities will be used to support the overall increase in the supply of housing. This funding will either be distributed by the government or from local authorities using funds available after making an agreement with the Secretary of State to retain a portion of the receipt.
- **Government** – The costs and benefits for the government are not explicitly identified. However, implicitly the government must incur a cost when it provides funding to housing associations to fund the discount and a benefit from the requirement on local authorities to pay receipts from the sale of vacant high-value assets. The impact assessment does not state that these need be equal but this may be implicitly assumed.

3.24 The identification of impacts on different groups has limited detail and omits some potential impacts, for example:

- The impact assessment does not examine the risk that the anticipated payments might exceed the receipts which local authorities generate from high-value sales in any one year, for example if turnover of such properties slows.
- It does not quantify how many existing or prospective council tenants might be affected by temporary reductions in council housing stock. Nor does it assess how long such temporary reductions in stock would last or whether replacement housing stock will be in the same area as certain groups of existing or prospective tenants. It does not assess the financial impacts on tenants of the move to affordable rents in replacement stock (as opposed to social rents in at least some of the stock to be replaced).
- The impact assessment does not attempt to break down its assessment of potential impacts on a local or regional basis, in terms of housing stock sales, availability of new housing, or types of tenure.
- There is no discussion of the potential impacts on housing benefit expenditure, as a result of tenants who would otherwise have been housed in existing (high-value) council stock becoming housed in the private rented sector (for example, during the period before replacement stock is built). Nor is there discussion of the impacts on housing benefit of such tenants moving into new social housing at affordable rent levels of up to 80% of market rents.

3.25 A key weakness of the impact assessment is that there has been no attempt to quantify or monetise the costs and benefits. While several costs and benefits as well as main affected groups are identified there are potentially other impacts that should have been explored. In addition for those costs and benefits the impact assessment does address, little detail is given. Due to this we assess the impact assessment as weak against this criterion.

Reliability of appraisal

3.26 Policymakers need to be confident that the preferred option has been appropriately identified using a rigorous method. A reliable impact assessment will clearly state its assumptions and justify them with reference to evidence, it will use sensitivity analysis to test the vulnerability of its options to uncertainty and use appropriate appraisal techniques.

3.27 The impact assessment does not explicitly identify its assumptions. However, we have identified a number of implicit assumptions in it:

- The policy is fiscally neutral on government. This means that the receipts generated from the expected sale of high-value vacant properties must be at least equal to the amount the government spends on the discount for those housing association tenants exercising their Right to Buy.
- At least some housing association tenants will be able to afford the properties after the discount.
- The reduction in housing stock from sales of high-value vacant property by local authorities is temporary. Houses are built in the same local authority area as they are sold.
- Local authorities' most efficient use of high-value housing is to sell it.
- The rate at which high-value properties becomes vacant is predictable in the short and medium term for all local authorities.
- The sum received from sales of housing association properties releases more funds for building than borrowing secured on the income stream from those properties.
- The sum received from a sale of housing association property releases enough funds to build a new home.

3.28 These assumptions are not clearly stated and they are not justified using evidence. Uncertainty has not been considered and no sensitivity analysis has been undertaken. For these reasons we assess the impact assessment as weak against this criterion.

Final rating

3.29 We concluded that for each of our three assessment criteria there were flaws which would characterise the impact assessment as weak. In our opinion at this stage of policy development it would have been possible and proportionate to provide additional detail. The key limitations with this impact assessment are:

- No consideration of alternatives to meet the policy objectives.
- No quantification and monetisation of costs and benefits.
- No justification of assumptions with evidence or sensitivity analysis.

Part Four

Past findings on some of the Department's housing interventions and impact assessments

4.1 In this part of the memorandum we refer to relevant reports by the Committee of Public Accounts, and its predecessor committee in the last Parliament, supported by our own work. We summarise relevant conclusions and recommendations, as well as the responses by the Department for Communities and Local Government (the Department), focusing on:

- disposal of public land for new homes;
- Help to Buy equity loans;
- New Homes Bonus;
- Affordable Homes Programme; and
- Mortgage Rescue Scheme.

Disposal of public land for new homes

4.2 In 2011, the government announced a programme to make public sector land available for new homes, with the Department for Communities and Local Government (the Department) holding overall policy responsibility. The programme ran until 31 March 2015, by which time, according to Departmental data, the government had disposed of land with capacity for an estimated 109,950 homes. Under its successor Public Sector Land for Housing Programme, the government aims to release public land with the capacity for 160,000 homes by 2020.

4.3 Following our investigation,[52] the Committee took evidence on this programme in July 2015.[53] The Committee concluded that it was not possible to assess whether the programme had delivered value for money because the Department had only collected information on the amount of land released, not on sales proceeds or progress in the actual construction of new homes. The Committee was further concerned that the Department did not collect basic information necessary to oversee the programme effectively, and that it was treating land sold before the programme started as counting towards its target.

52 Comptroller and Auditor General, *Disposal of public land for new homes*, Session 2015-16, HC 87, National Audit Office, June 2015.
53 HC Committee of Public Accounts, *Disposal of public land for new homes*, Second Report of Session 2015-16, HC 289, September 2015.

4.4 The Committee made 7 recommendations, but the Department rejected 2 of them: together, these would have had the effect of ensuring the Department tracked progress in the number of homes actually built under this programme, including affordable homes, and included this progress within evaluation of the programme's value for money.[54]

4.5 The Department's position is that ministers have confirmed that the objective of the programme remains to release land, not to oversee housebuilding on that land. Therefore, monitoring of housing build-out is not necessary to check the implementation or value for money of the programme. However, the Department has confirmed that some monitoring will be appropriate, particularly to check that its framework for predicting future housebuilding at the point of sale is reliable and robust. It has said that ministers will be making a final decision on the extent of this monitoring shortly, in time for the detailed programme documentation which will be published in the spring.

4.6 The Committee recalled the Departmental witnesses for an additional hearing in January 2016, to scrutinise the Department's responses and planned approach to the new programme. The Committee reiterated its concerns that the Department should keep track of the number of new homes that had been built on land released under this programme, and that this was important for measuring its value for money.[55] The Committee also highlighted wider concerns about the availability of affordable housing and suggested the Department should use its oversight of the programme to ensure a proportion of the housing built on the land made available were affordable homes.[56] The Department clarified that it was a policy decision not to include a target for affordable homes in this programme, and that it was for local authorities to decide their local housing priorities as part of their planning process.[57]

Help to Buy equity loans

4.7 In April 2013, the Department opened the Help to Buy scheme, with the objectives of increasing demand for new homes, making mortgage finance more accessible and affordable, and encouraging developers to build more new homes. Under the scheme, the government offers buyers of newly-built homes, worth up to £600,000, an equity loan of up to 20% of the purchase price. This supplements the buyers' own deposit, helping buyers to secure a mortgage at a lower interest rate. The Department initially allocated £3.7 billion to the scheme and expected to make equity loans to 74,000 households across the three years 2013-14 to 2015-16. As we reported in early 2014, the scheme experienced strong demand from the outset, with the Department loaning £518 million to nearly 13,000 buyers by the end of 2013, 89% of whom were first-time buyers.[58] In the 2014 Budget the government extended the scheme to 2020, providing an extra £6 billion to support the purchase of a further 120,000 homes.

54 HM Treasury, Treasury Minutes: Government responses on the First to the Third reports from the Committee of Public Accounts: Session 2015-16, and progress on Government Cash Management, Cm 9170, December 2015.

55 HC Committee of Public Accounts, *Disposal of public land for new homes: Progress review – oral evidence*, January 2016, Q3.

56 HC Committee of Public Accounts, *Disposal of public land for new homes: Progress review – oral evidence*, January 2016, Qq 92–99.

57 HC Committee of Public Accounts, *Disposal of public land for new homes: Progress review – oral evidence*, January 2016, Qq 92–96.

58 Comptroller and Auditor General, *The Help to Buy equity loan scheme*, Session 2013-14, HC 1099, National Audit Office, March 2014.

4.8 In our report we found that the Department considered that between 25% and 50% of sales would result in new homes being built, with associated economic benefits of £500 million and £1 billion respectively. At the time we found the Department was unable to quantify robustly how many of those who received help to buy would have bought a home anyway, or how many additional homes would be built overall. For these reasons we were unable to conclude on whether the Department was achieving value for money.[59]

4.9 Taking evidence on the scheme in April 2014, the then Committee of Public Accounts found the Department had introduced the scheme smoothly in April 2013, drawing on its experience of having run similar schemes in the past.[60] However, it found that, contrary to guidance in HM Treasury's *Green Book*, the Department did not assess whether there were alternative, more effective options that would have delivered the scheme's objectives. It concluded that the Department would only be able to prove the scheme provides value for money once it had completed a comprehensive evaluation. It observed that the Department was overseeing a number of different interventions in the housing market, and needed to develop a way of assessing their combined effectiveness.

4.10 In its response, the Department said it had followed HM Treasury's *Green Book* principles. It said it had considered other options to meet the scheme's objectives (which included a requirement for a scheme that could be implemented quickly, and with maximum impact), though conceded it could have done more to make this clear in its business case. It accepted the recommendation on developing a robust methodology to evaluate the impacts of the scheme. However, it rejected the recommendation to evaluate the combined effectiveness of different housing interventions, as establishing causality for policies in a complex environment such as housing supply is difficult, and on the grounds that it has an excellent understanding of the housing market and continually assesses the impact of its schemes.[61]

4.11 On 15 February 2016, the Department published its evaluation of the scheme, which it had commissioned externally.[62] The evaluation concluded that the scheme had met its objective of stimulating demand for housing, which had led to an increase in supply. The evaluation estimated that for every 100 households that purchased with Help to Buy equity loan assistance, 43 led to new dwellings being built that would not otherwise have been built, equivalent to contributing 14% to total new build output between April 2013 and June 2015. By 30 June 2015, more than 55,000 properties had been bought with the help of the scheme. It found little evidence of a destabilising impact on house prices – the scheme has typically supported 2% to 3% of total residential property transactions in England on a monthly basis.

59 Comptroller and Auditor General, *The Help to Buy equity loan scheme*, Session 2013-14, HC 1099, National Audit Office, March 2014.

60 HC Committee of Public Accounts, *Help to Buy equity loans*, Second Report of Session 2014-15, HC 281, June 2014, para 22.

61 HM Treasury, Treasury Minutes: Government responses on the Sixty-first Report of Session 2013-14 and the First to the Seventh Reports from the Committee of Public Accounts, Session 2014-15, Cm 8938, September 2014.

62 Department for Communities and Local Government, *Evaluation of the Help to Buy Equity Loan Scheme*, February 2016, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/499701/Evaluation_of_Help_to_Buy_Equity_Loan_FINAL.pdf

New Homes Bonus

4.12 In 2011, the Department introduced the New Homes Bonus (the Bonus), designed to provide a financial incentive for local authorities to promote the creation of more homes in their areas. Under the scheme, the Department makes unringfenced payments to local authorities for every home added to their council tax register. The Department partly funded the Bonus through the allocation of £950 million in specific grant over the scheme's first four years, but the majority of funding came via a deduction from the overall local government funding allocation. The Bonus therefore redistributes funding between local authorities: those that are successful in creating significant numbers of new homes will be net gainers, whereas others will experience a net reduction in overall funding. By 2018-19, it has been estimated, a cumulative total of £7.5 billion will have been distributed to local authorities through the Bonus.[63]

4.13 The Department originally estimated that the scheme would deliver around 140,000 additional new homes over its first 10 years, increasing the supply of housing by between 8% and 13%. In our report, published in March 2013, we found the Department's estimates were unreliable, being based on limited evidence and unrealistic assumptions, and containing an arithmetical error which overstated the estimates by around 25%. We also found that while the Department was aware the Bonus could result in large cumulative losses for some local authorities, it did not cover this effect in its impact assessment, and the Department had done no analysis of the position of individual local authorities. We found that the Department did not consider substantially different scheme designs, as the main features – an incentive payment per home, paid as part of local authorities' funding – were set in advance as being seen as key to the policy aim to incentivise and reward housing growth.[64] The Department did consult on other design aspects, and aligned features with wider housing objectives that were widely supported by local authorities.

4.14 The Committee took evidence on the New Homes Bonus in June 2013. It recommended the Department should set out its plans for evaluating the impact the scheme was having on local authorities' approach to the creation of new homes. It also recommended that the Department ensured it took the Bonus into account in assessing the overall financial impacts of a range of changes affecting local authority funding.[65]

4.15 In its response, the Department said that it was due to evaluate the scheme, and was setting out the details of its approach in an evaluation plan. It reported that the financial impacts of the Bonus on local authorities were captured within its measure of their spending power.[66] An evaluation of the Bonus was published in December 2014. The Department reports this found that net financial impacts from the Bonus were much less significant for those authorities facing negative impacts and much more substantive for those seeing positive impacts.

63 HC Committee of Public Accounts, *The New Homes Bonus*, Twenty-ninth Report of Session 2014-15, HC 114, October 2013.
64 Comptroller and Auditor General, *The New Homes Bonus*, Session 2012-13, HC 1047, National Audit Office, March 2013, paras 8, 12, 21.
65 HC Committee of Public Accounts, *The New Homes Bonus*, Twenty-ninth Report of Session 2014-15, HC 114, October 2013, paras 2, 3.
66 HM Treasury, Treasury Minutes – Government responses on the Twenty-third to the Twenty-sixth, the Twenty-ninth and Thirtieth Reports of Session 2013-14 from the Committee of Public Accounts, and progress on Government Cash Management, Cm 8774, January 2014.

Affordable Homes Programme

4.16 The Department launched the Affordable Homes Programme (the Programme) in April 2011, with an allocation of £1.8 billion in capital funding for social housing providers over four years, to be distributed by the Homes and Communities Agency (and, since April 2012, the Greater London Authority in London). The Agency secured commitments from providers to build 80,000 homes for affordable rent by March 2015, 24,000 more than the Programme's initial target of 56,000.

4.17 We published our report on the Programme in June 2012. We found that the Department carried out a cost–benefit analysis of three different implementation options, and selected the best delivery model for the funds it had available. At the same time, we said there were remaining risks to delivery, not least over half of the expected homes were planned to be built in the Programme's final year.[67]

4.18 The Committee held its evidence session in July 2012. It highlighted the fact while the Department had reduced its costs in securing commitments to build new homes, the reduction in grant paid to providers for each home was being funded in part by allowing housing providers to charge higher rents. Reporting that this would lead to an estimated £1.4 billion increase in housing benefit payments over 30 years, the Committee concluded that the Programme shifted costs from one department to another. As a result, the Committee said it was not yet clear whether the Programme would deliver better value for money in the long term. The Committee recommended the Department carry out research to understand the impacts of higher rents on tenants, and build the results into future programmes. It also concluded that the Programme did not fully focus its allocation of funds on the areas of greatest housing need.[68]

4.19 In its response, the Department said it had taken account of the impact on tenants: for households that would otherwise have been in the private rented sector, rents of up to 80% of market rates were still advantageous; and as the Programme was providing additional homes, that meant more households would be able to benefit from a sub-market rent. The Department agreed that future social housing programmes should prioritise areas of greatest need, and said the Programme's existing framework made clear that funding propositions should meet local priorities, which are supported by the local authority. It said it had reviewed in its impact assessment the impacts on housing benefit payments of the affordable rent model, and demonstrated that its preferred approach delivered greater benefits.[69]

67 Comptroller and Auditor General, *Financial viability of the social housing sector: introducing the Affordable Homes Programme*, Session 2012-13, HC 465, National Audit Office, July 2012, paras 5, 6 and 10.

68 HC Committee of Public Accounts, *Financial viability of the social housing sector: introducing the Affordable Homes Programme*, Thirteenth Report of Session 2012-13, HC 388, October 2012, paras 1–3.

69 HM Treasury, Treasury Minutes: Government responses on the Fifth, the Eleventh to the Thirteenth and the Fifteenth to the Sixteenth Reports from the Committee of Public Accounts Session 2012-13, Cm 8534, January 2013.

The Mortgage Rescue Scheme

4.20 In response to concerns over increases in repossessions (properties taken into possession by lenders following mortgage default), in 2009, the Department launched the Mortgage Rescue Scheme, aimed at protecting the most vulnerable households from the negative impacts of repossession and homelessness. Under the Scheme, eligible homeowners at imminent risk of repossession could either apply to a housing association for an equity loan, to help them reduce their monthly mortgage payments and retain ownership; or ask a housing association to purchase their home outright, remaining in their home as a tenant. Reporting on the Scheme in 2011, we found that in its first two years it had achieved fewer than half of the rescues expected, helping 2,600 households at a cost of in excess of £240 million, when it had been expected to help 6,000 households at a cost £205 million.[70]

4.21 In our report we examined the Department's impact assessment, and found that appraisal of the Scheme's business case was weak. For example, the impact assessment did not quantify the financial implications of more people opting to sell their properties and remain as tenants than were anticipated in the Department's core assumptions. The impact assessment also overstated the Scheme's potential benefits: while estimating costs to the taxpayer, it included benefits to both the taxpayer and housing associations. To ensure a like-for-like comparison it would have been appropriate to include the costs to housing associations. We concluded that when departments are under pressure to develop new policy interventions quickly there are often gaps in the evidence base, and said that the Scheme was a case in point.[71]

4.22 The Committee did not take evidence on the Scheme, but in July 2012 the Department published a formal response to our report. The Department accepted our recommendation that its impact assessments should show how costs and benefits could differ under alternative assumptions. It said it had implemented this, and related recommendations aimed at improving the evidence base of its policies, in devising a subsequent policy, the NewBuy Guarantee Scheme.[72]

70 Comptroller and Auditor General, *The Mortgage Rescue Scheme*, Session 2010–2012, HC 1030, National Audit Office, May 2011, paras 1–6.
71 Comptroller and Auditor General, *The Mortgage Rescue Scheme*, Session 2010–2012, HC 1030, National Audit Office, May 2011, paras 11, 23.
72 HM Treasury, Treasury Minutes: Progress on implementing recommendations from 28 Committee of Public Accounts reports of Session 2010–2012 and 5 National Audit Office reports, Cm 8387, July 2012.

Appendix One

Our audit approach and evidence base

1 This memorandum was prepared in response to interest from the Committee of Public Accounts. For this work, we:

- carried out a literature review of published analysis of the policy, drawing notably on a briefing paper published by the House of Commons Library,[73] as well as evidence taken by the Communities and Local Government Committee in its recent inquiry;[74]
- analysed statistics published by the Department on housing sales, and starts and acquisitions, under the reinvigorated Right to Buy;
- reviewed relevant findings on housing interventions in our reports, and those of the current and predecessor Committees of Public Accounts, since the start of the last Parliament;
- interviewed officials at the Department, to confirm factual information on the design of the policy and how its impacts are to be measured, and gain an overview of the work done in options appraisal and policy development; and
- evaluated the impact assessment that accompanied the Housing and Planning Bill. The evaluation focused on the parts of the impact assessment that affect the operation of the expanded Right to Buy, specifically clauses 62–77 of the bill. We used our Options Appraisal Maturity Matrix, an internal toolkit we have developed based on guidance in the HM Treasury *Green Book*, to undertake this evaluation. The Option Appraisal Maturity Matrix identifies key elements of good practice located in central government guidance allowing the impact assessment to be rated against each element, from weak to excellent. Our review of the impact assessment was itself reviewed internally by an economist with experience of this methodology.

73 House of Commons Library, Extending the Right to Buy (England), Briefing Paper 07224, December 2015.
74 Communities and Local Government Committee, *The Housing Association Sector and the Right to Buy inquiry*, available at: www.parliament.uk/business/committees/committees-a-z/commons-select/communities-and-local-government-committee/inquiries/parliament-2015/housing-association-sector-and-right-to-buy/

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