

A Stake in the Future

Equity stakes and landlord savings plans

A report for London Councils

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of the London School of Economics



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Executive summary

Objectives of the project

The report considers mechanisms that could facilitate ownership and savings among local authority tenants in London. It addresses both schemes to increase access to owner-occupation and schemes to help those with little or no chance of buying to benefit from savings and housing equity.

The objectives of the project were to evaluate the advantages and disadvantages of possible schemes for London tenants and local authorities and to make recommendations on resources and implementation issues.

Relevant principles

The basis for this type of approach is that savings and asset ownership, and particularly housing ownership can improve life chances, increase equality, change the ethos of dependency and reduce long-term poverty. On the other hand, schemes may be used as a means of cutting other government support and may provide perverse incentives to tenant households.

The spectrum of approaches

Three main types of scheme are in play in the literature and in national policy development - those that help access into owner occupation; those that support savings; and those that assist landlords and tenants through lower costs of provision. The first help those higher up the income scale while the second and third can reach further down the income distribution potentially to help all tenants.

Access schemes

These involve subsidised entry into owner-occupation and have included most importantly: the Right to Buy and the Right to Acquire, both of which enable full purchase; Shared Ownership and Rent to Mortgage, which have allowed partial purchase and staircasing to full ownership; and now a suite of HomeBuy Schemes, including New Build, Market HomeBuy and Social HomeBuy, the last of which allows sitting tenant partial purchase and the opportunity to staircase to full ownership.

Other notable approaches particularly for new build housing have included reducing access costs by perpetual shared equity, notably through a community land trust holding the land.

Savings schemes

Models already in operation include subsidised savings schemes such as Individual Development Accounts in the USA and the Savings Gateway scheme that has just been piloted in the UK. Such schemes provide small-scale assistance to save based on matching grants available to all types of low-income household.

The most fully defined mixed scheme is HomeSave, developed by Shelter and the Chartered Institute of Housing, which combines matched savings, investment in affordable housing and ultimately purchase of the tenant's own home.

Cost reduction schemes

Schemes to help tenants unable to purchase have concentrated on enabling savings from better management to be transferred to tenants (as in the Irwell Valley Housing Association's 'Gold Service' scheme) and potentially linking this to savings added to rent payments.

The empirical evidence for London

Objectives

The objectives identified by stakeholders were defined in both more specific and wider terms than the literature and policy discussion tends to suggest. They included:

- Access ultimately to full owner occupation;
- Sustaining neighbourhoods; reducing the risks for tenant purchasers;
- Supporting those who will only ever be able to afford to buy a small proportion of their home;
- Distributing some of the benefits of regeneration to tenants;
- Changing the dependency ethos; and
- Reducing management costs.

Constraints

The three main constraints on developing effective schemes were identified as:

- The high prices of housing in London, and particularly the rapid increases over the last few years as compared to tenant incomes;
- The rules surrounding the Housing Revenue Account (HRA) and the constraints this places on local authority powers; and
- More general regulatory and administrative constraints, notably with respect to financial services.

Specific schemes in play

The most developed is the Southwark pilot of Social HomeBuy where local and central government are addressing the specifics of implementation in the local authority context. At the time of writing a number of other London boroughs were contemplating running Social HomeBuy pilots.

Notting Hill Housing has developed a four pronged approach to increasing home ownership: reducing the minimum proportion that can be purchased on a new home to 10%, a Rent Plus savings scheme, Social HomeBuy, and delivering a 'home options service' where tenants who have an aspiration to own are given advice and help on what is available to them. This set of schemes is seen as a model approach to which local authorities with their very different responsibilities and financial constraints might aspire.

Other authorities, notably Westminster and Kensington and Chelsea, are looking at ways of modifying the Right to Buy approach to enable partial purchases. Others, with English Partnerships, are looking at versions of a community land trust for new building and regeneration areas. Greenwich is examining ways of including tenants in the benefits of regeneration through assisted shared equity.

Conclusions and recommendations for action

There is a modest (though potentially growing) political and householder interest in savings schemes related to housing. Housing related schemes that are worth pursuing include:

- A gold standard scheme based on reduced management costs;
- Variations on Notting Hill's Rent Plus savings scheme, which involve reducing gross rents or transferring capital value to tenants;
- A modified Social HomeBuy model;
- Shared equity based on community land and development trusts; and
- Some forms of regeneration bonus.

Recommendations for action are detailed in section 5.3. They involve:

- Lobbying government for both specific technical changes to the HRA, the subsidy framework and other local authority powers, and a more generous Social HomeBuy scheme;
- The development of a potentially London-wide Rent Plus model that could be tailored to individual local authority requirements; and
- Piloting specific regeneration bonus schemes in particular local areas.

The recommendations also involve supporting wider initiatives especially in the context of community land and development trusts.

Finally they stress the need for identified champions in what is becoming a more benign environment for the development of new initiatives based on the context of asset based welfare. There is a need to engage Whitehall's legislative, regulatory and technical expertise. Without political sponsorship and official support, it is unlikely any scheme of the kind discussed here could be extensively implemented.

1 Introduction

1.1 Background

Government progress on implementing new models of equity shares for social housing has been slow. The 2001 Labour election manifesto committed the government to “examine ways in which tenants can be helped to gain an equity stake in the value of their home”, while in 2003 the Government stated that it would “keep a watching brief on how similar initiatives to equity shares develop across the world, rather than to implement pilot or large scale equity shares schemes” (ODPM 2003, p.6)

This report considers mechanisms that could facilitate asset ownership and savings in relation to property, specifically for local authority housing tenants. It was commissioned by London Councils and has benefited from inputs provided by members and officials there. Many other organisations and individuals have also provided help and expertise.

The stimulus for work of this kind was the observation that owner-occupiers (who constitute a majority of both London and UK households) accumulate capital in the process of buying a home. While the primary objective of owner-occupation is the acquisition of personal housing, there can be little doubt that many people in Britain associate the purchase of a home with the potential to build up capital.

Households that are excluded from home ownership face greater difficulties in building up assets and may not be able to achieve many of the other benefits associated with owning a home including control over their own property; the capacity to borrow against housing assets; the fact that housing expenditure as an owner declines significantly once the mortgage is paid off while rent payments continue into perpetuity; and the capacity to vary expenditures on repairs and maintenance.

Recent trends in the stock market and pensions industry have further reinforced the importance of property as a relatively convenient way for households to accumulate capital. In this context, there has been significant recent growth in buy-to-let as existing householders (and others) have

moved into the private rented sector in an attempt to create a longer-term income-yielding asset. Housing remains the only physical asset readily accessible to households.

Yet for many London households the relatively high cost of property in the capital makes owner-occupation difficult or impossible. Some households do not wish to become owner-occupiers, either as a matter of choice or because of the need for mobility. Others cannot meet the access costs in terms of down payment and regular mortgage repayments either because of low or volatile incomes or because of other risk factors such as ill health or unemployment. Large numbers of tenant households, especially those in the local authority sector, face such precarious financial circumstances that even basic savings accumulation, in relation to property or otherwise, is very difficult. But as homeownership increasingly dominates, those excluded face increased relative deprivation while those at the margin may take on unacceptably high risks to try to attain the benefits of ownership.

This raises two distinct issues:

- How to help those who are close to the margin of home ownership and who want to become owner-occupiers to achieve their goals by shallow subsidies or restructuring the timing of payments to enable them to obtain at least some of the benefits of home ownership without putting themselves at insupportable risk in the event of changes in individual circumstances or broader economic change;
- How to help those who in current circumstances are not able to own to gain some of the benefits of home ownership in terms of the capacity to build up savings and/or property assets, including at least some elements of ownership and control over their own home.

1.2 The project

The starting point for this project was whether models of schemes could be specified which would help local authority tenants in London to benefit from some elements of homeownership and more broadly whether local authorities could take the lead in developing schemes to assist asset accumulation even among poorer and welfare dependent households.

The particular concerns that led to the research were twofold:

- London tenants are relatively disadvantaged as compared to tenants in other parts of the country because they face relatively high house prices; relatively low subsidy rates in relation to these prices; and their incomes while higher than elsewhere are inadequate to compensate for these prices. They therefore have lower access to even partial owner-occupation than other tenants and this position has worsened over the last few years as prices in London have risen more rapidly than elsewhere.
- Local authorities are relatively constrained by the legal framework within which they can operate which defines their powers and responsibilities more narrowly than those of Housing Associations; having had for many years no role in new building and no capacity to subsidise between the General Fund and the Housing Revenue Account (HRA).

In this context London Councils asked LSE London to look at models which facilitate opportunity and equality for social housing tenants, within the powers available or potentially available to local authorities. Models that were seen as possible starting points for increasing the welfare of the poorest in society included the Government's Saving Gateway pilots, HomeSave; a model developed by Shelter and the Chartered Institute of Housing (CIH) and the Rent Plus scheme which Notting Hill Housing is currently piloting. A number of other schemes were known to be under consideration across London (see section 4.3).

The aims of the project were:

- To evaluate the advantages and disadvantages of possible schemes, particularly in assessing not only the benefits but also the risks to tenants as well as ways of setting up support systems to assist households to take appropriate risks.
- To make recommendations on what resources would be required from both central and local government successfully to pilot appropriate schemes and indicate an action plan for implementation.

This paper identifies schemes that achieve the objectives in principle and which have the potential for more formal development.

An important objective in identifying such schemes was to support a London wide approach both so that there would be the potential for economies of scale - and indeed equity across the region, and so there would be less chance of a proliferation of small schemes each of which would require detailed specification and legal advice generating a situation where there would be less chance of long term viability.

1.3 Methodology

To explore these issues would require a number of distinct stages:

- A review of the literature on low income savings and housing assistance - aimed at clarifying the main objectives and the generics of potential schemes;
- The identification of possible models that would meet one or more of the objectives specified above;
- Interviews with specialists in the relevant financial fields looking at savings and housing asset based schemes as well as local government finance issues;
- Interviews with stakeholders and those either operating relevant schemes or in the process of developing such schemes;
- A workshop to discuss possible models - their benefits, costs and potential to achieve objectives;
- Focus groups with potential users of the suggested schemes better to understand their attitudes to home ownership; the constraints that they face; and the extent to which partial ownership and savings models might make schemes attractive; leading to
- A series of conclusions about viability and desirability and recommendations as to more detailed work.

The work was carried out over the period of May to October 2006, with empirical research finishing in September 2006. The rest of this report draws on the evidence from these different stages bringing together analysis, findings and recommendations.

2 Relevant principles: a literature review

2.1 Asset based welfare

The term was first used by Michael Sherraden in 1991 and describes a policy approach which encourages or forces individuals to hold assets, typically financial assets, but also housing, educational or business assets. The term is quite wide, but in the UK it has generally been understood to describe a policy which encourages saving and asset-ownership among lower income households (Emmerson and Wakefield 2001).

2.2 Arguments for asset based welfare

The four main arguments for asset based welfare are the direct financial benefits it brings the participants, the related equity argument, the behavioural benefits asset based welfare can produce and finally the argument that asset based welfare might provide a long-term change and allow for savers to find a way out of poverty.

The financial security and direct financial benefits that savings schemes and asset based welfare produce are perhaps the most obvious ones. Savings allow people to meet one off costs that arise from change and transition (Paxton 2002), as well as giving people security for rainy days, old age and more independence and opportunity throughout their lives (HMT 2001a). Having this opportunity may enable them to make investments in education and entrepreneurship which could bring them out of poverty (Emerson and Wakefield 2001). Amartya Sen has, when advocating related savings schemes for developing countries, argued that they reduce vulnerability among the poor. While this context is of course different from the developed world it would still to some degree apply.

The equity argument is related to the financial benefits of asset based savings, acknowledging the fact that assets give people more security, independence and opportunity, and that assets are much more unevenly distributed than income (Paxton 2002). This is in addition to the direct effect that lack of savings has on increasing wealth inequality and the worrying trend of asset exclusion (Paxton 2002).

The third argument is more 'educational' and suggests that the process of saving itself might have an impact on participants' behaviour and the way they think. As Sherraden (1991) puts it, "income feeds people's stomachs, assets change their minds". A process of saving might have a positive impact on the way people think about their future and enable them to look more long-term as well as giving a feeling of greater self-reliance. A policy that would provide incentives for tenants to value their tenancy could possibly strengthen the social rented sector, moving it away from being seen as a purely residual sector and helping to ensure its sustainability (Hill et al 2001). Furthermore, encouraging people to save and attracting people into savings who would not otherwise do so might also have an educating aspect, where people learn by doing and increase their financial knowledge through experience (Hilgert and Hogarth 2003).

The fourth argument builds on the first and the third: asset based welfare, by bringing more financial security and opportunity as well as changing the way people think and behave, might bring about longer term changes and enable people to find a way out of poverty. A second part of this argument is wider: if asset based savings lead to long-term changes in thinking and more effective planning for the future it might also change their views on the world around them. It could encourage savers and asset holders to take a greater part in the society and economy as well as particularly in their neighbourhood and community.

2.3 Concerns with asset based welfare

Asset based welfare schemes are not without negative aspects and critiques. Barnes (2002) raises a concern that asset based welfare schemes will not complement, but instead replace traditional welfare schemes. He points to arguments that claim traditional welfare systems have failed and only lead to dependence and warns that "asset based welfare could become a Trojan horse for undermining existing welfare provision" (Barnes 2002, p.14).

Another concern Barnes raises is whether the poor have the resources to save and warns that any

claims that they can should be examined with caution. In other words it may not make sense to save for rainy days if it is already raining. Even in cases when they can save, Emmerson and Wakefield (2001) point to the fact that there might be sensible reasons why they do not. Pensioners who receive minimum income guarantees, for instance, may gain little from savings because their savings reduce the support they are given. Another scenario is that of someone who is temporarily on a low income and feels that it is likely that his income will increase in the future. In such a case it might be sensible to consume all their income or even acquire debt in order to increase their benefits (Wakefield 2002). Another likely scenario is where people are already in debt, in which case it would make little sense to save at a lower rate of interest than their already existing debt, instead of paying off their debt.

A further concern relates to the fact that various forms of savings might be risky and inevitably linked to booms and busts in the economy. Encouraging people who have very little to invest what they have in assets which may lose their value could end up making people worse off. Some investments, housing investments included, often have a degree of risk associated with them, and if people cannot afford to 'lose', it may be sensible not to 'play'. It may also be sensible for poor households not to 'lock-up' their assets in non-liquid assets that may not be easily available on rainy days (Barnes 2002).

There are of course also 'non-rational' reasons why people do not save, such as lack of information and knowledge about financial institutions or a habit of consuming all that they earn (Emmerson and Wakefield 2001). Asset-based welfare schemes and financial education could in such scenarios be an effective way of addressing these issues. Knowledge and experience with financial institutions are closely linked (Hilgert and Hogarth 2003) and helping people start saving habits may prove to have beneficial long-term effects. Evidence from the USA has however highlighted that the financial education offered in the savings programmes may be just as, if not more, important than the actual asset saving schemes. This raises the question of whether it might be better to focus on financial education. However it may not be as effective or as interesting to those it is aimed at, if it is not linked to an actual available savings scheme.

2.4 Overview

Thus the findings from the literature suggest that:

- There are potential benefits to asset based welfare approaches but that especially for the poorest there may also be significant costs, unless such schemes bring with them large scale subsidy which makes it worthwhile for households to use resources in this way;
- The case for linking these schemes to housing depends on assumptions which may not always hold true - notably that housing values will rise in real terms, or at least faster than other values - so that the inflexibilities involved in owning a not easily traded asset more than offset the disadvantages;
- For many households tying up funds in this way, especially if there is a financial incentive, may cause household to take on other risks - notably borrowing at higher rates in order to access the relevant scheme; and
- The benefits in terms of changing ethos and greater responsibility are difficult to measure and probably depend on how much freedom and control households achieve as well as on the specifics of the instrument involved.

These findings are relevant to the assessment of particular schemes and imply that a detailed analysis of principles prior to full assessment of practicalities is always required.

3 The spectrum of approaches

3.1 Clarifying the remit

As the project has evolved, it has become clear that there is a spectrum of approaches that could address different requirements among local authority tenants. At one end of the range, there are schemes that help households whose incomes fall just short of being able to afford owner-occupation.

At the other end are schemes to assist tenants who need help with debt management and financial understanding rather than mechanisms to help them save or purchase their homes. In between there are tenants who are looking to build up assets and aspire to homeownership. Here there is a potential to develop asset based housing specific schemes, sometimes including savings but generally in the form of shared equity of different types.

The initial objective was to concentrate on schemes to assist those at the lowest end of the spectrum but as the project has developed it has become clear that models for those further along the spectrum also need to be addressed - in part because problems of affordability in London are worsening. On the other hand, schemes addressing debt management and financial awareness, while of great importance, are excluded from this remit.

In this chapter we set out both the range of approaches that have been analysed in the literature and those that are already within the political domain. Where appropriate we provide some assessment of these approaches. We conclude with a typology of models that have relevance to this research.

3.2 A typology of approaches

The range of approaches discussed in this chapter is very broad and often address very different issues. They can however be categorised for the purposes of this research into three main groups.

Assisting access to owner-occupation

Many local authority tenants and potential tenants will want to take advantage of purchase schemes but find they do not have either the income or the confidence to move away from their existing status.

For these households, there is a need for either discounts or shared equity ownership with the capacity to staircase as circumstances improve. The level of public subsidy necessary to encourage take-up of such a scheme depends on incomes in relation to house prices. In cases where full ownership is not achieved before the occupier wishes to sell or where the purchaser faces financial difficulties there has to be repurchase or 'back-to-back' sale arrangements.

A model of this kind would also have significant implications for the operation of a council's Housing Revenue Account. When a property's ownership is transferred to the council and householder, as happens whenever even a small part is sold, its status within the HRA changes. Such a change to HRA status has, in turn, implications for the housing subsidy received by the authority, as would any repurchase arrangements.

A subset of such schemes involves enabling households to benefit from capital gains (and losses) by specifying the sale price at a given point in time by enabling purchase up to 100% at a later date. This approach can address the problems of continuing rising prices faster than income. However it is more likely to be appropriate in the context of regeneration gains.

Assisting tenants through savings schemes

The most immediately relevant schemes from the point of view of this research are those that are linked to rents and purchase of the tenants' home. For tenants who either do not wish to buy their homes (even in part) or those whose financial circumstances suggest that home ownership would be inappropriate, there is the possibility that a form of saving could be linked to the payment of rent to the council. At its simplest, tenants could be offered a rent-plus option where the amount paid in addition to the rent would be put in a savings account. The Government or another state agency could provide subsidies for the interest paid, thus encouraging savings. Housing associations have the capacity to subsidise; local authorities cannot do so easily.

The benefits of such savings schemes are that they enable a regular commitment to be built up without having to involve another supplier institution. Landlords may also be trusted in a way that other financial intermediaries (who are often trying to sell debt at high prices) are not. Savings can also be linked to access to house purchase. However there are costs to the landlord as independent advice must be provided; the account must be kept separate and the provider would be subject to Financial Services Authority (FSA) regulation.

Assisting landlords and tenants through lower costs

These include payments to the tenant for keeping to their contract; reducing the costs of rent collection; and transferring responsibility for repairs and improvements. These should in principle be self-financing (although this may be difficult to prove) as well as increasing tenant involvement and independence.

3.3 Specific models

3.3.1 Access Schemes: subsidised purchase of tenanted property

The vast majority of government attempts at subsidising shared equity schemes have been aimed at improving access to home ownership, with the intention of achieving 100% ownership for the majority of purchasers fairly rapidly. Over the last few years there has been a proliferation of subsidised low cost home ownership schemes around the HomeBuy initiative including both upfront grants and later shared equity mortgages mainly aimed at key workers. These schemes were reviewed in detail by the Homeownership Task Force (Housing Corporation 2003), which found them to be reasonably targeted but poorly understood, and too small scale to be more generally effective. Keyworker programmes have been subject to specific evaluations (ODPM 2004; 2006) and found to be particularly problematic. All these schemes have now been replaced by the new HomeBuy duo of Open Market HomeBuy and New Build HomeBuy.

Right to Buy and Right to Acquire

The traditional approach to assisting social tenants into owner-occupation has been the Right to Buy (RTB) in the local authority sector and the Right to Acquire (RTA) in the housing association sector. The Right to Buy provided subsidy to tenants in the form of a discount on the purchase price of the dwelling

dependant upon the length of time as a local authority tenant, with a cap on the total discount. The scheme has allowed over 1.5 million (ODPM 2005) tenant households to purchase their homes. However the discount has been reduced over the years to £16,000 in 31 of London's 33 boroughs, representing a small and decreasing subsidy (often 10% or less, especially in central London) to the point where sales have fallen to historically low levels (so low in fact that the Treasury is concerned about the fall in revenue as compared to predictions). The Right to Acquire is similarly limited to £16,000 and anyway runs with specific properties, i.e. those built post April 1997 with public subsidy, such as Social Housing Grant, or acquired from local authorities - because properties may have been provided with charitable donations and private finance on the basis that tenants would not be able to buy.

Rent to Mortgage and Social HomeBuy

A rather different scheme that has now been wound up was the Rent to Mortgage scheme, which enabled council tenants, and some housing association tenants, to purchase their homes in stages. The scheme was more complex than the Right to Buy and more problematic with respect to private funding. As a result it had very low take-up and was withdrawn by the Housing Act 2004. Social HomeBuy now provides a new opportunity for tenants to purchase a share in their home.

Social HomeBuy is a rather different approach trying to help those further down the income scale. Social HomeBuy is a scheme for social tenants, enabling them to buy their home or a share in their home at a discount. The minimum initial share is 25% and the remainder of the equity is kept by the landlord who can charge up to 3% of the capital value of the retained equity. The discount on the initial share is a proportion of the Right to Buy discount, which in London is normally £16,000. The tenant can then purchase further shares in the home and staircase up to a 100% ownership of the home. However, this additional staircasing will not benefit from any additional discount. Equally the tenant may sell back to the landlord if they wish to move or if circumstances change. To qualify for the scheme, tenants must be secure or assured tenants, or must have been a public sector tenant for a minimum of two years (or five years for tenancies starting on or after 18 January 2005). Only self-contained properties for rent are eligible. (Housing Corporation 2006, ODPM 2005, DCLG 2005).

Positive aspects of the Social HomeBuy model include that it gives the participant a greater stake in their own neighbourhood as well as their home which could have wider benefits to the community and management. However, as housing assets may lose value it will have a risk factor that not everyone can afford to gamble. In particular, values are dependent on the specific unit and neighbourhood - which can generate inequalities as well as risks. Another problem with this model is that it locks up assets and implicit savings are not easily available on rainy days. Further, affordability complications can arise as a result of the liabilities to the homeowner. The purchaser might not be prepared for the long term consequences of maintenance liabilities associated with Social HomeBuy. Equally, as with any property purchase with a mortgage, there are issues of ongoing requirements of building insurance and in leasehold / commonhold purchases sinking fund or communal facilities liabilities, which the purchaser has to meet both in the short and long term.

Local authorities have been invited to set up Social HomeBuy schemes from April 2006. At the present time Social HomeBuy is potentially being piloted by eight social landlords - including in London Notting Hill Housing (NHH) and Southwark and Wandsworth borough councils. Anecdotal evidence suggests that take-up has been low in the housing association pilots which are further ahead than the local authority/ALMO ones, except where it has enabled purchase of properties otherwise exempt under the Right to Acquire.

3.3.2 Access schemes: subsidised purchase of new and open market homes

Shared ownership and HomeBuy

Intermediate market (or low cost home ownership - LCHO) schemes have been in place since 1980, when shared ownership was introduced. These enabled households to purchase between 25% and 75% of a new (housing association) home and pay subsidised rent on the remainder maintaining the right to Housing Benefit on the rented portion but also to staircase up to 100%.

A variant of shared ownership known as 'do it yourself shared ownership', which enabled subsidised purchase of homes on the open market, was superseded by HomeBuy in the late 1990s. HomeBuy involved a 25% equity based loan, with no

'rent' charged on that element, paid for by the payment of 25% of the capital gain on resale. These schemes have provided help through government subsidies either to tenants or those on the waiting list (and particularly key workers) to enable them to buy and to share the risks during the purchase process.

On the evidence of purchases in London, shared ownership and HomeBuy have helped

- Social tenants to move often to cheaper areas to achieve the type and size of housing that they require, mainly through HomeBuy; and
- Single or couple households who have not been able to obtain secure accommodation on the open market to access small units which they are able to purchase in full over a few years (mainly through shared ownership).

Both of these are access subsidies that help those who are fairly close to being able to purchase to enter and sustain homeownership in stages. In London because of the high costs of owner occupation the majority of those who benefit have incomes between £25,000 and £45,000 per annum - well above affordability levels for the vast majority of social tenants (Cho and Whitehead 2006). Thus neither of these schemes can assist the majority of local authority tenants.

Central government has now streamlined these schemes into three strands, two of which aim to assist entry into owner-occupation. Open Market HomeBuy replacing HomeBuy and New Build HomeBuy replacing Shared Ownership while Social HomeBuy helps existing tenants to gain some housing equity in their rented home.

Open Market HomeBuy and New Build HomeBuy are both relatively small scale so can only make a relatively marginal contribution to the expansion of homeownership. The schemes aim to help those able to sustain home ownership.

Cash incentive schemes

In addition to the schemes mentioned above, local authorities retain the right to offer cash incentives from their own resources to free up properties where they feel it is appropriate. Local authority cash incentive schemes consist of a one-off grant to enable a council tenant to purchase a home on the

open market. Sums offered to tenants vary between local authorities.

3.3.3 Access schemes: shared equity in perpetuity and community land trusts

A rather different approach is one that reduces prices by sharing equity in perpetuity. The most usual are those that separate the ownership of land and housing.

Community land trusts (CLT) are one mechanism by which land can be held cooperatively; it is possible to specify who has access to the housing and affordability may be protected into perpetuity. Community land trusts have been common in USA, generally simply to conserve land, but sometimes to support other socially desirable purposes. The idea behind it is that the value that derives from land within a community should be protected to serve the long-term benefit of that community.

In the context of affordable housing, the idea is that by using a community land trust one can separate the ownership of the land and the ownership of the dwelling and so reduce the price of the home. At the limit the purchaser simply buys the dwelling while the Trust keeps ownership and control of the land on which the dwelling is built. More generally the Trust maintains rights over say 20% of the value of the property while at the same time specifying rights and responsibilities. The contract between landowner and dwelling owner/tenant sets out the relationship (e.g. additional responsibilities in the context of the neighbourhood) and alienation rights - e.g. to whom the property can be sold. This is one way of, in principle, achieving affordable housing into perpetuity. Commentators have put it forward as a possible approach to new house building over the years (Barlow et al 2002).

Schemes like this have been attempted elsewhere in the UK, but mainly in rural areas, notably national parks where planning is very restrictive and planning permission would not otherwise be granted. Setting up a community land trust is much more difficult in an urban area because of the need to pool enough land together to achieve relevant economies of scale and because of the opportunity cost of the land that has to be purchased. More generally there are many practical difficulties associated with: the lack of second-hand markets for buildings separate from the land; the governance of trusts; and the potential difficulties in maintaining the land in trust

ownership in the longer term associated with the potential application of leasehold legislation which enables owners to purchase their freehold in certain circumstances.

In principle these type of scheme could mean that there was no capital value increase associated with ownership - indeed there could be decreases arising from the depreciation of the building. However, it is usual to devise schemes that split the benefits between landowners and homeowners in such a way as they share both risks and capital gains.

There has been increasing interest in the concept of community land trusts over the last few years as a means of capturing some of the benefits of large scale new mixed development (including not only housing but also commercial and industrial uses) as well as ensuring affordability. Both the GLA and English Partnerships have been exercising potential models (GLA 2006). The Deputy Prime Minister's £60,000 Home Initiative also had the potential for linkage to a CLT approach but it now appears that these are simply being sold on the private market.

3.3.4 Savings Schemes

USA: Individual Development Accounts

Individual Development Accounts (IDAs) were developed in the USA following a proposal from Michael Sherridan in 1991. IDAs were developed in the US to enable low-income groups to acquire assets. They are run by local community based organisations and savings are matched by local and national funds. The largest and most famous IDA is the American Dream Demonstration, but there are a now over 250 IDAs covering 44 states - each with different rules and requirements. Because of the diversity of IDAs it is not possible to give a complete description, but there are some common factors. IDAs use matching rates as an incentive to save, usually 2:1, but sometimes as generous as 5:1. They are generally aimed at low-income groups in employment. The matching contribution must be spent on one of a limited number of asset acquisitions. These include buying a house, setting up a business, education or training. There have been attempts to implement the scheme nationally - both Clinton and Bush have suggested different versions of the scheme - but for political reasons this has not yet been proved to be feasible (Sherraden 2002, Kempson et al 2005).

Positive aspects of IDAs include the direct financial benefits and the related equity argument. However this scheme is mainly aimed at the working 'worthy poor' and does not address the asset-inequality for those who are not working and are generally worse off. Another concern is whether with the high matching rates people will tend to borrow to save, and hence lose some of the behavioural benefits that asset based savings promise.

IDAs have also been suggested as a form of replacement or reshuffling of welfare policies by the Bush administration, highlighting the concerns that asset based welfare may act as a mechanism for removing existing welfare.

UK: Savings Gateway Pilots

Government schemes to help those further down the income scale to build up savings and assets in the UK are far less well developed. These have not been directly related to home ownership, which is seen by many as being the preferred option for building an asset base.

The UK Savings Gateway scheme was first outlined in 'Delivering Savings and Assets' (HMT, 2001b), in which the Government stated that it believed that saving and asset ownership are important complements to the three main pillars of its welfare strategy of providing for basic needs ensuring security and opportunity. This initiative is closely related to the Individual Development Accounts in the USA. When first put forward it was envisaged as a nationally implemented scheme, but began with pilots in five locations for 18 months. A second pilot scheme (Savings Gateway 2) is currently running in six locations.

To be eligible participants either have to be in work with low earnings that entitle them to Working Tax credit or to be out of work and receiving a jobseekers allowance, income support or incapacity benefit. Participants also have to be of working age. Financial education has been a part of the pilots and savings were matched pound for pound by the government, with that matching equalling the highest balance obtained during the lifetime of the account. The maximum monthly amount of savings was £25, with a total maximum amount of £375. No interest rate was paid on the accounts. The participants were allowed to withdraw savings with no notice, but matched funding was only paid when

the accounts matured (after 18 months). Unlike IDAs there were no requirements on how the matching funding were spent after the 18 months period.

Like the related American IDAs, the Savings Gateway scheme carries some of the same positive and negative aspects. The UK scheme is however generally aimed at people who are worse off than those targeted by the IDAs, possibly making the equity argument stronger. Additionally, education plays an important role in the scheme, which may make the social benefits greater. Again there are concerns that people will borrow to save and that the scheme will be taken up by people who are already saving, transferring their savings to achieve a higher return. Hence they may not actually change the participants' saving habits.

The evidence from the pilots has been extremely limited, mainly because success has depended upon a few individuals who often move on to other projects. The amounts of money appear small in relation to any significant purchase (such as a home) and often in relation to any sudden expenditure need. As with many other schemes they are most likely to be taken up initially by those already reasonably conversant with savings schemes. Only large scale roll-out can show whether they reach those unused to saving in any form.

3.3.5 A mixed scheme: HomeSave

Rachel Terry and the Chartered Institute of Housing have developed a model that mixes savings, investment in housing and purchase, HomeSave. It has three elements to it that can operate separately, although together they provide the most holistic solution for tenants who may be at different stages, financially, and who may need a structured approach to becoming financially stable and accumulating assets. The model helps to tackle financial exclusion by providing an incentive to open a bank account. It also provides a route into home ownership for those that want to take this route, but there is no obligation to purchase a home. Tenants can go the whole way up the ladder in their own time or stay on a lower rung indefinitely.

One part is similar to Saving Gateway and another to Social HomeBuy, although this element is the least important element and is not now being pursued

because of the growing range of shared ownership and shared equity schemes available. The most innovative element provides a vehicle that allows tenants to invest small amounts of money (upwards of £100) in housing. The three elements are:

- A HomeSave Flexible Savings Account (HFSA) which matches savings 1:1 in a similar way to the Saving Gateway;
- The HomeSave Housing Investment Account (HHIA), a property investment account where tenants can deposit modest sums for investment in affordable rented housing; and
- A part-purchase shared ownership scheme similar to Social HomeBuy.

All figures quoted in the HomeSave proposal are realistic but indicative. The model needs to be piloted and modifications would be expected as a result.

Landlords participating in the scheme are expected to provide free financial advice through face-to-face sessions where tenants can obtain advice on the schemes as well as general financial advice on a range of issues (e.g. encouragement to pay by standing orders and direct debits).

The HFSA would be available to anyone with a bank account (or similar) and once in possession of a full tenancy the tenant would receive a £125 deposit from the landlord. This provides an incentive for tenants who don't have a bank account to open one. Savings would be matched pound for pound up to a total of £250 matched savings. Tenants' own savings could be withdrawn together with up to half of the initial £125 landlord deposit, but any further matching would not happen once all the amount were repaid. Encouragement to save in the long term would be provided by limiting withdrawal of the matched funding to five years after deposit, or for investment in the HHIA or for home purchase.

Tenants with a minimum balance of £200 can open an HHIA, investing in subsidised rented housing that is managed by a housing provider such as a housing association. The smallest investment that can be made would be £100; withdrawals would be possible quarterly, but only at one month's notice. Investments into a HHIA would be topped up by the landlord with £10 for each £100. However top-up

payments would only be available for house purchase or after the age of 70. Top-ups would be made annually and only available to tenants who meet the conditions of their tenancy agreements. This element is quite complex and involves a subsidy (which could be in the form of Social Housing Grant) in order to provide a reasonable rate of return on monies invested. The potential for such a scheme to operate successfully depends not just on transparency and clear explanation but on the relationship between social rents, house price rises, subsidy and the rate of return achievable on small savings elsewhere. However, it does provide a means for tenants to invest in housing in a different area from the one in which they live - which is beneficial to some tenants who do not want to purchase their council or housing association property as they consider it not to be a good investment because of its location. Trustees of the HHIA would be expected to make good judgements about house purchase, choosing areas that are likely to see the best house price rises, although in time the risk would be spread over a portfolio of properties.

The part purchase scheme aims to offer a £4,000 discount for a 50% purchase, which increases by £1,000 for each additional 10%. In addition to this, tenants who have invested in a HHIA would receive a further reduction on their purchase with the top-up of the payments in their Home Save Housing Investment Account. The scheme would be available to people who have been tenants for a minimum of 3 years; have met conditions of tenancy agreements during the past 12 months; can demonstrate to the landlord that they can afford the part purchase; and have saved the difference between the monthly rent and the monthly shared ownership costs into their HFSA and/or HHIA for at least six months.

As HomeSave includes a combination of Saving Gateway and Social HomeBuy, it carries with it some of the same positive and negative aspects. However, as it is a 3-step approach, with incentives to open a bank account and 'move up the ladder', and includes free money advice throughout it is seen as giving participants a more "gentle" approach to equity stakes with potentially higher educational benefits. The idea behind it is also more long-term than the Saving Gateway model as it is clearly aimed at acquiring a long-term housing asset for those tenants that want to. It is most suitable for tenants that wish to invest in the long term but it is

possible for them to withdraw their investment in the HHIA and spend it on other things such as education, starting a business or to support a child through university.

The most obvious direct costs relate to complexity and transaction costs. Indeed it has not proved possible to develop the HHIA while the savings element awaits the Government's decision with respect to Savings Gateway - which currently appears to be negative.

Overall the scheme appears to be complex compared to more traditional approaches, although if it can be made to work it does have some additional benefits.

3.3.6 Irwell Valley Gold Service

This is a different type of scheme looking at ways of helping 'good' tenants to benefit from the lower costs they generate for landlords. This particular tenant incentive scheme was implemented by Irwell Valley Housing Association in Manchester and concentrated on reducing costs after it found that 80% of its efforts focused on 20% of problematic customers.

To improve the housing management and performance and address the 80/20 imbalance Irwell Valley implemented a scheme called Gold Service. The ideas behind it were to motivate staff to give extra service; give people the service and the product they wanted; and overhaul the landlord/tenant relationship. By rewarding and encouraging positive behaviour it was also hoped that it would create better neighbourhoods and make rented housing more desirable, as well as improving housing management and making it more open and transparent. Gold Service membership was offered to tenants as a reward for good conduct and to those who had rent accounts clear for six weeks and who had no anti-social behaviour notice or other tenancy breaches. The reward for membership was £1 in vouchers for each week of membership together with faster services. Since the scheme has been implemented arrears and voids have fallen, while rent collection has increased suggesting increased satisfaction as well as more effective management.

This is clearly not an asset based welfare scheme, but the model might be adjusted to include a

savings account where matching or supplements are based on the same criteria as the Gold Service membership. A savings scheme on a model similar to this could provide to the landlord a financial rationale for matching savings or equity to tenants. The majority of formal schemes of this type are run by housing associations who have responsibilities to introduce cost savings schemes as part of their efficiency remit.

3.4 Overview

The literature overall points to a range of costs and benefits to developing asset based models to assist low income households to develop greater financial security and flexibility. It also suggests that housing related schemes may be appropriate because of the household's attachment to the home and at least over the last few years the potential for significant capital gains. On the other hand there are few reasons in principle why savings schemes should be limited to housing.

Each potential scheme has its own costs and benefits. Often, costs are extremely difficult to assess, given the complex inter-relationships between schemes and different aspects of housing legislation and the benefits system. For example, if a tenant built up substantial savings and/or a capital sum related to the uplift in property values there is a risk that they might become ineligible for certain social security payments.

The range of models in the theory and policy literature suggests that it is extremely hard to develop models that can operate without either direct subsidy or access to land values - and that these models will inherently be more complex and costly to run than those available to better-off households.

There is also the problem that schemes of the kind outlined here may be applicable to relatively small numbers of households in relation to the overall total. This could make it difficult to convince the government that it is worth looking in detail at the implications for such complex mechanisms with respect to the Housing Revenue Account, the benefit system and ways in which local authorities can provide financial advice.

Finally, the evidence on existing schemes that we have considered in this report is limited by the novelty of many of the arrangements currently being attempted by local authorities and housing associations. In particular most of the schemes are run by housing associations which operate under such different legislative constraints that great care is necessary in reading across from one part of the social housing sector the other. Legislative and institutional constraints on possible schemes differ between local authorities, arms-length management organisations (ALMOs) and housing associations and their implications differ between different types of tenant.

In the next section we examine the evidence from stakeholders, tenants and on specific schemes currently operating or being developed in London.

4 The empirical evidence for London

Our research involved interviews with relevant specialists and stakeholders; a workshop to discuss models; and tenant focus groups, within a review of secondary material related to London specific projects. The issues addressed included understanding the objectives to be achieved through possible schemes; understanding constraints that need to be overcome to make schemes viable; and understanding particular local schemes.

4.1 Understanding scheme objectives

The original remit was very clear - to look at models which would help those who are likely to be increasingly excluded by the growing emphasis on homeownership by assisting savings and or by enabling them to buy a stake in their home.

Discussion with a range of stakeholders made it clear that the objectives were often far more complex than this - with important implications for which groups should be targeted by any initiative.

The range of objectives that were identified included:

- To help those who are just excluded by current market conditions and central government schemes from entering homeownership. Identifying this group was made more difficult by the fact that Social HomeBuy is still in the early stages of being piloted - so the target group is not well defined - although the problems faced by lower income Londoners are clearly greater than in much of the rest of the country. A particular target group here appears to be a subset of those in temporary accommodation who have some resources or access to such resources as well as those who are relatively risk averse and therefore happier with a stepwise approach to ownership;
- To sustain neighbourhood and the 'local place' agenda by helping lower income employed households to remain in the particular neighbourhood. This could involve providing assistance to households who are already potentially covered by existing low cost homeownership schemes in order to enable them to remain in higher cost areas rather than moving to a more affordable area. It has been suggested that more generous schemes than Social HomeBuy might be acceptable to government as long as it is clear it would enable stable, mainstream, households to remain in the area;
- To give those who are otherwise overstretched by the Right to Buy or shared equity schemes the chance to purchase a smaller proportion of their existing home and to face a lower risk of possession (and needing to be re-housed by the local authority). In other words to provide a more sustainable way into homeownership for people who appear to be covered by existing schemes;
- To assist those who currently have little or no chance of becoming even part owners because of low or irregular income or other family circumstances. There are three possible approaches here: To reduce the proportion to something that is affordable - whether it be 10% or 1%; To assist households to save in relation to housing, perhaps enabling a general stake in property (the HomeSave approach); or To provide options which do not include purchase to give people more control over their homes and lives e.g. through Tenant Incentive Schemes such as the Irwell Valley's 'Gold Service' scheme;
- To allocate some of the benefits of regeneration to tenants not only for the asset based welfare/access to homeownership reasons but also to make regeneration more acceptable to local households and for more general equity reasons. Available funding depends on changes in values as a result of public investment and the potential for transfer must in part depend on the extent to which the market foresees these changes in values as well as the local authority regulatory system;
- To change the ethos of social housing away from a dependency culture to one where tenants see opportunity and are prepared to take up that opportunity. Such schemes depend on who takes up the scheme and maybe on the 'density' of that take-up. A concern here is that it will be those who are already reasonably 'risk taking' who will be encouraged to take up any scheme rather than those mired in dependency culture - which could perversely increase social exclusion;

- To improve management and reduce the costs of that management by incentivising 'good' tenants and encouraging a self help ethos in relation to repairs maintenance and the local neighbourhood. Again there is an issue of targeting - in that those who are already 'good' and whose management costs are low may be the first to benefit.

The attitudes to targeting among the respondents we interviewed depended greatly on their position in the decision-making hierarchy. Those higher up that hierarchy tended to have general objectives relating to mixed communities and helping the excluded with little detailed thought about the nature of the schemes that might achieve the different goals. The views of this group could be defined as willing the ends without willing the means.

Those involved in central government policy tend to stress the complexity of small schemes, the difficulty of achieving take up levels, which make the set-up costs worthwhile and the transactions costs involved with each transaction. They saw any benefits coming from 'tweaking' existing access schemes and making Social HomeBuy more acceptable.

Local government respondents who are in the front line of defining specific schemes have far clearer ideas of exactly what their objectives are and of the political and practical constraints involved. They stressed concerns about giving up control over the social housing asset and the management difficulties involved. They have often been involved in trying to make a particular scheme work - but we have found no example of success in implementation without significant central government support.

In terms of tenant interest Notting Hill Housing reports large-scale interest although by no means all of those interested are in a position to take part. Westminster's analysis on the other hand indicated that there would be limited take-up by tenants. More general but limited evidence on Social HomeBuy suggest plenty of requests for information but relatively little interest in take-up - the exception being those now able to buy, possibly outright, who did not have the Right to Acquire.

Focus groups reflect real interest in schemes that support homeownership for those unable to afford it directly but considerable frustration about changing availability, valuations and levels of discount.

Our very small sample of potential purchasers from Westminster and Greenwich suggest a wide range of attitudes including:

- Older households with aspirations to purchase, often with the help of family who have missed out on earlier schemes
- Long-term tenants with secure incomes who want to buy their own home but whose capacity to pay has not kept up with house price inflation and who cannot afford to buy with current discounts;
- Tenants who have been in their properties long and who are looking for a step up the ladder in at least the same area.

None of these households were intending to move - so HomeBuy schemes other than Social HomeBuy were seen as irrelevant. As such their attitudes were consistent with authorities looking to stable households who wish to remain in the neighbourhood (rather than to vacate social rented housing for those with higher needs).

All of the households saw owner-occupation as desirable because of freedom and control over their own property; being on the property ladder; access to capital gains; and capacity to leave assets to their family. But in Greenwich, at least, households would rather remain social tenants than leave their home. They were mainly living in houses where they were happy to take control and pay for their own repairs and improvements either as owners or tenants. They were unconcerned at loss of Housing Benefit. Greenwich tenants were uninterested in savings schemes, feeling capable of finding their own and regarding the potential amounts involved as irrelevant. In Westminster however there was evidence of groups who were interested in savings. There appeared to be that trust with respect to the local authority - suggesting a slightly different finding than that in the literature for housing associations.

4.2 Understanding constraints

4.2.1 The economic and financial constraints

The two most important reasons raised by stakeholders and those taking part in the focus groups why London tenants faced particular difficulties were:

- London's high house prices in relation to tenant incomes - which means that London tenants are less able to benefit from national schemes such as Social HomeBuy, based on a given proportion of the asset price because they cannot afford the absolute cost and similarly lose out from schemes such as Right to Buy where the absolute value of the discount is a smaller proportion of the total cost; and
- The impact of particularly rapidly rising house prices over the last few years, which increase valuations and put even part purchase outside the reach of the vast majority of tenants.

Little mention was made of job uncertainty and the risks of unemployment. However these must be addressed if sustainable schemes are to be developed, especially as the smaller the initial purchase the longer the period of indebtedness to purchase is likely to be. An important issue raised here was in relation to the long-term position of tenant purchases. In particular should schemes only be aimed at those who can complete 100% purchase by retirement, or, especially in London, is a partial stake approach a valuable way forward?

In this context, a major issue, in relation especially to new build, is the impact of house prices on the property rights that tenants already have. In London rents as a rate of return on capital values are far below those found elsewhere. As a result tenants may give up a lot particularly in the longer term by transferring tenure and especially by transferring to new or regenerated accommodation in a different location. On the other hand a small proportional purchase in London may make it feasible for tenant purchasers to move to full ownership in other parts of the country.

4.2.2 Local government powers

The most important formal constraints relate to local government powers and in particular the role of the local authority housing revenue account

(HRA). In principle these can be overcome by central government. However there can be both direct public expenditure and wider regulatory implications to change which central government will need to consider.

The general principles under which all schemes would have to operate include:

- There can be no subsidy to the HRA property or subsidy to individual tenants (under the 1989 Act. In other words the HRA is ringfenced and cannot be subsidised by the General Fund;
- Any assets that are disposed of must be transferred at a price which reflects their highest and best use (best consideration) except to the extent that there is a general consent enabling disposal at a discount;
- Properties subject to general consents with respect to the Right to Buy and disposal to Housing Associations including LSVTs disposals (local authority dwellings are exempt in defined circumstances).

However:

- The government is looking to experiment with the more effective use of local authority assets in ways which may require modification of these general rules (the government has invited six high performing local authority ALMOs to work with it to establish in detail how to make freedoms and flexibilities work. These pilots will consider the benefits and disadvantages of taking housing out of the HRA subsidy regime and even the PSBR);
- There are powers to operate for the 'general purpose of well-being' which are being interpreted quite widely (e.g. offering equity loans to help purchasers in regeneration areas, new build on publicly owned land); and
- There is a general agreement among government representatives that, at least in principle, accounting constraints should not be a barrier to rational decision making.

Ringfencing and best consideration are matter of principle which cannot readily be overturned (as has been seen e.g. with respect to the £60,000 homes now being sold at market value). General consents for particular powers may be the best way forward.

4.2.3 Social HomeBuy and the HRA

There are important implications for the local authority in moving towards forms of shared equity. Most of these are currently ill defined except for Right to Buy. They are now being developed in the context of Social HomeBuy in terms of subsidy, asset recycling and accounting. At least in principle, whatever the proportion transferred, the property should move out of the HRA into the General Fund. Even if this does not formally occur (as it did not for Right to Buy) most of the reality will be equivalent. The relevant financial framework is that defined by the 1989 Local Government and Housing Act. An important issue under discussion at the moment is that boroughs in negative subsidy are likely to lose out unless the percentages sold are very high because the property does not transfer out and they lose the maintenance allowance.

From the point of view of local authorities and their tenants, while Social HomeBuy has some benefits there are also significant costs in terms of the detail of the contract, inflexibilities and possibly asset recycling. Extending the Right to Buy in some manner e.g. by the provision of shared equity loans on the market might in principle look preferable to extending Social HomeBuy. This has been the conclusion in the Irish Republic where discounts on full Right to Buy have made it affordable to very low income tenants.

The sale and accounting transfers together have two main effects:

- If the authority is receiving HRA subsidy (based on deemed expenditure less income - all pooled at the centre) that subsidy will be reduced ;
- If the authority is in negative subsidy it will still have to pay this and the sum will be increased by the loss of maintenance allowance;
- On the other hand a local authority is entitled to use 100% of the capital receipt received from a Social HomeBuy sale providing that it used for planned expenditure on affordable housing and regeneration. This is different from the situation regarding Right to Buy receipts where a local authority must pay 75% of the receipt to Government. There is a trade-off for local authorities considering Social HomeBuy between loss of subsidy for maintaining the existing stock and adding to their capacity to invest. The larger

the stake transferred the more likely it is to be worthwhile from the local authority's point of view. But it is also the case that they will benefit from further tranches purchased by the tenant.

The rules for Social HomeBuy are different from those for other types of disposal, in that the local authority must set aside the percentage sold not into the general Capital Allowance account against which investment can be made but into a Social HomeBuy Allowance account. The arrangement enables local authorities to retain the receipts to spend on affordable housing and fund buyback of Social HomeBuy properties. This potential repurchase at market value may generate a further risk in that the Social HomeBuy Allowance account could go into deficit if property values rise faster than the rate of interest earned on the funds. If the property value has been transferred to the General Fund it could be disposed of at market value - indeed it would be the only option unless further general consents are issued.

Another, rather different issue is the 'rent' to be charged on the non-purchased element. Under the new Social HomeBuy it is clearly an interest charge on the value still 'owned' (in a subordinate form) by the landlord. The maximum charge is 3% of capital value although the expectation is 2.75%. In the London context 2.75% could be higher than current local authority rents. In all contexts it is a proportion of capital value rather than taking account of other factors as social rents do.

The tenant/owner under all current schemes takes 100% responsibility for repairs and maintenance and any improvement costs. This appears to be partly because of the housing association funding regime specified by the Housing Corporation and could therefore be an area where local authorities might offer a better deal. There may however also be difficulties associated with financial regulation where ownership and responsibility for repairs and maintenance to be separated. Requiring purchasers to take on 100% of repair and maintenance costs has not been an issue for existing shared ownership schemes, which relate only to new build or properties subject to major rehabilitation. Similarly it has not been seen as a major constraint on existing HomeBuy schemes where the purchaser is buying 75% of the property. It has been an important issue in the context of Right to Buy where the commitment

involved in the first five years had to be clarified, but purchasers, especially those living in flats and/or regeneration areas, have sometimes found it difficult to meet later demands. The problems with Social HomeBuy could well be significant because properties are generally older and may be in poor repair. This situation is exacerbated the smaller the share purchased. There is clearly here a distinction between houses and flats. House purchasers are often looking for control over their own property, notably over repairs. Flat owners are faced with bills outside their control.

4.2.4 Regulatory and administrative constraints

The models outlined in this report would, if fully implemented, have impacts upon a number of complex legislative and administrative systems. In particular the treatment of individuals and/or households would have impacts on their access to the social security system. Purchasers, as shared owners, are eligible to be considered for Housing Benefit on the rental element charged on the landlord's retained equity, and for Income Support Mortgage Interest (ISMI), subject to the usual criteria.

Secondly, savings schemes, whether separate or attached to the property, would reduce the purchasers' access to social security payments. It would be important to clarify the impacts of such savings on eligibility. Finally, the property could in principle be sold to pay for health and other costs. Many of these differences might only become important once people reach pensionable age but could be of increasing significance thereafter.

A second major area of concern is in the context of financial regulation. The FSA has clearly stated that to obtain a mainstream mortgage the purchaser must be able to provide 100% security and this has so far been taken to mean that they must also have charge of maintaining the value of the asset.

There are further issues relating to the extent to which local authorities could act as, in effect, financial advisors without the risk they would come within the ambit of the FSA.

Each of the above areas of expertise is extremely complex and there are relatively few - if any - people who fully understand every aspect even of, say, the benefits system. The interaction between these

spheres is even more difficult to predict. There are currently no officials in either central or local government who can offer such a capacity. The evidence on the development of the new schemes is that all parties are thinking on their feet.

The fact that those for whom models of this kind are being designed may be relatively few in number, and have particularly complex needs, creates an additional problem. Unless a senior politician or party takes up the case for the implementation of one or more of the models, it is unlikely anyone outside government will have the full resources (e.g. lawyers, benefits professionals, HRA experts) to work them through.

4.3 Specific schemes currently in play in London

4.3.1 London borough of Southwark: Social HomeBuy pilot

This has been the first local authority pilot and developing implementation rules has proved extremely difficult. Southwark sees it as a means of reducing the risks faced by those who would anyway purchase rather than necessarily extending the scheme to tenants with little or no capacity to buy outright. The costs to lower income tenants, especially loss of tenurial and Housing Benefit rights, are thought to be too great.

The local authority has addressed the issue of repairs and improvement in the context of flats by requiring purchasers only to take responsibility for a proportion of these costs. This will make the Southwark scheme distinctive from general Social HomeBuy rules where the purchaser takes on 100% responsibility of costs of maintenance and repairs. It does not expect this to cause problems for obtaining a mortgage. Southwark will receive Government subsidy for management costs on the share of the property remaining with the council, however it will not receive maintenance subsidy or major repairs allowance.

The benefit to the authority is in terms of the capacity to recycle both the initial receipt and later receipts as purchaser staircase out.

Southwark wishes to enable resale to low income households, to include nomination rights and to stop subletting. Without these the scheme is though

to be infeasible. By statute such restrictions require the formal consent of the Secretary of State and this has been given.

The scheme is based on 25% minimum purchase and lower proportions would similarly reduce the benefits to both the local authority and to purchasers.

4.3.2 City of Westminster and CityWest Homes: flexible homeownership

The City of Westminster and its ALMO, CityWest Homes, have had a scheme with flexible ownership since 1984, similar to rent to mortgage and therefore to the Social HomeBuy model. In the beginning the shares could be bought at a minimum of 10% of the home, to make the offer as cheap as possible and available to a wide group of tenants. The minimum share has increased to 25% in 1994 because of a problem of getting lenders to support this scheme. The flexible ownership scheme does not have a protection clause such that the lenders cannot sell 100% of the home if the tenants fail to pay - which makes the scheme problematic to lenders placing the funding in a different category for regulatory purposes.

Overall the scheme has not had significant take-up - presently only 60 homes are under flexible ownership. The interest seems to have been greater than completions. Some of the problems pointed out were the expense of the homes and that very few could afford to buy a share of their homes although they were interested. Another problem was that the legal procedures along the way were perceived as difficult and time consuming by the potential buyers. From an administrative point of view the work with the flexible ownership scheme were also perceived as difficult and giving a disproportionate administrative burden.

4.3.3 Notting Hill Housing: Rent Plus scheme

Notting Hill Housing Association has developed a four-pronged approach to encouraging homeownership and lower costs:

- A Rent Plus savings scheme with a high rate of return, plus a bonus to those doing their own repairs and a further bonus for those who go onto using the savings to buy their existing home or another home;

- Social HomeBuy where tenants can buy their existing home but for those buying a 75% stake no rent is payable on the 25% outstanding, a home advice service and 10% shares;
- Reducing the minimum proportion that can be purchased on a new home on a shared ownership basis to 10%;
- Delivering a "home options service" where tenants who have an aspiration to own are given advice and help on what is available for them, and what they need to do to work towards being able to afford to buy.

Rent Plus is intended to prepare tenants to owning a home and change the dependence culture of social housing. Rent Plus both consists of a saving scheme through direct debit and a bonus for people who do their own repairs. On one side the saving aspect is intended to get people to get used to spending less and saving parts of their income, but also to enable them to save up towards a deposit.

Participants must save a minimum of £10 per week and a maximum equivalent to their current rent. If they pay their rent regularly on time through Direct Debit they get a reward worth 3 weeks' saving. The participants can take out money at any time, but they only qualify for a bonus if they are a part of the scheme at the end of the year. If they use the savings to buy a home Notting Hill Housing also offers them a 10% top up on their total savings. This may make sense in London where house prices are higher than the rest of the country. Another aspect of it is that tenants can only buy new build properties not the homes they are occupying.

The scheme is currently at a very early stage, Rent Plus has been piloted since May-June 2006 and the 10% share pilot started in October 2006. The Home Options pilot has over 50 tenants signed up and some of those have signed up to Social HomeBuy, shared ownership and Rent Plus schemes. It is therefore difficult to make any assessment on the pilots yet: a full review is planned for a year's time. What is reported is that people have showed great interest in these schemes and are generally quite positive. It is also interesting that it has been possible to get lenders to sign up to fund the 10% share pilot, while CityWest Homes was not able to earlier. CityWest Homes were not giving lenders the right to the whole home if the tenant failed to meet mortgage payments while the NHHT and Social HomeBuy schemes do.

One of the positive aspects of this scheme is that is quite simple and relatively easy to administer. One concern might be that the benefits of saving are not high enough for people who are not used to saving. This may well be the reason why a Westminster 'Right to Buy' style scheme looking to sell flexible proportions of housing has proved unpopular to tenants and has been discontinued.

Another point worth noting is that the bonus for tenants who do their own repairs is problematic to people who receive Housing Benefit, as the benefits are meant to cover cost of repairs as part of rent. People in receipt of Housing Benefit cannot currently participate in this scheme for this reason, but problems may arise if people who are a part of the repairs scheme get housing benefits at a later point in the scheme.

4.3.4 Royal Borough of Kensington and Chelsea: modified Right to Buy

Kensington and Chelsea has been examining ways of modifying the Right to Buy to include partial purchase in a way similar to that used by CityWest. Modifications considered include examining the feasibility of higher discounts. Again the rationale is the very high cost of ownership in the borough and the need to maintain a full range of employed households in the community.

The issues raised are similar to those for CityWest - the constraints currently placed on discounts by the Right to Buy rules which limit these to £16,000; the concerns about increasing management and regeneration costs; the opportunity cost of transferring equity benefits to a narrow range of households; and the loss of social rented stock.

4.3.5 London Borough of Barking and Dagenham and English Partnerships: community land trust scheme

The London Borough of Barking and Dagenham has looked at the question of governance of Community Development Trusts which include the full range of activities as well as housing. Such Trusts traditionally bear more resemblance to more traditional leasehold approaches and are a means of enabling the Trust to 'tax' development gains by charging a 'rental' element proportional to increased values. The objectives of Housing Trusts on the other hand are normally to reduce the costs to occupiers by some proportion (up to 100%) of the value of the land.

The Housing Corporation is also providing funding to assist Community Finance Solutions (who is providing

a guide on community land trusts) to develop methods by which housing associations can help deliver community land trusts, and perhaps also expand the number of pilot community land trusts, including non rural pilots.

These schemes raise major issues of timing because of the need to transfer assets at best consideration, which includes 'hope' value. They also raise practical issues with respect to the mixed communities agenda and maintaining public control over the land asset and allocation at the same time as using trust land for 100% purchase and social rented housing.

4.3.6 London Borough of Greenwich

The borough is looking to take forward a number of approaches to enhancing tenant equity involvement in their housing and community. In the new build context they wish to put in place a form of shared equity which does not allow full staircasing and therefore remains affordable to the next round of purchasers. This might be done through some form of community land trust.

In the context of regeneration it is looking to providing an equity stake to compensate tenants who face disruption as a result of the regeneration process and to enable them to benefit from rising values. Allocating equity to tenants in this way is more easily done through housing associations but there are potential mechanisms to make it possible for local authorities. One approach might be in principle be to use existing powers to compensate existing occupiers through the general well-being clause. Similar types of scheme have worked well in other countries.

4.4 Overview

The vast majority of these schemes are little more than ideas at the present time so details are generally not available. There are also many possible variations, and indeed additions, possible to the schemes currently in play. Each has its own rationale but also its own constraints and costs.

Table 1 provides a summary of the main types of scheme identified from the literature and national approaches in section 3.3 and from the evidence on London in section 4.3. It clarifies for each type of scheme the main objectives, the instrument to be used to achieve those objectives, the benefits to tenants and the impact on public finances.

Annex 2 provides a more detailed listing of the rationale and costs of the currently most relevant schemes.

Table 1: Models in play

Model	Objective	Instrument	Subsidy/Benefit to Purchaser/Tenant	Impact on Public Finance
Group 1: Assisting access to owner-occupation				
Right to Buy	<ul style="list-style-type: none"> • Access to owner-occupation • Maintaining communities 	<ul style="list-style-type: none"> • Discounted purchase price + traditional mortgage 	<ul style="list-style-type: none"> • Discount • Access to % of own home 	<ul style="list-style-type: none"> • 75% proceeds to Treasury • 25% proceeds to LA for reinvestment
New Build and Open Market HomeBuy	<ul style="list-style-type: none"> • Stepped access to owner-occupation • New mixed communities 	<ul style="list-style-type: none"> • Shared equity mortgage on different home (New Build HomeBuy) • Loan for 25% of purchase price + traditional mortgage (Open Market HomeBuy) 	<ul style="list-style-type: none"> • Access to home ownership • 25% loan (Open Market HomeBuy) 	<ul style="list-style-type: none"> • Central government capital subsidy/£106
Social HomeBuy (a) Government scheme (subsumes Rent to Mortgage and Voluntary Purchase Grant) (b) Modified versions <ul style="list-style-type: none"> • 10% shares • lower 'rent' • purchaser does not have 100% responsibility for repairs and improvement • upfront discount /discount on further purchases 	<ul style="list-style-type: none"> • Access to housing equity • Stepped access to owner occupation • Maintaining communities • Reducing risk of full purchase • Access to borrowing 	<ul style="list-style-type: none"> • Purchase of proportion with proportionate discount • Shared equity mortgage 	<ul style="list-style-type: none"> • Discount • Access to partial or full % of own home 	<ul style="list-style-type: none"> • Reduced HRA subsidy • Reduced access to Housing Benefit • Reduced costs of repair and improvement • Capacity to recycle capital receipts
Community land trusts (partial purchase in perpetuity)	<ul style="list-style-type: none"> • Access to owner-occupation • Affordability in perpetuity 	<ul style="list-style-type: none"> • Lower sales price • Contractual relationship to control sale • Shared equity in perpetuity 	<ul style="list-style-type: none"> • Nil subsidy • Access to cheaper home 	<ul style="list-style-type: none"> • Shares gains from community investment

Table 1

Model	Objective	Instrument	Subsidy/Benefit to Purchaser/Tenant	Impact on Public Finance
Group 1: Assisting access to owner-occupation				
Regeneration equity (access to capital gains on partial purchase)	<ul style="list-style-type: none"> • Redistribute gains from regeneration/ compensation for costs 	<ul style="list-style-type: none"> • Shared equity mortgage 	<ul style="list-style-type: none"> • Access to capital gains 	<ul style="list-style-type: none"> • Loss of revenue and unrealised capital gains
Group 2: Assisting tenants through savings schemes				
Savings Gateway	<ul style="list-style-type: none"> • Build habit of saving • Build nest-egg • Reduce dependency 	<ul style="list-style-type: none"> • Matched savings • No direct relationship with housing • Could be run be landlord acting as 'bank' 	<ul style="list-style-type: none"> • Higher interest rate/greater security for savings 	<ul style="list-style-type: none"> • Direct payment
Rent Plus	<ul style="list-style-type: none"> • Build habit of savings • Build up nest egg • Reduce welfare dependency • Access to housing 	<ul style="list-style-type: none"> • Enable regular housing linked savings • Matching grant to increase rate of return • Right to use on range of housing options 	<ul style="list-style-type: none"> • Benefit to tenant • Increased "interest" rate on savings • Access to housing specific subsidies as above 	<ul style="list-style-type: none"> • Public Finance • Direct payments (offset only by lower costs of management)
HomeSave	<ul style="list-style-type: none"> • As Rent Plus but with access to more general housing equity 	<ul style="list-style-type: none"> • "Investment" in affordable housing • Social HomeBuy • Three elements: <ul style="list-style-type: none"> – Matched savings – Investment' in affordable housing – Social HomeBuy 	<ul style="list-style-type: none"> • As Rent Plus 	<ul style="list-style-type: none"> • As Rent Plus
Group 3: Assisting landlords and tenants through lower costs				
Gold Service/elements of Rent Plus etc.	<ul style="list-style-type: none"> • Reduce management costs • Improve Service • Reduce dependency 	<ul style="list-style-type: none"> • Prizes for good behaviour • Transfer of repair responsibilities 	<ul style="list-style-type: none"> • Nil • (possibly some cross subsidy between tenants) 	<ul style="list-style-type: none"> • Should pay for itself

5 Conclusions and recommendations

5.1 Findings

The work done suggests that:

- There are sub groups of tenants who would welcome both shared equity, and to a lesser extent and depending on the level of subsidy, savings schemes; and
- There is a great deal of good will towards such schemes if they can be made to work at scale.

It also suggests that schemes will usually have high transactions costs, which will make it problematic to provide something worthwhile for the tenant with limited resources and especially those on benefit.

With the exception of the London Borough of Southwark Social HomeBuy pilot, the relevant schemes that are actually functioning are based in housing associations and depend upon their independent powers and responsibilities. Making them work within a local authority context is far more problematic and must depend on central government's political support, leadership, regulatory change and, probably, resources.

The most important constraints on local authorities lie in those placed on them by their HRA responsibilities on the one hand and the more general Treasury requirement of best consideration on the other. Together these place very tight restrictions on the amount of assistance that authorities can provide to tenants. On the other hand certain well being powers offer some opportunities and with government permission rent restructure does not need to preclude rent based initiatives.

There are opportunities for local authorities and for London Councils to champion particular types of schemes and to develop London specific pilot schemes with the support of central government. However there are some very important issues to be resolved often associated with the HRA before there is likely to be significant take-up.

Gold Service approach

Working from our analysis of schemes in sections 3 and 4 the most obvious win/win scheme is a version

of the gold service approach, because it is based on cost savings and efficiency.

Schemes such as discounts or rewards for full and timely payment of rent, undertaking the household's own repairs and similar management and cost saving activities can in principle come under Best Value as long as they can be shown to pay for themselves. It would need central government permission to include them within the rent structure. Or this could involve discounts on other consumption goods, or access to a savings scheme.

Savings schemes

There is no appetite for savings schemes unrelated to property as other options are readily available and there is little obvious benefit from local authorities acting as financial intermediaries.

On the other hand there is clear potential for a London-wide scheme which linked savings to obtaining a stake in the tenant's home. This would need to involve some element of matching - e.g. that savings purchased twice their value in terms of the capital asset or that tenants doing their own repairs could turn twice the value of those repairs into a capital stake in the property.

The most immediate potential lies in a modified version of Notting Hill's Rent Plus scheme rather than in the more complex HomeSave model.

Social HomeBuy

The third and largest group of potential schemes involve subsidising part purchase of the tenant's property. The best developed is clearly Social HomeBuy.

The fact that London's house prices are so much higher than the national average and have been rising rapidly means that on equity grounds at least there is a case for enabling households to enter shared ownership with proportions lower than 25%. However costs to the local authority increase as the proportion goes down. From the point of view of the tenants, the smaller the proportion purchased, the smaller the benefit - relatively if not absolutely. Moreover, at the moment also the discount is determined by the size of the initial purchase.

A major issue remains that of repairs. Under current rules the purchaser would take on all the costs, which could be significant. It is worth noting that the apparently popular 10% scheme just introduced by Notting Hill is based on new housing (this is in addition to its Social HomeBuy pilot which enables existing tenants to buy minimum 25% shares in their rented homes). In the local authority context, tenants under this type of scheme would be buying existing, often older, units where the repair costs could be considerable - and the management costs to the authority also high (even allowing for central government subsidy). The purchase of flats would be particularly difficult and risky for the purchaser. On the other hand local authorities are not subject to Housing Corporation rules which require 100% transfer of costs to the tenant owner.

Community Land and Development Trusts

With central government assistance, there is also potential for piloting Community Land and Development Trusts to provide shared equity into perpetuity and regeneration 'bonuses' linked to partial purchase. Such an approach via Community Land Trusts can only readily be applied to new build/redevelopment and initial attempts have so far proved abortive. Much of the current interest is in mixed developments.

This is an area where London Councils and its members might appropriately ask Central Government to take the lead on developing appropriate models for urban and especially inner city areas perhaps via English Partnerships.

A simpler version from the point of view of London tenants would be to increase discounts on Right to Buy and/or to freeze prices (or increase them only by general inflation) at the point of initial purchase. Both of these options are wholly dependent on central government. The approach under discussion in Greenwich, by which tenants in a specific regeneration project might benefit from specific capital gains, might provide a way forward although it would require central government permission.

5.2 Opportunities and constraints

None of these potential schemes can work effectively without additional powers for the local authority. To make them work effectively and comprehensively the fundamental issue of incomes in relation to house prices has to be addressed. However there are in principle potential savings to government from releasing existing equity. In this context we list some of the major opportunities and instruments:

Opportunities

- The government has already indicated its intention to enable high performing local authorities and ALMOs to use their assets more effectively. This opens the door to new initiatives that can be proved to be cost effective and to increase the potential to recycle land and housing assets – provided they are also cost effective.
- The Treasury is concerned about the low levels of receipts now being achieved under the Right to Buy. Cost-benefit analysis points to potential benefits to the public purse of higher discounts - but only to those able to provide significant proportions of their own funding (through own equity or a traditional mortgage).
- There are significant numbers of tenant households who want to purchase and have some resources over and above the rent (including those who expected to be able to purchase under Rent to Mortgage or Right to Buy when the discounts were a higher proportion of values).
- There is a massive underutilised social asset tied up in local authority housing which the government wants to release - and may be prepared to act more generously to enable such release.
- The government is committed to 75% homeownership and to supporting the mixed communities agenda.

Constraints

- The 2007 Comprehensive Spending Review is going to be extremely tight so only schemes that can be seen to be value for money and are directed at government priorities - notably generating more affordable housing - are going to have significant chance of success.

- Social HomeBuy is not currently good value for the traditional social tenant. They lose the right to Housing Benefit; they take on repairs and maintenance; the 'interest charge' unlike the regulated rent is proportional to value, and the discount relates to the initial proportion purchased. Where Social HomeBuy is taken up, the tenant is exposed to homeownership liabilities and financial risks. The smaller the proportion purchased the more difficult it is to make the sums add up.
- Rising house prices are increasing the depth of subsidy necessary to make entry into any form of shared equity scheme for the majority of local authority tenants.
- 'Best consideration' requirements which mean that assets can only be transferred at market value without specific consent by government.
- Although there is evidence of preparedness to legislate 'general consent' to smooth the introduction of Social HomeBuy there is no evidence of preparedness to change fundamental HRA rules which make it poor value for many local authorities.
- Any partial purchase involves not just central and local government and the potential purchasers but also financial institutions and the FSA.
- House prices can go down as well as up so risks for low income households.
- Savings schemes can only 'work' with direct matching payments.

5.3 Recommendations for action

Our recommendations for action fall into three groups:

• Discussion with and lobbying central Government

Only central government has the command of legislation, regulations and the authority to deliver change necessary to achieve the kind of reforms outlined in this report. The nature of the client group and the complexity of overlapping departmental responsibilities mean that Whitehall involvement is essential if change is to be achieved.

• London wide initiatives

London boroughs are well placed to undertake pilots, partly because of the unique circumstances of the capital, including high land values. But there is also a 'London problem' of affordability that is greater than elsewhere in the country.

• Piloting specific schemes

Without pilots it will be impossible to test (a) the bureaucratic implications and (b) the impact on the client groups concerned. Pilots could provide the government and the boroughs with better understanding about how to proceed.

5.3.1 Discussion and lobbying of central Government

The vast majority of possible schemes cannot be brought to fruition without central government involvement and sponsorship. Immediate pressure points where lobbying might be appropriate include:

- Enabling discounts to be paid on additional tranches purchased by tenants rather than simply on the initial portion purchased under Social HomeBuy;
- Enabling tenants to bear only their proportion of repairs and maintenance costs through the continuing maintenance subsidy;
- Requesting that central government discusses with the FSA and mortgage lenders the way forward for enabling responsibility for repairs and maintenance.

More fundamental issues for discussion with central government include:

- Modifying Social HomeBuy to allow the possibility of lower proportions;
- Increasing the discount to London tenants to address the issue of absolute versus proportional benefits;
- Examining the case for transfers of property to match savings and/or repair and management responsibilities;
- Enabling the development of a London-wide local authority 'Rent Plus' scheme;
- Enabling the pilots to be set up to address the potential for regeneration 'bonuses'; and
- Encouraging the development of operational Community and Development Land Trusts.

5.3.2 London wide initiatives

The most immediate areas where a London-wide approach led by the London Councils has obvious potential are in respect to

- Variations on the 'Rent plus' approach to match savings or other tenant inputs;
- The development of appropriate gold standard models.

Both of these can be developed in more detail fairly rapidly with input from stakeholders and central government.

5.3.3 Piloting specific schemes

Finally we would recommend developing a pilot scheme in the context of regeneration which enables tenants to benefit from the capital gains associated with regeneration. Greenwich and possibly Barking and Dagenham look like the most appropriate pilot local authorities.

5.4 Final conclusions

The list of options above is, of course, not the limit of potential inventiveness in relation to asset-based savings schemes. They represent a summary of the characteristics and/or operational features of a number of schemes that have been tried or discussed in recent years. None of the options has been heavily used, though some have been given greater prominence than others. Many low-income households would like to exercise a right-to-buy. Some might be willing to consider a savings arrangement linked to the local authority property they are occupying. The 'market' for such arrangements is real, but weak.

In part, the demand is weak because of the modest spending power and weak political position of low-income households. But the complexity of existing housing governance, ownership, financial advice legislation and local government funding arrangements make progress doubly difficult. Only a fully committed government could truly make broad progress in the delivery of asset-linked savings schemes. Yet, the political salience of housing in Britain means the issue could easily and unexpectedly become more visible. This research is a start. The political environment is moving in this direction. But any potential scheme will need a champion.

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ANNEX 1: Consultees

Organisations consulted:

Department of Communities and Local Government
Department of Work and Pensions
HM Treasury
Chartered Institute for Housing
National Housing Federation
Notting Hill Housing Trust
City West Homes
Department for Work and Pensions
London Borough of Barking and Dagenham
London Borough of Greenwich
London Borough of Southwark
Westminster City Council
Royal Borough of Kensington and Chelsea

Individuals consulted:

Steve Partridge
Rachel Terry
Michael Jones

ANNEX 2: Assessment of relevant options

Group (i) Assisting access to owner occupation

1. Partial purchase: modified Social HomeBuy
2. Shared equity in perpetuity
3. Access to capital gains via partial purchase

1. Partial purchase: modified Social HomeBuy

Rationale

Current scheme not worthwhile to tenants unless buying a large proportion because of

- Loss of rights including Housing Benefit;
- Possibility of higher 'rental' element;
- 'Running to catch up' with increasing house values;
- Responsibility for repairs and improvements.

Difficulties for landlords

- Complexity of HRA position - loss of subsidy;
- Continued responsibilities for purchasers in trouble and for maintaining flats - possible diseconomies (affordability checks aim to prevent future problems unless change of circumstances).

Possible modifications

- Reduce minimum proportion to 10% in London;
- Make more like Shared Ownership with secure rental element; maximum 'rent' equal to regulated rent; access to Housing Benefit on rental element; well defined staircasing rules in both directions;
- Allow discount of subsequent purchases; or
- Possibility of specifying price and discount at outset (as maximum) related to good behaviour and time limit;
- More careful valuation to ensure purchaser obtaining benefit from own investment;
- Proportioned repairs and maintenance for flatted accommodation;

- Readdress issue of remaining subsidy to relate it to repair etc as well as maintenance
- Clarify role of Social Home Buy Account to ensure effective recycling.

Whatever is done, Social Home Buy will be better value the larger the proportion purchased. The benefits to the tenant of small-scale purchases depend on the impact on 'dependency' culture and ensuring a safety net. Tenants appear relatively uninterested unless they can see the possibility of full purchase. If initial discount rules remain as they are, the scheme may not be workable.

Costs

- Direct costs limited to repair maintenance and transactions costs borne by local authority at present time.
- Potential cost from rights to Housing Benefit
- Economic cost from higher discount and real terms benefit of that discount.

2. Partial purchase in perpetuity (community land trusts)

This involves selling a proportion or a specified element of the housing equity and holding the rest (e.g. the land) for the benefit of the community. Forms of community land trusts and community development trusts are therefore forms of truly shared equity. They cannot readily work with existing tenants but may be appropriate where there is public ownership of land where large scale new or regeneration development is occurring. The £60,000 home concept could be one way forward but they are currently being sold at market value because of best consideration rules.

3. Access to capital gains via partial purchase

This would involve specifying the price at a point in time and transferring a proportion (up to 100%, but probably related to the proportion of asset purchased) of any capital gains e.g. from regeneration to the tenant purchaser.

Rationale

- Offset to those suffering 'costs' of regeneration;
- Enabling a stake without necessarily increasing basic discount;
- Benefit specific to existing tenants in a given location - inequalities and potential legal complications if any funding involved;
- Cannot be done without changing general consent rules with respect to specified regeneration areas or types of area;
- Requires careful valuation and problems of 'hope' value built in to original price;
- Most obvious way is to link to a shared equity scheme with discount of purchase within time limit based on initial valuation.

Costs

Only the opportunity (economic) costs of transfer of unrealised value to tenant, while all other elements are similar to Social Home Buy. Effectiveness would depend on modifications of that scheme.

Group (ii) Assisting tenants through savings schemes

1. Transferring value to tenants
2. Rent Plus
3. Matched savings unrelated to property

1. Transferring value to tenants

That is a discount in form of a proportion of dwelling value (or absolute value equal to varying proportion) possibly varying with length of time in property, and possibly with a minimum qualification length, e.g. minimum 3 years. It could be linked to matched savings; to taking responsibility for repairs; or other means of reducing costs.

Rationale

- Gives all tenants an interest in their home and reduction in dependency culture;
- Could be linked to requirement to do internal repairs and maintenance - with loss of rights if not kept to standard and do not meet gold standard tenancy responsibilities
- But simply a gift if no requirement to put in own (or mortgage funding);
- No recycling capacity/loss of control over property;
- Need for fund to finance realisation of value uplift when owner moves (could be regarded as equivalent to a tenant incentive scheme) and on death - with direct costs to local authority unless can sell on to low income household (as with Social Home Buy pilot)

Costs

- Direct costs of any realisation payment;
- No recycling or other benefit from transfer or property rights to tenant;
- Inequalities with potential tenants (true of all but more obvious here);
- Value depends fundamentally on reductions in management costs, on well-being benefits to offset costs and on reductions in dependency;
- Benefits to government very limited as can not operate unless maintain tenancy rights to security Housing Benefits etc.

2. Rent Plus

Unless this is linked to purchasing an element of property based savings this involves direct subsidy. The case for using cross subsidy within the HRA must be based on either identified savings or well-being benefits including 'dependency' reduction.

Rationale

- Tenants generally regard the amounts as irrelevant unless there is a significant subsidy on the interest rate or it is linked to the property purchase and related discounts (as above).
- The costs of setting up and organising a scheme has to act as a bank - subject to FSA regulations etc - seem too high unless can link to property.

- The only mechanism for providing benefits without direct subsidy from government has to be relation to discounted dwelling purchase.
- Local authorities have no power to use General Fund to assist tenants
- Direct costs depend on amount of subsidy and scale of eligible savings.
- Government preparedness to take part would depend on going ahead a with Savings Gateway approach.

3. Matched savings unrelated to property

As above - depends entirely on government's preparedness to fund the matching grant. Costing (as above) depends on amount of eligible savings and level of subsidy. Would expect take-up to be relatively low.

Group (iii) Assisting landlords and tenants through lower costs

Gold standard

This is simply a mechanism aimed at reducing the costs of management and maintenance and transferring some of these savings to tenants. As long as it meets prudential rules it could simply be part of good management practice. However, it would require direct payments to be made unless there was an agreement with government in relation to rent regulation. It would have benefits to government in terms of savings on Housing Benefit.

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