



Public Accounts Committee

Oral evidence: Help to Buy: equity loans, HC 1154

Wednesday 2 April 2014

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Members present: Margaret Hodge (Chair); Mr Richard Bacon, Stephen Barclay, Guto Bebb, Jackie Doyle-Price, Mr Stewart Jackson, Fiona Mactaggart, Austin Mitchell, Nick Smith, Justin Tomlinson

Amyas Morse, Comptroller and Auditor General, National Audit Office, Gabrielle Cohen, Assistant Auditor General, NAO, Aileen Murphie, Director, NAO, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Witnesses: Sir Bob Kerslake, Permanent Secretary, Department for Communities and Local Government, Andrew Rose, Chief Executive, Homes and Communities Agency and Peter Schofield, Director General for Neighbourhoods, Department for Communities and Local Government, gave evidence.

Q1 Chair: Welcome. We think this will be quite tight and short. There are some key issues to raise with you, but hopefully we can do this in a relatively short time. I think this must be the second or third hearing we have had with CLG on this. You bring in a new scheme and this is a lot of money—we are talking about £3.7 billion, accepting that you hope to get lots of it back—nevertheless it is a huge, huge investment of public money. The basis on which you bring it in is always tenuous. Then you are very reluctant to do a proper evaluation. I want you to talk us through that.

I am trying to see what the basis was for deciding that this was the scheme that would give you the impact you wanted it to have—more homes, economic growth, more affordability. Those seem to be the three aims of the scheme, but there is very little evidence on which you built it. The Report is littered with “they’re not getting the data they need to find out whether it works” and “they’re not doing the evaluation we want”. It’s very frustrating for a Committee that is trying to test you on a value-for-money basis to find that you are refusing to have the data on which to take the decisions and the data on which to evaluate.

Sir Bob Kerslake: Let me try to answer that. First, on this occasion we have good data on which we based the decisions. Indeed, we prepared a very full business case to underpin our decision. That included calculations of potential costs, potential value from the scheme and so on. All that was there.

Q2 Chair: I have to challenge you there. I can't remember the page, but unless you didn't sign off the Report, the Report says that you had no data on which to go ahead with the scheme.

Aileen Murphie: Yes. We looked at the business case and it wasn't possible to see whether they had evaluated a range of options at that point.

Q3 Chair: "Research evidence", here we are. I refer you to paragraph 3.3 on page 28, where it says that the Department, "designed the scheme with limited evidence on outcomes from past initiatives" and gives two examples. One example is HomeBuy and it concludes that, "there was no impact on the supply of housing", which is one of the intentions of this one.

Sir Bob Kerlake: Let me take you through that. The point I was making about the business plan was that we had done a business case analysis. There is a challenge from the NAO Report about whether we evaluated alternatives—we acknowledge that point—but in relation to the specific scheme that went forward, we made a business case based on the evidence available to us.

Chair: There is no evidence.

Sir Bob Kerlake: I am sorry, there is evidence; this is the second point I want to go on to. The particular scheme you refer to was not targeted at new build. It predated that and was available both for new build and for second-hand properties. In fact, it was much more associated with one particular issue in relation to affordability.

Q4 Chair: HomeBuy? Hang on, I am sorry and I'm not doing this to be difficult, but if you look at figure 2, under "HomeBuy", it says, "new build only", unless I am misreading it.

Sir Bob Kerlake: The first incarnation of the scheme did not include the new build element. It did not confine it to new build at the start of the scheme; it changed during the scheme.

Chair: Neither does this scheme.

Peter Schofield: Chair, paragraph 3.3, the one you were referring to on page 28, does say: "We found two evaluation papers on the HomeBuy scheme on existing properties from 2001 and 2008".

Sir Bob Kerlake: That is the point that I am making. The evaluation wouldn't have helped. I want to take you through the three stages of this. The first is, did we base the decision on a business case with evidence and analysis? The answer is yes. Did we look at alternatives? That is a fair challenge from the NAO. Do we monitor the scheme as it progresses to assess whether it is having an impact? Absolutely. I am happy to go through why we believe that it is having an impact and why we think it is producing benefits. Thirdly,

are we willing to do an evaluation of the scheme? The answer is yes. I signalled in my letter to you that we will be doing an evaluation in 2015. So there are three levels to this. There's the business case for the scheme, there's monitoring and there's evaluation. I'm not saying we did everything right, but we have a good story to tell on all three.

Anyas Morse: Perhaps a Treasury Officer of Accounts would be able to help, but I thought the managing public money rules required that a business case should include an evaluation of alternatives. Is that not true? I thought it was.

Marius Gallaher: When you construct a business case, you should look at as many options as possible, including not doing anything, but there are also political and ministerial imperatives.

Amyas Morse: Of course there are. I am just saying that it is not abnormal. Just as you pass it by, it is just normal to evaluate alternatives. All the business cases I see seem to contain that.

Sir Bob Kerslake: Let me explain that particular point. The key question at the time was what sort of scheme could be introduced quickly and have a significant impact on the market, increasing confidence.

The judgment we reached on that point was that, if we were going to introduce it quickly, we needed to build on the foundations of schemes we already had. That was the first point. If it was going to have an impact, you needed to think big and make a big offer, if you like. That is what led us to go for a single scheme at the time. I am not denying your point that, in other circumstances, it makes sense to evaluate a range of options, but in our judgment on this particular occasion, if you wanted to move quickly and have the impact, this was the option to go for.

Chair: I will bring in Justin. You have not answered the question and I will come back to it.

Q5 Justin Tomlinson: It is further on to this. This is the sixth scheme since 2006 to try to stimulate the housing market. While you maybe did not compare it with other alternative new ones, what did you draw from the previous five schemes?

Sir Bob Kerslake: Two or three things came out of that. The first thing that came out from the immediately previous scheme was that the requirement for the house builders to put in equity themselves was a limiting factor on the scale of the scheme. That was one of the issues that came out. A second one was that if you introduce a set of requirements, that has the benefit of targeting, but in some way narrows the offer that you can make and therefore reduces the impact.

Hence, one of the things we did was go for an offer where there were very few filters to the availability of the scheme. That was the second thing. A third thing was that running the previous schemes gave us a good idea of what delivery mechanism worked best. Andy could come in on this if you wanted. We had had good performance from the HomeBuy

agents and we had an understanding of how much it would cost and how much we might be able to deliver the scheme for.

We had practical operational experience that we learned from that scheme. Then the final point: we had good evidence that where we got the package right there was a clear demand for it. We also know from previous schemes that the levels of defaults and repossessions are very low. So five things—

Q6 Chair: Can you and your colleagues who are sitting there list for us the evidence that you looked to? Just list the studies that we can go and look at that tell you that any of the five schemes that Justin talked about or this one here did the things that you wanted to do. That was to increase housing supply, improve affordability and contribute to growth. Just give me a list. I don't want a big question that we thought this, that and the other. This is supposed to be evidence-based policy. So where did you get it? Where was it?

Sir Bob Kerslake: We got the evidence from our own data from running schemes at the moment. It was not from a Report by the NAO or others.

Q7 Chair: What data? Evaluation data?

Sir Bob Kerslake: No. Data from monitoring the schemes in their operation and implementation, from feedback.

Q8 Chair: Monitoring what? So there was no evaluation evidence on which you based the design of this scheme?

Sir Bob Kerslake: You say that you have to distinguish between evaluation evidence and evidence. We have plenty of operational evidence about what operates.

Q9 Chair: That is about how you operate the scheme. I will say it again. The purposes are to increase housing supply, contribute to economic growth and improve affordability. Where is the evidence that £3.7 billion spent in this way, built on from the schemes we had before, will lead to that outcome?

Sir Bob Kerslake: The evidence we had, as I said earlier, was from the introduction of those schemes and the response of the house builders and the feedback we had from the key operators.

Q10 Chair: That is woolly. Point me to some studies that I can look at.

Sir Bob Kerslake: With respect, it is not woolly.

Q11 Chair: It is woolly.

Sir Bob Kerslake: Let me finish the point. The evidence we have is from the feedback from the house builders about what increases confidence. That is not woolly; that is hard evidence from those house builders. You can't ignore that evidence and say it is woolly.

Peter Schofield: I should add, Chair, that the Report itself reflects evidence from the monitoring information that we collect on all the schemes. It refers to the dashboard that we collect on Help to Buy, and we had similar monitoring on our other schemes. I should say that it also underpins the point that Sir Bob was making about developer contributions, because the Report says that in the First Buy scheme, only around 100 developers participated in the scheme, whereas in Help to Buy—as the Report said—it is well over 1,100. This is all about using the evidence that we are collecting from our monitoring data and designing the scheme along those lines.

Q12 Stephen Barclay: The NAO's Report supports that, because paragraph 19 says, "The evidence so far indicates that the scheme is helping buyers access the housing market...89 per cent...have been to first-time buyers." So is it not the case that some of the early evidence from the scheme itself reinforces some of the thinking ahead of its launch?

Sir Bob Kerslake: I think that all the evidence we have now reinforces our view that our judgment was right. I am quite happy to go through that information. The question, which I think is an entirely fair question, is, "What evidence did we have at the time we made the decision?" And what I am saying to you is that we did not have full evaluations, but we had significant evidence on the operation of a similar scheme and significant evidence about the impact of those schemes, according to the people who are most important in relation to that—the house builders. We had strong evidence in those two areas but I cannot say, "Here's a report that backs that up."

Q13 Justin Tomlinson: To support you, I think that some of the evidence is shown in figure 2, because that shows what the other schemes did. And I was interested in the list that you gave. This is more of a broader question, because I think that possibly one of the biggest strengths of this scheme over the earlier schemes is that is you have now provided certainty about the length of the programme.

I represent what has been pretty much the fastest-growing constituency year on year for the past 20 years, so we have got house builders coming out of our ears. What they said to me in the past was, "It is yet another Government scheme. It's too complicated to understand. By the time we've trained all our staff, it's gone anyway, so what's the point?" By contrast, this scheme seems to be providing that length of certainty—that this will be around for a few years—and it is therefore worth the builders learning about it.

It would have been helpful today to have had some of the representatives of the builders to tell us why they are doing this and whether it is making a real tangible difference.

Sir Bob Kerslake: We have plenty of that sort of evidence that we can report back to you in the meeting. However, I think that the question is this: why have we not done a full evaluation? It is in part related to your comment, Mr Tomlinson, that there was quite a

sequence of changes around schemes and, to make an evaluation useful, you need a period of time in which the scheme has operated where you can do a proper and full evaluation. However, what I really want to challenge is the idea that we went into this scheme without any evidence about its potential impact, because that simply would not be true.

Q14 Mr Jackson: I agree with Mr Tomlinson that—I say this for the avoidance of doubt—this is a very positive and good Report, generally speaking, and I think that the best aspect of it is that you were able to hit the ground running and use the experience of the previous schemes. That is very positive.

However, I think that it is appropriate to say that in looking at the appraisals—perhaps after two years, or certainly in 2015—you might specifically want to look at additionality to see if, in your model, you can assess whether this would have happened anyway. I know that some of it will be anecdotal, but for the purposes within our locus, which is value for money, additionality is important, because obviously you are putting public money into a scheme and if it would have happened anyway with those developers and housing associations, that is quite important.

Sir Bob Kerslake: It is a very fair point. Let me make just three points on that. First, this scheme was different, in terms of order of scale, from the previous schemes; we did learn things from the other schemes, but this was different. Secondly, we will absolutely look at additionality at the evaluation stage, but we have already done work to assess additionality and I am happy to take the Committee through that.

Our judgment is that the additionality is already, from the information we have, between 25% and 50%, and that is in the NAO Report. So we can take you through our assessment of why we think that is the case, but we do not need to wait until the 2015 evaluation to talk to you about additionality, because we think we have pretty compelling evidence now.

Q15 Chair: Stewart wants to come back, but I think it would be really helpful to take us through that. Do you want to come back on that first, Stewart?

Mr Jackson: I want to come back and start on something slightly different.

Q16 Chair: Okay. Take us through that. It is an assertion, and I am anxious for you to answer, because—we keep coming back to this—£3.7 billion is a lot of money to be putting into this. From reading the Report and some of the criticisms of the scheme that are out there, the idea that there is a correlation between this investment and new build seems to be tenuous to say the least.

Sir Bob Kerslake: I don't think it is. Let me just take you through the numbers to show why I think that is not the case. First, we have looked at the levels of reservations before and after the scheme. Because reservations were rising before the scheme was introduced, we have looked not just at whether reservations went up, but the rate of increase. We found that in the three months before the scheme was introduced, year on year,

reservations went up by 8%. We then looked at the rate of reservations in the period roughly six months following the introduction of the scheme. That showed an increase in reservations of 30%, so there was a very marked upturn in the rate of reservations.

House builders work on a model whereby, essentially, if they sell one, they build one—there is a pretty clear-cut house building model. Our calculation was that the rate of increase in reservations had gone up by 20%. Allowing for some margin of error, we think it is reasonable to assume that Help to Buy had an impact on reservations of between 10% and 20%. If you take that figure and apply it to the 22 largest house builders, which built 61,500 homes in that period, you get the impact as being between 6,000 and 12,000 properties—between the 10% and the 20%—that came from Help to Buy. That equates to roughly 25% to 50% of the total home buy sales that we have achieved, so there is an absolutely clear line of analysis.

Q17 Chair: I have seen that calculation, but what I do not understand is why not one single economist out there will buy that argument.

Sir Bob Kerslake: I think there is and, in fact—

Chair: Find me one.

Sir Bob Kerslake: If you look at Morgan Stanley—

Q18 Chair: I really looked at all the press cuts to try to find one. From the Bank of England right through to most of them, they are saying, “Actually, it is not leading to an increase in house building,” which is why it is so important that you do a proper evaluation.

Sir Bob Kerslake: No, there are two different points here. The first question is: has Help to Buy impacted on the overall prices of houses in the market? We would agree that its impact on that is small because it is a relatively small proportion of the market. The second question is: has it had an impact on the confidence and appetite of house builders to build more houses? We think the answer is, unambiguously, yes, and that is what the numbers I have just given you show. If you want a further bit of evidence, since we introduced the scheme, the number of housing starts has increased by 29%.

Q19 Chair: And completions.

Sir Bob Kerslake: Well, completions is a lower number, but clearly that is a time-led number.

Q20 Chair: Completions are down.

Sir Bob Kerslake: Yes, but clearly that is a time lag effect from when the scheme started—it has only been introduced for a year. Starts is the right measure on this point.

Q21 Chair: Amyas and then back to Stewart.

Amyas Morse: I want to say a couple of things. First, the formal evidence we have of talking to house builders quoted in the Report is that they do find it encouraging to build more. To be clear, we do not think this is an unreasonable way of estimating the impact, but I think it would be disappointing if, by the time you come to do a formal evaluation of the impact of the scheme, we did not have more hard data and a more robust methodology. I am not critical of doing what you can to understand the impact now, and I do not see how you could do more at this point but, in 2015, when you come to do the evaluation, it would be nice to have a more robust method.

Sir Bob Kerslake: We are always refining and improving our monitoring data.

Amyas Morse: But by then you will have completions, for example. You will start being able to follow the whole process through rather more fully.

Sir Bob Kerslake: I am not sure that completions, to be blunt, will help much. Thinking about it logically, completions are only the logical end of a start. We use starts because they are the most likely thing to be impacted quickly by our actions. Completions have always got a two-year—or whatever—time lag. On your general point of should we carry on improving and refining our monitoring, of course. What we have built is a dynamic model that allows us to calculate it in the aggregate not only for the country, but for individual parts of the country as well. I distinguish that from the evaluation, when we will go in a more in-depth way to try to understand additionality and consequences. Inevitably an evaluation will go into greater depth than you would in the routine monitoring of progress.

Q22 Chair: Are you starting the evaluation in 2015 or completing it then?

Sir Bob Kerslake: We will do the evaluation in 2015.

Q23 Mr Jackson: The important thing to remember about the scheme, as I understand it, is that it is quite good for social equity in that it is not just about supporting the housing market in London and the south-east. Indeed, the Report says: “only 6 per cent of Help to Buy equity loan purchases were in the capital”—Greater London. It says: “In around a third of London boroughs...no Help to Buy equity loans have been made”. So, the idea from some commentators, at least anecdotally, that this is stoking up an overheating housing market in London and the south-east is not borne out by the evidence. Linked to that is that it has been successful in the north and the midlands.

I would like to ask a wider question. Is it a scheme that is at the margins and not actually tackling the fundamentals of the dysfunctional housing market, such as land banking, lack of mortgage products post-crash and the planning system? Is it simply tinkering at the edges, but with those fundamental problems still there, meaning that we are not building as many homes and not using resources as effectively as we should?

Sir Bob Kerslake: It is a fair question. Just to reinforce your point about the scheme, as the Report says, it is 89% first-time buyers. We know that the median income is slightly above the national figure. We know that the purchases, although they could go up to £600,000, were overwhelmingly lower than that and nearer the average house price. It has absolutely worked for the target group that we were trying to make it work for.

Just dealing with your point about whether it deals with all the issues of the housing market in this country, absolutely not. It is one part of a whole series of measures; we never saw it as the sole answer. What it did do, I think pretty comprehensively, was to address a specific issue around people who had the ability to pay a mortgage, but could not get access to a deposit. It addressed it, as you rightly say, outside London particularly, but also in parts of London, and it gave greater confidence to the housing market and, in particular, to the house builders to up their rate of build because, coming out of the downturn, they were building at lower rates on sites than previously.

Q24 Mr Jackson: Can I pick you up on that? It might seem a tangential question, but it is quite important. Is there a case for saying that this is using public money to consolidate the oligopoly—the market share of larger builders such as Taylor Wimpey, Bovis and Persimmon—and giving them an unfair competitive advantage? My understanding, knowing a bit about the construction industry, is that social housing providers were looked after during the rough time generally, as were the niche builders for luxury and prestige homes and the big construction companies I mentioned, but that mid-market family firms that built perhaps just a hundred a year really struggled in the recession. Have they been squeezed out of this scheme?

Sir Bob Kerslake: No—quite the reverse. You can look at the previous scheme. We were talking about what we learned from that First Buy scheme, and because it required a contribution from the house builder, it typically worked for the bigger house builders better than for the smaller ones. This scheme has been taken up by more than 1,000 developers.

Peter Schofield: The Report says just over 1,100.

Q25 Mr Jackson: So there is more of a level playing field.

Sir Bob Kerslake: Yes. A really important point to make is that this one has worked for a much wider range of house builders. Secondly—this is an example of where this alone isn't the whole answer—a new fund was announced in the Budget that is specifically targeted at the small and medium-sized house builders, which will be operated by the HCA. What happened with the downturn was a very dramatic reduction in the proportion of houses built by small house builders. It is not the only thing we are doing; we are also introducing a scheme that helps those house builders to access the kind of funding they need to keep building, basically. The two things are complementary.

Q26 Mr Jackson: On means-testing, given that the numbers are relatively small—we are looking at 12,000 to 12,500 so far—are you going to look again at the provision of the 5%

deposit? Because obviously, if you can afford more, there will be more money available for people who genuinely cannot afford more than a 5% deposit. That may have been a result of the speed at which the scheme was set up, but is that a little glitch that you might want to look at?

Sir Bob Kerlake: Do you mean the issue between the 4% and 5%?

Mr Jackson: Yes.

Sir Bob Kerlake: Let me get Andy in on this one, because this is very much an operational point. What happened there was that we had a couple of lenders that, at the time, could not quickly enough alter their systems to guarantee there were none below 5%. The numbers involved are tiny—as the Report says, I think it is 206.

Andrew Rose: Exactly. The incentive for us was to get the scheme up and running very quickly. There are a couple of lenders that apply the 5% against the mortgage value as against the purchase price, and that did throw out a number at the 4%, which was highlighted in the NAO Report. But the reality is that it is a very, very small part of the scheme and it is a declining part of the scheme. We monitor it very, very carefully. We work through our Help to Buy agents, and we have very good monitoring and good governance. So it is something that we track very carefully and we think that it is a very small percentage of the scheme, and therefore in the context of the overall success of the scheme, it is not that material.

Sir Bob Kerlake: It is worth adding a couple of points. One is that we do not think the risk of repossession, which is very low anyway, is higher for this group, and it is vastly outweighed by the number of people who have gone for higher personal contributions than 5%.

Q27 Mr Jackson: You have just prompted my final question. Your worst-case scenario was predicated on a 9.5% rate of house repossessions. Is that based on previous experiences in downturns, or figures from the Council of Mortgage Lenders?

Sir Bob Kerlake: Not at all. What we did was to stress test the model to absolute extremes. I cannot conceive there will be anything like that, and if we look at the evidence and, going back to the first question I had, evidence about repossessions in existing schemes, they are actually very low indeed—way, way below that number. So I think this was simply covering the full possibilities that you might experience, beyond the range of anything that the OBR forecasts would take you into. We just did it, basically, to stress test the model. I just cannot conceive of it being anything like that. It has not been anything like that for any other schemes.

Andrew Rose: The range that you tend to see is more 1% to 2%—certainly nowhere near 9%.

Q28 Mr Jackson: I was going to say that 9.5% is about one in 11 borrowers getting their home repossessed, which would be a disaster.

Andrew Rose: I think that would be an extreme stress test, and not one we would expect to see.

Sir Bob Kerslake: We felt, given the scale of this, that it was right to test the full range of possibilities.

Q29 Chair: But your lending is skewed. If you look at figure 12, you are lending one heck of a lot—four and a half to five times. Given the nature of the scheme—you are trying to hit first-time buyers, and you are skewing towards a very high ratio between the loan and income—that does increase the risk, doesn't it?

Sir Bob Kerslake: There is some increased risk from that, but every single mortgage is assessed by the lender, of course, and by the Help to Buy agent.

Q30 Chair: Obviously, but what does that profile do to your risk?

Sir Bob Kerslake: We have taken out—I have brought no analysis. I am just saying that we do not think the risk of repossession—bear in mind that in some of the other schemes, that profile would actually look considerably bigger, and we still have seen low repossession rates.

Q31 Justin Tomlinson: Looking at that, are there predominantly first-time buyers—younger buyers—whose potential income trajectory is upwards?

Sir Bob Kerslake: Absolutely right.

Q32 Justin Tomlinson: So actually, in some ways, they are the best people to back. And, if I am right, it is actually technically harder to get these mortgages, because you have to pass through two hoops—not just with Lloyds or Nationwide, but also through the scheme.

Sir Bob Kerslake: I was seeking to make exactly that point. This is effectively a separate loan, of course, to the individual. So they do go through two assessments of their ability to pay: the mortgage lender and the Help to Buy agent, who have got experience of doing this. There are two quite important tests of their ability to pay. It is also worth saying that, in effect, they have got five years without charge on the equity element, so that particularly helps first-time buyers who might find it hardest in those early years.

Q33 Justin Tomlinson: Concentrating on the evaluation theme, it is fair to say with builders—I have a huge amount of experience with them as I represented the new-build area as a councillor for ten years—that if we buy 10 houses among ourselves today, they will immediately start building 10 more houses. They will build on demand; they do not have stock in the same way that traditional retailers do. They will build them very quickly—worryingly quickly sometimes. I think that we could have had more evidence in the Report

from house builders to tell us whether this scheme is making a difference. I am also surprised that you did not bring along supportive evidence from developers to say whether it was helping.

Sir Bob Kerslake: We have plenty of supportive evidence of what the house builders have said about the impact of the scheme. I am happy to supply that to you outside the meeting or now if you want. It is not just the house builders—you might say, “They would say that, wouldn’t they?”—but analysts as well who have been very clear about the scheme’s impact, such as Morgan Stanley. There is a lot of evidence and, if you want, we can quote you some examples now, or send it to you.

Q34 Chair: Send it to us. What I found interesting was that I could not find any economists who supported it. If you can send me evidence of an economist who supports it, you will prove me wrong.

Sir Bob Kerslake: That is our challenge. We have got plenty in the Department.

Q35 Justin Tomlinson: I suggest that you use this opportunity to provide some now. When we publish the Report, we can only use, as I have discovered, what is said at this hearing. To me, this should be at your fingertips. These are the people who should be saying to you, “Well, because of you, we are now triggering x new houses. The housing crisis is being solved—we will carry you on our shoulders with the bunting.”

While you are looking for that evidence, when you come to do the evaluation in 2015, my reading of the Report is that you will be using the agents to help evaluate it. Yes, they have got first-hand experience because they are dealing on the coal face, but they are also earning £600 a time. I commend that you have managed to cut that from £1,000 in previous schemes, but surely it is in their vested interest to come back and say, “This is a wonderful, fantastic scheme—carry it on beyond 2017, because we can carry on earning money.” Will you go and ask the consumers who have used that scheme, “Would you have otherwise bought a house? Was this the thing that triggered you to go and do that?”

Peter Schofield: That was certainly one of the recommendations in the Report. May I come back to you on some of the evidence? Morgan Stanley, in their 10 March report—

Q36 Chair: To whom?

Peter Schofield: This is one of their analysts’ reports to the market, their customer base. It said, “Help to Buy is proving a key catalyst for construction.” It then gave the figures: “Housing starts are up 16% since”—it—“was introduced...we estimate 30% of all new-builds in England are currently funded by Help to Buy”. We have got plenty of evidence from developers. I could read out some—

Q37 Chair: No, I was interested in economists, because all I have been reading recently has been economists saying that it is creating the housing market bubble.

Sir Bob Kerslake: I am not aware of any economists who said that the equity of Help to Buy schemes has created a housing bubble, because it would be impossible to make that argument, I have to say.

Chair: They are, aren't they? You have read that as much as I have read it.

Peter Schofield: Robert Chote was interviewed by, I think, the Treasury Select Committee and he said that all of the movement in house prices he could see could be explained by the fundamentals. He did not think that it needed to be explained by a housing bubble.

Sir Bob Kerslake: To add to that point, if you look at the places in London that have seen the highest rises in house prices, they are the places where we have some of the lowest take-up of Help to Buy. The number of transactions through Help to Buy as a proportion of the total transactions in the market is around 2% to 3%. It is just impossible to argue that this scheme is driving—

Q38 Fiona Mactaggart: May I suggest that that is contradicted by the experience in my constituency? Slough might be an odd one out, but we have had 25 households benefit from this. Our area has had one of the fastest increases in house prices of any part of the south-east. You said that it is not like that. I am interested in why it seems to be like that for my constituents.

Sir Bob Kerslake: House prices have risen substantially across London, much less so outside London. I was saying that the boroughs where you see some of the highest house price rises are ones where we have very low take-up of Help to Buy. I am not saying that there are not boroughs that have higher take-up of Help to Buy and high prices.

Q39 Fiona Mactaggart: We would expect Westminster to have a much higher house price inflation, because that is due to foreign buyers.

Sir Bob Kerslake: We will happily send you the list of boroughs and the number of Help to Buy.

Chair: We have all got our own.

Q40 Austin Mitchell: That is because Help to Buy does not go to Russian oligarchs or oil sheikhs. It is a selective process. Don't all your predictions depend on a sustained recovery in the economy? The trajectory of earnings for young buyers might be rising but so is the trajectory of interest rates.

We are a nation that is considerably over-borrowed. You are adding to that total of over-borrowing by this scheme. We are vulnerable: not before the election, because interest rates are not going to go up until after the election in 2015, but almost certainly they will go up and probably substantially after the election. Aren't we creating a class of vulnerable people who might well face repossession when there is a substantial rise in interest rates?

Sir Bob Kerslake: I don't think we are. Look at the underlying fundamentals of the scheme. First, nobody gets it unless they put in 5% themselves. Secondly, in relation to the equity part they get five years when they are not vulnerable to those interest rate movements. When you take on board those two things they essentially have a ratio of 75% in terms of value to size of their mortgage. So actually this particular group of people is potentially in a more resilient position.

Q41 Austin Mitchell: That is a group of people that might have bought anyway.

Sir Bob Kerslake: We can't say for certain whether they would have bought anyway. What we do know for certain is that 89% were first-time buyers and that all of them were buying new build. We know that if you secure a sale of a new build there is a very high chance that another house will be built.

Q42 Austin Mitchell: Okay. Let me question your assertion that there is not a substantial effect on house prices. It stands to reason, surely, that if you are pumping considerable sums of money into demand when supply is constrained—as it is by planning, the system of builders building one for every one they sell, land banks getting exhausted, house prices rising and builders putting up prices to catch the mood—you are creating a situation where house prices are going to rise. There is a big effect on house prices.

Sir Bob Kerslake: The first point I would make is that I can pretty confidently say that this scheme is not having a big effect on house prices, because of its nature.

Q43 Austin Mitchell: But house prices are rising rapidly at the moment.

Sir Bob Kerslake: That is a different point and we can come back to that if you want in terms of the market. This specific scheme relates to new build and, therefore, to a very small proportion of the total housing market. The second point to make is that if we were doing this alone—simply demand measures without supply measures—you might have a point. However, we are actually doing a huge amount to stimulate new supply. I would be happy if Peter wanted to take the Committee through some examples.

Q44 Chair: Sir Bob, this is not all new build. Even on your best guesstimates, it is a maximum 50% new build. It is not all going into new build.

Sir Bob Kerslake: You can get this scheme only if it is a new build property. We apply a harder test to ourselves. How much can we say we have genuinely stimulated additional properties as a consequence of this scheme? We are saying that we have evidence to back up that for every four transactions that are done here, one or two—that is, 25% or 50%—lead to another new property being built. That is the point we are making.

Q45 Mr Bacon: Can you say that again slowly?

Sir Bob Kerlake: We are saying that there are two different points. This is all directed at new build. This scheme is available for new build properties only. The second thing we have looked at is what is the additionality, in other words, what can we reasonably say we have triggered by way of further new build as a consequence of this scheme. We think it is between 25% and 50%.

Q46 Mr Bacon: So where paragraph 18 says: “The Department considers that between 25 and 50 per cent of sales will result in new homes being built”, that is to say, a quarter of sales through the scheme, what you and the NAO mean is actually that the Department considers that between 25% and 50% of sales through the scheme will result in further new homes being built, in addition to those being built through the scheme. Is that what you mean?

Sir Bob Kerlake: You are entirely right. That is exactly what they mean.

Q47 Mr Bacon: I have been passing notes back and forward between the NAO and me about precisely this point.

Sir Bob Kerlake: May I deal with this point, because it is a critical one. What we are saying—that is why I went for that list of numbers earlier in the meeting—is that, in effect, for every four sales we make through the scheme, we are saying that stimulates at least one new build, directly related to the impact of the scheme on new build. That is what we are saying and what we have calculated. We think it is between one and two new builds, so that is the additionality point: that is, what additional housing has happened as a consequence of running this scheme.

Austin Mitchell: In terms of house prices, figure 6 says that up to what I call the ordinary personal level of house prices, which is £225,000, there has been a substantial effect on increasing house prices from the scheme.

Sir Bob Kerlake: No, that is not what that chart shows you at all. What that chart is seeking to show—

Austin Mitchell: It is house prices under the scheme compared to house prices—

Sir Bob Kerlake: What this particular diagram is trying to show is what has been the house price distribution for this scheme as against the wider distribution of house prices. It is not saying that this results in increased prices.

Peter Schofield: What it says underneath the title is, “Buyers using the scheme purchase homes that are cheaper on average than those bought by all buyers.”

Sir Bob Kerlake: This is a comparison of the total market with those bought through this scheme.

Q48 Stephen Barclay: There are a number of questions around whether the scheme is stoking a bubble. Looking at my constituency in Fenland, the local authority, only three households have used the scheme. It seems a bit of a stretch so early in the scheme's progress to suggest that it is stoking a bubble, isn't it?

Sir Bob Kerslake: A complete stretch. That is why I say I do not think there is any credible argument. I would like to meet the economist who would tell us that this scheme—

Chair: We will introduce you. The ex-President of the Bank of England for starters and I can—

Q49 Stephen Barclay: We know there is a problem, perhaps, from foreign investors in London. It is interesting how London-centric much of the discussion has been. A lot of the discussion so far has been incredibly London-centric when actually a lot of the benefits of this are outside London.

Fiona Mactaggart: Slough is not London.

Q50 Stephen Barclay: A lot of the benefits of this are outside London, and London is a micro-climate with foreign buyers, where there are other factors, as I think most people accept. Is it also the case that, if the scheme was stoking prices, the risk from a default perspective would decrease? The risk of default would decrease if prices were going up because people would be buying a property which was increasing in equity value.

Sir Bob Kerslake: Clearly, there is a potential impact on risk of default, but that is not part of our calculations. Obviously, interest rate movements—

Q51 Stephen Barclay: The Committee is running two separate arguments. One is saying that we are concerned about a bubble, which seems somewhat overplayed at this stage, and second, we are concerned about default. If there is an increase in prices, then the concern from default decreases.

Chair: I will come in here as the only London MP—actually, Jackie might be there. You could equally argue that if the purpose of the scheme—I am saying this from a constituency point of view—is to increase the supply of housing in areas of great need, London is one of the areas of great need. Therefore, if the scheme were working to its purpose, you ought to be seeing a take-up in London. You ought to be seeing an impact. The purpose of the scheme is economic growth, supply of housing and affordability. Those three things resonate very strongly with people in Barking, Dagenham, Hackney—were Meg Hillier here—and, no doubt, in Thurrock as well.

Jackie Doyle-Price: You are going to get Barking Riverside, Margaret.

Chair: Some time. I have been waiting for that for 25 years.

Jackie Doyle-Price: Well, this should unlock it, shouldn't it?

Sir Bob Kerslake: I just want to come back to the question, because it is quite important. What we do find is that, where we have seen the scheme taken up, it has typically been in places where there is a regeneration effect going on. So it has worked in those parts of London. Let me just try and pick out an example of the areas where it has not worked. Annual price changes in Hackney are at 21%, and the number of Help to Buy equity loans in Hackney is five.

Q52 Stephen Barclay: That is my point. You can't attribute the increase in price to this scheme.

Sir Bob Kerslake: You would find it very hard to make any case that said that what is going on in Hackney is driven by this scheme.

Q53 Mr Jackson: In a sense, it is rebalancing the housing market.

Sir Bob Kerslake: There are different factors in London as well.

Mr Jackson: Can I just disabuse Mr Tomlinson of the notion that he has the fastest-growing constituency? His is positively lame and pedestrian compared with Peterborough, which is the fastest-growing in the scheme.

Chair: Not as fast as Barking.

Stephen Barclay: How many have you got?

Mr Jackson: I've got 163 and he is coming up in second place at 119.

Mr Bacon: I'm in third place. I have 123.

Q54 Mr Jackson: That is for Swindon unitary authority.

Seriously, I have a helpful suggestion for when you do come back. There are two things you need to consider. You need a proper econometric model to look at the cumulative impact of the micro-economy in each scheme. For example, the east and south-east Homes and Communities Agency region is too big. You need to look at this under local enterprise partnership boundaries—travel to work areas, for instance. Then you can really look at where the impact is on the construction industry and on support services to construction. You need to bear that in mind.

Sir Bob Kerslake: That is an entirely fair analysis. We do have the analysis down to incredibly small levels—down to postcode levels—which is why we are pretty confident that there is not a risk around what might be called the concentration effect, because there is not much evidence of over-concentration. But we could scale it up to LEP level and other levels and do the sort of economic analysis that you describe.

Mr Jackson: The other thing is that the previous Government pursued housing market renewal pathfinder areas, which I know were controversial. That was all about trying to reignite dead housing markets. That is obviously an area that is still pertinent in some parts of the country, whether it is Stoke-on-Trent, Hull, the black country or others. It might be that you need to look at the particular impact there.

I have one final point. Am I right in saying that as the primary agents are not just the developers but also housing associations, housing allocations are also an important issue here? That is, this scheme will have some, albeit marginal, impact on the allocation of social housing. If these people are buying these properties, they are not seeking affordable rented housing or social rented housing on the mainstream council housing waiting list. That is an issue that you might also need to bring forward in analysing the efficacy of the scheme.

Sir Bob Kerslake: That is an interesting point. I don't know if we have done the analysis of that point but it is a fair one. There is another relationship with affordable housing which is quite significant. If you unlock new housing supply in the private purchase market, you also unlock new affordable housing. I wrote to the Chair of the Committee to say that the Valuation Office had looked again at the economic value of each new build and had come up with a significantly higher number. The principal reason is the trigger effect on affordable housing.

Justin Tomlinson: One of the points that we can learn from the 160-odd in Mr Jackson's constituency and the 123 in Mr Bacon's constituency is that where you have areas where the developers have land already, they have been able to hit the ground running and we have had good figures. Where there isn't quite as much land available with developers poised ready to offer houses, as is the case with Mr Barclay's constituency, that is translated into tiny figures. It will be interesting to see, as the scheme develops further, whether it can then start to filter through to some of those other areas.

I want to go back to the second point where we were looking for the support of evidence from the developers. It is about the evaluation in 2015. How much of it will be directly with the consumers to say whether this was the reason why they ended up purchasing the house? How much will it be with the agents? While it is great that you are now paying only £600, not £1,000 as in the former scheme—that is a good bit of haggling from the Government—they do have a vested interest. If I were an agent being paid £600, I would certainly be feeding back into the system that this was a jolly good scheme that should carry on for ever more, so I could carry on being an agent. Are you going to get to those end consumers who have no vested interest?

Peter Schofield: In terms of the exact scope of the evaluation, that is something that we would want to agree with Ministers. First, we are collecting the data that we would need to be part of the evaluation. Sir Bob has already talked about information around locations, the developer, tenure and price; these are all things that we are collecting as we go along.

As the NAO Report suggests, one of the things we could look at as part of this evaluation is survey evidence from consumers as to whether they would have bought without the scheme. We know where they live, so we can follow that up and interview them. Alongside that, exactly as you say, we should be talking to the developers. The evidence that

we are collecting so far suggests, as Sir Bob has said, that there is an increase in reservations and in starts. We should be looking to get to the bottom of cause and effect on that.

Q55 Justin Tomlinson: I have two further questions. Nationwide and Lloyds have led the way from the banks and building society sector. My understanding is that some 11 institutions are pushing this. Are we expecting more to come on board? Was it simply a reflection that Lloyds and Nationwide are the two main players now for mortgages? What do we expect to see?

Andrew Rose: Before I address that, I should say that we have also retendered the Help to Buy agents and they will be paid less than £600 going forward, so we have further improved that for the taxpayer. Yes, we are very keen to get more lenders in. I think the number now is 12. We work closely with the Council of Mortgage Lenders and we meet the lenders regularly, so the aspiration is absolutely to keep getting lenders in.

Q56 Justin Tomlinson: Why would a lender not sign up?

Andrew Rose: Most of the main ones do. Some may have certain views of what they would deem to be shared ownership-type schemes, but broadly they are very supportive of this type of transaction. We are now up to 12, so we are very much working with CML and the lenders directly to get good participation across the key lenders.

Q57 Justin Tomlinson: Finally, looking to the long term, we obviously try to evaluate the risk; we are reliant, to a certain extent, on the economy growing and house prices going up, which minimises the risk, and so on. It is unusual for a Government to have a loan book, but it is not too dissimilar to the student loans case and we have offloaded that risk by selling it. Is this something that the Government might consider in the medium term?

Sir Bob Kerslake: We would not want to rule any option out in terms of that, but it is not part of current plans. It is something we would manage through the Homes and Communities Agency. For us and the HCA, this is quite new territory. We have had to rethink the skills we need. We are now bringing in a number of people with banking expertise to assist us in all this; Andy's background is in the banking sector. So we are planning on the assumption that this is something we are going to have to manage for the long term. Clearly, we could not rule out options for a future Government on this.

Q58 Fiona Mactaggart: Something has occurred to me during this hearing as I hear the accounts of my fellow members and the impact of the scheme in their constituencies. It has occurred to me—and I could be quite wrong—that one of the reasons for the relatively low take-up in London and the south-east is that people who wish to purchase homes to become private landlords, which is very profitable in that part of the country, are actually dominating the market and they aren't eligible for this scheme.

One thing that the NAO Report suggests, in paragraph 20, is that although the “Department has committed to reporting on the Help to Buy...it does not have an integrated evaluation plan to assess the impact of related or complementary initiatives, or a common set of measures for the different schemes”.

If I am right—and, as I say, it just occurred to me listening to the differential impact of this scheme in different areas—then one thing that is happening is that the scheme is working in places where there is not a big appetite for private landlords to expand the private rented sector, which is growing enormously in my constituency. It seems to me that we need that to be part of this because you need to be able to do a comprehensive assessment of what the housing market looks like in different areas. It seems clear from the Report that you don’t have a way of doing that. Is there any truth in what I am beginning to think and do you have a way of doing that?

Sir Bob Kerslake: There are two or three points in that. The challenge from the NAO was whether we have a comprehensive evaluation process under way that looks at every one of our interventions in the housing market. They rightly say we don’t. We have tended to focus on evaluation of the individual components. That doesn’t mean to say that we do not monitor the interaction between different parts of what we are doing and doing it at local level. We can, and do, do that. We have a good understanding of the impacts. We also know where the scheme has had its biggest take-up, not just in terms of region, as you have in the Report, but, as I said earlier, individual places and localities.

Q59 Fiona Mactaggart: Do you have any studies that are looking at the growth of home ownership and private rented?

Sir Bob Kerslake: I was going to come on to that point. What you see when you look at individual places, and one of the highest places, for example, is Milton Keynes—

Q60 Fiona Mactaggart: Because it is growing. It has lots of land and lots of developers.

Sir Bob Kerslake: Typically the places that have the highest numbers are places that are seeing major new housing growth. It is what you expect. I don’t think we have any analysis of buy to let. We are happy to look at that.

As for London, there are a number of things going on here which relate to the London market. A lot of properties are bought off plan in the London market. A lot of them are bought by overseas purchasers as well. So a set of different things is going on in the London market. I don’t know whether buy to let is one of those, but we are happy to look at that.

Fiona Mactaggart: I think you should.

Q61 Mr Bacon: I should like to return to what Mr Jackson was asking about earlier in terms of the structure of the housing market. The question that worries me is that if we had a well functioning market would we need a scheme like this?

Sir Bob Kerslake: The Government only intervene where we think there is a market failing. The thing we do know for certain is that we have a major problem of housing supply that went way below the numbers we need.

Q62 Mr Bacon: What puzzles me is that the housing market either seems to be in the doldrums or it seems to be hot, getting hotter and hotter, and then too hot. Although we had a specific problem with the banking crunch which knocked everything, including confidence and the appetite of financiers to be exposed to the property market and so on, it is hard to think of many other markets where this is the case.

The market for tables—there is a table here between you and me—is not either in the doldrums or hot; there tends to be a reasonable equilibrium between the demand for tables and the supply of tables. The same is true for jeans, T-shirts and many other things that people buy. Yet this market, which is the most important in some ways in that it is the single biggest transaction that people have, does not seem to work properly.

Sir Bob Kerslake: As I said earlier, the Government do not intervene unless they think there is an issue they are trying to address. The two enduring things that I have observed in my time working on housing are, first, that we do not build enough houses. We are way below the numbers we need to build and we were way below even at the peak of housing. There is a basic issue about the supply of housing. We have had plenty of happy conversations about why that is the case.

Secondly, for quite a period of time now, people have the income to pay a mortgage but have been unable to get the deposit, particularly first-time buyers. This scheme helps with two enduring issues.

Q63 Mr Bacon: It helps a little. There are people in my constituency who have benefited from it, mainly because they were in a position to move. But going back to the first of your two points—that we don't build enough houses—the enduring problem, as you call it, seems to be that the market does not respond to demand, or aspirational demand, with the supply. The reason for this is what Mr Jackson called the oligopoly. People, who are essentially retailers, go into the capital markets to get large amounts of money, land bank it, and then hold on to it—hog it for many years, in some cases—and do not bring it into the marketplace as part of the supply to meet the demand that is there: the aspirational, pent-up demand. When they do need to come into the marketplace, because they can feel the market getting hotter, they then hire in the trades, who in very many cases are the same people whom the smaller house builders are hiring as subcontractors. So the market is fundamentally flawed in that it is not meeting the needs of our people for housing. It makes me wonder why the Government did not look at this long ago from a competition policy point of view. It is a market that is failing.

Sir Bob Kerslake: There is a range of reasons why we do not build enough houses. You have given one view about that. If you talked to house builders, they might raise other issues, such as the planning system and so on, so there is a range of factors that we think influence the issue of supply, and we are trying to work on all of them. Some people say it is

land banks, but actually land banks are typically falling because of the increase in build at the moment.

Q64 Mr Bacon: It is a systemic problem, I accept that you cannot look at one piece in isolation, but you mention the planning system, and your Department is in charge of the planning system, ultimately.

Sir Bob Kerslake: I just said that is what the house builders often quote.

Mr Bacon: Yes, I have heard them say the same.

Sir Bob Kerslake: And I would say to you that we have done a lot to simplify the planning system through the NPPF, so we have not left the planning system alone. My point was this: I actually don't think that there is one magic bullet to deal with the issue of housing supply. You have to address the demand issue, which we are doing through Help to Buy, which is a significant contributor to new build, not a small one—it is 30% to 40% of new-build purchases, I think. Secondly, you have to do things on the supply side to tackle issues around infrastructure on sites and so on. The third thing is you want to try to develop a wider market, which is why we have introduced a scheme through the Budget to work with small builders. So we are working on every level—we are working on demand, supply and the market.

Q65 Mr Bacon: Mr Schofield, you are eager to come in.

Peter Schofield: I was just going to add to that. In terms of planning reform, we are seeing additional sites coming through and getting detailed planning permission. I think we are now above 200,000 new homes getting planning permission over the last 12 months. We are seeing a range of schemes to bring in different types of provider of new housing. Sir Bob has talked about the builders finance fund. We have a range of schemes to support new build-to-rent investment and to bring institutional investors into this market, and we have schemes to unlock the viability of sites where there is an infrastructure issue. So there is a whole range of different things, exactly as Sir Bob says.

Q66 Chair: But you need to double the number of houses completed to meet population demands, don't you? We have about 120,000 and you need about 250,000.

Peter Schofield: I think it is 123,000 in 2013, which was a 23% increase on the year before. I would say the trajectory is going in the right direction.

Chair: Towards 250,000.

Q67 Mr Bacon: Did you say there was a 23% increase in one year?

Peter Schofield: Yes.

Q68 Mr Bacon: If you did that for a few years, you would soon get to where you need.

In addition to the money for small builders, the Budget also had money for self and custom build, which I am delighted by—I declare an interest as chair of the new all-party group on self and custom build. I think the Budget document made some reference to it, but there was no detail. Is it proposed that self and custom build aspirant buyers in the market, with pent-up demand that they cannot turn into actuality, will be able to access this scheme as well?

Peter Schofield: It is something that we are looking at. It is not easy, because effectively finance for custom build is development finance—you are funding a home that isn't actually there, whereas the normal way of doing it is that the house is built and the purchaser comes in and buys it, so it is a more conventional mortgage style.

Q69 Mr Bacon: You turn it into something after. You could have two phases of finance, couldn't you? Perhaps this is somewhere where Mr Rose and his team should come in. Isn't it the case that you could have it as what you call development finance, and then turn it into a conventional mortgage when it is complete?

Peter Schofield: That is the sort of thing we are looking at. As you say, in the Budget we said that we wanted to look at whether there was an opportunity to expand the scheme in that way, and those are the sorts of issues that we need to address if we are to make that happen.

Q70 Chair: Can I tidy up? One of the criteria that you talked about originally, Sir Bob, was people finding that their borrowing was constrained because of the deposit requirements. You have dropped that as a criterion—why?

Sir Bob Kerslake: No, the scheme is absolutely targeted at people who still find it difficult to get a deposit or, to put it another way—

Q71 Chair: As I understand it—am I reading the Report wrongly?

Sir Bob Kerslake: Let me just finish the point, if I can. We have not made it a condition that they prove to us that they cannot get the mortgage, but we know that the vast bulk of people have put in 5%.

Q72 Chair: I understand that. It was a criterion; it was a reason for bringing in the scheme. It was dropped as a condition, as you call it—I would call it a criterion; it is the same thing, really.

Sir Bob Kerslake: It was not dropped and it goes back to my point about learning from previous schemes. We wanted to remove, as far as possible, a lot of the filters that were introduced into the scheme for eligibility in the past, given that we wanted a bigger scheme, so we quite consciously took a decision not to say that you had to prove that you could not find the deposit for a house, which actually is quite a hard thing to do anyway. What we can say from the evidence of the scheme is that there is pretty clear evidence that most people put 5% into the scheme. Most were first-time buyers and so on, so all the evidence seems to suggest that we have hit the target group of people that we wanted to hit.

Q73 Chair: And in your monitoring, have you got a figure for dead-weight?

Sir Bob Kerslake: The dead-weight point goes back to the calculation I did on additionality earlier on. We do not have a calculation that says whether that person would have bought a property anyway.

Q74 Chair: Is your monitoring picking up dead-weight?

Sir Bob Kerslake: No, it doesn't pick up—as I said earlier, we do not have a way of saying, “Do we know that somebody would not have gone ahead and bought the property anyway?” We cannot say that from this.

Q75 Chair: You can in the evaluation, can't you?

Sir Bob Kerslake: Sorry, in the evaluation we can, but you asked whether we can in our monitoring.

Q76 Chair: Which is the reason for the evaluation as you are going along. Can I also ask about something I read in the Report that I did not understand? I read that you have a £3.7 billion budget, and then in the little notes that Aileen puts on the bottom of the Report, it says you are modelling on the basis that you will spend only £2.89 billion. Why is that?

Sir Bob Kerslake: That is the current calculation of the costs, but we have an allowance and an ability to spend up to £3.7 billion.

Q77 Chair: Why?

Peter Schofield: It goes back to the fact that the average price of the properties is lower than we had thought it would be, and that reflects the figure that we were talking to Mr Mitchell about. In relation to the average price of properties, the average price of the properties going through this scheme is lower. The average price is lower and the average loan is lower, so the total amount to get to 74,000 homes through the scheme is lower.

Sir Bob Kerslake: So £3.7 billion is an upper limit, if you like.

Q78 Chair: So the criterion on which you will judge whether you have succeeded is not the amount of money you have got out of the door, but whether you get 74,000 people borrowing. That is the criterion you have set yourselves.

Peter Schofield: Yes.

Q79 Chair: I do think about—to go back to London, if I may—why you have decided not to take a regional approach, because the demand is here in London and the south-east, and the supply constraints are the greatest here, so it would seem that, rather than having a national approach, a regional approach would make much more sense in terms of all sorts of criteria.

Sir Bob Kerslake: The point to make is that when we were putting constraints on eligibility, it made sense to talk about a regional approach, but here, as you know, the scheme allows you up to £600,000. It does not put an income constraint on the users of the scheme and it does not require you to prove you cannot access the mortgage so, in many ways, it covers—

Q80 Chair: I am sorry, but it is common sense. If this is supposed to contribute to the increased supply of housing—we know that demand for increased supply is greater in London and the south-east, and that what the scheme is doing is contributing more in the north and the midlands—it seems to me that, in the terms you have set yourself for the objectives of the scheme, and I know that all the people round the table do not love London, you ought to be doing something that ensures that the scheme does increase supply in the place where you have the most pressure on demand.

Sir Bob Kerslake: Let me just make the point again: the objectives did not set a regional objective. That is the first point I would make.

Chair: It did not say what?

Sir Bob Kerslake: Our objective was a national objective around the level of increased supply.

Chair: I understand that.

Sir Bob Kerslake: The second point, as I said earlier, is that this allows people to use the scheme up to £600,000, with no other direct constraints.

Q81 Chair: But it is not working in the same way in London, is it?

Sir Bob Kerslake: If it is not working in London, it is not because the scheme is putting constraints on people's ability to access it.

Q82 Chair: Why isn't it working then in London?

Sir Bob Kerslake: As I said earlier, it is the nature of the housing market: who is buying in London and how are much more influential factors. When we previously ran this scheme, we had a much lower cap on the value of the property. You could say that reasonably worked against London. In the case of this scheme, it is up to £600,000, which I don't think is an unreasonable figure for a first-time buyer market even in London.

Q83 Austin Mitchell: I have one final question. I did not hear what figure Mr Schofield gave for the boost to building that has occurred since 2012. On the figures in the Report, the need for new housing, given the continuous creation of new households, is estimated at 232,000. The 2012 attainment total was 115,000. The gap there is 117,000. It is still, despite the increase, a huge gap. In the past, that gap between need and private build has been filled by council housing, public housing to rent, in all previous Governments up to the late '70s.

This scheme is meant to boost house building. Was any consideration given as the scheme was developed to public housing for rent for those people who will never be able to afford the present level of house prices or to raise the mortgage deposit at the present level?

Sir Bob Kerslake: The figure I gave on this was that, since the scheme came into being, there has been a 29% increase in housing starts.

Q84 Austin Mitchell: Yes, but still not enough to close the gap.

Sir Bob Kerslake: Absolutely right. The two points I would make are first, that increase is from a figure that dropped dramatically following the crash in 2007. So even though it is an increase, we still have a long way to go. Secondly, alongside this scheme, we of course have the affordable housing scheme that is building 170,000 properties during this spending review period.

Q85 Austin Mitchell: That is in the total build of private housing. The problem is the gap between those people who can afford a mortgage and those who cannot.

Sir Bob Kerslake: The point I am making is that, as part of the overall housing programme—not part of this scheme but in addition to it—over this Parliament I should have said, not the spending period, we are building another 170,000 affordable houses for rent. Those are for rent. The point I made earlier was that, if you can unlock private schemes, invariably that also unlocks affordable housing.

Q86 Mr Jackson: One last question: is that affordable rent or social rent?

Sir Bob Kerslake: It is a mix.

Q87 Mr Jackson: But mainly the former.

Sir Bob Kerlake: It is quite a big mix, because the early years were social, weren't they?

Q88 Chair: Some 170,000 by 2015.

Andrew Rose: Yes.

Chair: Good. Thank you.