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Clive Betts MP,
Chair, Levelling Up, Housing and Communities Committee
House of Commons

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Dear Clive,

SHARED OWNERSHIP INQUIRY

Thank you for inviting me to give evidence on 18 December as part of your Committee's inquiry into shared ownership. I undertook to write to you about some of the points raised and am providing additional detail on certain areas below.

Statistics on the number of shared ownership homes:

The Committee was interested in trends in the number of shared ownership homes.

As I mentioned in my evidence, the available statistics indicate that the stock of shared ownership homes is growing. As of March 2023, registered providers of social housing held 252,220 'low-cost home ownership' homes – up from 237,580 in March 2022 and 219,412 in March 2021.[1] Although shared ownership is not separately identified within these statistics, we think it is reasonable to assume that the vast majority of 'low-cost home ownership' homes are shared ownership homes. These figures exclude homes that were previously owned on shared ownership terms where the shared owner has fully staircased, so that their interest in the lease ('share') is worth 100% of its full market value.

The growth in the shared ownership stock partly reflects increases in new supply. The number of new shared ownership homes delivered has increased every year since 2015-16 (except for 2020-21, where delivery was affected by the COVID pandemic). 20,363 shared ownership homes were delivered in 2022-23, compared to 19,358 in 2021-22 and 16,945 in 2020-21.[2]

[1] Registered provider social housing stock and rents in England, Regulator of Social Housing https://www.gov.uk/government/collections/registered-provider-social-housing-stock-and-rents-in-england
[2] Additional affordable homes provided by type of scheme – England (see Live Table 1000), Department for Levelling Up, Housing and Communities https://www.gov.uk/government/statistical-data-sets/live-tables-on-affordable-housing-supply

I know that the Committee is keen to understand the 'outflow' of shared ownership homes. We publish statistics on the number of fully staircased sales by registered providers each year. There were 6,051 such sales in 2021-22, 4,339 in 2020-21 and 4,478 in 2019-20.[3]These sales are of course part of the intended functioning of the shared ownership scheme and, as evidenced above, they have not prevented the overall supply of shared ownership homes from increasing.

As I set out to the Committee, the Department has made various changes to the Continuous Recording of Lettings and Sales in Social Housing in England (CORE) data collection to improve our evidence base for shared ownership sales. In 2021-22, a question was added to ask whether the purchase was a staircasing transaction. This question was made mandatory for all types of shared ownership sale from 2022-23. In 2023-24, a question was added asking whether the transaction was part of a 'back-to-back' staircasing transaction to facilitate the sale of the home on the open market. This will improve our understanding of how shared owners are reaching full leasehold or freehold ownership of their homes.

Delivering new affordable housing:

The Committee was interested in how the government is supporting the delivery of new affordable housing – and particularly the delivery of rented homes by councils.

Currently, most affordable housing is built by housing associations, but we remain keen to support councils to build more homes. Council housebuilding has been increasing in recent years. In 2022-23, local authorities delivered just over 8,900 affordable homes, representing 14% of the overall affordable housing delivery. This was the highest recorded number of local authority completions since collection of this data began in 1991-92.

In my evidence to the Committee, I referred to the fact that we have implemented a discounted borrowing rate for council housebuilding from the Public Works Loan Board (PWLB). The rate is the lowest concessionary rate available currently from the PWLB at Bank of England gilts plus 40 basis points (0.40%), which is 60 basis points (0.60%) lower than the standard rate. This new rate is available until June 2025.

Councils will be able to keep all their Right to Buy receipts in 2022-23 and 2023-24 (rather than having to return a portion of them to HM Treasury) and a package of flexibilities for how these receipts can be spent has been introduced. Councils also continue to benefit from the abolition of the Housing Revenue Account (HRA) borrowing cap in 2018. Councils with an HRA are now no longer constrained by government controls over borrowing for housebuilding and can secure finance against their expected rental income, in line with the Prudential Code.
Finally, some councils are receiving funding to deliver new homes from our £11.5bn Affordable Homes Programme for 2021-26. This Programme will make it possible for registered providers (including councils) to deliver thousands of affordable homes for both rent and to buy across the country.

[3] Annual social housing sales by scheme for England (see Live Table 678), Department for Levelling Up, Housing and Communities https://www.gov.uk/government/statistical-data-sets/live-tables-on-social-housing-sales

Shared ownership and rent to buy:

You have asked to see evidence to support my assessment that “where rent to buy products are available, the amount that people are able to save through them means that a shared ownership product to buy at the end of that is often the most viable route into home purchase.”

The Department does not collect evidence on this specifically because at the initial point of sale it will always be more affordable for someone to purchase their rent to buy home on shared ownership terms, compared to purchasing the property outright. That is why, for example, in London, where houses prices are particularly high, homes offered through the Greater London Authority’s version of rent to buy – known as the ‘London Living Rent’ – are available for purchase almost exclusively on shared ownership terms.

As for the wider value for money obtained by our investment in the Affordable Homes Programme, we assess the benefit-cost ratio (BCR) of different types of home and regions of delivery. Details of the assessment made at the outset of the 2021-26 Programme were published in 2022 by the National Audit Office.[4]

Our BCR assessment differentiates between three types of home delivered by the Programme: social rent & specialist housing; affordable rent; and affordable home ownership. The latter category comprises both shared ownership and rent to buy. Although we do not calculate separate BCRs for shared ownership and rent to buy, given the similarities of the two tenures (both forms of low-cost home ownership helping households transition into owner occupation) they would be very similar to one another, and especially so in cases where rent to buy homes are converted to shared ownership following purchase.

Administration fees:

You asked about the various fees that can apply to shared ownership and whether we have plans to standardise the categories for fees within shared ownership I can confirm that one of Homes England’s key information documents – specifically the ‘summary of costs’ document – does precisely this. When completing this form, the registered provider must provide the cost of various administration fees. This includes fees associated with the purchase of the home, as well as future fees that may apply when purchasing additional equity in the home via staircasing. There is also an opportunity for the registered provider to list any other relevant fees.

This information must be presented in a standardised format to the buyer prior to payment of their reservation fee to secure the home. Registered providers are committed to doing this as a condition of government-grant funding. Prior to initial publication, Homes England engaged in a rigorous process of consumer testing to ensure the documents are comprehensible to buyers without specialist knowledge, and it is clear from both written and in-person evidence to the Committee that their introduction has been welcomed by stakeholders.

[4] he Affordable Homes Programme since 2015, National Audit Office (see figure 5) https://www.nao.org.uk/reports/the-affordable-homes-programme-since-2015/

A code of practice for the marketing and sale of shared ownership homes:

You asked about a future code of conduct for the marketing and selling of shared ownership homes.

The marketing of shared ownership homes in the form of advertisements is regulated by the Advertising Standards Agency. The Agency recently published guidance on how to advertise shared ownership.[5] We expect registered providers to take account of this guidance as part their marketing campaigns, including the need to make buyers aware of any significant risks associated with their purchase.

Regarding sales, the process of purchasing a shared ownership home is a well-established one that follows a set procedure. This helps with consistency and offers buyers multiple opportunities to discuss their purchase with specialists. There is oversight of this process and opportunities for redress when things go wrong. As a result, it is not immediately clear how a code of conduct might help to improve the situation.

For example, Homes England's and the GLA's capital funding guides set out many of the procedural steps that registered providers must follow, including for initial sales valuations and the need for buyers to undertake an affordability assessment with an independent, accredited mortgage broker and/or financial adviser.

As referenced in the preceding section on administration fees, registered providers must also give standardised information to buyers during the application process via three key information documents. These documents set out in clear and simple terms how shared ownership works, a summary of key information about the specific home that is being purchased, and a summary of the fees that will apply to the sale of the home and future activity such as staircasing.

The shared ownership model lease guarantees that key aspects of the scheme operate in the same way for all shared owners. Use of specialist solicitors can offer reassurance that the nature of the shared ownership lease can be fully explained to buyers, and buyers should be encouraged to engage with their solicitors if they have questions about their lease, as well as their registered provider.

Registered providers must evidence that some of the most important aspects of the sales process are being following via Homes England's and the GLA's compliance audit. This includes demonstrating that the model lease's fundamental clauses have been used unamended, that the initial rental costs have been calculated accurately, and that they have received a suitable affordability assessment from the buyer's mortgage broker and/or financial adviser.

[5] A window into marketing shared ownership housing - ASA | CAP

If buyers have concerns about the sales process, there are opportunities for redress. In the first instance, they can make a complaint to the registered provider through their official complaints process. If this fails to resolve the matter satisfactorily, they may be able to refer their complaint to the Housing Ombudsman for further investigation.

The right to manage:

You asked about enabling shared owners to exercise the right to manage.

Shared owners are eligible to join with other leaseholders to exercise their right to manage their building. This was confirmed in a recent Court of Appeal decision in the case of Avon Ground Rents Limited v Canary Gateway (Block A) RTM Company Ltd.[6]

The Leasehold and Freehold Reform Bill will make it easier for eligible leaseholders to exercise their right to manage. For example, the Bill gives leaseholders the option to claim a right manage in buildings where up to 50% of the floorspace (excluding common parts) is used, or intended to be used, for non-residential purposes. This represents an increase from the current 25% limit. The Bill also sets a new costs regime for right to manage claims. Leaseholders who are exercising their right to manage will no longer generally pay the landlord’s costs of dealing with the claim (such as valuation, conveyancing, and legal fees). Instead, each party will generally bear their own costs.

Regulation:

The Committee asked a series of questions concerning the regulation of shared ownership and I wanted to take this opportunity to clarify the nature of the regulatory environment that applies to the scheme.

The activities of registered providers are overseen by the Regulator of Social Housing. It is not, however, the role of the Regulator to resolve individual disputes between shared owners and their landlords. Instead, as set out in the Regulator's Tenant Involvement and Empowerment Standard, registered providers must have clear and effective mechanisms for responding to complaints. The Regulator recently consulted on revisions to their consumer standards and will publish updated versions shortly. Under these revised standards, registered providers will continue to be required to have clear and effective complaints processes.

If shared owners are unable to satisfactorily resolve an issue through their registered provider's official complaints process, they may be able to refer their complaint to the Housing Ombudsman for further investigation. If there is evidence of wider systemic issues, the Ombudsman can refer specific concerns to the Regulator. It is for the Regulator to then decide if the registered provider in question is compliant with the relevant regulatory standard(s) and if any action needs to be taken.

[6] 2023] EWCA Civ 616.

In addition, the Regulator is preparing to introduce a new, proactive consumer regulation regime. As part of this regime, registered providers are required to collect information on a set of tenant satisfaction measures. The first of these measures relates to residents' overall satisfaction with their registered provider and will incorporate the views of shared owners. The first set of tenant satisfaction measures data is due to be published in the Autumn.

I hope this additional detail is helpful to you and to the Committee. I wish you well in your deliberations and look forward to reading your recommendations in due course.

Yours ever,

BARONESS PENN
Minister for Housing and Communities