Dear Clive,

NAO BRIEFING AND FURTHER INFORMATION ON HELP TO BUY EQUITY LOANS

Thank you for your letter of 28 October. I am pleased you found our briefing helpful. We are always ready and willing to come and speak to the Committee about issues raised in our reports and look forward to support the Committee further in future.

You asked about the Department’s analysis of the costs and benefits of the Help to Buy scheme. This is quite a complex area so I have set out some information against each of the issues you raised, in turn.

On what was included in the Department’s cost calculations covered in the NAO report

You are correct in saying that the Department’s £494 million economic cost estimate which we presented in our report includes income from the scheme (from fees and also gains in the value of the equity stake from houses, where that value has increased from the point of purchase to the point at which the equity stake is repaid).

That is, it includes:

- The costs in the form of the value of loans made, agents’ fees and estimated losses on sale of some properties (where the value of the equity held has reduced from the value at the point the loan was made; set against

- fee income and gains on increases in the value of equity realised on sales from other properties, where the value of the equity has increased.

Technically, the £494 million is the present value (i.e. the value in today’s terms) of all these cash flows expected from the scheme. To arrive at this figure, the Department adjusted the projected cash flows to take account of the declining future value of money, by adjusting for the effects of general inflation and discounting future cash flows by the standard test discount rate, as set out in the government’s Green Book guidance.

On whether it would be correct to include also, set against these costs, benefits from the wider social benefits of housing

Whether it is appropriate to include certain categories or costs or benefit (and how to treat those costs) depends on the type of appraisal being undertaken.
In a full Cost Benefit Analysis (CBA) the aim is to include all costs and benefits, no matter to whom they accrue. The aim of such an analysis is to assess whether an investment, in broad terms, produces a net benefit to society. So from the perspective of a full CBA, it would not be incorrect for the Department to include ‘wider’ economic or social benefits although, to be complete, that analysis would also need to include any and all other benefits and costs that might accrue because of the scheme. Of course, it may be that the Department does not consider that there are any other costs but the Committee might want to ask for further clarification on this point.

**On valuing the benefits of creating additional homes**

In cost-benefit analysis, good practice is to assign all benefits and costs a monetary (i.e. £s) value, which represents the value of that good to society as a whole. Wherever available, market prices should be used. Where market prices are not available, other valuation methods can be used to provide a proxy.

Land uplift value or development value is often used as an estimate of wider social value of an extra home being built on land that would otherwise be used for other purposes. It is, as you say, a quantified (or monetised) social benefit. I suspect it is this to which the Department is referring when it refers to “the net private benefit of a new home” but again it would be reasonable to ask whether the calculation also included any additional estimates such as the value of ownership.

Of course, the value ascribed to each additional house built is only one part of the benefits equation. The other is the multiple, that is, the actual number of additional houses actually built as a result of the scheme. As the Committee knows, the scheme does not fund house-building. Rather, it assists buyers. One of the Department’s key assumptions is that this creates additional demand which in turn will encourage developers to build more houses than they otherwise would have. We stated in our report that:

"Developers report that the scheme is encouraging them to build more, more quickly, so the scheme could lead to some net increase in the supply of new homes. We cannot, however, verify the Department’s figures on what additional supply the scheme will encourage, at this stage. The Department has not evaluated previous, similar schemes’ influence on home-buyers’ behaviour or home building levels, to develop more robust estimates. Nor has it yet collected information from buyers or developers on what they would do, or would have done, without the scheme."

I hope that this helps the committee understand the Department’s position and assists you in questioning the Department on this matter.

Should you wish to discuss this further, please do not hesitate to contact me.

Yours sincerely

Aileen Murphie

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