

Response to technical consultation on the New Model of Shared Ownership

The National CLT Network is the official charity supporting Community Land Trusts (CLTs) in England and Wales. We are a membership body and represent over 340 CLTs, who together have plans to deliver 7,000 homes by 2025. 2020 marks the ten year anniversary for the National CLT Network and more than a ten-fold growth of the CLT movement, from just 30 pioneering CLTs in 2010 to over 340 today.

For further information on this response please contact Catherine Harrington, Co-chief Executive of the National CLT Network, on Catherine@communitylandtrusts.org.uk or 07851 169921.

1. Introductory remarks

- 1.1. CLTs are set up and run by local people to develop and manage homes and other assets. The CLTs act as long-term stewards of the homes, ensuring that they are genuinely affordable, based on what people actually earn in their area, not just for now but for every future occupier. CLTs are defined in Section 79 of the 2008 Housing and Regeneration Act. As of November 2020 there were 347 CLTs, of which 278 are legally incorporated.
- 1.2. We fully support the Government's goal of helping people into home ownership, including through introducing a simplified model for shared ownership. Many of the changes proposed are not significant for CLTs as long as the additional costs can be reflected in applications for capital grant from the Shared Ownership and Affordable Homes Programme (SOAHP). However, we do have major concerns with two of the proposed changes.
- 1.3. The first is the proposed changes to the pre-emption clause and nominations period, as it would undermine the purpose of the CLT to provide homes for local people and to keep those homes affordable in perpetuity. **We have therefore made the case for the current 8 week marketing period to be retained for shared ownerships of CLT properties.**
- 1.4. We also have serious concerns with the proposed changes is the 1% staircasing increments, which would result in a significant administrative and financial burden on CLTs, which are predominantly run by volunteers. **We therefore urge for discretion for CLTs to offer 1% increments.**
- 1.5. We welcomed the Government's decision to exempt CLTs from the Right to Shared Ownership, recognising how the Right would have undermined the ability of CLTs to keep homes permanently affordable.

- 1.6. We also welcome that, in the new model of shared ownership, rural restrictions, which we understand to be the continuation of the 80% equity cap in Designated Protected Areas, will continue to apply.
- 1.7. However, we wish to use this consultation response to highlight the case for the need for the 80% equity cap to apply to CLTs in *all areas*, rural and urban. The statutory definition of a CLT, as set out in Section 79 of the 2008 Housing and Regeneration Act, requires CLTs to ensure that assets are not 'sold or developed except in a manner which the trust's members think benefits the local community'. Furthermore, the core purpose of a CLT is to develop homes that are affordable to local people in perpetuity, to ensure that the homes benefit not just one generation, but every future occupier.
- 1.8. It is this core principle of preserving homes as affordable in perpetuity for local people that motivates people to invest hundreds of volunteer hours to develop new homes. It is also vital to the supply of land at an affordable cost that makes the delivery of affordable homes possible: Landowners' willingness to dispose at a low price requires that they can be confident that the homes will remain affordable and be occupied by people who have a local connection to the community.
- 1.9. At present, CLTs that develop shared ownership homes are only able to fulfil that core principle when developing in Designated Protected Areas. In other areas they are at risk of the shared owner staircasing out to 100% and selling the home on the open market. The lack of a guarantee that the homes will remain affordable is having a dampening effect on the supply of shared ownership homes by CLTs.
- 1.10. The Government recognised that the Right to Shared Ownership would undermine the core principle of a CLT and granted CLTs an exemption. The same argument applies here. **We therefore urge that the Government consider applying the 80% equity cap on CLT homes, to ensure the homes can remain permanently affordable for local people.**

2. Response to relevant questions

Reducing the initial minimum stake to 10%

Question 2 - How will a smaller initial stake impact the relationship between lenders and providers and are there any steps we need to take to address this?

Some of our members have raised a concern that providing a 10% initial stake could lead to higher defaults from shared owners, adding more risk and potentially causing

the CLT to have to borrow more.

We welcome the recognition of the additional costs of the new model of shared ownership on providers and that those costs would need to be factored in when applying for funding from the Shared Ownership and Affordable Homes Programme (SOAHP). Given the potential for increased risk though we would urge that the funding allocated takes into account the potential increased risk and administrative costs.

In general the initial stake is not an issue for CLT providers, as long as the home is then affordable to the buyer and the overall scheme remains viable.

Introducing gradual staircasing

Question 8 - Do you have any further views on how best to implement the 1% gradual staircasing model?

The requirement for CLTs to provide shared owners with an annual updated valuation (and at any other point the shared owner requires to purchase an additional 1%), without the ability to charge a fee for that and other administrative costs, will place a significant administrative and financial burden on CLTs. This is especially the case where the CLT is a Registered Provider themselves, is run by volunteers and where the homes are not managed by a housing association.

As one of our members put it: “for our CLT this would be a burden since we are all volunteers and initially we anticipate managing the properties ourselves which in itself is a huge burden without the additional work required to meet the incremental staircasing proposals.” Another of our members commented: “As a small CLT with limited resources, modelling the financial implications is very challenging and the actual administration with no extra resources would be very difficult”.

It is difficult to model the potential cost of these changes, given that it cannot be known how many times a shared owner may request an updated valuation or wish to purchase an extra 1%, and thereby reflect those costs in grant applications.

We therefore urge for discretion for CLTs to offer 1% increments, on the grounds of the administrative and financial burden on volunteers.

Updates to repairs and maintenance

Question 13 - Please give your reasons.

We do not have a view on the maximum cap but wish to point out that the extra cost will need to be factored in when CLTs apply to grant from the SOAHP.

Pre-emption clause and nominations period

Question 19 - Are there any further delivery issues we should consider ahead of implementing this approach?

The proposal to give shared owners the option to end the 8-week period at the 4-week mark if they would prefer to pursue an open market sale is a major issue for CLTs.

As set out in the introductory section, the whole purpose of a CLT is to both provide homes that are affordable for local people and to keep those homes affordable in perpetuity. This proposal radically undermines that purpose in two fundamental ways. Reducing the timeframe to 4 weeks would substantially reduce the opportunity for the CLT to find a suitable buyer that meets their allocations criteria. Moreover, there is then a greater risk that the home would be sold on the open market, including through outright sale, meaning it is no longer an affordable home in perpetuity.

As one of our members stated: "CLTs, which are intended to operate for the benefit of a community with allocation criteria to match, need an opportunity to seek a purchaser who best matches those criteria. An 8 week period strikes an appropriate balance between the needs of the parties". Another added: "This would be contrary to the aims of the CLT - providing affordable housing for local people. Time to communicate with the community and for eligible applicants to seek financial advice is needed. 4 weeks is not sufficient time to do this".

As set out above, it is the CLT principle of providing affordable homes for local people and in perpetuity that motivates volunteers to put hundreds of hours into developing CLT homes and means local communities are willing to back CLTs developments in a way that is not seen with mainstream development. Introducing this change to the shared ownership model could threaten the ability of CLTs to bring about new shared ownership homes.

We would therefore urge that the current 8 week marketing period is retained for shared owners of CLT properties. A less helpful alternative could be that the shared owner can only request to end the 8-week period at the 4 week mark under *exceptional circumstances* (for example, where they are under financial strain and need to sell the property to release funds quickly).