

# STATES OF JERSEY



## **PROPOSED GOVERNMENT PLAN 2024 - 2027 (P.72/2023) – ELEVENTH AMENDMENT (P.72/2023 AMD.(11)) – COMMENTS**

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**Presented to the States on 7th December 2023  
by the Council of Ministers**

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**STATES GREFFE**

## COMMENTS

- The Council of Ministers does not support the proposed amendment lodged by Deputy Andrews.
- The Council believes that the proposed amendment – which would have the effect of reducing the level of shared equity loans offered to eligible home buyers under the *First Step* shared equity scheme to between 5%-15% – would not address the affordability challenges currently facing first-time buyer households.
- The affordability gap between property prices and household incomes indicates that it will necessary, in some cases, to offer individual shared equity loans of up to 40% the value of a property in the open market.
- If adopted, the amendment would, therefore, place home ownership out of reach for many first-time buyer who would not be able to buy a home suitable for their needs without financial assistance. At the same time, setting the minimum shared equity loan too low (5%) would create the risk of deadweight loss, assisting those who may be in a position to buy a home in the future without financial assistance. The scheme would not, as a result, achieve its policy objectives, and it would not deliver value for money from the £10 million investment.
- The First Step scheme has been through a comprehensive policy design process, and it has been subject to industry engagement. There is support for the scheme in its current form, and any changes at this point risk delaying the launch of the scheme during the first quarter of 2024.
- The Council recognises the intent of the proposed amendment and the concern of Deputy Andrews to promote home ownership on a sustainable financial basis. The Council wishes to emphasise that the scheme will include policy measures to ensure that home buyers can satisfy the financial commitments of buying a home and are still able to move up the property ladder if their personal circumstances change.

### 1. Overview

- 1.1. The Council of Ministers supports home ownership and wants to ensure that it is in the reach of as many Islanders as possible. The *First Step* shared equity scheme will help to achieve this ambition, providing targeted financial support to Islanders who would otherwise be unable to buy a home without some form of financial assistance. The Council – noting that the scheme has been through a detailed policy design and evaluation process prior to its launch in September 2023 – believes that the scheme:
  - (a) addresses the affordability challenges facing prospective home buyers in buying a home, principally the ability to service mortgage repayments affordably;
  - (b) is well-targeted, through the proposed eligibility criteria and 10% to 40% shared equity loan levels, to support home ownership amongst lower to median-income households; and
  - (c) provides a sustainable approach towards generating housing market activity.
- 1.2. The Council cannot, therefore, support the amendment lodged by Deputy Andrews, which would have the effect of reducing the level of shared equity loans offered to prospective home buyers under the scheme to between 5% and 15% of the value of

a property. The Council believes that the amendment would result in poorly-targeted financial assistance and place home ownership out of reach for Islanders who would have benefitted from the scheme as proposed. The Council asks States Members to reject the amendment as a result.

- 1.3. At the same time, the Council wishes to draw attention to the detailed policy design process that is currently underway prior to the operational launch of the scheme by the end of March 2024. The policy design of the scheme will address the challenges identified by Deputy Andrews in his amendment, ensuring that the scheme provides a viable shared equity arrangement; achieves value for money from the £10 million public investment; and supports Islanders to access home ownership.

## **2. Policy objectives of the First Step scheme**

- 2.1. The First Step scheme is intended to support eligible first-time buyer households to buy a home suitable for their needs at an affordable level. The scheme will achieve this policy objective by addressing the two principal barriers to home ownership in Jersey, which prevent prospective home buyers from obtaining the required amount of mortgage borrowing. The scheme will:

- (a) reduce the level of deposit required to as low as 5% by treating the government shared equity loan as a contribution to the deposit; and
- (b) reduce the amount of mortgage borrowing that a prospective home buyer needs to obtain from a mortgage lender, helping to bridge the gap between high price-to-income ratios and make mortgage repayments more affordable.

Moreover, the shared equity loan would not need to be repaid until when the property is sold, reducing ongoing repayment costs for home owners.

- 2.2. In line with this policy objective, the Minister for Housing and Communities – with the support of the Council of Ministers – will target the financial assistance offered under the scheme towards Islanders with annual non-equivalised household incomes between the Q2/3 and Q3/4 income quintile boundaries under the Jersey Household Income Distribution, that is, between £44,900-£69,700 per annum. Nevertheless, it recognised that the nature of housing affordability means that the maximum income limits of the scheme are likely to need to extend beyond these indicative figures in order to reach as many households as possible.

- 2.3. The Council recognises that households will require a substantial level of individual financial subsidy in order to enable them to buy a home at an affordable level. This is why the maximum proposed shared equity loan under the scheme has been set at up to 40% of the property value. Appendix A provides an overview of how different shared equity loan arrangements set at 5%, 15%, 25% and 40% could improve the affordability of buying a home across different household income groups. Appendix A demonstrates that:

- (a) A minimum 5% shared equity loan would not enable Q2/Q3 and median-income households to buy a one-bedroom lower quartile priced flat (£313,000 based on 2022 figures). A one-bedroom flat would become within the financial reach of a Q2/Q3 income household at a 25% shared equity loan.

- (b) A minimum 5% shared equity loan would not enable any of the target household income groups to buy a three-bedroom lower-quartile priced house (£750,000 based on 2022 figures). A maximum 15% shared equity loan would make a two-bedroom house more affordable for households with incomes above £87,680, but it would not improve the affordability of buying a three-bedroom house for any households with incomes below £120,000.
- (c) Houses become more affordable where higher shared equity loans of up to 40% are offered to home buyers, where a minimum household income of £82,500 is required to buy a three-bedroom house.

2.4. The proposed amendment is, therefore, contrary to the policy objectives of the First Step scheme. A minimum 5% shared equity loan is unlikely to enable lower-income households to buy a home, but it would create a greater risk of deadweight loss since the households that it supports are likely to be at the margins of affordability and in a position to buy a home without the financial assistance of the scheme in the future. This would deliver poor value for money from the £10 million of public investment as a result. On the other hand, a maximum 15% shared equity loan is likely to be set too low in order to enable median- and Q3/Q4 income households to buy a two- or three-bedroom house.

### **3. Sustainability of lending**

3.1. It is important to note that the estimates set out in Appendix A are based on practical mortgage lending of 5x income-to-lending. Whilst the figures illustrate the potential attainability of a mortgage, they do not take into account the ability of a prospective home buyer to service mortgage repayments affordably, which will be determined by the length of mortgage required, personal factors such as age, and other financial commitments such as childcare costs. The point at which home ownership becomes affordable under the scheme is, therefore, likely to be greater than the estimates set out in Appendix A. This demonstrates the need for flexibility in the potential shared equity loans offered to prospective home buyers under the scheme in order to ensure that home ownership remains within reach for as many households as possible – for example, ‘life-long renters’ and households close to retirement age who may not be able to buy a home otherwise.

3.2. The Council recognises that, from the perspective of a home buyer, a shared equity arrangement might be less generous in terms of capital accumulation. Nevertheless, the Council believes that it is a decision for eligible households as to whether or not they participate in the scheme, and whether the ability to access home ownership at an affordable level outweighs the reduction in capital should they chose to move in the future – notwithstanding that they would still benefit from the uplift in the value of the property as a proportion of their share. The Council is of the opinion that any potential unintended consequences can be overcome by prospective home buyers:

- (a) being given appropriate advice and guidance before purchasing a property;
- (b) having the opportunity to ‘staircase’ to full ownership over time; i.e., increasing their share if they have the financial means to do so; and
- (c) providing subsequent opportunities for home owners – who benefitted from the First Step scheme – to ‘move up’ the property ladder and purchase again through an assisted home ownership scheme when their personal circumstances change; e.g., moving from a one-bedroom flat to a three-bedroom house.

These considerations have been factored into the policy design that the Minister for Housing and Communities is currently undertaking ahead of the operational launch of the scheme.

- 3.3. Moreover, it is important to emphasise that the First Step scheme is not intended to encourage unsustainable home ownership. Firstly, all prospective home buyers will need to meet the affordability assessment carried out by Andium Homes before they are given approval to participate in the scheme. Secondly, prospective home buyers must have received mortgage approval from a participating lender under the scheme for the remaining borrowing amount (i.e., less the minimum 5% deposit and shared equity), and lenders will carry out their own assessment and mortgage stress-testing to determine the ability of a household to satisfy the ongoing financial commitment of buying a home.
- 3.4. Consequently, the eligibility criteria and financial assessment for prospective home buyers to participate in the scheme will be rigorous. Where households are not able to participate in the scheme and home ownership is not within reach due to ongoing affordability constraints, the Minister for Housing and Communities has increased the maximum income thresholds for accessing social housing – see the [‘Roadmap for improving access to social housing’](#) (July 2023) – which means that all Islanders have the ability to access affordable, good quality and secure housing. Nevertheless, the policy intention with setting the maximum shared equity level at 40% under the scheme is to ensure that, as far as practicable, there is the opportunity and flexibility to meet the housing needs and circumstances of Islanders who would otherwise not be able to purchase a home without financial assistance.

#### 4. Comparison with other jurisdictions

- 4.1. Shared equity arrangements are used widely in other jurisdictions. The table below provides a comparison of shared equity loan percentages for schemes elsewhere:

Jurisdiction	Shared equity contribution
England Wales, Help to Buy: equity loan	5% to 20% (40% in London)
Guernsey, Partial Ownership ( <i>*shared ownership scheme</i> )	20% to 40%
Ireland, First Home Scheme	Up to 30%
Isle of Man First Home Choice	5% to 30%
New South Wales (Australia) Shared Equity Home Buy Helper	Up to 40%
New Zealand, First Home Partner	Up to 25%
Scotland, Open Market Share Equity	10% to 40%
Victoria (Australia), Homebuyer Fund	Up to 25%
Western Australia, KeyStart	Up to 30%

**Table 1: comparison of shared equity contributions in other jurisdictions**

- 4.2. The table illustrates that schemes in other jurisdictions offer high shared equity loan percentages, suggesting that the First Step scheme is well-aligned with comparative schemes elsewhere. This is to be expected because shared equity schemes generally

have the same policy objective of overcoming the affordability constraints of higher loan to value ratios and reducing the ongoing costs of buying a home. The *Help to Buy* scheme in London, notably, provided up to a 40% shared equity loan, which reflects higher house prices in the capital. Since property prices in Jersey are similar to those in London<sup>1</sup>, it is reasonable that the First Step scheme should also offer up to a maximum 40% shared equity loan.

4.3. Moreover, there are examples of other forms of shared equity arrangement in Jersey where similar levels of shared equity loan have been offered to home buyers:

- Andium Homebuy: a deferred payment bond of up to 25% the price of a property within the existing Andium Homes housing stock.
- Parish schemes, e.g., St. Martin and Trinity: shared equity arrangements of up to 30% of the property prices.
- La Providence, St. Lawrence: discount of up to 40% of the property prices.

The First Step scheme is, accordingly, consistent with current and previous assisted home ownership products offered in the local market, which reflect the affordability constraints facing home buyers that have been identified by these schemes.

## 5. Process

5.1. The Minister for Housing and Communities established a Ministerial steering group in July 2023 to support the development of an assisted home ownership scheme and inform the choice of policy options. Ministers adopted a multi-stage process, which included:

- (a) Considering the economic context and housing market conditions into which a scheme would be introduced.
- (b) Identifying the policy objectives of a scheme such as addressing the barriers to home ownership and targeting assistance towards households in greatest need.
- (c) Evaluating the range of scheme options that could meet their policy objectives.

5.2. Ministers concluded with a detailed review of the potential scope and design of the preferred policy option, that is, an open market shared equity scheme. In doing this, Ministers agreed that shared equity would be the most feasible and beneficial form of assisted home ownership arrangement, which would bridge the gap between high price-to-income ratios and make mortgage repayments more affordable.

5.3. The policy parameters of the scheme have been developed in partnership with Andium Homes. The scheme has also been informed through engagement with all the Island's mortgage providers, and law firms and estate agents. The discussions with these bodies – including the proposed levels of shared equity loans of between 10% and 40% of property prices – has been very positive and there is strong support within the market for the First Step scheme in its present form. Consequently, given the policy development and engagement that has been undertaken on the First Step

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<sup>1</sup> The [Jersey House Price Index \(Q3, 2023\)](#) shows that the mix-adjusted average prices in Jersey for the third quarter of 2023 was £681,000 compared to £537,000 in London.

scheme already, the Council of Ministers is concerned that any potential changes to the scheme at this stage will require a new round of policy design and consultation.

- 5.4. In view of concerns highlighted about the effects of the amendment, if adopted, the scheme would need to be re-evaluated to consider the impact of adjusting the shared equity loan percentages on achieving the policy objectives of the schemes – that is, to ensure that financial assistance is targeted towards households in need – and in achieving value for money from the £10 million investment. This would, inevitably, cause a delay in bringing the scheme to market, taking into account the need, firstly, for Treasury and Exchequer to reappraise the Outline Business Case and, secondly, for discussion with mortgage lenders to redetermine whether the scheme continues to be viable from the perspective of providing mortgage borrowing to eligible first-time buyer households. Thus, at a time when there is a high level of interest amongst applicants about the scheme, and industry support for the scheme in its current form to help generate activity in the housing market, the Council would not wish to delay the scheme unnecessarily.

**Appendix A – Estimated loans at 5%, 15%, 25% and 40% shared equity**

*Green indicates household ability to service a mortgage at a 5% loan-to-income ratio; yellow indicates within £5k of ability to service mortgage; red indicates households unable to service a mortgage.*

5% shared equity arrangement						
Property size	Minimum household income required to service 90% mortgage (5x loan-to-income ratio)	Q2/Q3 quintile boundary	Median income	Q3/Q4 quintile boundary	Q4/Q5 quintile boundary	Housing Gateway maximum income threshold
1-bed flat [£313,000]	£56,340	£44,900	£56,200	£69,700	£107,400	£65,000
2-bed flat [£446,000]	£80,280	£44,900	£56,200	£69,700	£107,400	£105,000
2-bed house [£548,000]	£98,640	£44,900	£56,200	£69,700	£107,400	£105,000
3-bed house [£750,000]	£135,000	£44,900	£56,200	£69,700	£107,400	£125,000
4-bed house [£925,000]	£166,500	£44,900	£56,200	£69,700	£107,400	£135,000

**Figure one: minimum household income required to service a mortgage affordably with 90% borrowing, assuming a 5% shared equity loan and 5% deposit**

15% shared equity arrangement						
Property size	Minimum household income required to service 80% mortgage (5x loan-to-income ratio)	Q2/Q3 quintile boundary	Median income	Q3/Q4 quintile boundary	Q4/Q5 quintile boundary	Housing Gateway maximum income threshold
1-bed flat [£313,000]	£50,080	£44,900	£56,200	£69,700	£107,400	£65,000
2-bed flat [£446,000]	£71,360	£44,900	£56,200	£69,700	£107,400	£105,000
2-bed house [£548,000]	£87,680	£44,900	£56,200	£69,700	£107,400	£105,000
3-bed house [£750,000]	£120,000	£44,900	£56,200	£69,700	£107,400	£125,000



4-bed house [£925,000]	£148,000	£44,900	£56,200	£69,700	£107,400	£125,000
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**Figure two: minimum household income required to service a mortgage affordably with 80% borrowing, assuming a 15% shared equity loan and 5% deposit**

25% shared equity arrangement						
Property size [lower quartile property prices, 2022]	Minimum household income required to service 70% mortgage (5x loan-to-income ratio)	Q2/Q3 quintile boundary	Median income	Q3/Q4 quintile boundary	Q4/Q5 quintile boundary	Housing Gateway maximum income threshold
1-bed flat [£313,000]	£43,820	£44,900	£56,200	£69,700	£107,400	£65,000
2-bed flat [£446,000]	£62,400	£44,900	£56,200	£69,700	£107,400	£105,000
2-bed house [£548,000]	£76,720	£44,900	£56,200	£69,700	£107,400	£105,000
3-bed house [£750,000]	£105,000	£44,900	£56,200	£69,700	£107,400	£125,000
4-bed house [£925,000]	£129,500	£44,900	£56,200	£69,700	£107,400	£135,000

**Figure three: minimum household income required to service a mortgage affordably with 70% borrowing, assuming a 25% shared equity loan and 5% deposit**

40% shared equity arrangement						
Property size [lower quartile property prices, 2022]	Minimum household income required to service 55% mortgage (5x loan-to-income ratio)	Q2/Q3 quintile boundary	Median income	Q3/Q4 quintile boundary	Q4/Q5 quintile boundary	Housing Gateway maximum income threshold
1-bed flat [£313,000]	£34,430	£44,900	£56,200	£69,700	£107,400	£65,000
2-bed flat [£446,000]	£49,060	£44,900	£56,200	£69,700	£107,400	£105,000
2-bed house [£548,000]	£60,280	£44,900	£56,200	£69,700	£107,400	£105,000
3-bed house [£750,000]	£82,500	£44,900	£56,200	£69,700	£107,400	£125,000

4-bed house [£925,000]	£101,750	£44,900	£56,200	£69,700	£107,400	£135,000
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**Figure four: minimum household income required to attain a mortgage affordably with 55% borrowing, assuming a 40% shared equity loan and 5% deposit**