

## Summary: Intervention & Options

<b>Department /Agency:</b> <b>Communities and Local Government</b>	<b>Title:</b> <b>Impact Assessment of Improving Consumer Content of HIPs and addressing transitional measures</b>	
<b>Stage:</b> Final	<b>Version:</b> 1	<b>Date:</b> 4 December 2008
<b>Related Publications:</b>		

**Available to view or download at:**

<http://www.communities.gov.uk/housing/buyingselling/>

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**What is the problem under consideration? Why is government intervention necessary?**

HIPs have made a start in providing important information up-front in the home buying and selling process, but consumers want additional and better quality information that is accessible and more relevant to their needs. We also know that consumers are not seeing the HIP and therefore do not benefit from the information before they make an offer, leading to frustration and delay later in the conveyancing process and failed transactions.

**What are the policy objectives and the intended effects?**

To improve the quality and flow of information in the home buying and selling process, by making the HIP more consumer friendly and 'fit for purpose'. To create greater certainty about operation of HIPs by finalising implementation and taking final decisions on transitional arrangements

**What policy options have been considered? Please justify any preferred option.**

1. Do nothing – retain an authorised Home Use Form in the HIP and allow transitional measures to expire on 31 December 2008.
2. Redesign Home Use Form to create a mandatory Property Information Questionnaire (PIQ) ; simplify leasehold requirements in HIP and extend for transitional arrangements for first day marketing and insurance cover for personal searches

Option 2 would at minimal cost provide buyers with a more complete picture of the property before making an offer, enabling a more informed decision. Any short term consumer disbenefits from extending transitional arrangements for a final period will be outweighed when the measures expire and buyers benefit from the improved content of the HIP.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The effectiveness of this package of measures will be assessed as part of the evaluation of the HIPs programme which we plan to undertake in 2010 by updating the HIPs baseline study.

**Ministerial Sign-off** For final proposal/implementation stage Impact Assessments:

***I am satisfied that (a) this Impact Assessment represents a fair and reasonable view of the expected costs, benefits and impact of the proposed policy, and (b) that the benefits justify the costs.***

Signed by the responsible Minister:

Margaret Beckett

Date: 4 December 2008

## Summary: Analysis & Evidence

<b>Policy Option:</b> A	<b>Description:</b> Introduce the mandatory Property Information Questionnaire; simplify leasehold requirements in the HIP and extend for transitional arrangements for first day marketing and insurance cover personal searches
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<b>COSTS</b>	<b>ANNUAL COSTS</b>	Description and scale of <b>key monetised costs</b> by 'main affected groups'	
	<b>One-off</b> (Transition) <b>Yrs</b>		
	<b>£ 8.65m</b>	One off cost of extending insurance cover for personal searches for 3 months.	
	<b>Average Annual Cost</b> (excluding one-off)	Cost of filling in PIQ (calculated from value of non-work time). This figure is a maximum as baseline costs not fully taken into account.	
	<b>£ 1.5m</b> 10	<b>Total Cost (PV)</b>	<b>£ 20.8m</b>
<b>Other key non-monetised costs by 'main affected groups'</b> Extending first day marketing means that buyers placing an offer before a HIP has been compiled, lose out on benefits of up-front information about the property on which to base their decision to purchase.			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>	Description and scale of <b>key monetised benefits</b> by 'main affected groups'	
	<b>One-off</b> <b>Yrs</b>		
	<b>£7.55m</b>	Extending insurance cover for personal searches - reduction in loss to PSC business in transition period ; additional revenue to LA. There will be reduced transaction failure resulting from mandating the PIQ.	
	<b>Average Annual Benefit</b> (excluding one-off)		
	<b>£ 1.83m</b> 10	<b>Total Benefit (PV)</b>	<b>£ 22.51m</b>
<b>Other key non-monetised benefits by 'main affected groups'</b> The PIQ form can be filled in without professional help - reducing time taken - and as mandatory, will provide buyer with necessary information. Simplifying leasehold requirements by making Lease only mandatory and making other documentation voluntary will minimise burden on sellers by reducing time and cost of assembling pack. Both will speed up and improve home buying  Extending first day marketing for a final period will allow development and introduction of better quality, more consumer focussed information in the HIP and give buyers certainty that they will see and therefore can act on and benefit from the information.			

### Key Assumptions/Sensitivities/Risks

Key assumptions listed in evidence base.

The range of costs of benefits are based on different assumptions listed below.

Price Base Year	Time Period Years	<b>Net Benefit Range (NPV)</b> £	<b>NET BENEFIT (NPV Best estimate)</b> £1.68m
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What is the geographic coverage of the policy/option?	England & Wales
On what date will the policy be implemented?	6 April 2009
Which organisation(s) will enforce the policy?	Local Weights and Measures Authorities
What is the total annual cost of enforcement for these organisations?	£
Does enforcement comply with Hampton principles?	Yes
Will implementation go beyond minimum EU requirements?	No

What is the value of the proposed offsetting measure per year?			£ N/A	
What is the value of changes in greenhouse gas emissions?			£ N/A	
Will the proposal have a significant impact on competition?			Yes	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)			(Increase - Decrease)	
Increase of £	Decrease of £	<b>Net Impact</b>	£	
Key:			Annual costs and benefits: Constant Prices	(Net) Present Value

## Evidence Base (for summary sheets)

The measures are being introduced to help to realise the true potential of HIPs in improving the home buying and selling process. They will ensure that consumers are better informed by giving them the kind of information they want to know about a property in a simple form. It will mean that sellers get what they pay for – a copy of their HIP and a fit-for-purpose property search, and provide buyers with certainty that a HIP will be available for them to see and use. Overall the package will provide better value for money and greater certainty.

### **Changing the home buying and selling process: Consumer Information**

The home buying and selling process is opaque and confusing for the consumer. Information failures for both buyers and sellers mean that the buyer often places an offer with very little information about a property. This can lead to delays and wasted costs for both buyers and sellers, will often lead to re-negotiation and can even cause transactions to fail. HIPs baseline search<sup>1</sup> found that 23% of buyers had previously experienced a failed transaction and reported an average of £442 for abortive costs.

It is important that the right information is provided to the consumer early on in the process and in a user-friendly format to enable them to make an informed decision about the property they are looking to buy before they have invested financially and emotionally.

Home Information Packs (HIPs) were introduced to help improve this process by providing consumers with key property information upfront, enabling them to make a more informed and rational decision as to whether to put in an offer. It is clear that there is an opportunity to build on the existing HIP to provide simple but essential information about a property to prospective buyers.

The Housing Minister set out on 8 May plans to focus action in three key areas to achieve a more fair and efficient home buying and selling process: improving quality and flow of information provided to consumers; standard of services provided by property professionals; and enforcement and redress arrangements for consumers. The package of measures brought forward through the changes to the HIP regulations delivers the commitment to improve the content and accessibility of HIPs and ensuring consumers can have greater certainty about the operation of HIPs by finalising implementation.

### **Improving consumer information in the HIP**

A consultation on proposals to improve the consumer content of the HIP and simplify requirements for leasehold properties closed on 30 September. A copy of the consultation paper is available at

<http://www.communities.gov.uk/publications/housing/improvingconsumerinformation>

### **The Property Information Questionnaire**

The consultation proposed to redesign the existing Home Use Form, authorised for inclusion in the HIP, to create a new mandatory document – the Property Information Questionnaire (PIQ). The PIQ is not intended to replace the work of conveyancers and other property professionals, which will continue to be required as the transaction is finalised. Instead it is intended to provide important information to the buyer that might otherwise be missed as part of the first viewing of a property and act as a ‘trigger’ for further enquiries. The PIQ will provide a simple summary of information to prospective buyers, to help inform their decision to buy.

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<sup>1</sup> HIP Baseline Research : Main Report – *Communities and Local Government, January 2007*

As the form is downloaded or requested by the seller and completed by the seller this should involve minimal changes to the systems of HIP Providers. It is also expected to have the knock-on, but unquantifiable benefit, of engaging the seller more closely in the production and potential value of the HIP.

The time taken to complete a PIQ is estimated at 15 minutes. Assuming an average of 1.2 million transactions<sup>2</sup> are completed per year and values of non-working time (£ per hour, 2008) are £5.02, this gives an upper end cost estimate of implementing the mandatory PIQ at £1.5million per year. This figure is at the upper end as it does not take account of the cost involved in completing the current Home Use Form (which is voluntary and takes slightly more time to complete) ; anecdotal evidence suggests that these are not often completed, although evidence on how many are completed is not available. A comparison of the Home Use Form and Property Information Questionnaire is set out in table 1.

**Table 1: Comparison of the Home Use Form and Property Information Questionnaire**

	<b>Home Use Form</b>	<b>Property Information Questionnaire</b>
Length of the form (pages)	7	7
Information Included	<ul style="list-style-type: none"> <li>- Access arrangements</li> <li>- Utilities/ services</li>   <li>- Council Tax band</li> <li>- Boundaries</li> <li>- Changes to the property</li> <li>- Common hold Information</li>   <li>- Leasehold information</li> </ul>	<ul style="list-style-type: none"> <li>- Access arrangements</li> <li>- Utilities/ services and details of provider</li> <li>- Council Tax band</li> <li>- Boundaries</li> <li>- Changes to the property</li>   <li>- Parking arrangements</li> <li>- Damage to the property</li> <li>- Leasehold information</li> </ul>
Completed by	The seller/ representative or professional	The seller/ representative
Estimated time to complete	20 mins depending on need for specialist information	15 mins
Can form be completed by seller?	Some questions may need specialist knowledge	Yes. No specialist knowledge required.
Available from	Downloadable from web HIP providers	Downloadable from web HIP providers
Status in the HIP	Authorised	Mandatory

Benefits - The introduction of the PIQ will improve the quality and flow of information provided to consumers, improving the utility and value for money of the HIP. Providing buyers with simple but useful information at the beginning of the process, the PIQ will lead to more and better informed decisions helping to reduce delays and failed transactions. Assuming a 1.5% reduction in the approx 23% of buyers experiencing a transaction failure with average abortive costs<sup>3</sup> of £442 this gives a lower end benefit of introducing the PIQ of £1.83m per year.

Following a period of consultation, the majority of respondents (69%) supported the proposals to introduce the PIQ. Suggestions were also made for ways to clarify or build on the questions in the form, some of which have been adopted in the final version. A summary of responses has

<sup>2</sup> HIPs Baseline Research– Main Report *Communities and Local Government, January 2007*

<sup>3</sup> HIPs Baseline Research– Main Report *Communities and Local Government, January 2007*

been published on the Communities and Local Government website at [www.communities.gsi.gov.uk/publications/housing/improvingconsumerinformation](http://www.communities.gsi.gov.uk/publications/housing/improvingconsumerinformation)

### Simplification of Leasehold requirement

The consultation also set out proposals to simplify leasehold requirement in HIPs, proposing the inclusion of a summary of key information about cost and use of a leasehold property. The summary would form a part of the PIQ and cover information that would represent a minimum requirement for sellers which can be completed without the need for professional assistance. This will remove the need for leaseholders to provide large volumes of documents and information before marketing their property, enabling HIPs to be assembled easier, quicker and cheaper. Buyers will benefit from useful information, answering many of the questions they want to know about a property in a format they find useful.

Therefore the consultation proposed that the summary of leasehold information together with a copy of the Lease, should form the permanent mandatory requirement for the HIP and the transitional measure be removed. However, sellers should continue to have the right to include additional information if they wish (already authorised for inclusion in the HIP) which they believe would be useful to a prospective buyer.

A majority of consultation responses 74% supported the proposal to introduce a summary of leasehold information and 64% supported the proposition that the summary plus a copy of the Lease should form the permanent requirement for HIPs.

### **Finalising implementation of HIPs**

Improving the content and quality of the HIP for consumers is central to ensuring it is 'fit for purpose'. But to realise its full benefits, the HIP needs to be available for consumers to use at the start of the home buying and selling process. To achieve this HIPs need to be placed on a more stable and permanent footing and final decisions taken on the transitional arrangements for insurance cover for personal searches and first day marketing due to expire on 31 December.

### Insurance cover for personal searches

Property searches are required in HIPs. Local Authorities (LAs) hold all the necessary data but searches can be produced by Private Search Companies (PSCs) or LAs. PSCs therefore need access to LA data to produce searches. However, some LAs currently restrict access to the necessary data. In these circumstances the HIP Regulations permit PSCs to use insurance to cover missing data if a LA has a policy of restricting access to it. This provision is temporary and will expire on 31 December 2008 unless the HIP Regulations are amended.

Without this insurance dispensation there is a risk that PSCs may find it difficult to trade in those areas where LAs do not make all of the information available. CLG is working to deliver reforms of the property searches market based on recommendations by the Office of Fair Trading to deliver a level playing field for competition. These reforms will improve access to data and resolve issues around LA charging arrangements. Once complete there should be no further need for the insurance provision.

In practice the insurance provision has introduced market distortions. Many LAs claim they already make data available but PSCs do not obtain it so as to save costs and gain market advantage by using insurance instead. This in turn gives rise to "duplicated searches" which occur when a buyer's legal representative refuses to accept a PSC search provided in a HIP because the data is incomplete. Therefore a second search, usually by the LA, is commissioned adding additional costs for consumers.

Key Assumptions: Assumptions<sup>4</sup> made are that:

- the legislation on charging (Regulations were laid on 13 November) and the related non-statutory guidance are in place;
- PSCs have 65% (780k searches per year) of the searches market;
- 67% of LAs are currently providing full access<sup>5</sup>;
- Price of the necessary search data from LAs is on average £33;
- 56% proportion of PSCs using insurance;
- 25% of PSC searches using insurance are duplicated.

#### *Extend insurance provision to 5 April 2009*

There are benefits from extending the insurance provisions for 3 months:

- Extending the provision would provide time for LAs and PSCs to adopt the new charging regime (expected in force in Jan 2009) and adjust accordingly Charges Regulations. It would also provide a further three months to deliver: the necessary access to the private sector on the back of the Regulations; clarification that insurance will end; and, the conclusion of Ministry of Justice's related work (expected in due course). These benefits are unquantifiable;
- PSCs and LAs would continue be able to compete for the provision of property searches in all LA areas. This removes the risk of PSCs finding it difficult to trade in those areas where LAs do not make all of the information available – the estimated cost of loss of business to PSCs if there was no extension is estimated at £5.3m (based on the assumption that there are 64k searches in those 33% of areas (780k x 33% x 25% (3 months)) where full access is not available which cost £85 on average for PSCs).
- LA access arrangements will improve in response to the completion of the work set out in the first indent;
- Revenue to LAs from providing 'duplicate' searches - estimated revenue of up to £2.25m based on estimate of 25% of PSC's searches with insurance being duplicated.

Costs of extending for 3 months:

- LAs may not realise revenue from charges if PSCs avoid paying for available data and use insurance instead – estimated up to £6.4m (£33 for the necessary data x 780k searches x 25%);
- Consumers might have to pay for 'duplicate' searches - estimated up to £2.25m based on estimate of 25% of PSC's searches with insurance being duplicated.

On balance we believe that there are strong arguments for extending the temporary provision for a short period of 3 months. The work on the reforms of the property searches market will be complete by the end of January 2009 and will deliver improved access to LA held data. Following this, and with absolute clarity that the use of insurance will end on 5 April 2009 and the completion of MoJ's review, we believe that LAs will quickly move to improve access arrangements. By 6 April we expect to see virtually all LAs providing open access to the private sector. If the provision were not extended there would be a risk to PSCs' business model in the 33% of LA areas where access is not currently provided.

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<sup>4</sup> All figures used in this Impact Assessment are from the CLG Impact Assessment to support the Local Authorities (Charges for Property searches) Regulations 2008 – these figures are adjusted to reflect the 3 month extension to arrangements.

<sup>5</sup> Source: Land Data Aug/Sept 2008 survey of LAs.

Table 2

<b><u>Extend to 6 April</u></b>	<b><u>Benefits</u></b>	<b><u>Costs</u></b>
<u>LAs</u>	Time to adjust to new charging arrangements – unquantifiable  Revenue to LAs from providing 'duplicate' searches estimated at £2.25m	LAs may not realise revenue from charges if PSCs avoid paying for available data and use insurance – estimated at £6.4m
<u>PSCs</u>	Removes the risk of PSCs finding it difficult to trade in 33% of LA areas – estimated at £5.3m  LA access arrangements will improve – unquantifiable	
<u>Consumers</u>	Competition in searches market continues in all LA areas – unquantifiable	Consumers might have to pay for 'duplicate' searches - £2.25m
<b><u>Total</u></b>	<b><u>£7.55m</u></b>	<b><u>£8.65m</u></b>

### First day marketing

Temporary provision allows marketing of a property to begin without a HIP where all required documents have been commissioned and paid for, or arrangement for payment to be made, and are expected to arrive within 28 days. The measure creates disbenefits as sellers do not see the product they pay for and buyers make offers before a HIP has been compiled, and therefore miss out on benefits of up-front information on which to base their decision to purchase.

The Area Trials report that significant numbers of buyers do not see the HIP with anecdotal evidence that first day marketing is a contributory factor. The measure also reduces consumer protection by making enforcement by local trading standards more difficult, as the flexibility to market without a pack is abused to obfuscate on the whereabouts and timing of the HIP.

Feedback from industry reports that documents to form the 'basic' HIP necessary to meet the original requirement of the HIP regulations, are available on average within 3-5 days after commissioning. So the removal of first day marketing would have a minimal impact on a seller in requiring a HIP to be in place before marketing begins.

Therefore there is a benefit to consumers in the removal of first day marketing transitional measure. Unless buyers can access and use the HIP to inform choices and decisions at the outset of the home buying and selling process, they will not realise the benefits from the improved content and quality of the HIP on the introduction of the PIQ on 6 April 2009. The regulations extending the measure for a final period will allow consumers and industry to make

appropriate and adequate preparation for the temporary measure to expire on 5 April at which all buyers will benefit from an improved product.

### Competition Assessment

The Office of Fair Trading carried out a study of the property searches market in late 2005. Government endorsed the recommendations in the OFT's report and has been working to implement them. The recommendations rest on two principles (i) equal access for all parties to the necessary local authority held data; and, (ii) a fair and transparent charging regime. These two conditions would deliver a 'level playing field' in the delivery of searches. This would improve competition and deliver consequent benefits to consumers.

To deliver these conditions, CLG has published good practice guidance on access to searches' data in January 2008 and produced Regulations to deliver a fair and transparent charging regime. The resulting Local Authorities (Charges for Property Searches) Regulations were laid in Parliament on 13 November 2008 and are expected to come into force in early 2009. OFT supports the approach set out in the Regulations and believes it will improve competition and deliver the benefits it envisaged.

The temporary insurance provision was included in the HIPs Regulations to allow time for the OFT reforms to be completed. The provision is due to end on 31 December 2008. However, as the Regulations are not yet in place, and to allow time for local authorities and the private sector to adjust to the new requirements the extension to 6 April 2009 is being proposed. Without this intervention, in areas where local authorities continue to restrict access to the necessary data, the private sector would be presented with difficulties in trading which could effectively hand local authorities a monopoly in the market for searches. Our assessment is therefore that the extension is needed for a short period with the expectation that the OFT's envisaged level playing field will be in place by April 2009.

## Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

**Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.**

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	No	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

## Annexes

Annex A: Property Information Questionnaire (available at <http://www.communities.gov.uk/housing/buyingselling/homeinformation>)

Annex B: Home Use Form

(available at: [www.homeinformationpacks.gov.uk/pdf/Home%20use%20form.doc](http://www.homeinformationpacks.gov.uk/pdf/Home%20use%20form.doc))