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Taxpayer to take on mortgage risks of first-time buyers

Taxpayers will underwrite mortgages totalling hundreds of millions of pounds under plans to “unblock” the housing market and revive the flagging economy.

The Prime Minister and his deputy, Nick Clegg, will unveil proposals to help first-time buyers of new homes by carrying part of the risk of their mortgages.

They also propose subsidising the construction of 16,000 homes by giving £400 million of taxpayers' money to property developers.

In a further move, ministers are working on a scheme under which billions of pounds of money in pension funds will be used to finance the construction of power stations, wind turbines and roads.

In the foreword to the Coalition's new housing strategy, which is published today, Mr Cameron and Mr Clegg say that Britain has been “under-building” for decades and that a “radical and unashamedly ambitious strategy” is needed to shake up the housing market.

“The housing market is one of the biggest victims of the credit crunch: lenders won't lend, so builders can't build and buyers can't buy,” they say in the report.

“That lack of confidence is visible in derelict building sites and endless 'For Sale' signs.

“It is doing huge damage to our economy and our society, so it is right for government to step in and take bold action to unblock the market.”

The mortgage guarantee, the first time such a scheme has been attempted in the UK, will result in lenders providing loans with significantly lower deposits than the 20 per cent or more that is typically demanded. The taxpayer, however, could be liable for losses in the event that a home is repossessed.

The strategy also includes a proposal to double from £26,000 to £52,000 the discount available to council tenants wishing to buy their home.

There are plans to “build for growth”, with property companies able to bid for public funding to finish developments that have stalled because of a lack of funding and the Government selling

thousands of acres of land owned by hospitals, schools and the Ministry of Defence.

“With this strategy, we will unlock the housing market, get Britain building again, and give many more people the satisfaction and security that comes with stepping over their own threshold,” Mr Cameron and Mr Clegg say in the report.

Mr Cameron will later tell business leaders that the Government has to “go for growth”. In a speech to the CBI, he will say the Coalition’s priority is to give a “massive boost to enterprise, entrepreneurship and business creation”.

“Fears about the immediate future are real,” he will say. “Paralysis in the eurozone is causing alarm in the markets and having a chilling effect on economies in many countries — including our own. Everyone agrees now that in the past Britain’s economy had become lopsided – too dependent on debt, consumption and financial services. Well, we are putting that right. We need a different kind of economy and a different kind of growth.

“Put simply, Britain must become one of the best places to do business on the planet.”

Mr Cameron also takes a swipe at people who have criticised Downing Street for looking at ways to reform employment law. The Coalition is examining proposals from Adrian Beecroft, a venture capitalist, to make it easier to sack underperforming workers.

“People who ask, ‘What do radical deregulation and reforming employment law have to do with the immediate priority of getting growth?’ miss the point,” he will say. “The answer is simple: If we want a new economy and a new type of growth, we have to act to make it possible.”

Danny Alexander, the Chief Secretary to the Treasury, disclosed yesterday that Treasury officials were working on plans to allow pension funds to invest directly in infrastructure projects.

He said the Government had been working with pension funds to get more investment. “We know across the world that countries with the strongest infrastructure have the best potential for growth, so that’s a major focus for us,” he said.

Treasury sources said talks had been conducted with pension fund managers for months. They are hoping to attract managers to invest in infrastructure schemes because they provide a better rate of return than government bonds.

One insider said: “Fund managers are sitting on tens of billions of pounds and they want to invest in something that gives them a good rate of return.”

Joanne Segars, the chief executive of the National Association of Pension Funds, confirmed that talks were continuing. “Private sector final salary pension funds have come under great pressure in recent years, and they are hungry for long-term, stable investments to match the long-term nature of their liabilities,” she said. “We’ve had a broad range of discussions with the Treasury about how to help pension funds invest in a range of asset classes, like long-dated gilts and infrastructure, and these talks are still at an early stage.”

Separately, Lord Heseltine, who advises the Government on growth, said MPs should waive through

critically important infrastructure projects to get the economy moving.

The former Cabinet minister said the Government could work with Ed Miliband, the Labour leader, to agree on which major projects to push through.

“If they could find 10 such examples, then I think they could ask Parliament to give planning permission in a matter of months. It can be done,” he said.

He added that ministers should also examine long-term programmes in their department “so that we can see if they’re accelerated”.