



Communities and Local Government Committee

Oral evidence: Housing Associations and the Right to Buy, HC 370

Monday 19 October 2015

Ordered by the House of Commons to be published on 19 October 2015.

Watch the session

Evidence from witnesses:

Members present: Mr Clive Betts (Chair); Bob Blackman; Jo Cox; Helen Hayes; Kevin Hollinrake; Julian Knight; David Mackintosh; Angela Rayner; Mary Robinson; Alison Thewliss.

Questions 1 - 63

Witnesses: **David Orr**, Chief Executive, National Housing Federation, **Jenny Osbourne**, Chief Executive, Tenant Participation Advisory Service, and **Paul Smeeth**, Director General, Council of Mortgage Lenders, gave evidence.

Q1 Chair: Welcome to everyone to this afternoon's first evidence session into our inquiry into housing associations and the right to buy. You are very welcome. Right at the beginning, I will ask members of the Committee to put on record any interests they may have. We obviously have interests in the official register, but there may be other things specifically related to this inquiry or local government matters. I am a vice-president of the Local Government Association.

Helen Hayes: I am a local councillor in the London Borough of Southwark. I also employ a councillor in the London Borough of Southwark in my Westminster office.

Angela Rayner: Declared in my interests, I employ a local councillor.

Q2 Chair: Thank you for that. Now we move on to our witnesses. Thank you very much for coming this afternoon. Perhaps just to begin

with, you could go along and say who you are and the organisation you represent.

Paul Smee: Paul Smee, Director General, Council of Mortgage Lenders.

Jenny Osbourne: I am Jenny Osbourne. I am Chief Executive at TPAS, the Tenant Participation Advisory Service.

David Orr: David Orr, Chief Executive, National Housing Federation.

Q3 Chair: I will begin. I will probably want to put these points to David. You might appreciate that you are probably going to be a bit in the spotlight this afternoon and there might be a bit of interest around what you have to say to us. Let us begin, then, with the voluntary arrangement you have entered into with the Secretary of State. Obviously it is important we get on the record your understanding of it. To begin with, the National Housing Federation has entered into this agreement. Effectively, have you entered into it under duress? Is the principal policy of the Federation that you are still opposed to the right to buy for housing associations?

David Orr: We have been opposed to the imposition of a statutory right to buy for housing associations and remain opposed to the imposition of a statutory right to buy for housing associations. The reason that we had the conversation with the Communities Secretary and others, and made the offer that we made and have now reached the agreement that we have reached, is because, as an organisation, we believe that it is absolutely fundamental that boards should be the primary decision makers in organisations, not Government. A statutory right to buy would have imposed an obligation on housing associations to sell assets that would have been determined by Government, rather than by the board of the organisation.

A statutory right to buy would have required independent private social enterprises to do something whether or not they wanted to do it because the Government thought that they should do it. We think that is the wrong relationship between sector and state. Many of you will have seen that we have expressed publicly our concern that, if there was that statutory right to buy, that took us into very dangerous territory, where there was a realistic prospect of the Office for National Statistics determining that housing associations should be regarded as public bodies, which would have taken our independence away almost entirely.

Do we think it is right that tenants of housing associations should have an opportunity to become owner-occupiers? Yes, we do. We have always done so. Housing associations have been building homes for shared ownership. I used to run an organisation that was doing this more than 30 years ago, and there have always been routes into owner occupation. I have

always believed that it should be more possible for housing associations to make judicious decisions to sell properties when they were empty, if that allowed them to raise funds that would allow new homes to be built.

The other thing that it is important to say about the arrangement that we have come to with the Government is that many, many people, over the whole life of right to buy, have said that it is not the basic concept that is the problem; it is the discount. The fact of the discount has made it almost impossible to replace. In this case, if a housing association sells to a tenant, the full open market value will be paid to the housing association. That is the first time that that has happened and it will mean that we will be able to deliver one-for-one replacement.

Q4 Chair: I will just pursue two of those issues, if I might. First of all, let us get back to the point of principle. Yes, housing associations have sold properties built for sale in the past and made judgments on individual properties. Essentially what you are saying to us is that the voluntary agreement you came to with the Government was basically because it was better than the statutory agreement. It is not an agreement you would have reached and come to without the threat from Government of statutory imposition if you did not do it.

David Orr: It is not the conversation that we would have been having with the Government, had the Government not made it clear that it intended to legislate for a statutory right to buy. It may not have been the conversation that we most would have wanted to have, but it is the conversation that we were forced to have because of the outcome of the election.

Chair: Left to your own devices, you would not be offering the agreement that you have offered now.

David Orr: Left to our own devices, no, we would not be offering it. The arrangement that we have come to is dependent on Government offering discounts. If the Government choose to offer significant discounts, then housing associations are in a position to sell. Without those discounts, there will be no sales. I believed myself, for a very long time, that housing associations should have the opportunity to sell and tenants should, where possible, have the opportunity to buy. We have not had very much opportunity to do that in the past. No, it is not the conversation that we would have looked for, but given that it was announced in the Queen's Speech that the Government planned to legislate for a statutory right to buy, it was a conversation that we absolutely had to have.

Q5 Chair: You say that you have been offered full market value, in other words, full compensation from the Government for any difference between the discount at sale price and the value of the property. That is not what the Housing Bill says though, is it?

David Orr: What the Housing Bill says is that there will be the availability of grants to pay to housing associations. The truth is that, if

that does not happen, then that will be in breach of the agreement that we have reached with the Government. If there is full compensation, then the sales will happen and the agreement holds. If there is not full compensation and, for whatever reason, the Government change their mind about doing that, then the agreement will fall.

Chair: It is as simple as that.

David Orr: Of course it is. This is the nature of a voluntary agreement. It depends on a clear understanding of the obligations that Government are taking on themselves and the commitments that we are making in response to that. If the obligations and commitments on either side are not delivered, then you no longer have a voluntary deal.

Q6 Chair: Just moving on to the associations that have not expressed support for the proposal, I understand that the figures you have quoted are in terms of the number of properties owned by associations and the associations supporting the scheme represent a vast majority of the properties, but not a vast majority of associations as individual bodies.

David Orr: That is true. There are a very small number that actively voted against and a fairly significant number that abstained. It absolutely is the case that the big majority of these are very small organisations, typically organisations that have one or two developments and have a committee that employs someone on a half-time basis to look after them. The speed at which decisions had to be made was a real challenge for those organisations, and I completely acknowledge that that was difficult for those very small organisations, but 93% of the stock is represented by housing associations that voted in favour. I do think this is important because, at root, this is something that affects tenants and therefore 93% of the tenants are affected.

Q7 Chair: What happens if one of the associations that is not in favour decides not to participate?

David Orr: All of our members were very clear that what we were saying was there are two options here. One is the statutory right to buy legislated through the Housing Bill and the other is a voluntary deal. We would go ahead and offer a voluntary deal on behalf of the whole membership if a significant majority of members, by stock, were in favour of us doing that. There is no opt-out option in a statutory right to buy, and there is no opt-out option here.

Q8 Chair: What happens to an association that says, "We are not selling"? There is no statutory backing for it, is there?

David Orr: There is no statutory backing for it. The Housing Bill talks about the potential of inviting the regulator to have criteria in relation to home ownership and potentially a standard in relation to home ownership. Individual tenants of housing associations who are denied that opportunity by their housing association would have recourse to the ombudsman, but we do have a number of months now to be able to work out the details. What I think we have agreed so far is a framework and a series of principles that will now become a very detailed framework.

Q9 Chair: One final question: you are probably not the pin-up boy at present for many local councils, in terms of what has happened. They might feel that there has been a nice cosy deal between yourselves and the Government; the people who are going to end up paying for it have been excluded from those discussions. How do you respond to that?

David Orr: I do not think they have been excluded from those discussions, because it has been open to local government to have discussions with Government in precisely the same way that we have. I have two or three things that are important to say about this. The first is that the proposal to sell high-value local government, local authority assets was in the Conservative Party manifesto. It was then in the Queen's Speech. To be honest, there were plenty of opportunities for colleagues in local government to have engaged in the kind of debate that we have had with Government.

We have never sought this as a means of funding the proposal, and we have not endorsed it and we do not endorse it. The deal we have done with Government is that, if the Government provide discounts, then we will make available the possibility of sales. That is the deal. If the Government fail to come up with the money, then there will be no sales. Where the Government find the money is a matter for Government and, actually, I think it is still a matter that will be part of the parliamentary process, since the Housing Bill makes it clear that the Government first has to legislate to give itself the opportunity to pay these discounts.

Q10 Helen Hayes: The Housing and Planning Minister last week, in the House of Commons Chamber, described the deal as "the housing associations' deal". One housing association chief executive whom I met with recently described the choice to vote for the deal as the choice between "choosing to be shot in the foot or shot in the head". Which of those descriptions of the deal is closer to your personal perspective of it? Is it the housing associations' deal or is a very difficult one?

David Orr: I do not think I would describe it as either of these things, but I would take ownership of the fact that we made the offer to

Government. To that extent, it is an offer made by us to Government, which has now been accepted by Government. I do not agree that it is an option between being shot in the foot or shot in the head. I think that the options that we had were being shot in the head or not being shot.

I really think that people have significantly underestimated the danger of a statutory right to buy for housing associations. I know that people have argued that we should have allowed the parliamentary process to debate that matter. From our point of view, that looked like a very high-risk strategy, and the risk for housing associations is the risk of losing their independence—the independence that has allowed us to borrow £75 billion and invest that in social housing—and no longer being able to be in control of our own budgets and our own future financial planning. There are other things that the Government are doing in respect of rents that I think are intrusive levels of control, which I continue to believe are unacceptable.

Part of our challenge is to try to pick these off one by one. There are actually some quite considerable advantages from the deal that we have now done with Government, not least of which is that I genuinely believe that we will be able to deliver one-for-one replacement. It will be the first time in 35 years of the right to buy that that has happened.

Q11 Bob Blackman: David, can I just clarify the issues over exemptions in this voluntary arrangement? Clearly there are a number of organisations that have set up specialists for elderly people and for people with disabilities. There are developments for such people in those cases. There are cases where land has been covenanted or gifted for specific purposes. Are specific housing organisations that deal solely with that type of specialist arrangement exempted from this deal, or is it going to be the case that every single case will be judged on its merits? If so, who is going to make that judgment?

David Orr: Neither of those things is quite accurate. We have avoided the language of exemptions, and this may sound like pedantry, but it is not. It is really important that, when you use the language of exemptions, it implies that there is a requirement to do something unless you are exempt from it. What we have argued is that for housing associations there will be a presumption in favour of sales in most cases, but housing associations will have the discretion not to sell. There will be a whole range of areas where that discretion will not be challenged. If you are providing specialist housing for older people and you say, “We’re never going to sell”, then that will not be challenged. Rural communities and a lot of areas are similar to the exclusions in the current right to buy arrangements.

It is not the same as an exemption, because another part of the deal that we have negotiated is that, where a housing association says no, the tenant may still be eligible for that discount and be able use it somewhere else. It has to be within the overall framework of what housing associations have to offer, but I can envisage opportunities, let us say in rural communities, where a tenant will be told, "No, you cannot buy, because affordable rented housing is very precious and under huge pressure". If you still have the discount, and your local housing association is building some homes for shared ownership, you can use the discount to buy an equity share, thereby freeing up a social letting in that very high-pressure area, in a way that has not previously been possible. I think this is a better offer for tenants, but it is much more flexible than a statutory right to buy would have been.

You specifically mentioned restrictive covenants. I am completely clear, in the conversations we have had with Government and certainly in the offer that we have made to Government, that if there is a restrictive covenant that stops a sale there will not be a sale.

Q12 Angela Rayner: When you talk about housing associations, you automatically think about the fact that they provide homes for residents. Can I ask you also what the role of a housing association is that is wider than that?

David Orr: I am sorry about this, folks, but I am going to quote to you the objects clause of the charitable housing association rules that I grew up with: housing associations "provide housing and associated amenities for people in necessitous circumstances upon terms appropriate to their means". It is quite archaic language and we have modernised it, but that is the one that is in my head.

What that says is that we do not just provide housing. Housing associations provide associated amenities, and that is very broadly drawn. One of the great things about being independent organisations is that housing associations and their boards can see an area of particular stress or problem in one of the neighbourhoods where they are operating and choose to do something about it. If, for example, there is no provision for mother and toddler groups, a housing association might set up a mother and toddler group. Many housing associations are now very actively engaged in programmes that are designed to help their residents who are not in work into the jobs market, through training and other mechanisms. Some of these programmes are very ambitious and have become very effective.

Of course, some housing associations were set up not really to build homes, but with the specific objective of regenerating and re-energising particular neighbourhoods, and often stock transfer was the means by which that happened, to improve the fabric of the homes that were there and to invest more broadly in the community. These things that

housing associations do are part of the mission. They are an integral part of the mission and most housing associations are engaged now in a rearguard fight to try to hold on to their ability to do that, and they are having to do that because of the 1% per annum rent cut that is being proposed in the Welfare Reform and Work Bill.

Q13 Angela Rayner: I was going to ask you what the impact of that is. Can you give me some indication of what has been expressed to you as the impact of the proposals and the deal on that particular issue and the services that are provided?

David Orr: Housing associations across the country are making people redundant. People are losing their jobs. In some quarters, there is a kind of easy assumption that that is because this was fat that could be easily trimmed and that these jobs were not necessary. That is not right. What is happening is that a lot of these neighbourhood support services are actually things that make a huge difference to people in their day-to-day lives and to the quality of individual neighbourhoods and communities. Quite a lot of these services are going to be cut back, and cut back very significantly.

Jenny Osbourne: I was just going to add to that. The announcement about the 1% rent cut came at the TPAS conference in July. We had 200 tenants in the room at that point, and I can say that the overwhelming majority of them came forward to say what the impact of that was going to be on the services that they receive, rather than what they were going to see as the impact in their own finances. It was about recognising straight away that they were worried about those services, around repairs and maintenance, which tenants are particularly concerned and worried about.

There are issues around new build and new development. Again, tenants are always concerned about that. Tenants always want new build in their areas and new homes. Also, what would the 1% cut do to services around community investment, tenant involvement and those issues? That worry is really overwhelming the tenants at the moment, about what that 1% will mean to the services that they have got used to, but also rely on and expect, which are good services. They are worried about that.

Q14 Angela Rayner: Can I also ask about the reaction of tenants to the right to buy policy? I know we have talked about the 1% reduction in rent. Can I ask what has been the response back in terms of right to buy?

Jenny Osbourne: I represent a membership organisation, so there are many tenants out there who support right to buy and are interested in

taking that up as an option. The overwhelming view, even for the ones who want to take up the right to buy option, is a real concern about what happens in terms of the replacement. That is the concern. That is the conversation I have with the tenants. If we take the issue of right to buy itself, they are not convinced that they are going to see one-to-one replacement of social housing. That is a real concern for them. For many of them who have grown up in social housing, who have valued it, for whom it has been the springboard in their life that they have relied on, they have not seen the evidence from previous right to buy that houses are replaced locally on a one-to-one basis. That is the real concern for them at the moment.

Q15 Kevin Hollinrake: To David, if possible, you said that organisations up and down the country are losing staff and cutting back. In the top 100 housing associations, the average number of employees is about 1,000. You would concede that, in any organisation with 1,000 employees, there is always some fat.

David Orr: I said, giving evidence to the Welfare Reform and Work Bill Committee, that I do not believe there is an organisation in the land that could not find some efficiencies. One of the problems with the 1% per annum rent cut, and there are many problems with it, is that it is one of these measures that is a single measure that has wildly different impacts on different kinds of organisations. If you are a recent stock transfer, where the price you paid was based on a 30-year business plan that made assumptions about rent rises at CPI plus 1% on the back of a 10-year commitment from the previous Government, a 1% per annum cut is an existential threat. There is a realistic chance of some of these organisations collapsing.

There are other organisations whose rents are way above target rent, for whom a 1% per annum cut means that some of the really good things they are doing now they will not be able to do, but they will still be able to provide core services. The idea that a single measure has a single impact is just wrong. Part of the difficulty that we have is that we need policymaking that is more nuanced than this.

Actually, the fundamental problem is that Government should not be setting housing association rents. Government have been involved in rent setting in housing associations for 17 years. We have been around, in one form or another, for 150 years—some would argue for several hundred years. We managed without Government setting rents for all of that time, until 17 years ago, and rents are now an abject shambles. Really, if we are to have independent, strong social enterprises taking responsibility for the decisions that they make, then their primary income stream, 85% of income, should be determined by them and their boards, and not by Government.

Kevin Hollinrake: You would accept that some of these savings will be delivered through efficiencies.

David Orr: I do, absolutely, as they have been for most of the last few years. Again, this is evidence I have given to other Committees, but the actual direct investment by Government in housing associations is now very small. It is about £1 billion a year. It sounds like a lot of money but, in the big scheme of things, it is a very small amount. Housing associations last year raised £6.8 billion of long-term debt, on the back of £1 billion of public investment. That is a fabulous benefit for the public sector. We are raising £6 or £7 for every £1 of public investment.

All of this gets put under risk if housing associations end up being classed as public bodies. This is not just an issue about whether the right to buy proposal was a good one or a bad one, or whether Government are getting it right about rents. This is much more fundamentally about changing the long-term relationship between sector and state, in a way that I think will allow us to build more homes and provide better services.

Q16 Alison Thewliss: Just a quick question, if that is okay. All housing associations are registered charities and have charitable purposes. Do you think that the moves towards right to buy and the changes to the rent caps have an impact on that charitable purpose?

David Orr: I think not, and the reason for that is, without a statutory right to buy, there has been no requirement for Government to consider changing charity legislation. If they had imposed a statutory right to buy, there potentially would have had to be changes to charity law. What that then means is that, under present charity law, if you are a charity and you sell assets, you are required by law to do so at their open market value. That is the deal that we have done with Government, that any assets sold will be at open market value, so the charity challenge is dealt with because of that.

Government involvement in rent setting prior to now has been through a regulatory settlement and has, more or less, been delivered by consent. This is the first time that it is going into legislation. That is a significant change, and I am not convinced that it should be right for Government to determine the income stream of charities either, in this same way, but I do not think that there is a threat to charity law because of it.

Q17 Julian Knight: I am just very conscious of getting all our witnesses to speak to us today, so I am going to address this first one to Mr Smee. I wonder whether you have any thoughts, first off, about what you see as any potential room for efficiencies and mergers within the

housing association sector, and secondly whether or not you believe the extension of right to buy to housing association tenants will lead to more or less affordable housing being available.

Paul Smee: The first issue for us will be to look at the way in which housing associations respond to the challenges that they have received under the right to buy legislation and the changes to the rent levels. They have been required to present a revised business case to the regulator, and that will be a document that will be of great interest to the lenders who are lending to them. Certainly lenders take the view that the sector is a well regulated one, that it is one in which they have had a lot of confidence over the years, and I do not detect any change across the lending community in their attitude towards the sector in the light of these developments.

Q18 Julian Knight: You say you do not detect any change, but when right to buy properties come up, do you think lenders will be robust in their lending? Obviously, ever since the credit crunch, we have had quite a bit of difficulty when it comes to actually getting the money available for people to buy those types of properties.

Paul Smee: If you are looking from the point of view of the tenant acquiring the property under mortgage, we have a robust regulatory regime, which has been put in place by the Financial Conduct Authority. All lenders will be assessing whether a mortgage for which a tenant is applying is affordable to them in the light of their circumstances. There is no way around that; that is an important regulatory safeguard that the lending community adheres to.

Q19 Julian Knight: Mr Orr, you stated, "We will be able to provide one-for-one replacement", a very confident statement. I want to know why it is that you are so confident that you will be able to provide that one-for-one replacement.

David Orr: It is because the asset value that housing associations are sitting on is very significant. If we are able to liberate some of those assets, it cashes assets that are presently trapped. It is very difficult to forecast exactly what the pattern of sales will be, the markets in which sales will take place and what the receipts will be. Let us just take a fairly basic example. If a housing association sells a property under this new deal and receives in exchange the market value of £200,000, that is £200,000 that a housing association has to invest in new supply. With £200,000, you can build more than one new home. If you use that alongside additional private debt, you might be able to build quite a lot more than one new home.

Q20 Julian Knight: On your earlier figures, Mr Orr, would you not be able to build six new homes?

David Orr: It depends what you build. A lot of what we have been building recently has been under a regime that the Government called the affordable rent regime, which many housing associations are uncomfortable with, because they think the rents are too high. More and more housing associations are exploring ways in which they can use their commerciality to make profit from market sales and market rent, so that they can generate surpluses that become a subsidy that they can use to provide genuine social rent.

This is one of the things that is most difficult to model about what will happen in the future, about the extent to which new homes will be for shared ownership, at what you might describe as intermediate rents or at social rents. One thing that has been happening in the recent past and has been quite striking is the number of housing associations that are saying, "Actually, this might give us the opportunity to do more of the social rent that we want to do, as well as the other things that we are now doing".

Q21 Julian Knight: You spoke about and used this example of £200,000 enabling you to replace. Are there any other measures that need to be in place to ensure for this housing stock that we have one-for-one replacement?

David Orr: My own honest view is no.

Julian Knight: It is all about the money.

David Orr: Housing associations like building new homes. If you are a housing association, what you exist for, in the main, is to provide high-quality housing for people who have housing need. Actually, developing new homes is a very motivating thing. It brings dynamism into organisations, and people can see the benefit. It is a very tangible benefit when you build a new home and hand the keys over to a family moving into it. I know there is abroad this idea that some housing associations will not want to build. I find no evidence to support that contention and loads of evidence that housing associations would like to be building far more than they are building now.

Q22 Julian Knight: Mr Smee, do you agree that housing associations like building new homes?

Paul Smee: Yes, I do, and that is one of the reasons why they get loans from the lending community. I believe, if we can get the mechanism working, we will see the homes being built. We would all agree, and the lending community certainly would agree, that one of

the problems with the housing market at the moment is an inadequacy of new supply.

Q23 Julian Knight: I am just wondering what impact the witnesses think the Prime Minister's announcement regarding section 106 and affordable housing will have on the housing associations.

David Orr: Do you want me to kick off again? Section 106 has been beneficial to the whole house building industry, partly because it has helped to create a degree of mixture in tenure, affordable rent and shared ownership, as well as the market sale, but, in a way that I think has not been fully recognised, it has helped to cash-flow the developments of the developer. Section 106 agreements and a housing association standing there means that the developer has a confirmed purchaser for a significant proportion upfront. Actually, the rent cut announcement has made a lot of housing associations step back while they rethink their business plans and relook at their financial circumstances, and a number of them have pulled out of 106 deals. That has stopped the development, and there is now a hiatus in new build as a direct result of that. Section 106 is something that has brought benefit right across the market.

My understanding of the Government announcement is that Section 106 and starter homes will be competing in the same space. I think that, as an additional offer, starter homes will be of value to some people in the market. The market is very broad and we do not have good offers for people in the mid-range, but if starter homes were the only offer and they were there instead of all of the other things that housing associations do—affordable rent, shared ownership, social rent—that would be a big mistake.

Q24 Chair: Could I ask just before—Paul wants to come in as well. Did the Government consult you about the change to 106 agreements before they announced it?

David Orr: No.

Chair: You heard as soon as we did.

David Orr: There has been no formal consultation about any of this. We have known for a while that the proposal for starter homes was based on a sale at 80% of the market value, and that it would be possible for developers to sell at 80% of the market value, because they would not have to provide the affordable housing obligation. We have known in theory that that is how the deal is constructed, but there has been no formal consultation about any of it.

Paul Smee: I would like to endorse what David was saying about the diversity of tenure and diversity of development, because I believe that will be important to many of those in the lending community as well.

Jenny Osbourne: I would also just endorse that. For tenants' views in particular, that range of tenure is incredibly important to them. The loss of the commitment to build at social rent is the real concern that tenants have, because they just do not see that the market is potentially going to do that. Some commitment to ensure that housing associations are continuing to build at social rent—I take David's point absolutely that many in the sector are committed to doing so—is the real concern. We need a housing policy that is about mixed tenure. Social rent is a valuable tenure of choice in this country and this is some of the concern that tenants are raising—that that is going to be pushed off the table, and they do not want to see that happening.

Q25 Helen Hayes: As you know, it is the Government's intention that right to buy for housing association tenants is funded through the forced sale of high-value council homes. You have spoken about one-for-one replacement of housing association homes that will be lost. Do you think that one-for-one replacement of those council homes that will be lost is also important? Secondly, in terms of one-for-one replacement for housing association homes, what do you think should be the geographical unit of measurement? Is one-for-one replacement of a sold home in London to be replaced by a new home in Derbyshire okay, or is it important to measure the geography within which the replacement takes place for existing communities?

David Orr: If you go back three years to the original Policy Exchange paper, where this idea of selling high-value council and housing association homes was first mooted, I argued then that some of the sums in that paper were wrong. There have been some heroic assumptions made about the extent to which high-value assets would become available. I understand the original modelling was on a turnover of 7% whereas, in fact, in most places it is at about 2.5% or 3%. Social housing has become the golden ticket. People are not keen to move on from it unless there are very strong reasons to do so, so I think that, where there are such sales, if there are such sales, it is as important that those are replaced as any other rented stock.

My fundamental challenge about this is that, if you look around the world at really successful economies and really successful housing markets, they have more variation in them than our market and they have a good supply of high-quality affordable rented housing. The idea that you can get to 85%, 90% or 95% home ownership and that that is a good thing, in terms of effective, efficient markets, economies and housing markets—all the evidence is that that is not the case. We need to be much more strategic generally in our thinking about the nature of the housing market and what it is that we are trying to achieve.

There has been a big tenure shift from first-time ownership to buy to let. That may or may not be a good thing, but none of it has created any new supply. It has been a shift in tenure. We have to get much more into the habit of thinking longer-term and more strategically about the nature of the housing market. We have to protect a good high-quality market rent offer and a good high-quality affordable rent offer. The one-for-one replacement measure will be national, which is probably okay, but the truth of it is that the huge majority of housing associations operate in specified geographies and they are not going to move away from it. London housing associations want to build homes in London.

There is another bit of noise out there that London housing associations will sell three or four properties in Westminster and go and build 20 in Bognor Regis. I do not believe that is true. They might build a couple, but it might give them the opportunity to go and do some building in central London that they have not previously had, and that is true all over the country.

One of the big challenges is the low-value areas. If the open market value is, say, £60,000 and you can get a 70% discount, there is likely to be high demand there. In those cases, I anticipate that, on quite a lot of occasions, housing associations will say they are not going to sell, because there is no way that they can generate the income from a sale to be able to replace, but they are building shared ownership—"Would you like to use your discount to buy one of our shared ownership properties, where you then have an equity stake that might require no mortgage at all?" A lot of this is going to be about people thinking a bit more in the round than we have had to do in the past. Sorry, that was quite a long answer.

Q26 Kevin Hollinrake: Just on demand, everybody sees the potential hopefully to create more affordable homes through this policy. This is a question for your members, I suppose, Jenny, which is about the demand from your members to buy houses and the availability for your members to build houses. I met with a very large housing association recently, which said that their projected demand to sell houses would increase fourfold through this policy, which should mean a fourfold increase in the numbers of affordable houses and social homes being built. Would you say that that is a pretty accurate statistic, based on your numbers?

David Orr: In terms of sales, there is likely to be more demand in the early stages of this arrangement than will be possible to meet, and one of the challenges for everyone who is part of the deal will be demand management, because of course the ability to sell will be conditioned by the volume of money that Government chooses to put into paying the discounts. That question about volume of investment from Government is a question that you have to address to Government. They will determine eligibility. They will determine how much money they want to put into it. I think that, in an environment where we have not been building nearly enough new homes, there are real opportunities for a mechanism that allows the release of some of that trapped asset and turns that into building new homes.

Q27 Kevin Hollinrake: Have you made an assessment of the number of homes that are likely to be built going forward, as a result of this policy, from your members?

David Orr: We made an early assessment, and we probably need to rethink this and redo it. We made an early assessment, based on what we understood of present right to buy discounts and eligibility periods, allied to what we know about the income profile of housing association tenants. There might be somewhere around 200,000 tenants who may be in a position to exercise their right to buy over a period of time. How long that period of time is and how accurate those assessments are I do not really know, but that was our best guess. I am saying I think we can do one-for-one replacement and if we sell 200,000, that is 200,000 new homes.

Kevin Hollinrake: It would be good to know what that would be over time, because it would obviously inform Government thinking as well.

Jenny Osbourne: David's figures are probably more robust, in that sense, than mine, but my sense from talking to tenants over the last two or three months is not an overwhelming rush to take up the right to buy option at this moment. They might be the ones who I am talking to in particular, through my organisation. The ones who we have spoken to who are interested in taking up their right to buy are going to look to do that with money from relatives, family and friends, so it is interesting that that is where they are looking to fund that, if they do take up that option. The other issue that people are worried about in terms of taking up the option is making sure that they have the right to do that and that the right mechanisms are in place quickly in housing associations so that they are not thwarted, things do not get stuck in process, there is not a huge burden on them in terms of cost and they understand where they can be rejected for right to buy and where they cannot. There are lots of questions still out there for tenants about the right to buy option and why they would go for it or not.

Q28 Bob Blackman: Just very briefly, David, would you accept that historically housing associations have not built enough properties to compete with the demand for social affordable housing?

David Orr: I would absolutely and completely accept that that is the case. If we finish the sentence there, it is a distorted view.

Q29 Bob Blackman: The next question was going to be: why is that the case, then?

David Orr: Housing associations have, for most of their modern history, certainly since the 1974 Housing Act and the introduction of housing association grants, been limited in what they can build and how they can build it by the regulatory environment and the amount of

investment that has come from Government. This is the point about a mixed funding regime, a public-private partnership. We might be able to raise quite a lot of money on the back of the public money, but we cannot raise anything if there is no public money. To a significant degree, the volume of new build has been determined by Governments of different colours, at different points, at different periods of our history.

I think that the fact that housing association output over the five years of the coalition Government was retained and increased, despite a two-thirds cut in capital investment in the 2010 Comprehensive Spending Review, is a pretty impressive display. Again, there has been a lot of noise about numbers. There are those who argue that housing associations built 24,000 new homes last year. They built 24,000 new homes on the back of Government investment; they built 50,000 homes altogether, many of which were for open market sale or for market rent, because that is the commercial mechanism that housing associations have been required to move to as a means of delivering the social purpose.

Q30 Bob Blackman: Would you accept that a number of housing associations are sitting on considerable balances that they could invest, if they chose to do so, but have chosen not to actually build houses in the way they could have done?

David Orr: In the main, no. There are a number of housing associations that make considerable surpluses and have asset capacity, but the point of those surpluses is, if you are being encouraged to be more commercial, then you need the surpluses to be able to deliver that commerciality. You need to make a surplus this year to be able to invest in new homes next year.

The way I describe it—I know this is a bit shorthand, but nonetheless—is if a private organisation makes a profit of £100 million, some of that will go in product development and the rest will go in dividend to shareholders. In the extremely unlikely prospect of a public body making £100 million, it goes back to the Government; it goes back to the Treasury. If a housing association makes a surplus of £100 million, it doubles its development programme. All of that goes back into doing what they do.

There are some housing associations that have reasonably healthy balance sheets and which are not building huge numbers of homes. Sometimes that is because of the markets where they operate; sometimes it is because they are investing very substantially in getting people back into work or in providing a whole lot of local facilities. Some housing associations have recently taken over the running of

libraries, because local authorities could no longer afford to do it, but the lack or the loss of that local facility would have been problematic for everyone. It has not happened very often, but they have the flexibility and capacity, and it would always be a mistake to assume that the only mission is building homes. It is very much more about investing in people and neighbourhoods and building communities that, to the extent that housing associations can do this, are economically and socially viable, and robust.

Q31 Chair: One point before I move on to David on a specific point: you mentioned just a few minutes ago that the pace of sale would be determined by how much money was made available. How do you see those two things matching up? If you have tenants all over the country in different housing associations saying, "We want to buy", and Government are saying, "Actually, there is only this money coming from the sale of high-value council properties", how do you relate that stream of money from Government to the various applications, if they come in total to more than the money available?

David Orr: That is going to be one of the challenges, and it is particularly going to be a challenge in the early days. The truth is that we are going to have a little bit of time to do some thinking about this in advance, because this new deal cannot be operational until Government have given themselves the power through legislation to provide the discounts. Until the Housing Bill gets Royal Assent, the new arrangement cannot kick in, so we will have some time to think it through. That is assuming that the legislation passes in that form, but that is a matter for you, not for us. There are techniques that you can use to manage demand, and Government will determine eligibility criteria, so they could say you have to have been there a long time or a short time. They could reduce the discounts or increase them. This is not fundamental to us. That is an issue that the Government are going to have to work through.

Q32 David Mackintosh: One of the long-term consequences of local authorities selling property using the right to buy has been that they have ended up in the private rental market. What steps can we take to ensure that, with housing associations selling property under the right to buy, we can learn from that?

David Orr: That is a really good question, because something like 40% of council right to buys in London and above 30%, I am told, in other parts of the country, are back in the rental market, often providing housing for the self-same people and housing benefit having to pay a much higher rent to support that.

I am going kind of beyond where my own organisation is. My own personal view is that we should at least be exploring restrictive covenants in the sale that say you are required to occupy this, or sell it to someone who will occupy it, for a longer period of time than is currently the case. This is one of these longer-term questions that we need to explore and, actually, it goes back to my earlier comment. We need to stop thinking about individual components only and start thinking long-term and strategically about the nature of the housing market and getting the housing market that we need. We are very bad at doing that.

Jenny Osbourne: I think that is a great question, because that is the evidence of what tenants are seeing. They have seen their friends, neighbours and relatives buy houses and then, over time, they are changed into the hands of private-rented landlords. That is a real problem for communities and for the work that has been going on in communities over the last 20 years that housing associations have been driving forward. They do build communities—David is quite right—rather than just homes, and I think that is a real issue about how we stop that, because otherwise we are going to see communities really suffer because of that fragmentation. We need to do all we can to stop that happening.

Q33 David Mackintosh: What impact do you think that has on tenant engagement or tenant participation, in terms of those communities? Is it different in London to other parts of the country?

Jenny Osbourne: I am not sure that it is different, but it really does impact on that kind of involvement and that sense of communities. Housing associations drive so much in an area in terms of community cohesion and investment. Actually, once you start to fragment that, it is very different to see tenant involvement at the level that we would like to see across the country. I think it is something we really have to guard against, because what worries us in terms of the 1% cut as well is seeing that involvement in community investment being stripped away, being ebbed away, and tenant involvement in organisations. We have worked too hard for that; tenants and communities have worked too hard for that to get them to the places where they are, in terms of regenerating areas, and we need to make sure we protect it.

Q34 Helen Hayes: Just continuing the theme of the 1% reduction, could you give your comments on what effect the rent reduction will have over the next four years on housing associations, perhaps both from a tenant perspective and from the housing associations' perspective?

Jenny Osbourne: From a tenant's perspective, as I said earlier, their immediate concern is a cut to the services they have come to know.

Tenants are always concerned about repairs and maintenance. That is their big issue. You will know that. There is a real concern about that. Tenants are really positive people about the area that they live in. They want to see new development. Tenants will not hold up new development; they want to see it happening. There is a genuine concern that that is going to stop new development happening in areas. The third area is with that tenant involvement—that investment, that training, those skills and that worklessness agenda that has been happening so successfully in housing associations over the last few years. They are going to see jobs going, staff who they work with, and that is starting to happen now, and they are concerned about that.

David Orr: There are different kinds of impact. The obvious one is £3.8 billion of lost capacity over the next four years, which is quite considerable lost capacity. There has been a whole programme of stock transfer over the last 15 or 20 years, driven by the fact that a whole lot of council housing was well below the decent homes standard and we were exploring mechanisms to find ways of investing in the money that was needed to do that. Stock transfer allowed that to happen. Frankly, one of the reasons that the stock got into that condition was the politicisation of rents, where rents would be fixed for short-term political purposes, rather than a long-term understanding of the reinvestment requirement in the stock.

Jenny is right: tenants are absolutely crystal-clear that they have a long-term investment in ensuring that their homes are properly maintained. Housing associations have exactly that. We want to be looking after these homes for 60, 80 or 100 years, and short-term cuts are not a good basis for long-term planning. Housing is absolutely a long-term business.

There is another problem with this particular set of rent cuts, which is that it comes one year after a rent settlement based on CPI plus 1% for 10 years. CPI plus 1% for 10 years was described by the Government as a fair settlement for housing associations and for tenants, which gave clarity, stability and confidence to go to the markets and borrow money. One year later, a 1% per annum cut, which in comparison to that, is 14% out of people's expected income. That is not just a problem, a challenge, in terms of the lost income, but it is a real challenge in terms of the extent to which housing associations feel confident about future commitments made by Government. We have 1% per annum cuts for the next four years and then CPI plus 1%. I do not know anyone who is modelling for CPI plus 1% in year five, because they are not certain that they can properly rely on that commitment and that is a problem.

Paul Smee: For lenders as well, the question that I am most often asked is what happens post 2020, because lenders are lending for 20 to 25 years, and they require to have that long-term perspective as well, much more than a knee-jerk reaction to the actual events of the next few years.

Q35 Helen Hayes: Are your members, David, modelling the things that they are going to have to stop doing or do less of?

David Orr: They are doing it. They are not just modelling it; redundancy notices are being issued in housing associations across the country. We do not yet have a comprehensive view of what that looks like. Actually, it appears that people are doing their very best to protect their development programmes at the expense of their neighbourhood investment programmes in most cases, although that is not always the case. People are still working through their business plans and sorting out their responses.

Q36 Helen Hayes: What is the impact on day-to-day maintenance, cleaning and the kinds of pastoral services that you were talking about earlier?

David Orr: I do think associations understand the need to ensure that their maintenance and major repair programmes are kept up. Over the long term not to do that causes real costs, really very significant costs. As you described it, the pastoral work is the area that is going to be biggest hit.

Jenny Osbourne: Tenants really want to be involved in those discussions, as they start to unfold over the next few months and years, about where those cuts have to come, rather than those happening without tenant consultation. It is actually about talking to tenants and those communities about where those difficult decisions have to be made, because we know that, when you involve tenants in those decisions, they tend to make the right decisions about what they can cope with, what can go and what can be cut. We need to make sure that everybody now, in the sector, is having those conversations quickly with tenants.

Q37 Helen Hayes: Turning now to another dimension of Government policy, the "Pay to Stay" scheme, whereby if household income rises above £40,000 those tenants will have to either pay market rent or surrender their tenancy, what are your views on that policy?

Jenny Osbourne: Our concern, certainly from our members that people are talking to us about, is that the threshold that is currently being talked about feels incredibly low for people, and people are starting to send the evidence of that. Again, I do not think there is a reluctance out there among tenants, but some of that principle needs to be talked about. People understand that issue about people starting to earn higher income, but at the moment the issue is about people giving me the facts and figures around how low that threshold is and what that is going to do to people with all the other issues that are

happening around welfare cuts etc. It is that issue that we are talked to about at the moment; the threshold itself feels too low.

David Orr: You will not be surprised when I say that, if I do not think Government should be setting rates, I do not think Government should not be setting "Pay to Stay" rents either. It is the wrong place for Government to be. There are many housing associations that would make proper, thoughtful, strategic decisions to charge higher rents in some neighbourhoods and in some places, and charge lower rents in other places. They would love to be able to do that and not have their hands tied behind their backs.

We spent a lot of time looking at this with different thresholds during the last Government and, even if you think it is a good idea, the administrative complexity of it is just huge, and my own personal view is that it is a very difficult relationship, for housing associations and local authorities with their tenants, if you say, "Tell us how much you get paid. Well done, you've got a new job. That's £5,000 more you're getting. Now give most of that to us in rent". If ever there was an incentive to dissemble and not to be straightforward and up-front with your landlord, that is it.

If we could find a way of turning that into an offer rather than a threat, so that it said, "Well done, you have got a new job. That is an extra £5,000. If you would like to, you can give us some of that money and we will use it to help you buy an equity share of the property that you are in or we will create a housing association ISA, a saving thing", so that people are getting something tangible for it. If you look at the distribution of poverty across generations, it is mainly about wealth and asset inequality, even more than income inequality. If we can start to address and challenge some of those things, that would be good. That is an offer; it is not a threat and, again, it is the wrong territory for Government to be in.

Q38 Helen Hayes: Do you think your members have the capacity to engage in that dialogue with residents to request that information about income, and do you think they have the willingness to do it?

David Orr: They have the capacity to do it. It will be expensive, because they will have to invest in doing it and it will mean that they are spending much more time chasing people up, not for a positive conversation, but to ask, "Are you really sure you're telling me the truth about how much money you're earning?" This is not a good place to be. They will have the capacity to do it. I do not think many of them will be super-enthused about doing it, no. The willingness? Not really.

Q39 Helen Hayes: Finally from me, just returning to the issue of surpluses, the response from the CLG Minister to this Committee, when asked about the impact of the shortfall from the 1% rent reduction, was to say that housing associations have large surpluses and they should use those surpluses to plug the gap. Is that realistic? Do you agree with that position?

David Orr: If they are using it to plug the gap, they will not be using it to build new homes. If you talk to the big developing housing associations, they will tell you and demonstrate to you that, if they make a surplus of £10 million in one year, £9 million of that will go in building new homes the next. If they are using it to plug a gap somewhere else, that is £9 million that is not available to build new homes.

Chair: Angela, You had a point about the rent increases.

Q40 Angela Rayner: That is right. It is about everything that has been said so far on the community support initiatives, the “Pay to Stay” scheme where market rents will be charged, social housing and people in receipt of housing benefit. Can I just ask what benefit in reality to tenants there will be from the 1% rent reduction? Will there be a benefit for tenants?

Jenny Osbourne: I do not think any tenant is really going to see the benefit of that. It might be a couple of hundred quid over the four years. I do not think that is going to be a benefit the tenants are going to see particularly, because of the other issues that might be happening to the finances that are coming into their home, and because of what they see as potential cuts to services that housing associations are going to make. Like I say, none of the tenants I am talking to are talking about that 1% being of benefit to them.

Q41 Julian Knight: Just picking up on the point you made, Ms Osbourne, a moment ago, you describe £40,000 a year as incredibly low as a threshold. You are aware that is £17,000 above the national average income. If you do earn £40,000 or over, you are actually amongst the top 6% or 7% of earners in the UK. Does this therefore mean that you and many within the sector would just prefer the situation to occur where these properties were just occupied for life—as soon as you get in there, that is it?

Jenny Osbourne: Many tenants are open to the idea of what it might mean when income levels rise. I will try to give you an example from a lady who I have just been talking to in London. Her daughter is a teacher earning £29,000 a year. She is retired and on benefits, so they will go over the £40,000 threshold. That is going to mean that the majority of their money would go straight out into rent if they were

moved to full market rent, not leaving them anything around bills, etc. There are some real examples we can start to work through. There is a principle of saying, as you earn more money, that there is a conversation that needs to be had. I do not think tenants are averse to having that conversation, but it just needs to be thought through with a lot more detail about the figures.

Q42 Julian Knight: What sort of form would you say that conversation would go through? I deal with a lot of documentation and in meetings the words, "Let's have a conversation", really means, "Let's not have a conversation about it". I was just wondering what sort of form you yourself would like to see and the feedback that you have had from your tenants.

Jenny Osbourne: I would like to see tenants involved in these discussions more than they have been. Basically, all of these issues around right to buy and all of this, at the moment, have been happening; tenants are trying to catch up to give their views on it. Today is one of the first times that we have been able to represent tenants' views here. It is about making sure we start to have really intelligent conversations, not only about the threshold that it might be, but also around some of the mechanisms that go with that, and we are happy to be part of those discussions as they go forward, and make sure tenants are part of those.

Q43 Chair: I just want to pick two points up. On the rent increase, are there any discussions going on about possible exemptions from the change in rent increase to do with specialist housing? I know there are some real concerns. I have had them raised by ExtraCare, for example, dealing with specialist housing and retirement villages. There is a very high element in staff costs in what they do, so they would be particularly hit by the change in rents. Is there any chance of making some exemptions around those sorts of areas?

David Orr: We have made these arguments, in writing and in evidence. We are arguing that housing that is regarded as what they call specified housing, which is a form of supported housing, should be exempt. We have argued actually that these very recent stock transfers, whose business plans were signed off by Government on the basis of a 30-year assumption about rent, should be exempt. They should not have to seek a waiver; they should be exempt from it. This would be true also for local government, but where housing association rents are significantly below target, if there is a vacancy, the vacancy should be able to be filled at target rent. That is possible now; it should be possible in the future. There is a range of different things that we are exploring with Government, and we hope that we will be able to

make some progress. We will be seeking to table an amendment to the Welfare Reform and Work Bill that, if it was accepted, would legislate to take Government out of rent-setting by 2020.

Q44 Chair: Just in terms of the other aspect there, the “Pay to Stay” element, are associations now confident that they understand what would be required of them to administer that scheme, in terms of the information that they are going to need from tenants, the calculations they are going to have to do and whether HMRC is going to be involved, which does not tend to operate in real time, but in historic earnings? People’s incomes go up and down from week to week. Are associations thinking that through? Are they expressing any concerns to Government about it?

David Orr: They are not confident about it. They do not know what is likely to be expected of them. The truth is that we do not have legislation yet. We do not have any of the kind of detail behind it. I think people are apprehensive about it. As I say, we modelled very extensively with some housing associations a couple of years ago about rents above £60,000, and that was an administrative nightmare.

The truth remains that the huge majority of tenants of housing associations and local authorities earn less than £30,000 outside London and earn less than £40,000 inside London. There may well be ways in which we could have a different approach to generating additional rental income from people who are significantly better off, but this is not a good way of doing it.

Q45 Chair: Do you know whether the intention is to do it on a weekly basis or monthly?

David Orr: I do not know, I am afraid.

Q46 Chair: Is that a conversation you are having with Government?

David Orr: Colleagues are engaged in discussions with civil servants about the detail and what the framing of it will look like, but I do not think we are anywhere near there. If when I get back to the office and discuss this with colleagues I discover that there is more detail being worked on, then we will provide it in written evidence to you.

Q47 Mary Robinson: Mr Orr, you have mentioned on a couple of occasions the issues around long-term business planning, and obviously this is crucial for housing associations. You said earlier that you felt it was an existential threat. I would just like to explore that. What would you say

has been the impact on housing association business plans from the rent reduction and the proposed extension of right to buy so far?

David Orr: None so far, because it has not happened yet. My comment about an existential threat is to a small, but clearly identifiable, group of housing associations that have recently gone to the market to borrow substantial sums of money as part of a stock transfer, where the rent calculation is absolutely central to determining the price and that rent calculation is based on long-term assumptions about rent, which in turn were based on CPI plus 1%, on the back of a 10-year commitment from the previous Government. For those organisations, a rent cut is a real problem.

You are right; I have on a number of occasions said that housing associations are long-term businesses. When we go to the markets, borrowing from Paul's members, if it is bank debt, it tends to be 25 years. If we are going to the capital markets, it tends to be 30-year commitments. We have to be able to make proper, valid, long-term assumptions about rent to be able to support that debt. I would rather that we were in control of doing that, rather than it being at the whim of future Governments.

Mary Robinson: At this moment in time, you would not be able to quantify an impact.

David Orr: People are rewriting their business plans now and doing that fairly detailed analysis, but we do know that the headline figure impact is that somewhere around £3.8 billion of capacity will be taken out over the next four years.

Q48 Mary Robinson: Mr Smees, when you were speaking earlier, you were saying that there has not been a change in the attitude of lenders, if you like. Just looking at this borrowing and the way housing associations will be taking it forward to fund their development activities, would you say that the borrowing capacity has been affected by right to buy and the rent reduction?

Paul Smees: Lenders are still appraising the situation and will need to see the business plans, which become very crucial in this. Lenders have not jerked, and I do not personally believe that they will. I think there will be a cool appraisal of the way in which these challenges are being addressed by the individual borrowers concerned.

Q49 Mary Robinson: Have you seen any sort of impact on investor confidence? Is it still strong?

Paul Smees: From my perspective, the perception in the sector has not changed.

David Orr: Could I add one sentence to that? The ratings agencies, when they heard about the 1% per annum cut, put a kind of negative watch on housing associations. They did not cut back their ratings, but said this was a negative impact. They have said in respect of the voluntary deal that we have done on right to buy that that is a positive development, so on balance the ratings agencies have taken it that we have lost a bit and gained a bit.

Paul Smee: My comments on the lenders were in the light of their reaction to the rating agencies.

Q50 Mary Robinson: Can I just ask about the HCA and the Regulation Committee? Obviously ensuring investor confidence will be something that is going to be very important to them. Would you say that they currently have the skills and the resources to do that? What can they do, in effect?

Paul Smee: I have always been very impressed with the quality of the analysis that the Regulation Committee goes through and with the outcomes that they produce. They have a very good track record as well, in my view, so there is a lot of confidence in the regulation that is there. It obviously will be testing for them to have to review all these business plans when they come forward, but the analytic skills and the way in which they approach the issues have stood the test of time, and there is a lot of experience there.

Q51 Kevin Hollinrake: In terms of exception sites, a lot of affordable housing is in exception sites, where local landowners, out of the goodness of the heart and for very altruistic reasons, provide land for development of affordable and social housing. How might that be impacted by this legislation?

David Orr: I do not see any significant change. The rural exception site policy has not changed. In such cases, the sale will come with a restrictive covenant that will say that the property cannot be sold; it has to be held in perpetuity. That will trump any of the other arrangements. In those cases, the housing association involved will not sell.

Kevin Hollinrake: That is because of the effective exemptions or discretion that you have agreed.

David Orr: It is because of the discretion and because the restrictive covenant will take precedence.

Q52 Kevin Hollinrake: Have you had any feedback to that extent from landowners or from housing associations? There is certainly a

concern. In discussions with the housing associations, those are certainly some of the concerns that they have expressed.

David Orr: Absolutely, and I completely understand that concern, which is why, in the negotiations and discussions we have had with Government, we have pressed this point and said rural exception sites are really important to allow affordable homes. There is a broader point here, which is that we have to find better ways of releasing land. If we are to look strategically and long-term, we have to find better ways of accessing and releasing land. The New Towns Act is still in force and we could do that again—have compulsory purchase of land at existing-use value. That would cut the price of new development of affordable homes by a vast amount, so you may wish to consider that.

I was intrigued to read a very interesting, very thoughtful article by Lord Adonis in the current issue of *Prospect* magazine, about the value of publicly owned land and assets. It has been a kind of holy grail of housing people for a very long time that some of that public land should be released. When you look at his figures, they are eye-watering about the value and the potential of that. Again, we just have to get much better at thinking strategically about what outcomes we are looking for and how we are going to get there. What kinds of mechanisms should we use to get there? We should not be trapped by a lot of the bureaucracy of the way that we do things now. The way that we do things now is not the only way that they can be done.

Q53 Kevin Hollinrake: I will touch on that point now, because that was one of your points in your strategic document about how we solve this housing problem. One was about land; the other one was about public investment. I think you said you could turn £2.5 billion a year into 120,000 houses a year.

David Orr: Depending on tenure mix we could, and that was modelled on the basis of different assumptions about different kinds of tenure mix. My own view, I must say, and again something that is part of a wider conversation about how we do things in future, is that we are too tenure-obsessed. We have had 30 years of tenure policies instead of housing policies, and I think we should just build homes and then sort out the tenure afterwards. Instead of having 45 different programmes run by the HCA, we should say, "This is the amount that Government are prepared to invest. It is a challenge fund; here are the outcomes that we are looking for. We will invest in the most creative, cost-efficient ways of doing it". It is my same point: there are a lot of things we do now and therefore assume they are the only way they might be done. We could make a huge difference if we changed some of those underlying thinking processes.

Q54 Kevin Hollinrake: This is probably not a question for you, David, but you are the more likely person to be able to answer it on the panel, which is about high-value properties and local authorities' disposal

of those high-value properties. Paul might come in on this as well. How is that going to impact on particular areas, rural areas, which have very high values of local authority properties or housing association homes, or London? Is this going to be redistributed around the UK, and how are local authorities going to feel about that?

David Orr: I am tempted to say that I think this is a conversation that you have to have with Government, because it is their proposition. It is not ours. We do not own it and do not endorse it. There are significant issues about all of that, and I make no bones about it; it has not been helpful for our relationship with local government and there are some fractured relationships that we are going to have to rebuild, but this is not our proposal. It is a Government proposal.

Paul Smee: I can only endorse that, I am afraid.

Q55 Chair: Just one point before I come on to final questions: we have not talked about welfare reform. I know, David, that in the past you have about £1.5 billion of resources have been taken out of the development programme of housing associations. Is that still the case and are associations still struggling to meet the demands of welfare reform?

David Orr: What housing associations have done so far is cope with the bedroom tax and other changes. I cannot bring myself to call the bedroom tax a reform; I just think it is a pernicious, bad piece of policy. I have always believed that. Although I think organisations have coped with it, that hides the fact that there are still many people across the country who have been hugely hurt by the bedroom tax.

What housing associations have done has been to invest in more staff who spend more time with tenants, who spend a lot of time and energy making sure that any benefits that are available to be claimed have been claimed, helping people to work through their finances, budgeting and all of those things, which we have just done. We have just taken on that role and other organisations have been doing it. Organisationally, we have coped with the changes that have happened so far. The rent cut will make that more difficult and, almost unregarded, the overall benefit cap will not be problematic for most people, but it will be a problem for every single household in the country dependent on benefits that has three children or more. Any household with three children or more, on benefits, will be affected by the benefit cap. These are not in the end major financial long-term challenges for individual housing associations, but they are very acute challenges for the people who are affected by them.

Q56 Kevin Hollinrake: Can I just qualify that that is new households that, in future, have more than two children, not existing households? That is the legislation.

David Orr: The benefit cap will only affect new households.

Kevin Hollinrake: The changes to tax credits.

David Orr: No, I am not talking about the changes to tax credits. I am talking about the £20,000 overall benefit cap. The changes to tax credits I am less qualified to talk about.

Q57 Chair: Just moving on to people who are going to buy their home, while the policy is going ahead, it is important that people who buy do so with a full understanding of what they are taking on. What is the advice going to be to housing associations? What would you like to see them doing from a tenant's perspective to make sure people have all the information necessary and, looking at the mortgage situation, actually think it through and make sure that they can afford the commitments they are entering into?

Jenny Osbourne: From our point of view, what we want to make sure is that tenants are given all the information from the outset about buying their home. We described it when we were talking about there being quite a psychological shift from being in a home that is a rented property where people have done the repairs and maintenance for you to then owning your own home and being responsible for those things. If that is the case with what is happening, we want to make sure tenants have lots of information about what they are going to be responsible for. We have seen plenty of examples around leaseholders, for example, not being clear about the charges that they are going to be responsible for and problems down the line. There is a lot of work to do to make sure people have got the right information and are not blocked in terms of getting that information and having access to that information, should they want it.

Paul Smeeth: When it comes to a tenant wishing to investigate mortgages, most mortgages these days are sold via intermediaries, so there will be mortgage advisors around who are fully regulated, will be following a very regulated process and will be evaluating the ability of applicants to meet mortgage payments.

Q58 Chair: In terms of where the money comes from, reference was made before to many people who buy their home, get help from family members and sometimes those family relationships break down at some point, after the deal has been done, often not a very structured or legally watertight deal. What is going to be done to have a look at those

sorts of arrangements? "Mum and dad will buy your home. You can live in it rent-free. Oh dear, we have fallen out in five years' time; things aren't quite so great anymore".

Paul Smeeth: Part of the skill of evaluating whether somebody can afford a mortgage is to work out whether some of the informal arrangements that are providing the funding base are viable. What would happen if they went wrong, and what would the fall-back position be? You will find that some applicants are questioned about this sort of thing. There are going to be cases where it goes wrong. There are cases where people buy a house with the help of the bank of mum and dad, and get into exactly the same sort of position. What I think I am saying is that this is the sort of factor that lenders look at in making a credit judgment, but of course they will not always be able to spot every circumstance.

Q59 Chair: Moving on to a slightly worse scenario, it comes back to David's point about covenants for future sales. What happens when the purchaser is not really the tenant at all but a third party, which again says, "You can live in it rent-free for the rest of your life, and then we have a nice property that we can use for our own purposes"? Those sorts of deals have been done in the past on right to buy. Is there any way of actually stopping or curtailing those as part of the voluntary arrangement that has been entered into?

David Orr: This is one of the areas that needs to be part of the continuing conversation that we are having with Government and officials, in DCLG and elsewhere, because we are all aware of people standing outside tube stations now handing out leaflets about right to buy. "Do you want our help? We'll help you to buy your home".

There is always a narrow line here between what is good practice and what is criminal behaviour, and criminal behaviour needs to be treated as criminal behaviour and dealt with as criminal behaviour. There is a proper concern about the potential for fraud and for bad behaviour, and that is one of the areas that we will have to look at. I do not have a complete answer to the question, at this stage.

Q60 Chair: Is it something that you are looking to try to develop a proposal on?

David Orr: Yes, and it is something where Government and officials understand the challenge, understand the concern, and want to work with us on it.

Q61 Alison Thewliss: As a Scottish Member on this Committee, it strikes me that we have two very divergent policies going on in the UK

with housing. Scotland has abolished the right to buy, but in the rest of the UK that is progressing at great speed. I just wondered if your members had picked up any implications for housing organisations that work across the boundaries? There are a few that work both in Scotland and in England, and are there any implications that you are picking up so far about that?

David Orr: There are not, and the reason for that is that if you are a housing association and registered, even if you are working across the two jurisdictions, you are separately registered in each jurisdiction. Home in Scotland is regulated by the Scottish Government and the Scottish housing regulator; home in England is regulated by the Homes and Communities Agency and the Regulation Committee. The degree of separation is pretty substantial, so it is unlikely that there will be any immediate crossover.

Q62 Alison Thewliss: I was interested in the financial implications as well. If one set of stock that you have in Scotland is going to remain your stock and that is not going to change, but there will be turnover and churn in your stock in England, is there any wider implication from that as well? Does investing in housing in Scotland become a better bet if you are going to get to keep that asset?

David Orr: It is possible but, again, there is a degree of separation in these organisations. I will give you an example. I have for a long time chaired the credit committee of the Housing Finance Corporation and now chair the credit committee of Affordable Housing Finance, which is managing the guarantee programme. If we look at credits from Scotland, even if they are from an organisation that operates in both jurisdictions, we look at them completely separately, because of the degree of separation that there is between the arrangements in England and the arrangements in Scotland.

Q63 Helen Hayes: I wondered whether you know how many of your members currently operate a buyback scheme for properties that have been sold that the leaseholders are then unable to afford, and whether there have been discussions about extending that policy under the new right to buy arrangements.

David Orr: I am advised that most of them do, but I cannot give you an exact number. Whether they are extending that, everyone is looking again at how they do what they do and thinking. Whatever else is happening now, people are thinking about how we are going to cope with the future. After a period of fear, panic, anger—all entirely understandable—we have now moved into the period where people are thinking, “Okay, this is what the future looks like. What are we going to do to manage it? How are we going to find ways of making the best of

it?" All of these things are back in frame so, if people were doing things, they are exploring how they can do them differently or, where appropriate, do more of them.

Paul Smeeth: I hope also the lending community will be part of that dialogue in areas such as shared ownership, where I believe that there should be more opportunities to develop, for example, a secondary market in shared ownership houses. Lenders can look at the way they make mortgage offerings to people who want to buy on a shared ownership basis. There is a bit of detail to work through, particularly around capital requirements and the way the prudential authority imposes them in this area, but it is somewhere where there could be constructive thinking between the sectors.

Chair: That brings us to the end of the public proceedings for today. Thank you all very much for coming and for giving us evidence on these very important issues.