HOUSE OF COMMONS

Levelling Up, Housing and Communities Committee

Oral evidence: Financial Distress in Local Authorities, HC 60

Monday 22 January 2024

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Watch the meeting

Members present: Mr Clive Betts (Chair); Bob Blackman; Ian Byrne; Mrs Natalie Elphicke; Tom Hunt; Andrew Lewer; Mary Robinson.

Questions 207 - 284

Witnesses

I: Bernadette Conroy, Chair, Regulator of Social Housing, Jonathan Walters, Deputy Chief Executive, Regulator of Social Housing, Peter Denton, Chief Executive Officer, Homes England, and Shahi Islam, Affordable Housing Director, Homes England.

II: Baroness Scott, Parliamentary Under Secretary of State (Social Housing and Faith), Department for Levelling Up, Housing and Communities, and Emma Payne, Director for Social Housing and Resettlement, Department for Levelling Up, Housing and Communities.

Examination of witnesses

Witnesses: Bernadette Conroy, Jonathan Walters, Peter Denton and Shahi Islam.

Chair: Welcome, everyone, to this afternoon's session of the Levelling Up, Housing and Communities Select Committee. This afternoon we are looking at the finances and sustainability of the social housing sector, as part of an important inquiry looking at how we can properly maintain social housing in this country and develop and build more when there is a desperate need for it.

I will first ask Committee members to put on record any interests they may have that may be directly relevant to this inquiry. I am the vice-president of the Local Government Association.

Bob Blackman: I am a vice-president of the LGA and I employ councillors in my office.

Tom Hunt: I employ two councillors in my office.

Chair: Thank you for that. Now, we come over to our witnesses. Welcome to this afternoon's session. Thank you very much for coming. It would be helpful if you go down the table and say who you are, staring perhaps with Homes England and then the housing regulator.

Peter Denton: Good afternoon. I am Peter Denton, the Chief Executive of Homes England.

Shahi Islam: Good afternoon. I am Shahi Islam, Director of Affordable Housing at Homes England.

Bernadette Conroy: Good afternoon. I am Bernadette Conroy, Chair of the Regulator of Social Housing.

Jonathan Walters: I am Jonathan Walters, the Deputy Chief Executive at the Regulator of Social Housing.

Q207 **Chair:** Thank you all very much for coming. I think many of you have been to these sessions before, but perhaps not all of you. Thank you for coming back to those who are returning, and welcome to the others of you who are here for an initial experience with us.

To begin, we would like to look at the finances available for the provision of social housing. Social housing is provided by both councils and housing associations and, indeed, some for-profit organisations, which we can come to specifically in due course. What we have heard in the evidence sessions so far is that there simply are not the resources under the current financial arrangements to provide all the affordable homes, which is the more general category, or, specifically, the social homes that the country needs. What needs to change? Peter Denton, a nice, easy starter for you.

Peter Denton: What needs to change? You have set out the context of the market, which is that there are a number of local authorities, predominantly through what we call CME—continuous market engagement—that are using grant from Homes England or the GLA, if they are in London, to create homes. Equally, outside of that, it is housing associations for the vast majority and then, to some extent, and growing, what are called for-profit RPs, which are typically institutional investors.

The first point to make is an obvious one, but it remains an important one. Affordable housing needs a discount of some form ultimately. The language can be that it is loss-making or it is non-viable, but the reality is that it needs something to turn it from a market product to an affordable product.

That can come in a number of ways. The overwhelming way that is achieved is, effectively, either through value capture under section 106 or through the grant process that we provide. It can also come through other means, such as densification, particularly in cities. A more gentle densification that challenges us to build at a higher density can, effectively, provide a discount, or some of the discount that is required. Equally, it is the formal use of land value capture in different ways.

The other thing that has been used, more in the past and slightly less today, is what is called the cross-subsidy model, which is where a housing association, for example, will undertake mixed tenure delivery—it will build for sale, and the profits of that will help to subsidise the affordable. I think there is less of that being undertaken in recent years. To answer the question, one of those things needs to be present—value capture, more grant or an increased use of cross-subsidy.

The second part of the question is the other element of the funding. It is fine if you find a solution for the discount, but you also have to find a solution for the rest of the money. I think that is the challenge that the regulator, Jonathan, can probably answer, which is that, as I am sure the Committee is seeing, there is a broad range of challenges that housing associations are facing in terms of decency, building safety, retrofit and regeneration. Those are all calls on their capital.

That is why one of the discussions for the future, which I am sure the Department and Ministers will be considering, is what place institutional capital plays in the wider market to fill that part of the funding gap as well. Jonathan, do you have anything to add here?

Jonathan Walters: Yes. Peter has talked very eloquently about the scheme economics—how you get an individual unit, an individual scheme or an individual home built. The question then is about the viability of organisations that are providing that.

The Committee has heard quite a lot of evidence about some of the stresses that housing associations, in particular, are feeling as they balance both new supply and investment in the existing stock, which, again, this Committee has looked at in the past.

What we are seeing at the moment is that the sector is beginning to balance away a little bit from new supply. Typically, we are seeing organisations looking to build slightly fewer homes but still looking at building tens of thousands of homes each year.

Your question was about what needs to change. I think that one of the things that will help the sector is certainty—certainty around rent levels, and certainty around future grant levels. That allows you to plan much more effectively than when you are in an uncertain environment.

The wider macroeconomic conditions are also significantly important. The more certainty we have about the type of funding available and the cost of that funding, the better. We are still seeing significant amounts of private capital being lent into the sector. The money is there; it is then about the certainty and the willingness to deploy that capital. But it is being used across a broader range of topics at the moment—both new supply and existing stock.

Q208 **Chair:** If we look back over the last couple of years, inflation has been a lot higher. Building costs, in particular, have probably been higher than the general level of inflation in terms of how much they have risen. Borrowing costs have gone up, and cross-subsidy has probably reduced because the number of developments in the private sector has fallen. All those trends are working in the wrong direction, and rents have been capped at below inflation. Even before these trends kicked in, we already were not building enough social housing—not enough affordable housing, but particularly social housing. So is it not very simple: you should be asking for more grant from the Government to get the numbers up or even to sustain the numbers that were there anyway?

Peter Denton: As you know, it is for the Department, as well as Treasury, to determine what funding is available. Homes England are currently managing £7.5 billion of capital. We are pleased with not just what we can do with that, but also, to your point, what we have sought to do over the last 12 months to address those issues as best we can, to ensure that the delivery that is occurring is still optimised, and, as part of that, both to challenge ourselves, on the instructions of Ministers, to orientate far more towards social rent than we have in the past and to challenge our partners to ensure that we do deliver on social rent.

I am sure that, as we go through this session, we will talk about those economic circumstances. They have been very tough for our partners, but I also think that we have worked with the Department and Treasury to ensure that we can maintain delivery over this period, and £7.5 billion for us does give us a huge potential to deliver for affordable housing.

Q209 **Chair:** That leads to two questions. You are underspending the budget you have, aren't you? How can that be the case when there is such a demand for housing?

Peter Denton: It is probably worth just clarifying that. We were awarded £7.5 billion originally for the 2021-26 programme, and we are delivering on £7.5 billion. There is no lack of, or reduction in that, commitment over the course of the programme.

I think what you are referring to is that, as a result of all those things you set out, we saw economic growth over the last year at 0.4%, not the 3.7% we anticipated. We saw, as you said, interest rates at 4.25%, not less than 1%. And crucially for our partners, we saw build cost inflation at 25%—the largest since the '70s. We saw some incredibly difficult moments for them, which I am sure Jonathan can talk to as well, and that unquestionably caused a pause in the autumn of 2022; it caused the stop.

We are very happy that we, the Department and Treasury responded within weeks to that and adjusted the programme, ensuring that certain changes were made to it to allow that delivery to be recommenced. While we are not able to talk about this year's performance yet, for obvious reasons, we have seen an incredibly strong use of the grant programme this year.

Q210 **Chair:** That still leads me to two other questions. Given all the headwinds that we have talked about and the need for readjustment, in the end, with all those extra costs in the system, you are going to build fewer houses under your programme than you would have done before, given that your grant has not increased. That is the case, isn't it?

Peter Denton: Yes, it is. In terms of some of the changes that we saw to the programme, we saw a greater emphasis on social rent and, consequently, a greater reduction in the emphasis on shared ownership. There was a strong desire to ensure that there were additional flexibilities for our partners, in the early stages of individual sites, to give them confidence there. We were also willing to allocate them higher levels of grant rate per home to ensure that it was reflective of the myriad things we have just discussed, and not least the costs of inflation and the costs of construction.

Q211 **Chair:** Generally, social housing needs higher rates of grant per unit. If you are moving the programme towards social housing, which many people might well support, you are going to build fewer homes with the grant that you have.

Peter Denton: Correct.

Chair: Let's move on to the next questions on our list. Mary Robinson is going to move on to look at issues to do with the regulator.

Q212 **Mary Robinson:** I think my questions may be going to Peter and to Shahi as well. We have heard that there has been somewhat of a reframing around Homes England, as a housing and regeneration agency.

Could you comment on how you feel about that reframing and where it has come from? What are you going to do to address the lack of funding for the regeneration of affordable homes?

Peter Denton: Where do I start? Personally, I could not be happier with the reframing of the agency, and I know that my chairman, Peter Freeman, shares that view. We are incredibly pleased that Ministers approved our strategic plan in the spring of last year, and while the name has not changed, the emphasis is on both housing and regeneration. An incredibly important part or subset of that is, of course, the regeneration of affordable housing, but it is beyond that.

I have been with the agency now for two and a half years and I have spent most of my time repositioning the agency, prior to that announcement as well as afterwards, to support the delivery in place, as well as programme. We had a lot of time to think through and reflect on this. We are looking to achieve ambition programmatically—we have the affordable grants programme—but, equally, on place.

I can talk for a long time if you want, but the way that we have been repositioning it is to recognise that, in the regeneration area, the agency is probably looking to achieve a number of objectives. First, this has to be about the vision of the local place; it is not our vision being imposed on a place. If you take Sheffield, for example, which I know Clive knows well, we are trying to achieve 40,000 new homes, with 20,000 in the city centre, completely putting a substantial number of homes back into the city centre of Sheffield, but not taking away from the amazing buildings and communities that are there. That is a vision of Sheffield that we are now looking to implement alongside people there. So the first bit is the local vision.

Secondly, we take the view that the agency is there in what I call the 20:80 role. We are there to help that local area create confidence and to create a vision, as we have in Sheffield. We have three master plans in Sheffield and an overarching vision for the entire city. The agency is there to do that master planning and make that real. It is there to do initial site acquisitions to get sufficient control of land to be able to make something happen. Then, it is there to put the infrastructure in.

Everything I have just described is what we have done in York, where there are 46 hectares. I want 4,000 homes—it is currently 2,500 homes—1 million square feet of commercial, a new park and so on. We are now moving from the 20, where we and Network Rail have created that confidence, to the 80, which is that we are, as we have just announced, bringing institutional partners in to take that vision forward and to work with us on delivering it over the next 20 years. So Government is there to create confidence, to make something start to happen and then, ultimately, to ensure that private capital is supportive of that vision.

When it comes to affordable housing, it is the same and it is not the same. It is the same in that, in many of these visions, affordable housing is in the DNA of that change. If you look at Sheffield, it was delivering about 100 affordable homes in the city centre. Working with the existing programme and the existing partners, we have already got that, we believe, to about 800 or 900 homes, but with no more money, just by co-ordinating, by facilitation and by engagement. We are achieving that objective for Sheffield, but not necessarily at a cost.

When you are changing an overall place, you would factor in the affordable, but estate regen is a highly specific and complex activity—I used to do it when I ran a housing association, and Shahi can talk to that if you are interested. That is why we have made the changes. We got support from the Department, Ministers and Treasury to make changes to the programme that allow for estate regeneration to form part of the AHP awards going forward.

Q213 **Mary Robinson:** It sounds really exciting, and you are able to point to concrete examples where this has happened. How are you managing this against the challenge of net additionality?

Shahi Islam: The flexibility was welcomed by the sector, but it comes with conditions attached as to how and when you can utilise it. In terms of net additionality, we require a business case to be presented to us to review and where we look to understand how many more homes are going to be built on that site.

So far in some of the bids that have come through, in most cases we are looking at increased additionality. For example, one of the first schemes we funded was in Somerset, where there were 60 net additional homes, with the demolition of 166 homes, but more homes on the site. Another scheme, which we just funded in Liverpool through one of our partners, has seen an increase of 160 homes on those sites.

We assess all the schemes individually, scheme by scheme. We look at each scheme on its own merits, and then we allocate funding based on all the other conditions attached.

The challenge the sector is facing has to do with the longstop dates. They have to start on the site by March 2025. Jonathan has already spoken about the certainty that partners need. While it may seem like two years away, it is quite a short timeline to start on the site and then complete the homes by March 2026 as well. But we have a quite comprehensive and robust assessment process that drives both value for money and deliverability.

It should be noted that the flexibility was launched midway through the programme. If it had been launched much earlier on, or at the start of the programme, you would have seen much greater outcomes.

Q214 **Mary Robinson:** Are you relying on outside providers to give you the expertise that you need to support regeneration and place-making making or is this internal?

Peter Denton: Regeneration for affordable or generally?

Mary Robinson: Yes, place-making projects.

Peter Denton: Generally, the agency is 1,200 people, with surveyors, engineers, planners, architects, bankers and so forth—I am a banker, for my sins. We have an incredible range of talent that is already there. Interestingly, quite a substantial number of the staff are from English Partnerships days. We have someone who led the entire CPO process for the Olympics, for example—for Stratford—and they are in-house.

The strategy is also what I call operational leverage, which is that we should not be doing it all ourselves. We should be ensuring that there is meaningful input from the local place, particularly with combined authorities and the trailblazers—for example, Manchester and West Midlands. We want to ensure that we are working with those parties.

Then, crucially, the operational leverage comes from partners. If you look at what we have done in Salford, in Manchester, and the £1.5 billion, if not more, worth of regeneration capital that has gone into Salford, I would love to say that the agency did all that, but it didn't. It did it with its partners Muse and Legal & General through a delivery vehicle that we created a while back.

So it is a combination of in-house expertise, as well as deliberately operationally leveraging off the private sector.

Q215 **Mary Robinson:** Some of the housing providers may have very poor-quality housing. Could you allow them greater flexibility in regenerating the housing that they have and manage?

Shahi Islam: Yes, if it forms part of the current framework of funding into regeneration and replacement of stock. At the moment, the flexibility does allow those homes to be dealt with through a demolition process and then rebuilt if there is evidence of additionality. At the moment, that flexibility does not extend to refit or refurbishment of existing homes.

Peter Denton: If you look at the ones we are currently awarding, the reality is they are finished. You could sink endless amounts of money in for decency, and it would not make a difference. These are homes that are at the end of their natural life, and this is an opportunity to see a sensitive replacement. In fact, it is not just a replacement; it is the place-making—it is taking a 1970s or 1960s form of place-making and, frankly, upgrading it. But, on top of that, there are opportunities to get additionality in the same place.

Q216 **Mary Robinson:** Of course, the 1960s place-making was not always successful. There would have been some mistakes made as part of those regeneration projects. What are you all doing as part of this scheme to make sure that those past mistakes are learned from?

Bernadette Conroy: From a regulator's point of view, we want to build strong and stable financial viability for the sector so that it can support this regeneration. One of the most important things that Peter mentioned was about how you bring local communities into that equation. What we want to do, and part of our extended powers, which come into effect in April, is to make sure that landlords are actually talking to tenants. Regeneration is a very emotive subject, particularly when people will see homes demolished and cannot quite visualise what is coming after them. We want to make sure that a dialogue goes on early so that tenants in existing accommodation understand how it will be done and how it will affect them, so they have an opportunity to bring forward their views. Some of the things that you allude to are things they understand themselves and that they can put forward to make sure developers take those on board going forward.

Peter Denton: It is a layer. I regret that, when I was running Hyde, we put a basketball pitch in—this was 15 years ago, never mind the 1960s—with no lights. We bitterly regretted it, because it meant that, in twilight times, it was a no-go zone.

On place-making, don't build mono tenure; that is an obvious one. These days, there is active travel, so ensure that there are opportunities for cycling and walking. Ensure that there are safe spaces, that there are no corners, pockets and alleyways and so on. Ensure as best you can that primary healthcare hubs are in the place, because, by 2035, one third of our population will be over the age of 65. Ensure that the schools are thought through, both at primary and sixth-form entry.

There are a lot of lessons learned. Then there is the fabric first—the buildings themselves. I feel comfortable that, although we won't get it all right, we have a lot to learn from.

Chair: We are going to move on to issues around private investment with Ian Byrne.

Q217 **Ian Byrne:** We have heard about the rapidly increasing role of direct equity investment in social housing. First, to Peter, why is social housing attractive to equity investment?

Peter Denton: It is attractive, I think, for two broad themes of reasons. One is that when I went into social housing in 2017, the level of ESG—environmental, social and governance—funds in this country for pension funds was minuscule. That was in 2017. I do not know the number now offhand, but I know that probably over half of all pension fund investing is ESG-considerate. If you are an ethical institutional investor—L&G, to take one, because they are a meaningful presence now in the for-profit sector—a large part of what they are doing is driven by the "S" in the ESG for the funds they are investing. They are driven by the social purpose and the fact that their partners and their investors want to see that as well. That is a very big reason for doing it.

The other reason is simple: affordable social housing is typically inflation-linked. If you have very long-term annuity funds—so, originally, defined-benefit schemes, now moving more into defined-contribution schemes—or if you are in insurance, there is a deep attraction to long-term committed investing into income streams that will deliver and match annuities over the long term, and are inflation-linked—over the last few years, that inflation linkage has probably been more attractive.

So, for them, there are two big reasons. One is ethical, if you want to put it that way, and the second is very much financial.

Q218 **Ian Byrne:** Sometimes ethical is not really connected to some of the direct equity investments, is it? In terms of what we have seen with adult social care and children's care, there have been huge questions to be asked about what has happened when that level of investment has gone into those sectors. Are you worried about the housing sector?

Peter Denton: I am not going to comment on adult and child social care, but I will say—and then I am definitely handing over to Jonathan, because he is the regulator—

Ian Byrne: I am going to turn to Jonathan in a minute, don't worry.

Peter Denton: My personal experience of dealing with several of these institutions pre Homes England and then after I joined Homes England has been that their challenge on retrofit, on getting to net zero and on decency in their homes was of a very high standard. Jonathan will comment, but there is discussion on regulation and ensuring that it is a level playing field.

Ian Byrne: We will come on to that, yes.

Peter Denton: Yes, there is always scope for abuse, always, in everything, but I don't think that that is the direction of travel in any sense with—I am going to choose my words very carefully—for-profit RPs that are choosing to be regulated and that are adhering to the norms that we would typically see in the not-for-profit RP world as well.

Q219 **Ian Byrne:** Just to touch on that, Shahi, is there any impact, do you think, that that may have on traditional not-for-profit provision? Are you worried about the impact on the not-for-profit sector?

Shahi Islam: Do you mean in terms of competition? No, I have no concerns.

Peter Denton: No.

Q220 **Ian Byrne:** Going on to Bernadette and Jonathan then, Peter has painted a picture of his experiences that seems quite positive. How do we ensure that you have an oversight of rogue elements in potential investments?

Jonathan Walters: The first thing is that anyone who wants to come and run a housing association or registered provider needs to come and register with us. We have a very rigorous registration process. There are a number of people who will apply and, once they have understood the complexities and the responsibilities of being an RP, they will decide that that is not the route for them. We absolutely keep a good quality control on who comes through the front door, if you like, in terms of who will be a registered provider. It is not for everyone. Being an RP is not just about a tax-efficient badge or being a particular flavour of asset management; it is something important.

If you look at the institutional framework that sits around that, rents are very tightly controlled. Through the decent homes standard the quality of the accommodation is tightly controlled, and we know that the Government are thinking about what further changes might be made to the decent homes standard.

Interestingly, in terms of the economics, what we have seen from most of the for-profits that have entered the sector so far is that the minority of the investment has been on rental products; the majority of the investment so far has gone into shared ownership. That seems to be a very natural home for some of this for-profit and equity-backed investment. Not only do you have the link to CPI that Peter was talking about, but you also have some exposure to house price inflation through staircasing. That is a mix that seems to be quite attractive to for-profits.

Q221 **Ian Byrne:** Bernadette, are you confident you have the required commercial and financial skillset to understand the sometimes extremely complex business models of the for-profit providers?

Bernadette Conroy: Yes. It is a growing business. It is very small at the moment.

Ian Byrne: It is growing, though.

Bernadette Conroy: It is growing fast. We have been gearing up the resources, particularly in financial analysis, to make sure that we have the capabilities to understand it. As Jonathan said, it has been largely in the shared ownership sector. We would need to dig further into those coming into it from a social rent point of view, to make sure that we understand the business model and how it works.

It goes further than just the economics. It is about how those organisations are governed. Some of them have complex structures where the RP is the single regulated entity but they have a wider group structure. We welcome the fact that we have additional powers now to be able to look through some of those structures to be able to see—

Ian Byrne: You have the expertise within the Department?

Bernadette Conroy: We have the expertise and we have the ability to ask the right questions about who—

Q222 **Ian Byrne:** What proportion of your staff have experience of working in the private equity sector?

Bernadette Conroy: I will let Jonathan take the numbers.

Jonathan Walters: We have had a dedicated team that we have recruited. We attract people from across a range of sectors. We have a lot of accountants and a lot of ex-auditors. We have a lot of people who have that commercial experience on our teams. Although it is a growing sector—I think it is 29,000 homes out of 4.1 million social homes—it is still very small in comparison to the rest of the sector.

Q223 **Ian Byrne:** It seems to be focused on new builds, doesn't it?

Jonathan Walters: It does. It is largely taking section 106 properties that have been developed by the large-volume house builders.

Q224 **Ian Byrne:** Are you confident that, as that sector grows, you have oversight over it?

Jonathan Walters: Absolutely, yes.

Q225 **Ian Byrne:** We are going to touch on something where maybe the oversight was not as good as what you think youse have got. If we look at what happened in Berlin, we have seen private investment into social housing and then we have seen skyrocketing rents, widespread displacement and destruction of communities. How do we ensure that that does not happen here?

Jonathan Walters: Two crucial things happened in Berlin that I think will be much harder to replicate in this country. One is around rent levels. One of the issues in Berlin is that people were allowed to put rents up in line with the market. In this sector, rents are very significantly controlled by the Government, and I think it offers significant protection to tenants.

The other issue is that, in Berlin, a lot of social housing was sold off—it ceased to be social housing and it was sold to commercial providers. In this country, with the section 106 agreements and with the grant agreements with Peter and the GLA, it is very hard to dispose of social housing. What we have not seen in this country yet is a significant movement of social housing stock out of the social housing sector into sectors where the rents would cease to be controlled. As long as you have that lock on the properties moving out and the controls on the rents inside the lock, then I think we have—

Q226 **Ian Byrne:** How does right to buy affect that?

Peter Denton: I would just add that I used to invest in Berlin. The other thing is that the capital moved to Berlin. In the late '90s, the capital moved from Bonn to Berlin. I was there; I was investing in office buildings. You have to factor in that you have this incredible transition in that example—moving the federal capital to Berlin.

The other thing, as Jonathan said, is that the sectors are incredibly different on the residential side. There are other protections, but there are not the protections that Jonathan has just outlined that we have in this country.

Q227 **Ian Byrne:** While I have you, just to finish, does the growth of for-profit registered providers in the sector require more or less grant to continue to expand in the future?

Peter Denton: It is an interesting question. We do find that a lot of people think that institutional capital will replace grant, and it won't.

Ian Byrne: It won't.

Peter Denton: What institutional capital is there for is to fill the gaps, I would say, where the housing associations have put focus elsewhere. As I said earlier in terms of grant, value capture through 106 or densification, there is something that needs to capture the discount to make it an affordable or social rented home. But where the institutional capital is, and where it is picked up, is not just filling those gaps but also very large individual, one-off situations. We have seen examples in the recent past where the for-profits have been able to create affordable homes in one go at massive scale, like 1,000 or 1,500 affordable homes in one go, because they have the capital to do that. Where this is appropriately regulated and appropriately thought-through, with a level playing field—all the things that I think we would all be concerned about—it is something that is worth considering—

Q228 **Ian Byrne:** You are quite happy that there is a model there that can work complementarily and will not replace the grant-funded social housing? We have already seen affordable housing being squeezed out with different versions of ownership. Are you still comfortable that there is a place for social housing?

Peter Denton: I am very comfortable. Take what Jonathan and Bernadette said about shared ownership—

Ian Byrne: Because we know it is desperately needed.

Peter Denton: A good example would be this. If you take a typical site and you want to create mixed tenure—you want social rent, you want a bit of affordable rent, you want shared ownership, you want build to rent and you want market; you want all those things in one place—there is a strong opportunity for the local authority or the housing association to take responsibility for the social rent and affordable rent. There is an opportunity for the institutional investment market to take responsibility for the shared ownership. Therefore, you can see that long-term ownership of the rental, for example, can be enhanced, because that is what the HA or the local authority are taking, whereas I think that, so far, the stats are that 58% of the for-profits are in shared ownership—roughly 60% are in shared ownership—and they are very interested in that. I also think they will look at rent in due course, but there is no question that there is an opportunity to marry them up to find homes for rental versus shared ownership.

Chair: We are going to move on now to look further at the affordable homes programme with Tom Hunt.

Q229 **Tom Hunt:** We touched earlier on social rent and affordable rent and the implications of promoting one over the other. In the course of this inquiry, a number of witnesses have said that there is a need for the remainder of the affordable homes programme to shift from affordable rent to social rent. I would like to understand more about what, from your perspective, the implications would be in terms of the number of affordable homes per se being delivered.

Peter Denton: I will get Shahi in a second to talk about the process and what we are experiencing, but I would say two things. One is that our Ministers have been extremely clear that they want to see a maximalist approach to social rent going forward, so that is one of the things that we have been focusing on.

There is another thing to factor in for this programme. Even though we go out and say that Ministers would like to see more social rent, there are a few things to bear in mind. One is that that is a message that has not been heard for a while. Business models have not been constructed on that basis, and that is something housing associations are thinking about.

Secondly, in lower-value areas the difference between social rent and affordable rent is minimal. Thirdly, scheme viabilities have been set up already. Section 106s have been signed. In fact, in some places, local authorities prescribe the tenure mix. It is not as easy to just unpick existing things and then move forward again. And then, as I keep saying, mixed communities are better than mono tenure.

These are not excuses; these are just realities of the things that our partners need to think about in this 2021-26 programme when we say we would like more social rent. But our experience has been pretty positive, hasn't it?

Shahi Islam: Yes. The other flexibility that was secured last year was that you can build social rent everywhere in the country. At the start of the programme, there were conditions around where you could build social rent, attached to high affordability pressure areas, as listed by, I think, Treasury. That flexibility has meant that, as Peter has said, partners are now more willing to explore other opportunities for social rent.

In the work we are doing with the sector, as I mentioned before, the flexibility has dropped in the middle of the programme. As Peter acknowledged, it does take longer now to work with partners to identify those opportunities and bring them in. But we are making good progress in working with partners to bring more rented homes into the programme as part of our assessment process, as Peter said. We are looking at the scheme overall and the numbers of social rent that you can bring in as well. The flexibility that we have secured through the Government and

Treasury in terms of higher grant rates has enabled us to work with partners to bring more social rent in.

Q230 **Tom Hunt:** Bernadette and Jonathan, would you have concerns? If there was this big shift from affordable to social, would you have concerns from a regulatory standpoint with regard to it potentially affecting housing associations' viability ratings?

Bernadette Conroy: It is always the case that our requirement on housing associations is that they understand the risks that they are taking on and they understand how their business models work. They do have some constraints, and Peter talked about them. Quite often it will be local authorities that set the tenure mix, so they do not always have a choice.

I think most of them would want to deliver more social homes if they can, but it is about viability. We would not be encouraging them to take on risk or business models that do not work from a viability point of view. We would want to understand that they have sensible business models and that they understand the risk, carry the risk and have risk mitigation plans if economic scenarios, as we have experienced over recent years, come along and change the dynamics of some of those models.

Q231 **Tom Hunt:** This is a slightly different question. I have only been on the Committee for a short time, but there has been quite a lot of work done on shared ownership. Something that has occurred to me is that there seem to be many examples—often in areas where rents are high and property prices are quite high—of affordable housing complexes and buildings where a certain proportion is shared ownership but, over time, that proportion declines. My understanding is that, if you have a shared ownership stake in a flat and you want to sell it, it first needs to be advertised to those who are eligible for that, but if it is not sold, it is put on the open market. Somebody can just come in, staircase it up to 100% and, effectively, it is a market flat from that point onwards.

Do you have any concerns about this? Do you have any concerns about developments that may have started with quite a high proportion of shared ownership, but where that diminishes over time, so the amount of affordable housing in areas, often with high rents and high prices, declines over time? Do you think that housing associations are always completely genuine in advertising things internally to people who are eligible, or are a lot of them, for want of a better phrase, trigger happy when it comes to getting things on to the open market and them quickly being staircased to 100%?

Jonathan Walters: I don't think we see evidence of that happening. We do see evidence of housing associations wanting to retain that stock in the sector. These are largely charitable organisations whose charitable vires is to be providing homes to those who cannot access the market through other means. It benefits their charitable vires if the shared ownership is staying within the sector.

Obviously, in terms of shared ownership itself, as a tenure, this is designed ultimately to cease to be a shared ownership unit. Ideally, you would want the person in that property to eventually be able to purchase it outright. The product is designed to eventually cease to be a social unit over time, and I think that that is what happens in the majority of cases. Clearly, if there was evidence of people doing what you suggested, we would be quite concerned as the regulator.

Q232 **Tom Hunt:** I will not mention any specifics, but there have been a fair few examples I have seen where a particular development has started off very much being an affordable housing intervention, but where, over a period of time, the number of shared ownership properties has declined, not because the person is scaling up or staircasing from a third up to 100%, but because they have sold their share and somebody else has come in and got 100%. I have seen some of these examples. The whole point of the intervention was to promote affordable housing, but these things mean that, in a lot of these areas, which are very difficult to afford to live in, a lot of people on lower incomes seem to be being priced out.

Peter Denton: There are a couple of things. One is that my experience has been that one of the things you desperately want to avoid is setting someone up for failure. I ran a housing association, and when you look at the people applying for shared ownership—you are always over-subscribed—you focus very much on their ability to afford it. The worst thing you could possibly do is encourage someone to take on that liability and that exposure and then for them to fail. That is a very deep, difficult personal experience for them, so you try to avoid that like the plague.

The second thing is that, in the world we are in, you have to be honest. The operating margin for shared ownership for a housing association is considerably higher than for rental. One of the key metrics the regulator and the rating agencies focus on is operating margin, and the operating margins for shared ownership are much higher than for rentals. One of the reasons to keep it within your portfolio is to maintain a decent operating margin for the financial stability of the housing association.

That is why it is important for us all to challenge the initial proportions of tenures on a particular place. Can we get 30%, 35%, 40% rental on a place? Can we then add to that on shared ownership? Can we then add to that on build to rent? You are right that, as staircasing occurs, there is a dilution of the shared ownership on that particular place, but you do keep a mixed community and you do certainly keep the rental tenure as well.

Chair: That leads nicely to questions about financial stability with Bob Blackman.

Q233 **Bob Blackman:** I think these are probably going to go to Bernadette and Jonathan in the main. You have a role in looking at the financial stability of the market in general but also at specific providers. You have done some downgrading of some of the providers in the market. What are you doing to maintain confidence overall in the market?

Jonathan Walters: We have seen significant financial stressors, as this Committee has heard, play out within providers' plans. We have gone from 30% of the sector being at our V2 rating to about 60% of the sector being on our V2 rating over the last couple of years, which reflects a lot of the realities that this Committee has been looking at.

One of the important jobs of the regulator is to provide information to the market so people can see what is happening in the sector, and we do that through our sector risk profile, our global accounts and our quarterly survey. We put quite a lot of very authoritative analysis and information out there so that investors can see and feel what is happening in the market.

What we absolutely keep an eye on is where people are possibly going down from the V2 judgment into the V3 judgment. We now have a small number of traditional housing associations at V3, which is unusual. We are working with them to try to remedy that situation and to ensure that they—

Q234 **Bob Blackman:** Presumably, when you downgrade someone to that level, it is much harder for them to get external finance.

Jonathan Walters: If you are at V3, you have, effectively, as an organisation, ceased to be able to determine your own future independently. You do not always need to have a merger, but at that point you will often need another partner to come in and work alongside you to return you to viability.

Bob Blackman: Does the impact of V1 to V2 not—

Jonathan Walters: That has very little impact on accessing finance. Had we not regraded lots of people from V1 to V2, the rating agencies and others would have looked at our analysis and said, "The regulator is asleep at the wheel and has not noticed what is going on in the sector." We have tried to be really transparent with the issues and risks we were seeing in the sector, while managing to engage with those providers that we think are heading into V3, to ensure that they can get themselves back on course.

Bernadette Conroy: It is fair to say that, in our engagement with the market, they understand well the difference between V1, V2 and V3. They are comfortable with those gradings. They understand a V1 and a V2. It is also worth saying that, in aggregate, at a sector level, we believe that the sector remains financially strong and financially viable, and I think that has been borne out in recent weeks and months with some fundraising that has occurred. That demonstrates that there is still attractiveness to investors out there.

Q235 **Bob Blackman:** What steps do you take to examine one of these providers to say, "Hmm, I'm not sure you are at V1 now. There is a warning sign here"? What do you do to make that judgment?

Jonathan Walters: Every year, we get a business plan in from all the 200 housing associations with more than 1,000 homes. We look at that through a process called the stability check process. We do that over the summer and autumn of every year, when we are kicking the tyres on the inputs, the assumptions they have made, the outputs and the deliverability of them. That forms the basis of the way we make our judgment about V1 to V2. We refresh those grades every year. Normally, all the grades are out just before Christmas.

Then, continually through the year, every year, every quarter, we get a quarterly survey of financial information from those organisations, looking at their liquidity, the amount of funding they need, and their financial position. We are doing constant quarterly monitoring of organisations to ensure that they are delivering the plans that they told us they were going to do in their business plan. If you are an organisation that is at V3, we are probably getting financial information from you more regularly—often weekly and sometimes monthly.

Q236 **Bob Blackman:** You have a lot of spinning plates in the air. Do you have enough staff and resource to make sure that none of these organisations fails?

Jonathan Walters: Absolutely. We have always ensured that, even as we move towards this new, expanded, important role we are going to have from 1 April, we do not lose sight of that core job of ensuring that the housing association sector remains viable and that we have enough early warning of when things are going wrong at an organisation to enable us to get involved and ensure that they can find a way back to long-term viability.

Chair: Mary has a supplementary question.

Q237 **Mary Robinson:** It is obviously all about viability, but do you listen to tenants in this? What impact does it have if a tenant gets in touch with you and raises an issue?

Bernadette Conroy: Tenants have a number of ways in which they can feed through to us. We have a close working relationship with the housing ombudsman. We will see information that the ombudsman feels he needs to refer on to us. Landlords also have complaints processes. We need to make sure that landlords are compliant with those processes.

At the moment, we are in a very reactive regulation, but we are starting to do our pilots to roll out and to get ahead of the game before we get our extended powers from 1 April. From 1 April, we will have much greater engagement at a tenant level, and we expect to see some of those things start to filter through in terms of how we hear the tenant voice after 1 April.

Mary Robinson: Excellent. Thank you.

Chair: We will move on to the risks from different sorts of housing associations. Andrew Lewer.

Q238 **Andrew Lewer:** Welcome to you all. Bernadette and Jonathan, are there particular types of housing provider that face the greatest financial risks, and do you have specific tools to respond to them?

Jonathan Walters: It is an interesting question, and it is one we think quite a lot about as a regulator. What we have seen most recently in the traditional housing association sector, if you look at the people who are currently at the V3 judgment, is that it is often organisations that are based in urban areas, often with lots of flats that need remediation work. I think that organisations with that stock profile have been the most financially challenged by what has happened in the last few years. So you have that cohort.

Then you have some of the new business models that we have seen enter the sector, which we have talked to this Committee about before and which we broadly call the lease-based provider model. We have a cohort of those that are quite challenged by the lease structures they have entered into. That is separate from the wider economic issues and more to do with the fundamental business model and the arrangements those organisations have entered into.

Bernadette Conroy: I would agree with that. We recognise that they move in and out, so we are constantly watching. Jonathan talked earlier about stability checks and quarterly surveys. What we are constantly doing is looking for those pockets and those early-warning systems, and then we would move into an engagement model to start talking to individual landlords about some of the challenges they may be facing. But absolutely, as Jonathan said, where we see some of the real issues is in the urban providers with large blocks at the moment, because those are the ones that have quite substantive building safety work.

Q239 **Andrew Lewer:** We have talked about two issues I want to explore a bit further: the "too big to fail" model and lease, and we will come on to lease in a minute. On "too big to fail", I have expressed a concern in previous discussions about this idea that bigger is always better and that economies of scale will always sort the problems out. You often see larger providers with a bigger financial department and a bit more of a handle on the financial markets—or a perception among themselves that they have a better handle on the financial markets—going for more complex models. I am concerned about the pressure to say, "They are big, so they will be okay. Let's make these associations merge." We then get to this "too big to fail" concept, where something has merged with various people to such an extent that no one would want to take it on if there was a problem. Are you conscious of the risks of the regulatory environment always, to my perception at least, pushing bigger is better and the idea that mergers are the way to go? What happens if you do end up with this too big to fail scenario coming to pass?

Bernadette Conroy: I will talk at a macro level, and Jonathan can perhaps talk on specifics. I do not think merger is part of our toolkit. It is not something that we can encourage organisations to do; it is their decision at the end of the day—it is not something that we can put forward. There may be circumstances sometimes where an organisation, as we talked about earlier, has got to the point where it needs to find a partner and where that is the best way, in our view, in those circumstances, for them to protect tenants so that they can stay in their own homes and to protect any public assets that might be on the balance sheet. But that is not a go-to part of our toolkit. We will always try to resolve issues with providers, rather than reaching straight to a merger.

There are very mixed views. We have large organisations that can be very good, we have small organisations that can be very good and vice versa. One of the challenges that we are very conscious of in large organisations is that, while they probably have better access to the capital markets and can perhaps do more development, they might lose touch with their resident base. From 1 April, one of the things we will be testing very hard in the larger providers is how they stay connected to their tenants and how they hear the voice. At the end of the day, all tenants deserve to live in a well-maintained home, and that is something we will be able to monitor through our tenant satisfaction measures and our new standards from April. I don't know if Jonathan wants to talk about any of the specifics.

Jonathan Walters: All I was going to say is that I do not think we see bigger as being less risky. In fact, if you are a larger organisation, you will probably see more of us. We will probably come out and want to kick the tyres a bit harder in terms of your finances and your models. I think you are right: a very large organisation would be rescuable, but it would be very hard work. It would be better for us all if we never got to the point where we were having to try to break up a very large organisation.

Peter Denton: I think it is easy to say, "Four legs good, two legs bad." Larger, not large, housing associations have the capacity, in my view, to deal with more of the wide range of resilience that you need. There is a need for large-scale place-making and land-led development. There is a need for large-scale regeneration. There is a need for very substantial retrofit, not just in the affordable housing sector, but including the affordable housing sector. Some big challenges need to be thought through, and some big ambitions, and they typically benefit from the larger housing associations being able to deploy there. But the point cannot be lost that you do not want them to lose touch with their customers and with the voice of their customers as well.

I think that Jonathan's last point is the most important one: if you are bigger, you get a lot more focus from the regulator. So there is a balance between this issue of regional and national. Are 20,000? Are you 80,000? It is a very complex area, and Bernadette's point is that there are good ones and bad ones, on a relative basis, across the scale.

Andrew Lewer: Do you have anything to add to that, Shahi?

Shahi Islam: I have nothing to add.

Q240 **Andrew Lewer:** Let's look at the other one of the two issues that you touched on at the beginning: the lease-based housing models. Could you unpack any concerns you have about lease-based housing models and how they are going, which way they might go that you might not like, and which way they are going that you want to encourage? What can be done overall to make them a viable model?

Jonathan Walters: It is about viability and the quality of services and the accommodation they provide. Without going into too much detail, there are two types of this model. There is one that is very short term, which we have seen quite a lot of in the west midlands, and then there is the more exempt specialised supported housing, which we have seen on a much longer-term lease model. Both those models are financially difficult, given the nature and structure of the leases. What we have done over the last few years is engage with a number of those organisations, and we have driven significant improvements in the quality of the service that is being delivered and the quality of the homes that are being provided. We have dealt with a lot of the probity and conflict-of-interest issues.

We have dealt with many of the issues in that sector, but I still think there is this fundamental question for a number of them as to whether they have a long-term future. Does this model work through an economic cycle? We have seen a few of them choose to exit the sector they were operating in. They have decided that they cannot make the model work and they have exited. We have seen organisations, effectively, wind themselves down and pass their units on to somebody else. We are seeing stressors in that market, and we have not yet seen it demonstrate that it can work its way through an economic cycle.

Peter Denton: To add to that from a delivery perspective, in general, in terms of what one might call general needs—that is, core affordable housing—the leasing model is not particularly visible. The key by-volume area of delivery is not really seen. For us as an agency, the level of focus and attention we would give to someone applying for grant on a lease basis would be quite high, and I am not sure they would succeed, if I am honest.

Our focus is on supporting the regulator. We want to see those people who have a fiduciary responsibility to customers looking, smelling and walking like an RP and to see that they have the same level of governance and the same level of focus and consideration that one would typically see in the not-for-profit sector ultimately. That is not a policy point; it is simply a delivery point about stability and robustness in terms of what we are doing relative to what the regulator is doing.

Q241 **Andrew Lewer:** That is an interesting perspective. Finally, I would like to seek your opinion—this is for Jonathan and Bernadette, in particular, but for other colleagues as well—on another niche but potentially significant point about non-registered providers. Do you feel that a non-registered provider failing could have an impact on the registered sector, and are there any management powers related to that?

Jonathan Waters: I think that the people who have lent money into the social housing sector—about £100 billion of private capital is already deployed in the sector—very well understand they have deployed it within a regulated sector. In a lot of the loan agreements, you will see that this funding is contingent on you remaining part of the regulated sector. I think, in their minds, there is a very clear distinction between the two.

There is only one organisation of any scale, which is in Medway, that provides social housing. It is a slightly historical anomaly. Most of the other providers of some form of social housing registered with us tend to be very small; they tend to be almshouses. I think the markets are quite differentiated in investors' minds.

Andrew Lewer: Are they any other views on that one?

Peter Denton: Basically, you have to be an RP to get the grant for affordable housing.

Q242 **Andrew Lewer:** You have to be an RP to get the planning, don't you, as well often?

Peter Denton: Often, yes.

Q243 **Mrs Elphicke:** Andrew makes an interesting point about planning holding up a large number of sites coming forward at the moment and about that particular restriction on delivery of affordable housing.

Concentrating on the financing, I am conscious that we could see rent rises up to 7.7% from 1 April, notwithstanding the fact that a number of housing associations have margins on social housing lettings and that witnesses who have been before this Committee have commented that margins of 25% or more could be applied to ensure that tenants do not have to pay as much in rents while these other costs are being met.

Building on that, Bernadette, I am conscious that, in your response to Mary about tenants, you said there are a number of avenues. None of those is about how much rent people pay, the rent setting or the overall financial framework. I am also conscious today that Richard Blakeway, the housing ombudsman, has said that there has been neglect in policy, that there has been a marginalisation of residents. In that context, I am mindful of the fact the rents go up and up but the service and the quality of living standards does not seem to be commensurate. Richard Blakeway has today called for a royal commission to create a long-term plan, saying that "a cumulative impact of poor choices" by the Government and landlord has led to poor outcomes for tenants. Do you recognise his description, and would you support his call for a royal commission?

Bernadette Conroy: There are two things I would say. First, we want to encourage tenants to be able to have an open and transparent dialogue with their landlords and to be able to raise concerns, particularly—we saw this very much last year—about hardship and levels of rent. Last year, although rent is normally formulaic, a rent cap was put in place to recognise tenants' hardships. At the end of the day, rent is a matter for the Government. It is not something that we set as the regulator, and discussions will be going on in Government.

Q244 **Mrs Elphicke:** Can I pause you on that? You say it is not a matter for the regulator, but financial viability, including the underpinning of how a particular registered provider secures their funding and the business plan, is part of that. You set the standard for whether or not providers meet financial viability targets, so it is not entirely accurate to say that you do not have a view over how registered providers would approach the finance of their organisations.

Bernadette Conroy: We definitely would have a view about the viability of an organisation. We would also have regular conversations with the Department about the overall viability of the sector, so that the Department and the Government can take that into consideration when it comes to rent-setting.

Q245 **Mrs Elphicke:** But the rent-setting is a maximum, isn't it? You are looking at individual associations, and you are also able to look at individual governance. If you have a situation where you know that the housing association is letting the tenants down—where they have mould and other issues, where they need to absolutely put that finance power—you do have a role in that.

Bernadette Conroy: We do have a role. We have a role in understanding that the governance of boards of providers make choices about where they are going to spend their money. As not-for-profit providers, they are not taking that money out; they will be reinvesting any surpluses, hopefully in their services, and maybe in long-term assets. Existing quality is very much on our agenda.

Mrs Elphicke: Or commercial activities or salaries.

Bernadette Conroy: Or commercial activities or salaries. Equally, we have a value-for-money standards, so we will be testing those landlords and those boards of landlords to make sure that the choices they make meet our value-for-money standards.

Jonathan Waters: I was going to reflect on the fact that we have seen margins come down quite significantly. In our most recent set of global accounts, margins in the sector overall were 16%. Back in 2020, they were 22%.

Q246 **Mrs Elphicke:** But they are still very significant overall, and there are still very significant reserves. As a pattern over the last decade, they have absolutely outstripped rents from social housing lettings. The margins have outstripped those commercial activities and other activities of housing associations.

Jonathan Waters: The majority of social housing income comes from social housing lettings. For four years, between 2016 and 2020, those rents fell by 1% every year, and we have seen that have an impact on margins. In the last few years, between 2020 and 2023, we have seen expenditure on existing stock go up 76%, for example.

I am not here to defend the sector, but I think you have seen very significant investment going on in the existing stock, while a significant number of new homes is also being built. They are making some difficult choices. I would agree with Rick that sometimes things go wrong; sometimes some tenants are given poor service, and we expect landlords to be putting that right. We want 1 April to arrive so we can begin our proactive inspection regime and we can hold landlords to account for the services they are delivering.

Q247 **Mrs Elphicke:** Would you support a royal commission?

Jonathan Waters: I think that is a matter for the Government. It is interesting that Rick has called for it. It would be interesting to see what would happen if one was commissioned.

Peter Denton: I am certainly not going to discuss a view on royal commissions. That would be something for the Department's Ministers to comment on.

With regard to your main point, there are housing associations that own stock and look after the stock they own. There is a smaller amount, by number, of housing associations, although it is bigger by size, that is building large-scale places in this country. I think the reason why you are doing this inquiry is the tension between how much they put into new build, how much they put into building safety, how much they put into retrofit and how much they put into decency. As Jonathan has just articulated, very substantial amounts of money are still going into additionality. But we are also seeing incredibly increased amounts of money going into decency and building safety. I think that, over the coming years, retrofit will start to play a part there as well.

Chair: I thank all our witnesses very much for coming and answering some very challenging and important questions. I am sure the Committee will reflect on your evidence and put it into the mix with the other evidence we have had when we are agreeing our final report. Thank you very much for coming.

Examination of witnesses

Witnesses: Baroness Scott and Emma Payne.

Chair: We now move to our second panel, and it is a pleasure to welcome Baroness Scott, who is the Social Housing Minister. You have an official with you today, Minister. Perhaps you could introduce your official as well.

Baroness Scott: Emma?

Emma Payne: I will introduce myself. I am Emma Payne, the Director for Social Housing and Resettlement in DLUHC.

Q248 **Chair:** Thank you very much for coming today. You may or may not have heard some of the previous evidence, but one of the major challenges currently in the delivery of social housing—any sort of affordable housing, but particularly social housing—is that inflation has been very high in the construction sector in the last couple of years, borrowing costs have clearly risen, rents have been capped below inflation, and private developments, which often cross-subsidise properties built for rent, have been held back and been built at a slower rate. So, there is less money. What are you going to do, if we need to build more social and affordable housing, to replace the money that has been lost or the money that cannot go as far, because of inflation, as we would have seen two years ago?

Baroness Scott: First, Mr Chairman, can I apologise if there is a Division in the House of Lords? Will you please excuse me? I hope there is not—I think things might run past 6 o'clock—but I am very sorry if I have to go, if you allow me to go.

Chair: It depends on how short the questions are and how short the answers are.

Baroness Scott: You and I have to make sure they are.

First, we do not believe there is any funding gap at the moment. That does not mean to say that we do not recognise that resources in the sector are not unlimited. We know that, over the last few years, the sector has had to make some really difficult decisions as far as prioritisation is concerned, but the funding is there. It is the sector's responsibility to manage those challenges. The Government does help, and will continue to help, with grant on specific issues. It has been difficult, but I do think the sector is managing things, and has managed things, and we will continue to support them.

There is one thing that I do think it is important for us to do. We are making a lot of changes, and you have heard from the social housing regulator. An enormous amount of changes have come out of the Act that was passed last year. We need to consult with the sector—not just consult, but talk and listen to them—about how the Act will impact their businesses and how we can help them bring in those changes in a timely manner that allows them to deliver those in the right way, as we want. But we are absolutely clear that it is their responsibility to provide decent homes for people in this country.

Q249 **Chair:** We know that costs have gone up and that the income from rents has not increased as much as inflation. We are not in as good a position as we were two years ago. But you are saying to us that, if the sector manages better and they talk to Ministers more often, it is all going to be all right.

Baroness Scott: No. We are supporting them. There is £11.5 billion in the affordable homes scheme, and they are using it. As you have heard previously from other Ministers, that is now being used increasingly more for social rented housing. We have the decarbonisation moneys that are coming in. We have put more money into that as well. That is being taken up increasingly in order to make homes more decent for tenants. So we are helping, we are working with the sector and we are talking to them before we change anything that might impact their business.

Q250 **Chair:** How many social rented houses are we going to build in this affordable housing programme period?

Baroness Scott: I am not going to give you a figure for how many. We will do as many as we can, and we will do them in many different ways. I think the days of just using Government grants or local authorities to build social housing have gone. We need to look at all options for social housing. I think that debate might happen a bit later, but the issue was certainly debated with the last two groups giving evidence. No, I think we will continue; we will build as many as we possibly can through the funding streams that we have, and we will look for other funding streams as well.

Q251 **Chair:** A bit vague that, isn't it?

Baroness Scott: A bit vague?

Chair: Shouldn't the Government have targets? Should they not have objectives that they clearly want to achieve, rather than simply saying, "We will do as much as we can"?

Baroness Scott: We have had targets. We are working through those targets. When things come in from the sidelines, from the—

Q252 **Chair:** Can you tell us what the targets are?

Baroness Scott: The targets in the last affordable housing targets were 106—

Emma Payne: We have been working through with the delivery partners what the revised targets will be, recognising that desire to build more social rented homes. We will publish those targets in due course.

Q253 **Chair:** When is "in due course"? I am sorry, it is a bit vague this, isn't it? The Government has a very clear policy, which I think is understood, to build more social housing. It would be helpful if we knew how many social houses you intend to build. If you cannot tell us now, when are you going to be able to tell us?

Baroness Scott: In due course. As soon as we possibly can, we will give you those new targets. The sector has been through a difficult financial time. It is regrouping. We are talking to them about what those reasonable targets will be, and we will come out with those, as we have said, in due course.

Chair: You have no idea when?

Baroness Scott: I am not going to give a date and a time, no.

Chair: Is it likely to be in the next six months?

Baroness Scott: Hopefully.

Q254 **Chair:** Okay. You mentioned other sources, and that is obviously things like section 106 funding, which has provided a lot of the affordable housing in the last few years. Isn't one of the challenges that 106 funding is not the same as housing built through grants, in that it is not countercyclical? Looking back to when there was more grant, the social housing sector would tend to build when the private development was falling off, and it could get good deals at a time when there was no other competition for construction activity. Isn't it a concern that there is so much reliance on section 106 funding that social housing building tends to go with the cycle rather than being countercyclical now?

Baroness Scott: Yes, but I think that, as the economy comes back, we will see far more availability for 106 in developments. The sector is already talking back in to building affordable homes along with market homes. I think there has possibly been a blip, but I do not think that will go on; we will continue back in.

As the new planning rules change, local authorities will have to have their local plans. Those local plans will have to say what is required of different housing sectors in their particular place. Then it will be for local authorities, working with developers, to do the deal on how they are going to deliver those differing—

Q255 **Chair:** Are you saying local planners should specify how many social houses should be built?

Baroness Scott: They can, yes.

Chair: Can they?

Baroness Scott: Yes.

Q256 **Chair:** The NPPF allows them to do that, does it?

Baroness Scott: I believe so, yes. The new one, as we go through where the LURB has been delivered. I will make sure that that is correct, but I am pretty sure that it is. The local authority will be looking at what type of housing is required in its area and putting that in the local plan.

Chair: Perhaps you could come back to us on that.

Baroness Scott: I will come back to you. We will go to the planners.

Q257 **Chair:** Before I move on to colleagues' questions, you mentioned, I think, energy efficiency and decency. Will energy efficiency standards and attempts to move the sector on towards greater energy efficiency and net zero be included in the decent homes standards?

Baroness Scott: That decision has not been made as yet. We are still working through the decent homes standards and the changes in energy efficiency. What I will say is how well the sector has done in delivering energy efficiency. It is quite incredible that, since, I think, 2017—remind me if I am wrong—it has gone from 28% that are over EPC C up to 70%. That is partly due to the push to really decent homes, and particularly against damp and mould, but it is also due to the decarbonisation fund, which has already had £1 billion take-up and which has more money left in it from the £3.8 billion. It also has an extra £1.25 billion coming in up until 2028. As the sector uses that, we could find that we are very close to EPC C within the sector without any further changes from the Government.

Q258 **Chair:** Is there a long-term strategy to get beyond that?

Baroness Scott: At the moment, no, but there will always be an increase to get beyond that. Let's get to that, and that will make our stock. Interestingly, social housing stock is higher rated than any other sector of stock, which is good news.

Chair: Mary, you have a follow-up?

Q259 **Mary Robinson:** Yes, it is a quick follow-up. I am sure it is an easy answer. The sector is under a lot of pressure with income and expenditure, and part of that is grants, which you mentioned, with decarbonisation being one of them. Are the grants hypothecated to the sector? To what extent are the grants that the sector gets from the Government ringfenced?

Baroness Scott: There is ringfencing around the decarbonisation grant, but there is an extra grant on top of that for other sectors. So there is ringfencing on decarbonisation. There is no ringfencing on affordable housing but, as you have heard from Homes England, they are now looking at more and more schemes that provide affordable rented.

Q260 **Mary Robinson:** Are you content that grant funding could be spent in areas where perhaps it wasn't intended?

Baroness Scott: No. If you ask me personally, as Minister for Social Housing, I would love to see more grant into social housing—we all would—but we will have to wait for that, and I will continue to push for it.

Chair: We are now going to move on to the issue of for-profit providers.

Q261 **Mrs Elphicke:** Building on that, as I understand your comments, Minister, you do not see that there is a Government funding gap, but I think we recognise that there is a delivery gap at the moment. I am conscious that some of the evidence we have had before the Committee has been that this recasting of the affordable housing programme has the net effect of delivering less for more, in effect—it is costing more to deliver fewer units.

Exploring what that investment programme is, clearly private finance is fundamental to the success of the social housing sector and has been over recent decades. It is the bringing in of private finance that has transformed the ability to invest and grow the stock in the way we have seen. The evidence is that over £123 billion of private borrowing has come in, with a big increase in different kinds of investment, including from institutional investors.

Within that context, I am keen to understand what you see as the role for for-profit providers and how important you think it is to have this direct investment into the sector from institutions and other funds.

Baroness Scott: My opinion is that providing that whoever invests from outside the Government is properly regulated, we should look at all forms of investment in affordable housing, particularly in social rented homes. It is a small amount now that has come from for-profit providers. You have heard from the regulator that they have clearly understood what is happening and they are controlling those providers, as they should do. I believe they even put out a new review recently that talks about how they will slightly change their rules in order to ensure that for-profit providers are properly regulated. I feel confident about that. Did you ask whether we need more from the public sector?

Q262 **Mrs Elphicke:** Do you support more institutional and other private sector investment?

Baroness Scott: Yes, I do. Providing that they are regulated properly, and we know that moneys they might be investing in building are not coming from decent homes and so on, I would encourage any innovation in the sector to build the houses that are required.

Q263 **Mrs Elphicke:** In terms of the regulatory framework and the need for any difference, should there just be a level playing field between for-profits and not-for-profits?

Baroness Scott: A level playing field in the fact that they also have to ensure—and the regulator, I know, will do this—that the other things, apart from building houses, are looked after. That includes the maintenance of them and the important issue of customer service—looking after and listening to the tenant. All those things are important in housing providers, and they should not be forgotten in the profit side of it. But if the profit side is going to allow us to build more social housing of a decent standard, I think we should be encouraging it, and that includes institutional investment.

Q264 **Mrs Elphicke:** I am keen to understand, given parlous management and state of buildings we have seen in some of the social housing sector, whether you have any evidence that for-profit providers are providing an inadequate standard of management or maintenance?

Baroness Scott: No, I have certainly seen no evidence of that. I see all the letters that the Secretary of State sends on the back of a bad ombudsman's report, and I have not seen any increase in the number of for-profit organisations or institutional organisations in those. I have not even seen that in the size of the organisations. It is quite interesting that some are large and some are small housing providers.

Q265 **Mrs Elphicke:** Do you think local authorities should also consider working with for-profit social housing providers, for the reasons you have outlined?

Baroness Scott: I do, but I think they are a bit scared of it at the moment. We perhaps need to hold their hands a little more with it. Providing that the regulator is happy with the partner they might be looking at—they need to talk to the regulator, I would suggest—they should not be afraid.

We are doing a lot of work with local authorities on things like contract management, procurement and so on. We are doing free courses for them. I think all this will help local authorities to have the confidence to work closer with for-profit providers. Of course, if they say they want further help, we will give it. We work closely with the sector, as you know.

Chair: We are going to move on to the issue of private investors.

Q266 **Bob Blackman:** You have laid out a bit of a setting, with various levels of investment taking place. Clearly there is a mix taking place in the market. How confident are you that, for example, the investment in what we might call the middle of that—

Baroness Scott: For profit?

Bob Blackman: Yes. How confident are you that that is going to be supported by private investment rather than by grant.

Baroness Scott: I think the model is about private investment. I do not think, though, that if those private investors want a grant, we should not also be looking at that. There is no reason why there should not be a mixed tenure, in terms of moneys to build these houses, providing that that is not taking anything away. It is up to Homes England, when it is looking at who has the support, to make sure the Government get the best value for the money they are investing. Wherever the part of the finance that the provider is putting in comes from, as long as it is giving good value when it is being spent alongside a grant, I think that is fine.

Q267 **Bob Blackman:** Obviously, social rented accommodation is the most difficult area to finance, certainly from private investors.

Baroness Scott: Yes, absolutely.

Bob Blackman: So shouldn't any grant that is going to be provided be targeted at that sector, because it is the most difficult to finance?

Baroness Scott: I think we need a mixed tenure. It is the most difficult to fund, but there is also a necessity for affordable housing.

Bob Blackman: There is a huge drop-off in the availability of socially rented accommodation.

Baroness Scott: Yes, but many people in this country aspire to getting on the housing ladder, and some affordable homes will help them to do that, so we do have to have a balance. But I would agree with you that, at this time, social housing for rent is one of the biggest challenges we face in the housing market.

Bob Blackman: The Government are providing funding to provide that sort of housing. How are they then directing that money to make sure we are getting socially rented accommodation? Baroness Scott, you have said there are no targets at the moment. It is a commonly held view among those of us who are involved in the social side of this that we need 90,000 units a year just to catch up with where we should be, and that should be over five years. If we do not get that, we are never going to be in a position to satisfy the huge waiting list for the market. One of the concerns here is that, if the Government are giving funding, and there is not a very clear position on where that money is going and why, there is a risk that we are not getting the value for money we should be getting from the Government grant.

Baroness Scott: The Government is doing two things. It made it very clear through the Levelling-up and Regeneration Bill that we were committed to building more socially rented homes. That has then passed into the affordable homes programme money, and we are now looking to have a much greater focus on using that money for socially rented homes. I think the Government has realised it needs more socially rented homes, and it is putting its money where its mouth is through the affordable homes programme, which is £11.5 billion.

Q268 **Bob Blackman:** You also mentioned the quality of housing. I do not know if you are aware—this is a specific London issue—

Baroness Scott: It is.

Bob Blackman: —but London councils have estimated, I think, that it is going to take £98 billion or thereabouts to bring the current housing stock up to the required standard to achieve net zero. Where will that funding come from? It is clearly not going to come from the rent, and it is not going to come from private investors.

Baroness Scott: Some of it may do. Some of it may come from rent. It should be coming from the rent. There is £22 billion of rent going into social housing providers, so some of it will come from rent. Some of it may come from private providers, if those particular providers can have an agreement, or somewhere can work with them, particularly somewhere like London, which may have opportunities. There may be opportunities through other funding. But London is a particular area, and we will work with London—we are working with London—to see how we can help them with that issue. But it is the responsibility of those housing providers to have decent homes for their tenants. That is why they get the rent, and that is what they have to spend the rent on.

Q269 **Bob Blackman:** They might well argue that rents have been downgraded over the period of time, in the sense of their ability to raise rents—that was before you became a Minister, it is true, but nevertheless that is one of the concerns that housing associations and others have.

Can I just raise one other issue, which is fire safety? There is a huge element taking place now, in terms of both the remediation of cladding and the remediation of failures of fire safety. How is that financed, from your perspective, in the social rented context.

Baroness Scott: That is financed from Government capital financing. I do not have the detail, but I am very happy to send you the details of the amounts at any time. Would that help? Would you like that?

Bob Blackman: That would be very helpful, because this is another huge impact, particularly on local authorities and housing associations.

Baroness Scott: Yes, it is. But the Government has been very clear that it will do a large part of the funding of that since the Grenfell fire and the issues that came from that. I will send you chapter and verse on that one.

Bob Blackman: That will be very helpful.

Q270 **Mary Robinson:** Baroness Scott, you mentioned that you felt that the money to pay for some agendas should come from rents. Do you think that it is fair to ask a tenant to pay for the Government's decarbonisation and net zero agenda?

Baroness Scott: Some of the funding for the decarbonisation agenda will come from Government, but some will come from rents because it is upgrading their homes to make them more decent, cheaper to run and more environmentally friendly. I have no problem with asking a tenant to put a small amount of money, through their rent, into making their homes better. I think that is what rents have always been for.

Q271 **Chair:** You raised two things there, before we go on to the issue of rents. First, on building safety, isn't the situation that, apart from the Government providing the initial £400 million to deal with the removal of ACM cladding from buildings, social housing is discriminated against compared with properties that are owned by their leaseholders, because the building safety fund does not give money to social housing in the same way that it gives to the private housing?

Baroness Scott: It did originally.

Chair: Just that one, for the ACM, which was £400 million.

Baroness Scott: Yes.

Emma Payne: I just want to add that around £200 million has been made available through the building safety fund specifically for registered providers of social housing.

Q272 **Chair:** And how much for private housing?

Emma Payne: I do not have that figure, but we can follow up with that.

Baroness Scott: Yes, we will follow up with that.

Q273 **Chair:** Bob was asking about moving to net zero in London. In a previous inquiry, we had information from PlaceShapers, who are basically 100 medium-sized housing associations, that said that all but one of their members would go bust if they had to fund getting to net zero out of their current business plans.

Baroness Scott: We will take that evidence as we move forward towards that as well.

Chair: There is a challenge there.

Baroness Scott: Yes. You bring up an important issue. If the Government does move down any particular road, it needs to talk to the sector first, because it needs to be very clear about the effect on the sector.

Q274 **Chair:** Right. Well, let's come to another area where you might talk to the sector, and that is rent increases. We have had a lot of evidence that one of the big problems was the change in rents in 2015 and the impact that that had on the business plans of housing associations and councils. Even the recent 7% increase is slightly below inflation. What the sector is asking for, and what we were told by the previous Housing Minister, is that an announcement will be made in the first half of this year about a future rent settlement. Is that still the intention?

Baroness Scott: The intention is to go out to consult as soon as we possibly can.

Chair: That is rowing back from the previous commitment.

Baroness Scott: I know, but I am pushing very strongly that we do it. You are absolutely right that this is important, because we need to provide certainty. What I can tell you is that we still support the principle that social housing rents should be index-linked over the long term. That is really important.

The other thing that we want to do as soon as we can is consult on the renting house policy as a whole. We also want to ask social landlords whether we should, gradually over time, bring back rents to what they would have been had we not seen that 7% cap. I think that is an important part of what we will do.

Chair: Minister, that is interesting. Certainly the sector has said to me, first, that they need a long-term settlement. That is what they have said.

Baroness Scott: Yes, they do.

Chair: They have also said that inflation-linking is important because costs go up with inflation.

Baroness Scott: Yes, we agree with that.

Chair: I think the sector would very much like convergence as well. You are not giving a commitment today, but you are indicating there—

Baroness Scott: No, I am not giving a commitment. What I am saying is that, when we consult, bringing it back will be one of the things we will consult on.

Q275 **Tom Hunt:** I want to look at the provision of and demands for social housing. Net migration is currently over 600,000 a year, and that includes many people on lower incomes coming to this country and also illegal migration? Are you concerned about the knock-on impact and the pressure from that on social housing?

Baroness Scott: I think illegal migration is such a small amount, no.

Tom Hunt: Fifty thousand a year, last year.

Baroness Scott: But they will not all need social housing. Two things concern me as the Minister. First, every house should be a decent house, so we should listen to our tenants more, because they are the ones who live there and they know. Secondly, we need more social housing in this country, for whoever this Government, or any Government, decides to have in this country, so that people are not homeless.

Q276 **Tom Hunt:** You have not made an assessment of the impact of having net migration at 600,000, including lots of lower-income people?

Baroness Scott: I am not aware of any assessment. I do not know whether Emma is.

Emma Payne: No.

Chair: We will move on to relationships between the various Housing Ministers within the Department, which has been a bit challenging for us to understand.

Q277 **Andrew Lewer:** The latest division that has happened within the Department is that social housing policy has been separated from the Housing Minister. Given that that has happened, how are you ensuring that there is proper co-ordination within the Department on social housing policy?

Baroness Scott: I work very closely with the Housing Minister. I have an office next door to him—I am in and out of there, and he is in and out of mine. We have joint meetings with our teams. However, I think it is quite good that social housing is separate and has, at this time, a little more attention than perhaps a Housing Minister can give when he has so many other things to do.

Q278 **Andrew Lewer:** Is one of the main features of the discussions you have, given your office proximity, but also much wider within the Department, about implementing the infrastructure levy? There is a lot of concern that the infrastructure levy, given its potentially broad base of investment choices and areas, will diminish the money that goes into social housing delivery.

Baroness Scott: I do not think it will. I think the changes that have come with the investment levy mean that more will be connected to housing as a whole. If it is housing as a whole, then social housing will also be a part of that. Infrastructure used to be very much connected with business and not necessarily with the housing that the businesses needed. I think it is important that we think about the housing that people need, and if we are going to do that, social housing will obviously be part of the discussion.

Q279 **Andrew Lewer:** There has been a lot of discussion about the infrastructure levy providing non-housing infrastructure ahead of housing delivery. That is obviously a choice. How are you going to fight the corner for social housing, when there is so much pressure in terms of a more permissive planning environment, in the absence of binding national housing targets for schools, doctors' surgeries, bypasses and all the other pressures that people want to see relieved in return for accepting more housing?

Baroness Scott: The argument is partly won in the infrastructure levy, in that it has moved towards housing as well as other infrastructure. The way I will argue it—if I have to argue it, and I do not think I will—is that, with any economic development investment, there will need to be housing for those people who are working, and within all tenancies, there will have to be affordable housing, market housing and particularly social housing.

Q280 **Andrew Lewer:** If there is an infrastructure levy and affordable housing is an increasing amount within it, which therefore takes down the profitability of a site and therefore makes less available for non-housing infrastructure, how does that change of emphasis provide more money for both of those things at the same time?

Baroness Scott: It is for the partners that are putting it together to ensure that they have—it is not about social housing being an extra; for me, it is about social housing being a necessity in order to make the whole project work.

Chair: Finally, Natalie has a follow-up.

Q281 **Mrs Elphicke:** On departmental responsibilities, in terms of the ministerial lead for Homes England and the affordable housing programme, is it you, Baroness Scott, as the Minister for Social Housing, or is it the Housing Minister, who has principal responsibility for Homes England?

Baroness Scott: He has principal responsibility.

Q282 **Mrs Elphicke:** Thank you.

I am aware of some of the detail of what you have done on resettlement. Building on Tom's comment on dealing particularly with housing for refugees, which I know you have been closely involved with, whose responsibility does that fit within in terms of the ministerial lead?

Baroness Scott: That does not fit with me at all. It fits with Minister Buchan because she is the lead for refugees.

Q283 **Mrs Elphicke:** Finally, on fire safety and retrofitting, which we have touched on, we had the Housing Minister before the Committee last week—it feels like a long few days—to talk about the Government's work in that area. Could you help us understand how the work in those areas is going in terms of your priorities as Social Housing Minister, given their significance in improving the quality and standards for tenants?

Baroness Scott: I will take the lead on building safety in the social rented sector. Obviously, I take any piece of legislation through the House of Lords, so I have a knowledge. In terms of my other knowledge, as you are probably aware, I have been very closely connected with the Grenfell community after their fire. So I have followed the journey on fire safety particularly, but also building safety very closely. I will continue to make sure that the Government is doing everything it can, particularly in the social housing rented sector.

Chair: Minister and Emma Payne, thank you very much for coming along this afternoon and answering the range of questions that we put to you. We will, of course, now reflect on all the evidence we have gathered, and will be producing a report in the next few weeks, which we hope is helpful to the Department—perhaps to lobby the Treasury for additional resources for housing.

Q284 **Mrs Elphicke:** I have one more question before we lose the Minister. I did not ask you, Minister, what I asked the previous group, which is whether you saw Richard Blakeway's comments on the need for a royal commission?

Baroness Scott: I have not read that in any detail. I have seen the headlines. We will obviously take that report and look at it. We have not made a decision.

Chair: A very diplomatic answer, if I might say so, Minister. Thank you both very much for coming.

Baroness Scott: Thank you. I am very pleased I have not been called away.

Chair: That brings us to the end of our public proceedings for today.