House of Commons

Housing, Communities and Local Government Committee

Oral evidence: Housing Associations: Development and Financing, HC 599

Tuesday 14 January 2025

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Watch the meeting

Members present: Florence Eshalomi (Chair); Lewis Cocking; Chris Curtis; Mr Lee Dillon; Maya Ellis; Mr Will Forster; Naushabah Khan; Joe Powell; Sarah Smith.

Questions 1 - 55

Witnesses

I: Holly Dagnall, Director of Homes and Wellbeing, Nottingham Community Housing Association; Fiona Fletcher-Smith, CEO, L&Q Group, and Chair, G15 Group; Martyn Gimber, CEO, North Devon Homes; Kate Henderson, CEO, National Housing Federation.

II: Chris Buckle, Director, Residential Research and Consultancy, Savills UK; Neil Jefferson, Chief Executive, Home Builders Federation; Fiona MacGregor, Chief Executive, Regulator of Social Housing.

Examination of witnesses

Witnesses: Kate Henderson, Fiona Fletcher-Smith, Martyn Gimber and Holly Dagnall.

Q1 **Chair:** Good morning and welcome to the Housing, Communities and Local Government Select Committee. In today's evidence session we are going to be looking at housing associations, with a focus on finance of new housing, issues that housing associations are facing with building and the big task of affordable housing. Could our witnesses first please introduce yourselves?

Martyn Gimber: Good morning. My name is Martyn Gimber. I am the chief executive of North Devon Homes.

Kate Henderson: Good morning. I am Kate Henderson. I am chief executive of the National Housing Federation. We represent not-for-profit housing associations in England.

Holly Dagnall: Good morning. I am Holly Dagnall. I am the director of homes and wellbeing for Nottingham Community Housing Association.

Fiona Fletcher-Smith: Good morning. I am Fiona Fletcher-Smith and I am chief exec of the L&Q Group. I also chair the London G15 Group, which is the 11, confusingly, largest housing associations in London.

Chair: Can I ask my Committee colleagues to introduce themselves and say whether they have any declarable interests on this item?

Lewis Cocking: I am Lewis Cocking, Member of Parliament for Broxbourne. I live in a shared ownership property with a housing association.

Mr Dillon: I am Lee Dillon, the MP for Newbury. My wife works for a housing association.

Mr Forster: I am Will Forster. I am the MP for Woking.

Maya Ellis: I am Maya Ellis. I am the MP for Ribble Valley.

Chair: I am Florence Eshalomi. I am the Chair of the Committee.

Joe Powell: I am Joe Powell. I am the MP for Kensington and Bayswater.

Naushabah Khan: I am Naushabah Khan. I am the MP for Gillingham and Rainham.

Sarah Smith: I am Sarah Smith. I am the MP for Hyndburn.

Chris Curtis: I am Chris Curtis. I am the MP for Milton Keynes North.

Q2 **Chair:** As housing associations, I know that you are dealing with millions of residents up and down the country. One issue is around your relationship with house builders in terms of building new stock and maintaining some of the existing stock you have. As an opening question to all of you, what proportion of your spending would you say is dedicated to house building as opposed to maintaining the existing stock that your respective associations hold?

Fiona Fletcher-Smith: It has shifted considerably over the past five years. Most of the spending that organisations such as L&Q do is on existing homes. That is a combination of routine, day-to-day maintenance and planned maintenance, so replacing roofs, windows and doors, achieving the decent homes standard and trying to move towards net zero. You are seeing that shift.

The issue in terms of actual numbers, though, would be that the development process is very expensive. At L&Q I carry about £5 billion worth of borrowing, which is predominantly for new development. That has changed over the last 20 years because of reducing grant levels. We used to have a 50/50 split of subsidy from our own organisation that would go into new build with 50% coming from Government subsidy. That moved, over a period of about 20 years, to about 78% of it now is from private borrowing and the remainder is made up by Government grants: 78% of development process is funded directly by housing associations in London.

Holly Dagnall: It is a similar picture. We are a much smaller organisation than L&Q. We have just over 10,000 homes. About 20% of our income is spent on maintenance. We have quite an ambitious development programme for a relatively small to medium organisation but a similar shift. Our development costs have gone up by about 34%. We are now borrowing about £140,000 on average per home, with a grant rate of about £65,000 a home. We are borrowing more than double of our grant rate on new homes. It is a similar picture for us in the east midlands to London in that regard.

Q3 **Chair:** Kate, what are your members saying?

Kate Henderson: Overall, I really welcome working with you as a new Committee and particularly this focus on the role of housing associations in helping meet Government's ambitions for 1.5 million homes. That is a big, bold, stretching target. Housing associations can and want to play a really central role in that.

If we look at the figures for last year, housing associations delivered one in four of new homes in England. We are a big contributor to supply. We are ambitious and want to do more, but our position is fragile. If you would allow me, I will talk through, very briefly, the impact of the last 14 years in terms of why we are in the position we are in, in terms of reductions to both capital and revenue funding.

In 2010, the Government slashed the capital budget for affordable housing by 63%. During that period of time, we also had no specific funding for social rented homes, which is the most affordable tenure and typically half the price of a private market rent. We had no funding for regeneration. That is now coming back.

There was a huge change in terms of how housing associations were funded. In 2010, around half of the funding for new development came from grant. As you have just heard from Fiona and Holly, that is drastically reduced now. The model moved to one where we would borrow. We would and do borrow against our future income streams from rent. As part of that, it is really important that we have confidence in what those rents are going to be, and Government set our social rent formula.

In 2015, we had a 10-year rent agreement of CPI plus one. That was very quickly overturned to a four-year rent reduction from 2016. We also had a cap in rents that came through during that period of very high inflation. That means that our income from rents is 15% lower in real terms than it would have been in 2015. It has taken a huge amount of capacity out of the system. Our model has worked in terms of borrowing and our regulation is very important in terms of lender confidence. We have a no-loss-from-default record, but we are now exposed to higher inflation and interest rates.

Against this backdrop, there has been a necessary shift towards our existing stock to make our homes safe, green and fit for the future. When we look at overall housing association spend on repairs and maintenance, it hit a record high last year. It was £8.8 billion. That is a 13% increase. Over the next five years, our members expect to spend around £50 billion on repairs, maintenance and investment.

It is really important that we have this investment in our existing homes. Without capital grant for that investment in our existing homes, it has to be paid for from rent. Much of this investment, particularly on building safety and decarbonisation, could not have been planned for at the time that the homes were built, so it is not appropriate to load all that on rents. It just cannot cover it.

We think that there is a really strong case. We are very committed to new supply, but there is a really strong case for thinking more comprehensively around longer-term investment in our existing homes through a social housing investment fund. Part of the way we would like to see that come forward is fair and equal access to building safety funding, because 90% of the funding that is available through the building safety fund and the cladding safety scheme at the moment has gone to private building owners. The 10% that has gone to social landlords is only where it is above 18 metres and has ACM on the building, or where there are leaseholders in the building. We do not think that it is a fair situation that social tenants' rents are having to pay for a failure of construction and a failure of the building safety regime. Equal access to building safety funding would massively help.

We also have the warm homes fund. As part of that there was an announcement of the warm homes social housing fund just before Christmas. That is £1.29 billion. That is hugely welcome, but if we could think about the warm homes funding alongside equal access to building safety funding, as well as some new funding for decency, that would release a huge amount of capacity in order for us to be able to build not just at current levels, but to increase our build-out rates.

Q4 **Chair:** That is good and a good overview, but I think about some of the correspondence we all receive, as Members of Parliament, from constituents with regards to repairs and maintenance. You are saying that a big bulk of your members' funding is going towards that. I think it would paint a different picture when we speak to constituents who have been waiting for some of those long-term repairs and maintenance. You hear examples of where people have waited for call-outs and that does not happen. They sometimes question why housing associations are saying they need more money when they feel that some of them do not spend their money adequately. Would you think that that is a fair assessment?

Kate Henderson: There are absolutely examples where residents are not getting things done in a way that we would want them to have it done, in terms of timeliness of repairs and the ability to fix the problem first time. That is a complex picture. There is an issue here around access to trades. There is an issue here around the prioritisation of resource. There is also a really significant issue here, though, of overcrowding, the age of our housing stock and the lack of investment in regeneration.

That is not to excuse where things have gone wrong and absolutely we are working very hard on quality and investment. As I said, there is a huge increase going into repairs and maintenance right now—£8.8 billion last year—and a huge amount of work on that. Over the last couple of years, the National Housing Federation, together with the Chartered Institute of Housing, commissioned an independent review called the Better Social Housing Review. We have been working on that with members right across the country, around making sure we have really good data on our homes, not just on the quality of our homes and stock condition, but also on who lives there and the pressures that they are facing on improving repairs and maintenance where it is needed.

The bigger issue here is around having enough money to properly ensure that our homes are fit for purpose. There are huge pressures on organisations in terms of the stretch. Particularly in situations where there are big building safety costs, there is just not enough money in the system.

Q5 **Chair:** Martyn, what would you say is the biggest current financial pressure facing North Devon Homes?

Martyn Gimber: It is certainly the inflationary impact of maintenance costs: 40% of our turnover is on maintenance. If you include that with capital expenditure, it rises to 50% of turnover, so a huge amount of money has been invested into our stock. The price volatility on the inflationary impact on those costs can be quite impactful, so trying to manage that and maintain those costs within our projected repairs programmes is quite challenging. We benefit from things such as the warm homes programme and other capital grants, so there are opportunities for us to offset some of those costs, but certainly cost pressures are a real issue for us at the moment in the housing sector, with a lack of skills and materials and costs coming through the supply chain.

Q6 **Chair:** Is there a dedicated programme that you have in terms of new homes being built, or are you seeing the same pressures maintaining existing stock?

Martyn Gimber: We are maintaining a modest programme at the moment, which is about 15% of our turnover, so not a huge amount of money. Like a lot of other housing associations, we have really turned down our development spending at the moment while we address the maintenance issues and the stock issues that we have just talked about. You have to say that a lot of the stock that we are managing is post-war stuff that was built in the 1950s and 1960s, so it is becoming 50 or 60 years old now. Trying to ensure that that meets decent homes and warm and efficient energy efficiency targets requires significant investment.

This is quite impactful on residents as well, so trying to get the balance right, in terms of investment in homes and not disturbing customers' lives and trying to work around them, is also a real challenge for us at the moment as we try to set about that. We try to maintain around 15% of turnover at the moment. We would like to do more, but it is very much reliant on the housing market. The housing market is very stagnant at the moment, so that means that we are not able to cross-subsidise as much to fund new development. We are in that downward cyclical part of the economy at the moment, so I hope that that will change.

Q7 **Lewis Cocking:** I have one quick follow-up question, if I may, to the housing associations. How much do you all have in reserves? Please do not tell me that you do not know. You have come here to talk about finances today. You are saying that you need more money. How much do you all have in reserves?

Fiona Fletcher-Smith: I will start with L&Q. We finished last year with a surplus of £120 million. It is not cash, so it is not available to spend. Because I have to borrow and have a loan book of about £5 billion, I am required to keep a certain amount of money available to pay the interest bill, and that is what that money is. We do not tend to carry reserves. We tend to do a series of contingency planning and stress testing to understand what the likely risks that are going to hit us are and make sure that we have sufficient money to carry to be able to cover those, but it is not that we sit on a surplus.

Holly Dagnall: I would agree with that exactly. Our turnover at NCHA is just over £100 million. Last year our surplus was about £9 million and that is reinvested, largely into the development programme. We are a V1 organisation with the Regulator of Social Housing and we are required to meet loan covenants and other golden rules that our board set for us to make sure that we have a good position to borrow money from in the future. We are not sitting on reserves. It is all reinvested. Certainly for NCHA housing decisions, we are really committed to trying to deliver new homes. We want to end the housing crisis. That is our purpose.

Martyn Gimber: We are a V2 organisation, so it means that we are slightly more highly geared than my colleagues here. We have much higher borrowing than some other registered social landlords. We have very little reserve. It is only about £6 million for us, so it is quite low levels.

Q8 **Mr Dillon:** I wanted to come back to Fiona. You had the surplus; did you say £123 million or £121 million?

Fiona Fletcher-Smith: It was £120 million last year.

Q9 **Mr Dillon:** After you have paid your loan charges back, what is your surplus after that? You have said that that is there to pay, but a surplus is after you have paid all your costs.

Fiona Fletcher-Smith: We have to maintain a level of surplus that covers the interest bill. We were required to pay 150% of our interest bill on a £5 billion loan book.

Q10 **Joe Powell:** This is a follow-up on building safety. In the Budget, the Chancellor said that there would be new investment to speed up remediation of social housing. In the remediation action plan, they said that there would be a strategy for social housing published in the spring. Kate, I want to understand specifically what you are looking for in that strategy that would help ease that financial pressure, because obviously we all want remediation to speed up. Seven and a half years post Grenfell, the pace of remediation has been far too slow. What are you looking for specifically?

Kate Henderson: Thank you for the question. Just to reiterate, the safety of residents is the absolute top priority and must be. To clarify, the previous Government took the decision that meant that social landlords could not access the building safety fund and the cladding safety scheme in the same way as private building owners. Private building owners have received 90% of the Government funding available for remedial works to buildings of 11-metres-plus. There is almost no public funding available for works to flats where social tenants live. Our position on this is that it is immoral and unfair and that diverting social tenants' rents away from investment in repairs, maintenance and new supply is wrong.

We are working very constructively with the new Government on the acceleration plan. We would like to see equal access to the building safety fund and the cladding safety scheme come forward, so that we are on a level playing field with private building owners. The National Audit Office estimates that the cost of remediating cladding to social landlords is around £3.8 billion. We would estimate that, to remediate all defects, we are looking at a cost of around £6 billion.

This issue goes to the heart of the Government being able to deliver their 1.5 million homes target. Also, many of those organisations that are severely impacted by the building safety crisis are in areas of acute housing need, particularly London and the south-east. Our top priority is fair and equal access to the building safety fund and cladding safety scheme.

Q11 **Joe Powell:** Could I ask your colleagues what that would mean in terms of releasing capital for new homes?

Fiona Fletcher-Smith: For L&Q, it will be just short of £500 million, so about £460 million. In addition to the equity point about allowing us to have a building safety fund for social housing, there is other help that the Government can give. We are talking to the new Fire Minister about this. I will give you an example. There is a south London borough where, in 2019, we had to empty a block. We had to move everybody out of a block of 70 flats. That was 2019. There was no mitigation we could put in place, no waking watch and nothing we could do to make that block safe. The only choice was to take people's homes away from them and move them and all the disruption that that meant. That was 2019.

We started negotiating with the original builder of the building. We have tried and tried, and failed. We have so far spent roughly £1 million on legal fees. It has now got to the stage that arbitration is failing, so the court date I am being offered is 2026. That is an empty building in south London, where the housing need is exceptional, but standing empty because I am required to go through the waterfall method of going after the original builder.

One player in this mix is the insurance industry. Even where the developer would like to settle with us, his insurers are preventing him from doing that. There is a real role for the Government to play in intervening and helping us make that happen faster, because I can tell you that the leader of that particular London borough is desperate for those homes.

The second thing that the Government could do, in addition to the building safety fund, is around skills. In that particular case, each of the subcontractors involved and the main contractor have to have their own fire engineer, so there are at least eight fire engineers. Then I have to have a fire engineer. That is nine. Then you have to have an independent, which is 10 fire engineers. We simply do not have them. There is a lot of work that the Government can do in a mission-based Government approach of working across Government Department boundaries to really put some oomph into upping the skills that we have in the country. The point is that it is not just money.

Q12 **Joe Powell:** Just quickly, another new policy that you will be required to implement is Awaab's law: 14 days for an investigation and seven days if there is a significant concern. Have you made an assessment of the cost of implementing that?

Kate Henderson: Fiona, if you could come in on the cost aspect of it for your organisation that would be great. On Awaab's law, it is really important that we all support the principle of quickly addressing issues of damp and mould in people's homes and that they are dealt with swiftly and effectively. We really want to ensure that the proposals that come forward are focused, clear and deliverable for housing associations, so that we get the best outcomes for residents.

We would really welcome the opportunity to talk further with the Committee specifically on this, around what was proposed in the consultation of March last year, which had a far broader scope than the original proposals. The expanded scope, particularly including things that are not within the gift of the social landlords, for example overcrowding, would mean that it would be incredibly difficult to deliver as consulted on. We want to ensure that what is proposed and actually comes forward and delivers, for social landlords, is really focused on damp and mould, particularly in the initial phase of it being rolled out. We would be really happy to provide more information on that. To reiterate, we absolutely support the principle, but it needs to be workable. In terms of costs, I do not know, Fiona, whether you have estimates.

Fiona Fletcher-Smith: We are trying to cost it up at the moment. We have calculated that about 64% of our day-to-day repairs would be covered by Awaab's law. With everything included in Awaab's law, we have to do it anyway. We have to fix these repairs. The question for us is around the timescales and how quickly we can do it. To do something faster will add a premium. We calculate on a £400 million day-to-day repair budget. It will cost us maybe £20 million extra.

The problem, again—I think I will repeat this a lot today—is that it is not just about money. In London, if I give you an example of roofing, the London Homes Coalition that I chair is looking at our supply chain and the work that we need to do. We only have 85% of the roofers that London and the south-east need. Every time it rains, my inbox is full of residents who have water pouring through their roofs and I simply cannot get the people to help.

We are solving our own problem, in the sense that we will increase the number of apprenticeships we take this year. We are creating 70 new apprenticeships at L&Q alone, but we, again, need help from Government too. The FE sector needs support, money and energy. The Home Office has already loosened the rules on roofers coming into the country, for example. That is really helpful. All this needs to come together. It is not just about money anymore.

Q13 **Chair:** To follow up on that, Fiona, you are saying that 64% of the funding is on that. You are saying that you already have to do this. Would you not say that, if housing associations already had to do this, we would not see some of the influx that we see in our inboxes? Essentially, it is not being done and that is why we had to bring this legislation.

Fiona Fletcher-Smith: The issue is one of timescales. There are absolutely cases where we fail. I know at L&Q we have failed and let people down, but the case is made more difficult in terms of timescales.

I will give you another example. I was working with another south London MP last week on a case where we have had a roof leak, which is causing damp. We had to sack three roofing companies and have a final roofing company that did the repair. It has taken us a year to get through that because the people are simply not there to do it. We have offered whatever support, compensation and alternative accommodation for that resident, but that is not ideal. We really need help with the people. It is not just about the money. Our priorities have shifted from development to repairs and maintenance and investing in the existing stock, but we need support in getting the right people to be able to do that.

Martyn Gimber: Certainly we all support the principles wholeheartedly. On the costings, we need a bit more work and to talk to Government around the principles and all the rest of it to actually get that right. There is one thing, though, linked to the regeneration and building safety question, which is around the change in demographics for a lot of the housing these days. We are seeing many more families coming together than we did in previous years, so we are seeing far more incidences of overcrowding and maybe two or three families living together, when previously that would not happen, with the changes in family make-ups these days.

Without the new supply element, the regeneration or the access to repair some of the existing stock, this is having a real negative impact on our existing stock. This is what is causing this huge problem of building safety, damp, mould and all the rest of it that is going with that. We are trying, as housing associations, to stem that issue but the real issue around that is about supply, regeneration and access to funding.

Q14 **Chair:** I will challenge you on that to say that we are seeing more families moving in together because they cannot afford to buy. They cannot afford to live in the private rented sector because we are not building those affordable homes that people could normally move into. Where we have a situation where more families are living together and we see that overcrowding, is it a case of looking at the condition of the properties in terms of long-term condition, the build of the properties, or is it generally issues around overcrowding? I think that there are two things that we definitely need to look at on that point. Would you agree?

Martyn Gimber: I would agree, yes. It is two issues, yes.

Q15 **Chair:** I am mindful of time. This is a final question from me in terms of rent settlement. All of you have touched on it at one point. The Government have announced that they are proposing to look at another five-year rent settlement from March. I think that that consultation has just finished. What impact do you think the changes to rent settlement would have for all of you, in terms of helping to fund and invest in new stock?

Holly Dagnall: We welcome the consultation on the rent settlement at CPI plus 1%. That will help support unlocking capacity to build more homes, definitely. There is nervousness around that being a final position. We have had experiences where rent settlements have been rowed back on. That is hugely problematic so the sector would really appreciate confidence on a 10-year rent settlement—we certainly support that from NCHA's perspective—and having that in statute, so we can business plan on that basis with confidence and know that it is not going to change.

This year, the September CPI being lower, plus 1%, has taken money out of our business planning for this year. We will still have to manage those kinds of fluctuations where inflation is higher across the whole year than perhaps it was in September, where our rent settlement is pegged to. Anything the Government can do to support confidence in the sector for that would be welcomed, so we really support that.

Q16 **Chair:** Would a 10-year versus five-year be better in terms of some of the work you are planning in north Devon?

Martyn Gimber: Absolutely, our longer-term business plans are over 30 years. It takes me eight and a half years from the time I look at a site this week to when that site will actually be ready for a customer. Stuff I look at this week will not be ready until 2033 under the current framework, planning and everything else.

We have to think very differently about that. Trying to time the finance and the strategic finance to enable those schemes to come forward eight years hence is one of our biggest challenges. If we can get some long-term support, plans and strategy, that will enable us to unlock the reserves and the resources that we have to deliver more homes.

Q17 **Chris Curtis:** Assuming you have a fixed budget—this is quite an out-there question—is it possible to put a figure on what percentage extra homes you would be able to get built, or take on, if you had that 10 years rather than five years? Is it possible to come up with an estimate of what kind of difference that would make?

Martyn Gimber: We are quite a small organisation compared to some of these other guys. That for us would be a 100% difference in numbers. If we were doing 100 units, we could do 200 units.

Q18 **Chris Curtis:** If there was that 10-year settlement rather than a five-year settlement, you think you would be able to double the number of homes you take on.

Martyn Gimber: It would help us to, yes, in the longer term.

Holly Dagnall: On that, grant rates are really important as well. The rent settlement is really important but, for us in the east midlands, if grant rates were upped we think we could we could significantly increase our programme. If we had grant rates of over £100,000 to be matched by our borrowing, that would enable us to really unlock. We have opportunities to develop. There are opportunities for us to up our programme. We could do more.

Q19 **Mr Dillon:** This is similar to Chris's. You must have to make an assumption on what you think rents are going to be after that five-year period. What are your assumptions at the moment? Are you matching the five-year offer, or are you taking a reduction in that in case it drops in years five to 10?

Martyn Gimber: We are matching that longer term, but also then stress testing against the likelihood of it reducing as well. We are taking a mixed approach to that, so we are ready. The strategy will be ready for either option. It is about a 10-year settlement, but it is about rent convergence, which is important, about bringing rents up to a much more fair settlement across the country. We have lots of rents that are very out of step across different areas that need to be addressed. That would help enormously.

Fiona Fletcher-Smith: This is just a very quick point to repeat what Martyn said. If we had rent convergence as well as a 10-year settlement, for London that would be worth £221 million. We think that we can do it in a way that is affordable for residents as well, which is very important.

Kate Henderson: It is really welcome that the Government have consulted on rents at the first possible fiscal moment. This is about rebuilding the capacity of the social housing sector. The fact that it is CPI plus one is very welcome, and the fact that the consultation started with five years. You have heard from my colleagues that 10 years would be better. That is about giving the confidence to our lenders, boards and residents about the future direction of our organisations.

In addition to that, convergence, which is something that the previous Labour Government did, had a massive impact and would significantly help deliver on our development ambitions. Convergence is a way of bringing up rents to the rent formula for all residents. It would be done in a graduated, affordable way, working with tenants very transparently. Convergence would have the biggest impact in London, where 23% of rents have never caught up with rent formula. You can match that to where there is huge pressure and overcrowding.

In terms of linking that back to supply, our modelling shows that convergence would unlock at least an additional 92,000 homes over the next decade, compared to current projections, by raising an additional £3.5 billion for housing associations by 2035. It is very significant and, if the Committee were minded, it would be great to have that as a response into Government following the consultation.

Chair: We will move on to developer contributions with Naushabah, being mindful, sorry—and our guests as well—of shorter, snappier responses.

Q20 **Naushabah Khan:** I will try to keep it short as well. In terms of developer contributions, how well do you think agreements such as section 106 work for delivering social and affordable housing? How could we improve that in order to enable you?

Kate Henderson: Section 106 is incredibly important to new supply. Section 106 planning obligations delivered 48% of all new affordable homes in the last financial year. This figure represents 12% of all supply, so section 106 is really important. It is really important for our members, but really important for communities and the ability to deliver mixed communities across the country. There are real challenges with the ability for our members to be able to continue to deliver section 106 at the same levels because of the financial capacity of the sector, so the interest cover and the cost of investment in existing homes, particularly on quality and safety, impacting on that.

Having said that, there are some other issues with section 106s. I will very quickly run through four of them. First is the quality of the deal. Housing associations exist to support and deliver for current residents and future residents. House builders exist to return profit to shareholders. They have different drivers, so the deal needs to be right for us to want to access it. The deal also needs to be balanced. There is an increased risk being placed on housing associations in terms of up-front buying, rather than a, "Pay deposit now. Pay the remainder on completion".

The second is the quality of the home, and this is particularly around gas boilers. While the future homes standard is not yet in force, it is the direction of travel. It is really important that housing associations do not take on homes that we are going to have to retrofit and pay for the cost of the retrofit to replace gas boilers with heat pumps or solar PV.

The third is around the quality of the build. There are still reports from our members of poor-quality finishing in some cases around construction with section 106.

Last but not least is arrangements with managing agents. It is really important that, if a housing association is going into a section 106, we are able to deliver transparently for tenants. Some of the issues you will receive in your postbag around service charges are because of managing arrangement agreements, where we, as a housing association, have no ability to influence those costs. I should say on service charges that they should never be about profit. They should always be transparent. They should be about getting properties to work well for tenants. That is what we are committed to doing.

In terms of improving it, it is really great that the Government have scrapped the infrastructure levy that was going to come forward. In terms of improving section 106, I have three quick suggestions. The first is around improving the capacity of local authorities, so making sure that there are ring-fenced planning fees and specific support between national Government and local government for this particular issue.

The second is around clearer recommendations on viability guidance and transparency, so there are level baselines when you are going into a section 106. The council might be, through supplementary planning guidance on viability, setting out what the minimum we should expect on affordable housing through a section 106 is.

The third is training for councillors on what a section 106 is and is not and what should be included with that, so that they come to it ready to get the best deal.

Q21 **Lewis Cocking:** How many homes that are perfectly up to normal standards and environmental standards of today do you estimate are being turned down by housing associations because you do not want to retrofit them later? I do not know many homes that are not still built with a gas boiler. Does that mean that housing associations go, "I do not want those 40 homes because they have gas boilers, so my waiting list people can wait on there longer. These homes can sit empty. No thanks"? There must be thousands across the country, surely.

Kate Henderson: I do not have the detail of what that figure is. I know that we have been doing a lot of work with our members, Homes England, MHCLG and private developers on this. I can go away and see whether we can find out that figure for you and return to the Committee, but I do not have it to hand.

Q22 **Mr Dillon:** I have one quick follow-up. Have any of your members used the clearing service yet that the Government launched in December for 106 properties?

Kate Henderson: I know that we are engaging constructively with the clearing service. I do not know the outcomes of that yet. It is fairly early stages.

Q23 **Maya Ellis:** Moving beyond developer contributions, I am interested in wider business models that you have looked at potentially to generate funding. What kinds of innovative measures, if any, have your organisations used to generate those extra funds needed to build new social and affordable housing stock? Can I start with Martyn, because I know that you have a subsidiary?

Martyn Gimber: We have embraced local development, so working with joint ventures with for-profit providers. We have a subsidiary that enables us to work hand-in-hand with the local authority in local areas. We try to concentrate on brownfield areas for redevelopment in certain areas and build capacity with local developers, so generally smaller developers. We take them with us on the journey to actually deliver a scheme. We agree profit and everything else up front. We take any profit made from that scheme and reinvest that back into more development or into the business for the benefit of residents.

There is a for-profit model, but it sits within the group structure of an organisation. However, that is very much dependent on where the housing market is and how good the housing market is in particular areas. For us in north Devon, we have places where we have some very high-value areas. For us in north Devon as well, the average wage to house price is 15 times. It is one of the biggest ratio differences. We try to use the housing market that we have locally to unlock opportunities and investment to reinvest that back into affordable homes.

That has been partially successful, but there is a downward housing market. Our gift aid receipts have really run down over the last couple of years. Also, the profits that we are able to bring in back into the business have reduced from when they were about 15% to 20% per unit and are now about 6% to 10%, which is what you are seeing across other developers. That is where the housing market is because of increased costs that we are seeing.

Q24 **Maya Ellis:** Are there any other examples from the other organisations of approaches you have taken?

Fiona Fletcher-Smith: We run 15 joint ventures, so we are sharing that with lots of people. The other thing that we are doing in London that is quite innovative is that we are building for local authorities, which we think is really important. A lot of local authorities have the desire to build council housing, but, over the years, their development teams have been run down, so we are doing that.

The other thing I would say—I do not know if it is innovative—is about the shift in emphasis for housing associations, about getting back to basics, which is being a good landlord and building new homes. In the case of L&Q, we have sold our strategic land company in the midlands recently. You will see in the press that we are selling our commercial rented portfolio, our private rented company, so that we can raise capacity, because we really want to solve the problem. It is one in 21 children now in London who are sleeping in temporary accommodation, so we are not sitting on our hands expecting Government handouts.

Kate Henderson: You have heard some really good examples of innovation here. The challenge is that housing associations, social landlords, were traditionally counter-cyclical but, by doing cross-subsidy and innovating in that space, we have become more pro-cyclical. That has probably reached its peak, particularly in current market conditions.

I have a point to raise, because it can be quite tempting to reach for thinking there is an easy solution or a wall of private investment that is going to come in, solve the housing crisis and fix this. Our view very much is that housing associations have been and are able to raise private debt alongside public finance to fund social housing and house building. We have £130 billion of debt facilities in place at the moment and that is a good example of harnessing public and private investment.

I would like to emphasise to the Committee that we do not think that a for-profit provider is the answer to the social housing crisis. Social housing is a public good. It is really important that social housing sits with either a public landlord or a not-for-profit landlord for the benefit of current and future tenants, rather than is a driver to increase returns to a shareholder.

It is really important, because there is quite a lot of talk at the moment around privatisation, that we learn the lessons of previous privatisation, much of which has led to lower investment and worse services in the long run. For example, we could look at the privatisation of military housing, which has just been reversed. We could look at the US and Spain, or other examples out of sector, such as the water companies, which have been able to outmanoeuvre their regulator and generate significant sums for shareholders, but by doing little to generate additional investment into services.

There is some talk right now around wholesale privatisation of housing association homes. We would strongly oppose that. Those homes have substantial investment needs in things such as safety, quality and energy efficiency. We do not see how you would be able to extract the profit there from what is a social rent. We are very much committed to innovating and delivering on the housing crisis, but we do not think that privatisation is part of the solution to this.

Q25 **Lewis Cocking:** The private sector costs X to build exactly the same home as you and you cost Y. I am assuming that it costs you guys more to build exactly the same as the private sector. How much more and why?

Holly Dagnall: I am not sure that it costs us more.

Fiona Fletcher-Smith: We have a construction company within L&Q and it does not cost us more. We do a lot of benchmarking to make sure that we keep those costs. What is different is that we do not have a profit margin that we need to achieve. We have what we describe as a hurdle rate, where we try to make an internal profit, but all of that money is reinvested into the housing association. We generally build at the same price. I will build maybe 3,000 homes a year, where Barratt will build 10,000, so in terms of the supply chain it is able to drive a little bit more out of that.

Q26 **Lewis Cocking:** Why are you sitting here saying, “We need more grants. We need more grants”? Where does that fit in?

Fiona Fletcher-Smith: Generally, the sector is very well funded, but our priorities at the moment are to invest in existing homes. In the past, we would be able to invest in existing homes and use spare money to go into new build. Because of the cost of capital and the inflationary impacts over the last couple of years, we have less money to be able to cross-subsidise new building. If the Government want us to be part of the 1.5 million new homes, and we desperately want to be part of that, something else is going to have to come in to enable us to cross-subsidy. Two of the things we are asking for are around the rents, so the rent settlement and the rent convergence, and access to things such as the building safety fund for social rented homes, so that we can take that money that we are spending in that area and put it into new build.

Martyn Gimber: These are some numbers that I hope may help. It costs us exactly the same. We work with private developers in our local housing market. It is about £200,000 for a standard unit. We are only taking £120 a week social rent for that unit. If you aggregate that up over the life of the property, it is £100,000 subsidy in terms of rent and income netted off. That means that you need £100,000 worth of grant, basically, to make that stack up on a social rent model. That is exclusive of any land costs that then get added on top of that. Where we can build on our own land or work with local authorities or other partners, we can unlock stuff, but it is a £200,000 bill. We will only ever get £100,000 back because of the rent.

What we are saying about grant is that our existing customers should not be subsidising new homes. It needs to come from Government support and that is the difference. The difference between the costs in the last five years has gone from about £150,000 a unit to £200,000 because of the price, supply chain, inflation and everything else.

Q27 **Maya Ellis:** To close out the for-profit point, I am interested whether there is anything that any of you think you want to see more from the regulators to ensure that, where there is that for-profit involvement, we are keeping an eye on that.

Martyn Gimber: I do not think so. For us it is balance of the risk. The regulator does a good job. It is a volatile housing market. You are on the downwards cyclical things at the minute. The regulator is very in our face to make sure that we do not put any social housing assets at risk. The deals that we put together reflect that, but we are always trying to work on a long-term strategy, so eight and a half years, as I said. We are trying to look at deals eight years hence. That is the issue. That is usually the problem that we have. The regulator gives us enough latitude, but not too much in a risky market.

Q28 **Mr Dillon:** I wanted to ask a couple of questions about Government strategy for social and affordable housing. I will ask a closed question to you, Kate, and then a more generic one. Kate, in your view, how aligned is the affordable homes programme with the needs of the social housing sector in particular? How could grant funding be improved, obviously recognising what Fiona has said already?

Kate Henderson: Our current affordable homes programme is running into its final year. We had a welcome top-up to that programme announced in the Budget of £500 million. We now really need to see a new programme coming forward that is ambitious and meets the scale of the challenge.

In order to rebuild the capacity of housing associations, this is not one thing; it is a number of different levers, and we have talked about many of them today. It is having a long-term rent settlement at CPI plus 1 with convergence for 10 years. It is having a new affordable homes programme. It is having that investment in our existing homes covering safety, decency and sustainability. Also, it is around a longer-term revenue settlement for housing-related support for the supported housing.

In terms of a new affordable homes programme, this is something that is being developed right now. We are expecting it to come forward with the spending review. We have been really encouraged to hear the Deputy Prime Minister commit to a long-term housing strategy. We would like to see a bold, ambitious housing strategy that really is long-term, so actually enables us not just to plan for the next couple of years but think about 10, 20 or 30 years. If we want to have system change and solve the housing crisis, it is going to take time, so it needs to be truly long term. We would like a housing strategy that is focused on new supply but also our existing homes and communities, so actually thinking about it in the rounds, and the interactions between those investments in quality and place as well as new supply.

Thirdly, we would like a strategy to be outcomes based. This links to a new affordable homes programme. Starting with the problem we are trying to solve, we have 160,000 children living in temporary accommodation. It is an absolute scandal. It would be great, for example, if an outcome of a housing strategy is that no child is homeless in 10 years. When you look at the programme, you have a new affordable homes programme that is geared towards placemaking, economic growth, addressing affordability and homelessness. We would like to have a very strong focus on social rent in there, as part of that, but also on regeneration, placemaking and the mix, so including things like shared ownership as well.

Q29 **Mr Dillon:** You have almost answered my second question, which I have not asked yet. That was whether you can make one recommendation to Government, and you have made multiple there. Bringing us back to the affordable homes programme in particular, it is about new builds rather than existing stock. Within the affordable homes programme itself, what specific changes would you like to see the Government make, rather than being bold, forward-thinking and all-inclusive?

Kate Henderson: To start increasing the supply of social and affordable housing, I am going to go for two. We would like a bigger affordable homes programme to meet the scale of need, but also higher grant rates.

Chair: Thank you very much for coming before the Committee this morning. There was a range of different questions and those cost pressures that all of you are facing. Essentially, it is how we continue with that ambition to help the Government in terms of their strategy to build 1.5 million new homes. Thank you very much.

Examination of witnesses

Witnesses: Fiona MacGregor, Neil Jefferson and Chris Buckle.

Q30 **Chair:** Welcome to our second panel on our Committee inquiry on housing associations. Can I ask our guests to introduce themselves, please, for the Committee?

Neil Jefferson: I am Neil Jefferson. I am chief executive of the Home Builders Federation.

Fiona MacGregor: I am Fiona MacGregor. I am chief executive of the Regulator of Social Housing.

Chris Buckle: I am Chris Buckle. I am a director in Savills residential research team.

Chair: Thank you for appearing before the Committee this morning. We have a range of different questions on looking at housing associations and some of the impact it has on the regulators.

Q31 **Maya Ellis:** My question is aimed at Fiona mainly. Our predecessor Committee found that there were a number of challenges to the economic regulation of the sector, including an increasing reliance on borrowing and large-scale mergers. Do you find that these are still challenges and, if so, what are you doing to address them?

Fiona MacGregor: As we have heard in the previous session, and you will also see in many of our publications some of the numbers have already been quoted, the sector is increasingly reliant on borrowing at the moment, for the reasons that have been well rehearsed previously. They are investing record amounts of money currently in existing homes and having to borrow to support that or use previous years' surpluses. Yes, the impact of that means that there is less capacity to borrow to build new homes. We are seeing some changes in the numbers in the forecast. I can go through them later if that is helpful.

Capacity has changed as have borrowing costs, because interest rates have gone up. Borrowing costs have gone up as well. Although a lot of the sector's debt is fixed, we saw last year I think it was a 12% increase in the cost of borrowing year on year. It is increasing, for the reasons that have just been set out.

In terms of mergers, merger activity happens for a number of reasons. There has been probably a bit of a change over the years about the size of providers that are looking to merge and the reasons that they are looking to merge. Providers will consider merging either to build their resilience in the current circumstances or actually to build capacity and try to match capacity to be able to increase their contribution to the new supply.

From time to time, a merger will occur, and we have seen a couple happen recently, where a provider is in some financial difficulties and facing some real pressures. They cannot manage their way out of those on their own. They have to look for a merger partner, a stronger partner, to support that. We have seen a couple of those happen recently—

Octavia, for example, with Abri. From time to time a merger will be for those reasons as well.

Q32 **Maya Ellis:** Can you tell me what elements of the financial viability assessments housing associations struggle with the most?

Fiona MacGregor: Is that in terms of meeting our requirements?

Maya Ellis: Yes.

Fiona MacGregor: There is a real balance for providers, for housing associations, in how they use their money. We have heard some of that in the last session. They are constantly trying to trade off choices between their two essential agendas, one of which is investing in their existing homes to make sure that they are of good quality, that, really importantly, they are safe and that they are meeting current requirements. They are doing what they can to minimise the call on day-to-day repairs and maintenance that affects tenants that we have heard about. That is a really fundamental requirement on providers. For reasons of changes in standards, the cost of that has been going up recently again, as we have just heard.

They are constantly trying to trade that off against their other priority, which I think certainly most of the larger associations really subscribe to. That is also wanting to increase the supply of new homes because of the demands that there are in the country, the use of temporary accommodation and all of the pressures that tenants face. That is the trade-off that they are constantly trying to make and keeping that in balance.

From our perspective, we will judge how they have been making that trade-off in our viability judgments. We will grade providers V1 to V4. We now have around two-thirds of providers at V2. It used to be about a third. It is now about two-thirds. We consider that we are perfectly comfortable with V2, provided that it is well managed and that the financial governance of the organisation means that the board and the executive understand the risks that they are taking on and that they can manage them. V2 says that they are trying to use their capacity to meet those two sets of priorities and maximise their contribution on both. We are content with V2. V3 and V4 is a different question. That is a different matter.

Q33 **Sarah Smith:** Building on that, what support do you provide for these housing associations when they are struggling with their finances? We may be talking about those V3 or V4 categories. What are the consequences if a provider is receiving that failing viability grade?

Fiona MacGregor: We do a huge amount of monitoring work across the whole of the sector in terms of housing association viability. The grades that we are in the middle of publishing at the moment are as a consequence of what we call an annual stability check. Once a year, we will check the finances and revised updated business plans and either confirm or change that that viability grading. We also get quarterly returns, where we are looking really closely at liquidity and making sure that providers have sufficient liquidity in the short to medium term to meet their obligations and liabilities.

What that does, and what we are always aiming to do, is get that forward sight of where problems might be starting to arise, so that we can work with providers from an early stage. You are looking for providers that can take action and control themselves to sort their problems out. For the most part, that is what happens. That is the vast majority.

If you get a provider that is veering into the V2/V3 territory, that very active monitoring from us will be increased significantly, so monthly, weekly cash flows and monitoring the effectiveness of the actions that they are taking. If a provider gets into V3 territory, occasionally they can find a way to trade out on their own and resolve that, but very often that means that they will have to find a stronger, more financially viable partner to support them and assist. We will be right in there alongside them while that gets worked through.

As was said in the previous session, that has been successful to date. We have a no-loss-on-default record where borrowing is secured against social housing homes or assets. It is a successful model of trying to spot problems very early and give us time with the provider to work those through. In some cases that might mean a rescue.

Q34 **Sarah Smith:** You have alluded to the fact that you are seeing a change in the number of housing associations that are receiving poorer viability grades over recent years. In which areas are they most struggling within the assessment?

Fiona MacGregor: Again as we have heard in the previous session, there have been a number of pressures that have kind of layered on, if you like, in terms of provider finances, which have led them to have to make some difficult choices and trade-offs around prioritising existing stock, currently, in some cases, over new supply.

The things that have been driving that are, in some cases, building safety works—those costs have been quite high, and continue to be for the foreseeable future—anticipating and making sure they are meeting any future decent home standards, working towards net zero and getting to EPCC. There have been a range of changes in standards. As well as some of the well-publicised examples that have rightly meant an increased focus on quality of homes generally around damp, mould and longer-term planned maintenance, there have been others where, rightly and over the longer term, standards have changed, whether it is fire safety standards, building safety standards or getting to net zero.

All of those things are essentially non-negotiable costs for providers. That has put real pressure on their finances, because what they do, unlike new build, is they take investment but they do not generate any additional rental income. That is why you are either servicing it with borrowing, but you do not have any extra rental income coming in to support that borrowing, or using any reserves that you have.

Q35 **Sarah Smith:** You say it is non-negotiable, but it would appear evident, from some of the worst examples that unfortunately have reached the press, that some of the housing standards under some housing associations may be worse than under others. To what extent within the regulator is financial viability held as the most important element to oversee, versus the importance of making sure that we tackle all of these damp issues and we make sure that all providers are bringing those homes up to standard at pace as quickly as possible? What penalties do you have available for tackling the latter part of that, even if the financial viability tests are coming in at V1, for example?

Fiona MacGregor: Just to be very clear, if a provider was at V1 but at the same time not investing in its stock and keeping it to a good standard we would be right in there. That would be reflected in their governance grading and in the new consumer gradings, which I will come back to in a second.

We obviously focus on viability of a provider, because, if they are not financially viable, they cannot do any of the other things, so it is a means to an end. It is really important from that perspective. However, their viability is there to serve tenants in terms of quality of services, but quality of homes and safety of those homes.

I am sure you will be aware that what has changed since 1 April 2024 is that we have introduced new consumer standards following the Social Housing (Regulation) Act. In the new consumer standards, we were much more explicit about things like understanding your stock, knowing that you have been in and done a stock condition survey of all of your homes, that that is reflected in your business plans and you are bringing all of your homes up to scratch.

The really fundamental thing that has changed since 1 April 2024 is that we no longer regulate consumers on a responsive, reactive basis; it is proactive. We can go in and test that, and we are doing so. We are seeing some good results of providers in the round starting to really focus on the quality of their stock and bringing it up. Where we find it, either through complaints or through our programme of inspections, we will call it out when we see it and reflect that in our consumer judgments. They are pretty effective in galvanising providers who are not taking action—it is rare—into taking action.

Q36 **Mr Forster:** The biggest issue I get in my postbag as the MP for Woking is, unsurprisingly, housing and the lack of housing. Are there specific difficulties in building more affordable and social housing compared to other types of tenure? If so, what are they?

Chris Buckle: Building affordable housing requires a subsidy, so that is the first point. That either comes through land value capture via a section 106 agreement or it comes through the Government's affordable homes programme through a grant. Both of those things are limited: the grant programme is limited in terms of its extent, and the amount of land value capture that is available is also limited. It is then further limited by the amount of activity the private house building sector is able to do. It is reliant on house builders developing volumes of new homes, because section 106 will be a proportion of the private sector. There are further limits in terms of how big the private sector can be, given all the other housing market dynamics across the whole market.

Neil Jefferson: For private developers, there is a single issue here as a result of all of the issues that have been very well framed in the previous session, and in part already in this session. We can see that the appetite of housing associations and RPs for land-led development is very much diminished because of all the challenges that they are facing, but one of the bigger issues for us in the house building industry has been the reliance on section 106 developer contributions. If you look back between the period of 2001 to 2017, the percentage of housing supply coming from section 106 was 15%. As Kate mentioned in this session a moment ago, it is currently running at 48%, and it has been running at 48% since 2017, so there is a huge overreliance on the homes that are being delivered under section 106 agreements around the country.

The specific issue right now is that, as a result of all the issues that are being discussed today, there is a lack of appetite from RPs, whether they are housing associations or for-profits, to actually take on those homes that are being delivered across the country. This has been an issue that has been going on for quite some time, but it has really come to the fore in the last year or so. We have taken an interest in surveying our members to understand how big that issue is. It is huge. There are currently about 17,000 homes that could be delivered, which have planning permission but there is actually not an RP on hand to take those homes on.

I tend to steer clear of the commercial aspects, because there is a bidding process that goes on and there has been an adjustment in terms of prices, but this comes most to the fore with SMEs. SMEs perhaps do not have employees who spend their time liaising and working with housing associations locally. They will not know who is in the market, and typically they are looking to hand over quite small number of homes on small sites, which may not be attractive at any one time. This has really come to a head now we are looking to increase housing supply.

We have a model that requires affordable homes to be delivered under section 106 agreements, so that is going to get bigger, but actually, as a result of the financial issues that housing associations are facing, plus their competing priorities, particularly around existing stock, which is understandable, they are then struggling with their own development programmes, but more so they are not taking on the homes that are being delivered.

This is causing issues because, if we are looking to grow the industry and grow capacity, we have actually created a block at the moment, because there are sites that could be built out for all of those reasons but there is not a housing association ready to take them on. There are a number of timeframes to look at with this. It is important to understand the history of why we got here, but there is a current issue that needs to be resolved. It needs a pragmatic solution in order to get those homes delivered.

It is great to be here, actually, at a time when the Government are looking at a long-term housing strategy. I completely agree with previous comments regarding the importance of that. We absolutely support the asks of housing associations, collectively and individually, with regards to long-term rental agreements, convergence and increased grant and increased programmes, because we need the housing associations to be back into the development sector, but we also need them to be more willing to be taking on these homes that are being delivered through section 106 agreements.

Q37 **Mr Forster:** What should be done to resolve the issue of unspent developer contributions by local authorities? Can you briefly touch on what impact the developer contributions have on you as builders and the building industry, but particularly for social and affordable housing? I know there are some exemptions. You have talked about how you as a market are now holding up the affordable housing industry and the new amount of affordable housing. Bar that, what impact are developer contributions having on the wider sector?

Neil Jefferson: Sorry. What was the first question?

Q38 **Mr Forster:** What should be done to get local authorities to spend unspent section 106?

Neil Jefferson: Kate Henderson covered this in an answer in the previous session. I completely agree. The issue for us is a lack of capacity within local authorities. It has been welcome to hear that there will be a focus on bringing in more planning officers. We need more enablers, but essentially we need more resource within a planning authority. We did freedom of information requests around local authorities and discovered that there is £8 billion of unspent developer contributions sat within local authorities and £800 million for affordable homes. What that tells us is there is a lack of resource going into making sure that that is being actively spent. That would be the single biggest solution for me.

Chris Buckle: I entirely agree with Neil in that lots of this money is within small local authorities without the resources to spend it. Finding some mechanism of potentially pooling that resource to use on a larger geography may be useful. In London, could the GLA be using that resource to effectively grant-fund affordable housing or acquire section 106 under some structure to get over the current issue where housing associations are not able to finance it?

In terms of developer contribution, what is the impact that it is having on affordable housing supply? As has been said, developer contributions have a huge contribution to make to affordable housing supply. Given where we have got to, it is important that that contribution is maintained. The challenge that you have, as we have heard from other people, is that the market moves faster than planning policy and it moves faster than the rules within grant funding. The hard and fast planning policies that planning applications are judged against and the hard and fast rules within affordable homes programmes have problems when these things do not match up.

At the moment you have situations where developments are unviable because of the affordable housing requirements placed upon them. The consequence of that is that those developments do not get built, or you enter into protracted negotiations to try to reduce the affordable housing requirement. It is just introducing additional blockers in terms of the amount of supply coming forward on sites.

Neil Jefferson: To the second part of the question, we have a single ask with regards to resolving, in the short term, these issues with the blockages that are the single biggest problem that the industry has at the moment. It is the most common issue that gets raised with us as the largest federation for house builders. Our members build 80% of homes across the country. What we would really like to see is the use of cascade mechanisms and a written ministerial statement instructing local authorities to consider those in these cases where the lack of an RP being available is holding schemes up. That would be massively helpful.

Going back through the planning process, if there is not a housing association nearby wanting to take these on, it takes a long time, incurs delays and is risky, whereas actually considering other tenures that may be available for that scheme would get the scheme away. That might be a short-term measure, but, as I say, there is a longer-term issue about growing the industry, thinking about more homes being built and more affordable homes. We have this short-term issue that is creating huge problems.

Q39 **Chris Curtis:** I am going to come in on this specific point because it is probably one of the most important points, particularly for the 1.5 million target at the moment. On the capacity point and local plan, do you think 300 extra planning officers are enough, or do you think the councils should be doing a lot more than that?

Neil Jefferson: No, we need a lot more than that.

Chris Curtis: That is probably leading the witness.

Neil Jefferson: There are many other issues that play into this. For us, when we speak to developers, planning is the No.1 biggest issue and No.2 is around resource. Over time, when we think about all of the good things that we do now within development, whether it is biodiversity net gain, the future homes standard that is coming in the meantime, higher standards for sustainability or the section 106 agreements that I am talking about today, all of that work and many other things that we could think of are actually being managed by the same people in the same departments as they used to be.

That work needs to be streamlined. Things can be simplified or perhaps considered in a broader sense, a bit like in the previous session when Fiona gave the example of requiring 10 fire engineers. Actually, on individual small sites, I am sure that there are better ways of getting consultants' reports for particular issues.

Q40 **Chris Curtis:** Before I come on to ways that the Government can be more helpful, there were many things that Kate mentioned in the previous panel about how registered providers are not bidding and are not taking on at the moment because they just do not think that the quality of what is being offered is good enough. Do you also think that there is a job on house builders in order to ensure that they are not producing S106 contributions that no provider would ever want to take on?

Neil Jefferson: Yes. The order that they were presented in was interesting, because the word "quality" means different things to different people. Kate talked about the quality of the deal, which I would regard as the commerciality, which actually comes and goes. As Chris says, the market is always moving. Sometimes there are adjustments.

Secondly, she turned to the quality in terms of environmental requirements. This issue that we currently face is that the vast proportion of homes that are being built are still on gas. We are seeing more and more off gas and with heat pumps, but there are many that are caught in this situation that I described that will be on gas. Housing associations, understandably, are taking a long-term view about investment.

I really hope construction quality is something that is in the rear-view mirror. It is clearly something we need to keep an eye on as we ramp up the number of homes that are being built, but in the last few years the number of homes being built has actually fallen, so there is no real strain that is coming from building more homes, which sometimes does impact quality. With regards to construction quality, there were problems, but to a large degree it is not a reality in terms of what RPs are facing into.

I have one more point. I do understand, because of the issues of building safety, why RPs may be interested in being involved in a construction process rather than taking homes off the peg at the end. That is completely understandable. These things can be resolved. Through the improvements that have been made to building safety, the golden thread and photography along the way, there are many ways to demonstrate that a home has been built of good quality and to the standards.

Q41 **Chris Curtis:** My final point might be slightly more for Fiona. A lot of the current registered providers are not for profit and are going to have most of their money focused on fixing up the stock they have. It would be great to have more grant money and it would be great to have more certainty on financing, and many of us will keep pushing for that, but at the same time it is still never going to be enough. We also need to make sure that we are getting more private capital into the sector.

How do we do that? There are models that we could use. We could use the LIHTC model from the US, for example, which is appealing. Do you think they are the kind of options that we should be looking at with for-profit registered providers, in order to get more capital into taking on these contributions?

Chris Buckle: There is definitely a role for for-profit providers in terms of increasing supply, and, as you say, bringing capital to the system. I would come back to my initial point, though: you cannot have affordable housing without a subsidy, even if you have private capital coming in alongside it. You still need either the section 106 or the grant funding to support that delivery.

Neil Jefferson: The point you raise is reflecting on the steps that have been made by the current Government. The moves on planning have been very much welcomed, and work has been done very quickly to improve that situation. With regards to supporting growth and matching the ambition that has been set, it is not just within the affordable housing programme that we need more funding. As you are suggesting, we also need something to be done in the private sector. It is the first time in 60 years that there is not a Government-backed scheme for first-time buyers. Freedom to buy, which is actually an extension of an existing mortgage guarantee scheme, does not work in the new-build sector. As you are suggesting, with more confidence and with things happening, we would probably attract greater institutional investment as well, which is also needed.

Fiona MacGregor: We have heard a lot about the pressures on housing associations at the moment, and the impact that is having on new build, new supply and new homes. However, it is worth saying that it is not a 100% zero-sum game. We have talked a lot about the record £8.8 billion investment in existing stock. Last year, providers invested £15 billion in new homes. They are still investing in new homes. The numbers are forecast to start going down, but they are not disappearing entirely. There are some points about differential capacity across the country.

Q42 **Chris Curtis:** We need it to be going up, though. If we want to do 300,000 homes a year, we need it to be going up dramatically.

Fiona MacGregor: Yes, but to get the numbers up, it is not necessarily a question of the availability of finance. There is lots of finance in the sector. It is still very liquid. Lenders are still very willing to lend to the housing associations. Finance is not the issue; it is the capacity to service the debt, and things that we have talked about such as grants will help that.

For-profits—however they are funded, whether it is institutional investment or the other way around—still need a subsidy. The economics of social housing and the delivery of social housing mean that it needs subsidies, so they will still need a subsidy. If it is a for-profit that is going to distribute profits, you would have to take account of how they are going to generate that extra money to distribute profits. Is that through additional subsidy?

Chris's point is right: you would want to be looking at every lever that can be pulled, all the options, and where you can increase contributions to supply and new homes overall. These are not binary and they are not an either/or. No single element is the solution.

Q43 **Chair:** Chris, Savills commissioned a report where you estimated that around 40,000 to 90,000 social housing homes were needed per annum to hit the Government's 1.5 million target. Do you feel that, where the Government have not set a target, that will help the industry in terms of responding to that challenge? The Government have been very clear not to pin themselves to any targets at the moment.

Chris Buckle: Targets are always missed. I would come back to what Kate Henderson said in the first round. What would be better is a strategy and a vision for housing that actually adds up to an amount of delivery that looks something like the ambition. At the moment, without knowing the scale of the new affordable homes programme, it is very difficult to see how that contributes. At the moment you are really left with a vast amount of that ambition looking like it is entirely reliant on the private sector and the housing market.

That would require a level of delivery, particularly in terms of sales of new homes to individual owner-occupiers that is completely unprecedented. For housing, when those sorts of numbers were approached in the middle of the last decade the affordability of buying houses was much more straightforward. The market is completely different now. The amount of housing transactions in total is much lower. We have about 1.1 million home sales a year. If we are talking about selling 200,000 homes a year to individuals, that is 20% of the whole housing market each year. That is not a level that has ever been reached: 10% is a more typical number.

Rather than having a target, it is about having a goal and a vision that actually adds up. That is both across the demand side of things—so who is actually going to finance and manage or occupy these homes—and also, on the planning side, where the land is going to come from. Although all the planning changes are very welcome and are a huge improvement on the last few years, it is going to take a number of years before we are actually planning to deliver 300,000 homes a year. Beyond local plans planning for 300,000 homes a year, we actually have to get the planning applications in and deliver the homes. We need to have a vision for where this extra land is going to come from, alongside supporting demand.

The demand is crucial. We have focused very much on planning so far in terms of policy. If we can deliver the land, that is fine, but no one will build the houses unless they can see people who are going to acquire them, either to rent out to social housing tenants, private tenants, or to occupy themselves.

Q44 **Chair:** I suppose on that, Neil, you may have the land but you may not have the people to build the land. You are seeing increasing cases where builders are reluctant to take on that risk. Apart from some of the issues that Chris highlighted in terms of planners, what more do you think that your sector needs to give people that confidence to come forward to help build?

Neil Jefferson: Chris has just covered off the first piece. If buyers will buy, builders will build. We saw that consistently in the period since the financial crisis, where house building output more than doubled. On the basis of the 300,000 that we have talked about, we have got to 230,000 or so and really faltered. We need to push on, but demand is most obviously the first issue.

The conversation today around housing associations and RPs is important, because if we are going to build more homes, some markets that have been left behind for various reasons—perhaps viability or attractiveness—will need to be revisited. The costs of building have significantly increased. We saw the inflationary impact in the last few years, but there is just a lot more money that goes into building homes to the standard that is required now.

One of the issues that is a particular challenge is building tall buildings. We have issues with regards to the new Building Safety Regulator and its ability to get through the applications that it is receiving, new codes and requirements. Even when we look at the issues of RPs' appetite for section 106 homes, there is still an appetite where it exists for low-rise homes but it is almost gone in terms of building tall buildings. That is something we need to get back into, particularly for London, where, as you know very well, there are issues with delivering more homes.

On the skills side, it is encouraging to have seen some of the signs so far from Government in terms of Skills England and the joining-up of Departments, which we have never seen before, with regards to understanding that unless we do something different we will not actually deliver the homes that we need. We have issues regarding the two levies that are paid, the CITB levy and the apprenticeship levy. The CITB levy, for example, does not cover training for heat pumps, which is a vital technology going forward, but there are some good signals there.

The industry has to take responsibility for training its own people. It is not the job of Government to do that, but there are some really good things going on with regards to £140 million worth of investment in skills hubs around the country. Those have really high retention rates, because one of the sad truths is that we lose a lot of students through building college. They do not make it; they do not convert into the housing industry, whereas those people that are being trained or completing apprenticeships on these hubs that are adjacent to real-life building sites get a great insight into what it will be like, and the retention rates are very high. I am very confident about that. The training programmes are also shorter.

There are a lot of things that we need to do in order to get on and build more homes, but we have probably covered most of them already.

Q45 **Lewis Cocking:** Going back to housing association assessments and health checks, so to speak, where do you report it to? You do an assessment on the housing association. Where does that information end up?

Fiona MacGregor: We grade providers on housing associations on three elements. We grade them on governance, viability and consumer, which is the new element since 1 April.

Whenever we reach a conclusion about a grade, whether that is through an inspection—we started that programme in April last year—or whether it is as a result of a stability check, which focuses on the finances, or whether it is as a result of some responsive work, whatever conclusion we come to on any or all of those three elements on a grading, we will publish them on our website. We publish a judgment that will give you a grade 1 to 4 on each of those three aspects, and we will set out the reasons for reaching our judgment. They are publicly available.

Q46 **Lewis Cocking:** There is no obligation for you to send that to local authorities or tenants.

Fiona MacGregor: It is very well used. Anyone can sign up, and every time we publish anything you will get an alert. Anyone can sign up and get the alerts whenever we publish a new judgment. They are widely available.

Q47 **Lewis Cocking:** With all due respect, you do not go out of your way and send it to anyone such as the local authority, a key stakeholder or tenants, you just expect people, first, to know about it and, secondly, to sign up on the website. You see that as your job done: "We have put it on the website. We have told enough people".

Fiona MacGregor: We engage very extensively with local authorities, in part because we regulate those who are stockholding on consumer now. We have regular contact with local authorities, and we also have really intensive and quite widespread engagement with tenants. We have been doing that for some time now, for the whole of the duration up until the introduction of the new consumer standards and our new inspection regime. What we find is that tenants are very well aware of the regulator, what our judgments are and what they mean. What you also find is that providers themselves, whenever they get a judgment, good or bad, will publicise it on their own websites.

Q48 **Chair:** Just on Lewis's particular point, the onus is on stakeholders, tenants, Members of Parliament and councillors to find out. There is no mechanism for them being informed.

Fiona MacGregor: The alert would be the key way for them to always be kept up to speed with that. One of the things that would be quite practically difficult for us, particularly with tenants, is how we notify tenants. We could not have the address and name of every tenant in the country; that would be absolutely impossible, and there are GDPR considerations with that as well. As part of our standards, we have an expectation of providers themselves that they will engage with their stakeholders. They will notify, whether it is a local authority or tenants themselves.

Q49 **Chair:** That is an expectation, not a requirement. If a local authority received a really good report, they would want to shout and scream about it. If they received a poor one, what is the likelihood of them informing their tenants, stakeholders or external partners?

Fiona MacGregor: A lot of the people who sign up to our alerts are media outlets, including local media outlets.

Q50 **Chair:** It is the press that inform, essentially.

Fiona MacGregor: There are a number of routes through which it becomes public. I can take this away, but what we do not find is that stakeholders are unaware of judgments, good or bad. In particular with bad judgments, that is when we get absolutely inundated with local press queries as follow-ups to where there has been a poor outcome or a poor judgment. It gets out there quite actively.

Q51 **Sarah Smith:** Would you agree that, if there was a requirement on housing associations to communicate the outcome to all of their tenants, that would drive up their standards even further?

Fiona MacGregor: In terms of driving up their standards, we are working really hard to make sure that that is being done in any event. One of the standards that we have strengthened considerably, with the introduction of the new consumer standards, is the tenant empowerment, involvement and accountability standard. We expect providers to be engaging with their tenants on a very regular basis.

It is not specifically set out as a specific requirement to communicate a change in grading to them, but that is certainly something that we would expect and test when we are going out and inspecting them. How do they communicate with tenants? What are their engagement mechanisms?

How are they responding to feedback from tenants? It is a key element of the new consumer standards and what we test when we are doing those inspections, including talking to tenants and tenant groups when we go out and do that inspection.

Q52 **Sarah Smith:** Would you agree that, if it was required, it would help to push them even further on that journey?

Fiona MacGregor: If I may, I will go away and double-check the exact wording of our consumer standard. I will write to you.

Q53 **Naushabah Khan:** I have a very quick question on that housing delivery point. How confident are you, given some of the changes that have come through to planning rules, which the Government have proposed, that they will lead to the Government fulfilling their objective of the biggest wave of social and council housing house building in a generation?

Chris Buckle: I am not sure we have any significant increase on what came before yet. We are still waiting for the outcome of the spending review to find out what the funding is going to be over the medium term to support social and affordable housing.

In terms of land supply, land supply is intended to increase through the planning reforms. That will improve developer contributions to section 106 affordable housing. Those things will add up, but the biggest factor is the scale of the new affordable homes programme.

Neil Jefferson: What we can see is that, if we are going to deliver more affordable homes, and specifically more homes for social rent, we need to grow the overall size of the pie. The proposals on planning are pro-development and will help, without doubt, but we need to see action on the demand side and with regards to growth to get that going, in order to make sure that there are more sites being built out that will have more affordable homes on them.

Chris Buckle: I will bring it back to the point from the previous panel that the financial capacity of housing associations is fundamental to achieving that goal.

Q54 **Chair:** Thank you very much. Finally—it may be that you will have to write to us, Fiona—you will remember the predecessor Committee's report on RSH. Essentially, your response back was that you felt that the regulator was already covering most of this. Just in light of some of the questions we have asked, do you currently engage with housing associations on their feedback on the assessments and investigations? If so, what is the mechanism? Is that something that you could write to us as a Committee about?

Fiona MacGregor: I can certainly write to you, but yes, we absolutely engage with them. Whenever we are grading them we will talk them through the reasons we have arrived at the grade we have arrived at. We will look at gap analysis and give them an opportunity to respond.

If a provider is at G2 or C2 or below, we expect them to be undertaking—I have talked already extensively about viability—action to get back to G1 or to get up to C1 in due course, and we will engage with them throughout that period. It is very different to something like an Ofsted inspection, where they will go in and then go back again four years later. We will engage with them throughout, in terms of their improvement plans and the work that they are undertaking to regain a G1 or a C1 grading.

Q55 **Chair:** Thank you. We may write to you further about why you felt that the regulator did not need to take any action on the predecessor Committee's report on the suitability and finances, especially in light of some of the challenges the housing associations have highlighted.

Fiona MacGregor: I think we have taken action, but I am very happy to write to you.

Chair: Thank you very much for attending this morning.