

# Housing, Communities and Local Government Committee

## Oral evidence: Cladding remediation – Follow-up, HC 1249

Monday 1 March 2021

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Members present: Mr Clive Betts (Chair); Bob Blackman; Ian Byrne; Florence Eshalomi; Ben Everitt; Andrew Lewer; Mary Robinson; Mohammad Yasin.

Questions 1 - 62

### Witnesses

**I:** Dr Dean Buckner, Trustee, Leasehold Knowledge Partnership; Dr Nigel Glen, CEO, Association of Residential Managing Agents; Dr Will Martin, Co-Founder, UK Cladding Action Group.

**II:** The Lord Porter of Spalding CBE, Fire and Building Safety Spokesman, Local Government Association (LGA); Kate Henderson, Chief Executive, National Housing Federation.

### Examination of witnesses

Witnesses: Dr Dean Buckner, Dr Nigel Glen and Dr Will Martin.

**Chair:** Welcome, everyone, to this afternoon's session of the Housing, Communities and Local Government Select Committee. We have an inquiry starting this afternoon into cladding remediation follow-up, following the Government's recent announcements about their intended action with regard to funding cladding removal and how that is going to work in practice. We have two panels this afternoon, who we will introduce as we come to each of the sessions. We then have a follow-up with the Minister for Building Safety next week, where everything will be explained to us about the Government's intentions with regard to this. We will take issues from today, from our witnesses, and then be putting those to the Minister next week.

Before I come over to our witnesses for the first panel, I am going to ask Committee members to put on record any particular interests they may have that may be relevant to this inquiry, as well as the ones that are in



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their declaration of Members' interests. I am a vice-president of the Local Government Association.

**Ian Byrne:** I am a sitting councillor in Liverpool.

**Ben Everitt:** I am a councillor.

**Andrew Lewer:** As well as the register of interests, I am vice-president of the LGA.

**Mary Robinson:** I employ a councillor in my staff team.

**Bob Blackman:** I am a vice-president of the LGA and I employ a councillor in my staff team.

Q1 **Chair:** Florence Eshalomi has not joined us yet; she is a member of the London Assembly. We will probably have Rachel Hopkins joining us later on, who is a vice-president of the LGA and I think a councillor in Luton for the time being as well. That is us done with putting on record our particular interests. Moving over to our first panel of witnesses this afternoon, I will ask them to introduce themselves and say a little bit about themselves.

**Dr Martin:** I am an affected leaseholder of a flat in Sheffield, which I bought in 2015. We have ACM cladding, along with a range of many other problems in the building. I am also the co-founder of UK Cladding Action Group, which was formed back in 2019 to unite leaseholders across the country that are affected by this scandal. We have now built up a large network of buildings across the country and co-launched the End Our Cladding Scandal campaign with Inside Housing and the Manchester Cladiators.

**Dr Buckner:** I am Dean Buckner. I retired from the Bank of England in 2018. I am now working on a voluntary basis with Leasehold Knowledge Partnership. Most of my career has been in finance and derivatives valuations, swaps and bonds. My primary expertise is in the financial area and not in leasehold law.

**Chair:** I suppose derivatives and all the complications probably look rather easy compared with the cladding problems we are facing.

**Dr Buckner:** Much easier, yes.

**Dr Glen:** My name is Nigel Glen. I am the CEO of the Association of Residential Managing Agents. The association has 330 members and manages around 1.5 million leaseholds. I also have a background in investment banking from my past.

Q2 **Chair:** All three of you are welcome. For most of the questions, we will want answers from the three of you. Members of the Committee can indicate who they would like to answer first. I always say to witnesses that there are three of you and it can take quite a long time if you all speak at length, particularly if you all say the same things after each



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other. If you agree with what somebody else has said, please just tell us and we are happy to report that.

Let us make a start. The Secretary of State made a statement in the House of Commons on 10 February about trying to provide additional financial assistance to the leaseholders and others in buildings that face problems with potentially dangerous cladding. He indicated that it would be to avoid punishing those who had worked hard and bought their own home and to try to speed up the nature of the works as well. Are you all happy that the £3.5 billion, which is a lot of money that has been found by the Government, actually protects leaseholders and makes their homes safer? Perhaps I will come over to Will Martin first, because you live in one of these properties.

**Dr Martin:** No, I am not happy. The Government say that they want to fix the problem and offer certainty and reassurance, but what has been announced so far does not actually do this. It seems like MHCLG cannot seem to relate the impact that its decisions on the final stakeholders in this mess are actually having on innocent leaseholders. Ever since the announcement on 10 February, there has been a constant flurry of emails into our inbox, the majority of which express two things. One is disappointment; the second is a feeling of betrayal.

The disappointment largely comes from a feeling that the announcement does not protect leaseholders. Of course the latest step, as you say, is a huge amount of money. Given your own recommendations and the fact that it is going to cost £15 billion to fix the problem, it is just another piecemeal offering, four years on from Grenfell. The G15 has committed £2.9 billion of funding for building safety remediation and potentially owns 10% of relevant buildings. That really puts into context how much the £5.1 billion is.

This disappointment comes because it is not about cladding any more. It is about insulation, balconies, compartmentation and fire doors. The list goes on. You cannot make a building half-safe. My building is a really good example. We have ACM, which has been funded, but the remaining estimated £6.2 million of work is not covered by the funds. In 12 months' time, when the scaffolding is down and the ACM has been removed, the building will remain unsafe and still be unsellable. It will remain like that without intervention, because the leaseholders do not have the money. We have said this time and time again. We cannot afford a £52,000 bill at Metis.

Jenrick said about caveat emptor. If he is happy to apply that to cladding, why are the Government not happy to apply it to a whole range of other equally expensive and dangerous problems, which, just like cladding, were not caused by leaseholders? Again, they are symptomatic of years and years of regulatory failure and poor development practice. It also does not protect leaseholders, because the terms of the building safety agreements require all funds to be in place before money will be disbursed for cladding issues. I really would like to know how they expect



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works to start on buildings with both cladding and non-cladding issues, where leaseholders do not have the money to pay for non-cladding works to start with, but where both sets of work need to be completed together.

To touch on the sense of betrayal that leaseholders have expressed, this comes from the loan scheme that has been announced.

**Chair:** We will come on to that in more detail later on. I think you have also answered part of the next question as well. I understand how you feel because obviously being in one of these properties gives you a particular insight into what is happening.

**Dr Buckner:** It is everything that Will said. To add to that, we have had a few discussions with Michael Wade earlier on in December and early January.

Q3 **Chair:** Could you say who Michael Wade is, for people who may be listening?

**Dr Buckner:** Michael Wade is and certainly was a special adviser to the Ministry. He was the one who advised on the loan scheme. In our discussions with him, a lot of what he said was premised on the idea that the total bill for all this could come to well over the £3.5 billion, perhaps up to £12 billion or more. There is that bit of evidence. We have also been looking at individual anecdotal reports of what people are owing on a per unit, per home basis. They are anecdotal and there may be some sort of selection bias here, but these numbers are coming in at well above the £20,000-odd that you would expect from the figure we have seen. One that is local to me—I live in Wandsworth—is £100,000 for one flat. The evidence is that the total bill is going to be well above £3.5 billion or thereabouts.

**Dr Glen:** I agree with the first two witnesses. I have some data on the non-cladding costs, which are the ones that really concern us. Do not forget that this will not be just cladded buildings; this could be across the whole building sector. As William and Dean said, you are looking at roughly comparable figures, so more than £20,000 per leaseholder, which is impossible amounts of money. What do we do? We cannot solve one half, which is the cladding, but not the other, which is the compartmentation and fire breaks. I will happily share those figures later on if you wish.

Q4 **Chair:** That would be really helpful. Thank you, Nigel. It is all building up that base of evidence that the Committee very much needs. Coming back to the loan scheme, because that was very much a feature, probably, that had been trawled by Michael Wade before to solve the problem without Government having to put all the money in up front. Does anyone understand the scheme? Tell us what it means for leaseholders and indeed the building and so-called building owner.

**Dr Buckner:** In direct answer to your question, I do not understand the scheme. We have had several versions of it, a couple from Michael Wade.



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We met Stephen Greenhalgh in December. We do not have a clear sense. The original proposal was that you would create, for every building, a legal entity corresponding to the building. A loan would be made to that, which would then be recovered via the freeholders and, ultimately, the leaseholders. I will not go into detail. We have a document we have written up with our lawyer that goes into great detail about why that is very difficult to do.

One version of the loan scheme is you lend to the building. Another version we have heard more recently is that the loan is to the freeholders, who then collect it via a service charge on the leaseholders. For various reasons, again in more detail than I can say here, we do not think that will work either. In answer to your question, I do not understand at all.

**Q5 Chair:** Can I press you on the detail about why it will not work to the freeholders? It is a key element of this. If it will not work, we need to understand why, at least in just a little bit more detail.

**Dr Buckner:** First, some freeholders may already be incumbent. An awful lot of freeholders will have a charge on their interest in the building. They will not be able to take out a separate loan on the basis of that charge. That is one reason. Unless we understand the legal details from the Ministry in better detail, we do not see how that can work.

**Q6 Chair:** Nigel Glen, do you want to follow up from your understanding of the situation?

**Dr Glen:** The details have still to be really announced. How long is it going to be for? What happens if somebody defaults? If a leaseholder cannot or will not pay, who is left liable to pay that shortfall? It is important to realise that the positive part of this is that it is something we have been asking for for a long time, which is front-funding so we can get people safe. The bad part is that we said, perhaps rather naively, "And then Government can figure out who should pay afterwards". They have picked on the leaseholder, which is exactly what we did not want to see happen. You are crossing a moral Rubicon there, because you are now making people pay for something that happened way before they took occupation. The details are sketchy, in terms of how it hangs together and how it will be repaid. There is an awful lot more. I just do not know at this stage how it will actually work its way through.

**Dr Martin:** I would echo what the others have said. The main concern that jumps to my mind is about equity. I would ask everyone here today if you would really purchase one of these flats with a huge loan on it. There is no doubt in our eyes that this scheme will leave leaseholders in negative equity, which will have disastrous consequences.

There is the whole question as well around this arbitrary 18 metres. Living in a low-rise building does not mean you are richer. It does not mean to say that you can afford a loan scheme. It is worth considering



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that living in a low-rise building means that there are fewer flats. That means that remediation costs for other fire safety defects that are on top of loans are likely to be higher.

There is loads of talk about how £50 is affordable, but we are forgetting about all the other costs that leaseholders are facing. Inside Housing says that one in six leaseholders are exploring bankruptcy and just 4% say they could comfortably afford such a loan. I want to know about the modelling around this loan. What has been done? What percentage of affected leaseholders are likely to declare bankruptcy? What percentage will go into forfeiture?

**Q7 Chair:** There are a lot of questions there that we will be wanting to put to the Minister next week about whether the Ministry has done any assessment of those matters. Very briefly, if there is not enough money in the pot so far with £3.5 billion and the loan scheme does not look to be very favourable, what is the fix, financially?

**Dr Buckner:** We submitted in December, and then to the Ministry, a proposal for a special purpose vehicle, which would be like a bond and would pay to the investors. Private investors, insurance companies or the Government themselves would pay a market coupon to whoever invested in it, which would be recovered not by any kind of loan but via a levy to whatever parties the Government decided it should be levied upon. The ultimate obligors are not leaseholders or freeholders, but the entity itself. It would be underwritten by a Government guarantee.

It would not be unusual for a special purpose vehicle, because the Financial Services Compensation Scheme works in the same way, as do the licence fee and the road tax levy. It would be a vehicle that has statutory powers, with the powers to levy, we propose, developers, freeholders via a levy on ground rent, and possibly non-dom foreign buyers. That is up for grabs. That is not essential to the scheme.

The main virtue of the scheme is that leaseholders would not be left with a forced loan. Those who could afford to pay would pay. Also, significantly, you could have what is called a forward start. You would structure the vehicle so that the levy is not imposed until year five—nothing levied before then—so that we can get everything in place, so that the funds are there and available from those who purchase their interest in the vehicle, and so that work could start straightaway, no delays of any kind.

**Dr Glen:** I would be in favour of anything that takes the pain away from the leaseholders.

**Q8 Bob Blackman:** Thanks to our witnesses for starting to answer some of my questions already. One of the issues here is the progress of remediation. The Secretary of State has announced, and it has been followed up by Housing Ministers, that almost 95% of all high-rise buildings with unsafe ACM cladding that have been identified since the



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beginning of last year have been either remediated or workers are on site. 100% of social housing has been remediated. First off, do you recognise those figures as being correct? Secondly, what is your assessment of the progress in remediation of other forms of cladding, such as HPL, and other unsafe cladding?

**Dr Glen:** I do not have figures to hand on the progress of ACM in the private sector, because I am just a part of that. I will happily survey my members and ask them about that, but I do not have visibility for the public. If I can talk about going forward though, it is very slow, simply because funds have only become available since the BSF was announced and closed off, so early September. It is very early days for that. In leasehold, you cannot start these works without the money. The promise of the money is nice to know, but, without the money, you cannot start. That has been a limiting factor.

The other thing to start thinking about is the future. How quickly can we remediate? I believe I have said that before to this very Committee. If you gave me £50 billion tomorrow, this is not going to be over by next summer. We are talking thousands of buildings and we can do maybe 200, 300, 400 a year. This is a five to 10-year project and that then leaves us to ask, "What happens then?" If I say to William, "Wonderful news: you have qualified for the BSF, but it is going to be five years until we get around to your block", what does he do if he needs to move for a job or something along those lines? He is stuck. There are a lot of moving parts going on here. The market will adjust, more people will come in, et cetera, and it is an opportunity to upskill with apprenticeships and build up our construction industry, but it is going to take time to do this.

Q9 **Bob Blackman:** I am going to come on to a few more details in a minute. Dean, do you want to give us your view on progress thus far?

**Dr Buckner:** As I say, I am not an expert in this area, but our own expert thinks it could be up to 15 years, for the reasons Nigel has already suggested.

Q10 **Bob Blackman:** William, what is your perspective?

**Dr Martin:** That 95% is a bugbear of mine. I want to go on record by saying that I actually do not think it is something to be proud of. In fact, it is pretty shameful that, four years on from Grenfell, there is any building with ACM still on it, let alone 132 high-rises.

Secondly, that figure is grossly misleading. Some 35% of private residential buildings above 18 metres have actually completed remediation. Of those that have received the ACM funding, just nine out of 99 have completed remediation, so just nine. You can put a builder on a site, but it does not make the building safe. It certainly allows Lord Greenhalgh to say that work has started on 157 buildings last year. I know, for example, in my building we had a panel of cladding removed in December, but the works did not really start properly until January.



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The data that we have is just the tip of the iceberg. It is for ACM above 18 metres. In 2019, we met with Government and they asked, "Can we have your Excel spreadsheet with all your building data on?" They have no handle of the scale of this problem. They did not have then and they have no handle on the scale of all the other problems that are plaguing these buildings. It is estimated that there are 88,000 buildings over 11 metres, 58,000 of which will require an EWS1 form. We know that between 80% and 90% of them require some form of remediation.

If we go by how the progress has been on the ACM fund, we are going to be here for a long time. The point about timescales is, if all of this work is going to take so long and we are prepared to wait that long, does that not show that the risks cannot justify the works? If the risks were so great, would we not be diverting resources from new buildings to fix the façades of existing buildings? We seem to be ploughing on ahead with this rip-and-replace approach without really bothering to work out if the probability of a façade fire justifies the solution that is being applied to every building. There is no costing. There is no evidence. There is no risk of prioritisation. It means that leaseholders have been turned into this indemnity fund for everyone from management agents to insurers. The speed at which this is happening is really disappointing.

Q11 **Bob Blackman:** We are here to gather evidence, so I am not going to give my views on this as we go along. You have picked up on the other issue already slightly, William, but I want to explore it a bit further. The Government scheme is for high-rise buildings above 18 metres. The loan scheme is for those below 18 metres, but it only covers the cladding, as you said. Do you have an estimate of the amount of money or work that your organisations have put together, in terms of doing the other issues, the fire safety defects and so on, that of course are hand in glove with this particular problem?

**Dr Martin:** I think Nigel has some stats on non-cladding-related issues.

Q12 **Bob Blackman:** I am going to come to Nigel in a minute. Does your organisation have any handle on how much work is involved and over what period of time?

**Dr Martin:** We do not, and really we look to the Government to be doing that.

Q13 **Bob Blackman:** I am not suggesting that you should have. I am asking for evidence. One of the problems is one of our challenges is getting the information from the Government in the right sort of way.

**Dr Martin:** No, we do not.

Q14 **Bob Blackman:** That is fine. We will come to Nigel's view on this.

**Dr Glen:** We got data from 400 blocks from our members.

Q15 **Bob Blackman:** That is not the full coverage, is it?



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**Dr Glen:** No and there are lots of patches inside that data. To give you some idea, in just over 200 of those, we had sufficient data for 18-metre-plus blocks. It works out to be around about, on average, £2.1 million to do the cladding work. That works out at around about £22,500 per flat. That gives you the idea of what the BSF should cover. There is a subsector of that that is only 40, but that is because we only have data on 40. It does not mean the other 160 out of that 200 are zero. On those 40, when you look at that, it comes at round about £25,500 per flat for the non-cladding work.

This is our question. As managing agents, if we are having to remediate this, again I will turn to Will and say, "Great news: you have some money from BSF and, by the way, we now need to ask you for £25,500 for the other works or else we cannot start". Where does that stop us? To me, it actually torpedoes the whole programme.

As I mentioned at the beginning, this could be across the whole stock. One of the things we are asking is whether the Government should look at doing a survey. Mine is a small subset of data. It might be statistically biased, as Dean will know, because these are buildings already in trouble. Look at, say, 300 buildings. Knock holes in them. It will cost about £10,000 each. Look across the public and private sectors. For £3 million, that will give us an idea of if we are lucky/unlucky that we found only these 40 that have a problem, or whether this is endemic across the stock, and then what needs doing.

There is something else, Bob, that you picked on earlier, or it might have been Will. Where do we stop? We have to have a very grown-up conversation on the example we used. Here is a 20-metre building with a strip of decorative cedar cladding around the top. At the moment, we have to scaffold and take that down. Is that a fire risk, really? Do we really have to spend that money? Is that the best use of taxpayers' money? It needs to be a discussion to make sure that leaseholders, insurers and mortgagors are happy. We are proposing for the Government to put together a fire safety delivery group to discuss these issues: what to do about somebody who is five years down the line before they can be remediated, where the bottlenecks are, what the scale of the problem is and where we stop.

**Q16 Bob Blackman:** The other issue is the capacity of the industry to do this work, as you have mentioned. The Government are talking about recruiting a large number of inspectors to carry out the surveys, all of whom have to be trained, qualified and then able to do these inspections. Have you had any input into the process? What would be involved in the education of such inspectors?

**Dr Glen:** No, not per se. I know RICS is doing that. The capacity I am concerned about is that there are only so many cladders, roofers and scaffolders out there. We have estimated that there are 200 crews and each one will take a year. I am happy to be wrong on that. Let us say it is double that, because I have had that back from Government. Let us say



it was 400. If you are looking at £5 billion and about £2 million per cladding, as we have suggested, that is 2,000 or 2,500. If you can only do 400 a year, that is, again, five or six years. That is without taking into account all the work that is going to be done on the under-18-metre blocks.

There is a huge capacity problem there for the industry as a whole and, again, I do not have really good stats on that. It is not my area of expertise, but that is something the Government should look at, in terms of the capacity to do this. That will knock out everything else. How are we going to build social housing if everybody is on site, ripping off cladding?

Q17 **Bob Blackman:** Dean, are there any other aspects you would like to mention on these particular issues?

**Dr Buckner:** I have nothing to add to that, other than that data is the problem. We have asked around. We rely on possibly biased anecdotal evidence, which always looks bad. Until we have a sense of "It is not just 400 blocks but here is the total number of blocks. Here is the expected value or the average value of paying for each block and then per flat", until you can assess that and get a present value for all this, you cannot make an informed decision.

Q18 **Bob Blackman:** William, at the moment we seem to have a position where we do not have the data. We do not have the extent of the challenge. We have some estimates that are taking place. What is the impact on leaseholders of this uncertainty?

**Dr Martin:** The impact on mental health is absolutely huge. We view the building safety scandal as a public health crisis and the Government should be doing so too. Nearly a quarter of people have told us that they feel suicidal or want to self-harm. Nine out of 10 people say that their mental health has deteriorated. Seven out of 10 people say that they cannot sleep at night. We regularly have people contacting us, telling us that they have had enough and cannot continue on. Covid has made things even harder as well. I cannot communicate to anyone who is not a leaseholder in one of these building the fear and complete sense of limbo. You cannot see what your future is going to be like, because all you can see is bills and worry. The impact of living in one of these buildings is horrific.

We also should not forget that mental health affects our physical health. It affects our relationships and our work. It affects the people around us. People tell us that they cannot concentrate at work. One in four, in fact, actually said that they have had to take time off work because of their situations. Others tell us that they feel suicidal at least once every day. People have had to turn down jobs in other cities. People cannot start families. People have been diagnosed with new conditions. There is no doubt that this is going to have an impact on NHS demand, and the NHS is already stretched, particularly from a mental health perspective.



This problem causes a mental health issue, but it has a very clear fix. In the interim, given that we have been talking about timeframes, we have to be addressing the mental health impact this is having. It is going to go on for so long. As I think Nigel said, it is not going to be over in the next year. We want to see things from MHCLG with regard to mental health. It could have ensured that residents were offered mental health support; it has not. It could have worked with local councils to provide mental health support and assurance; it has not. It could have provided basic mental health information for every resident in buildings, and we are still waiting for that. It could have looked at ways to communicate with management agents, because that is where a lot of the mental issues come from. It could have looked at council tax relief; it has not. It could have chosen not to betray leaseholders and issue them with loans. There are so many things that could be done for the mental health of these leaseholders, who are facing absolute torment.

**Chair:** We cannot begin to understand the agony and stress that leaseholders are going through in this situation. That was really well put, Will, to get across to the Committee and those watching what it is like.

**Q19 Florence Eshalomi:** Thank you to the witnesses. Will, you touched on the bills that leaseholders are having to look at and the impact that is having on their mental health. We know in December the Government announced the £30 million waking watch relief fund, which, as you know, is intended to help pay for the alarm systems for buildings that are 17.7 metres or over and where leaseholders are being forced, in effect, to pay for those waking watches. Those figures are high. I know that, just looking at my constituency, I have been quoted from constituents in excess of £10,000. Do you think there has been a thorough assessment on that? Is that fund that was announced in December sufficient?

**Dr Martin:** I would like to go on record and say that the waking watch relief fund is the first time the Government have actually recognised that leaseholders are facing interim costs and tried to provide a solution. We are grateful for that. That is a welcome step, but the waking watch costs are not small costs. The average waking watch cost is £17,500. I think the minimum cost would be £10,500 a month. I do not think the fund is sufficient. It misses the mark again.

In London, there are 590 buildings with a waking watch. It has been announced that the fund should be only covering between 300 and 460 buildings. In London, £1,600 an hour is spent on waking watches. By the end of this week, since the £30 million announcement for the fund, £30 million will have been spent on waking watches and the fund has not even opened in Greater London yet. On top of that, we know as well that we have spent well over £30 million-worth of VAT on waking watches since Grenfell. We do not really view this as new funding.

Of course, the fund has only a limited amount of time that it is open for. What happens to the buildings that, say, do an intrusive survey in three or four months' time and discover that they need a waking watch? What



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happens about buildings under 17.7 metres that are burdened with loans, now have to pay for waking watches and cannot access a waking watch relief fund? These costs are huge, mine included. Now, my service charge far exceeds my monthly mortgage repayments.

I will quickly touch on the waking watch scheme itself, because I have a lot of issues with it myself and we have been applying for it in our building. Looking at the practicalities of such a fund, if you want to achieve benefit from this fund, the process has to be quick and simple. In my building, there is a £7,000 a week waking watch. As an aside, that is actually seven weeks of my junior doctor's salary every year that solely goes on to waking watch. Since that fund was announced, we have spent £76,000 on a waking watch, and we still have no funding for the £89,000 alarm. You can see that, unless the waking watch cost is miniscule and the alarm cost is enormous—which, by the way, is a situation that never exists, unless funding is immediate—it quickly loses any benefit to leaseholders.

The other thing to note is that, in my building, we have been told that to remove the waking watch we can either install an alarm or complete £70,000 worth of compartmentation works. It seems perverse to me that a waking watch relief fund, the aim of which is to remove the waking watch, would fund an £89,000 alarm with taxpayers' money but would not fund a cheaper option that would achieve the same outcome.

The last thing on the waking watch is you can put an alarm in a building, but you are still going to require someone on site to aid the simultaneous evacuation in accordance with NFCC guidance. That will be a cost to leaseholders as well. No, I do not think the fund is sufficient. It completely misses the mark. The costs that leaseholders are facing and will continue to face are horrendous.

**Q20 Florence Eshalomi:** Dean, from a Leasehold Knowledge Partnership perspective, do you think there has been a total assessment of the cost of the waking watch and, in essence, the average cost to leaseholders? We are hearing these different figures. If you are in London, it is quite high because of the cost of housing in London anyway. Those figures are quite high and another complexity to the whole issue of leasehold for leaseholders.

**Dr Buckner:** It is not a subject I am expert on or even competent in. We found it difficult to make such an assessment. Will's personal assessment is probably the best we can get to.

**Q21 Florence Eshalomi:** Nigel, is there anything you could add to this, if it is something you have covered?

**Dr Glen:** I can back up some of Will's numbers. We have some stats, which we have provided to MHCLG. The average was £213,000 per year per block. It is a significant sum of money. It is a leech that has been sucking the blood out of leaseholders for a long time and it will have a



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long-term effect. Will, I do not know if you have a lift, but, if you do, at some stage that is going to break. You have probably been putting money aside because it is £60,000 to do a lift and it will last 15 years. That money is gone, so you are going to have to find that money. Ditto for a roof, which lasts 25. You have been squirreling away money in a reserve fund; that has all been hoovered up. There is going to be a long-term effect of this as well, by having drained all these reserve funds.

Those are some stats. Fifty-three blocks gave us that figure. Again, it gives you an idea of the scale; £213,000 per annum is a significant sum to be taking out of leaseholders.

**Q22 Florence Eshalomi:** One of the other associated and wider issues, in addition to the bills that leaseholders receive for waking watch, is insurance premiums rocketing through the roof. It is another bill. As you mentioned, there are these bills that keep coming in the post, Will. In the report last year on cladding remediation, the Government said that they were publishing some guidance on the Building Safety Bill. They said that they will address that issue of insurance related to building safety. Do you think that this is something that has been taken account of? You are all nodding no.

**Dr Martin:** No, I do not think they have addressed it. They promised to do so. The Decks in Runcorn is a really good example. In 2019, its insurance was £33,000; its insurance premium is now over £500,000. We have buildings as well that are totally uninsured, which is forcing leaseholders to be in breach of their own mortgage. The Government will argue that the market is not broken, but I personally think, if there is a 1,000% increase, that is not the sign of a healthy market. It is a sign that intervention is needed.

**Q23 Florence Eshalomi:** Nigel, what do you think the Government should do to support leaseholders experiencing difficulties in terms of unaffordable insurance cover?

**Dr Glen:** It is going to make me sound like a statistician, but, as Dean says, without stats we do not know where we are going, so, again, I have some statistics for you. We looked at just under 150 blocks. The average increase was 400%. Per leaseholder, you are talking going up from around about £350 to £1,450. Of that sample, 10% had increases over 1,000%. One of them had 1,840%, which is quite phenomenal.

We have discussed this with the Government. I am going to put something in here. As ARMA, we went around the insurers and came up with a scheme that would require Government, if you like, top-slicing, as Kevin Hollinrake put it. The scheme there would be that the insurers would pay anything up to the first £250,000 for fire-related only; above that, the Government would step in. Obviously, that then lowers the risk to the insurers. The premiums would probably only double. When I say "only double", I do not say that with any pleasure, but that is better than 1,000%.



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At the moment the Government have said, perhaps unsurprisingly, that HMT has no appetite to help fund. If you think about it, with that small sample we have, those 143 units of blocks went from £7 million to £29 million, so they have already paid that £25 million, frankly. There does not seem to be any interest in the scheme we put forward. That is fine—there is no obligation to it—but my question back to Government has been, “Okay, what is plan B then?” Is it just to leave the leaseholders to their own affairs? I do not think that is right.

**Dr Buckner:** There is the question of this rocketing of insurance premiums. We have assessed six times, Nigel has said four times and you get up to 15 times in certain cases. We have to ask questions about how the insurers are actually modelling these risks. Generally, insurance works by looking at the probability of anything happening and, given it happening, what the cost of it happening would be, and then multiplying the two together; this is very rough. They multiply the two together then divide that by the number of people paying premiums. That gives you the premium. How can it be that costs would rocket in this place? The insurers have had these risk models in place for many years. That is how they work. Someone has to look into this, perhaps the regulator. The PRA regulates general insurance companies. There are some serious questions to ask.

Q24 **Mary Robinson:** Moving on to the wider issues around this, the Secretary of State said in his statement that he expected the interventions he had announced, including on EWS1 forms, to provide confidence to lenders. That will, in his words, “restore the effective lending, purchasing and selling of properties as soon as possible”. How reassured are you that the necessary certainty has been provided to the market?

**Dr Buckner:** “Not that I can see” is the only answer to that. More generally on the question of certainty, generally the market does not like uncertainty. If that uncertainty exists, it will charge a risk premium for that. In the case of flats, we are seeing some quite large markdowns in the market price of these flats that are affected, not just regarding EWS but anything, any unit that has cladding issues or even possible cladding issues. There was a report last week, an article, saying 20%-type numbers. For London properties, that is quite a large amount.

Q25 **Mary Robinson:** Is that 20% directly attributable to the wider issues around this?

**Dr Buckner:** I have forgotten the name of the company the data was from. It is something like “We Will Buy Your House” or “We Will Buy Your Home”. They were giving us these numbers, and they were attributing it to the cladding.

Q26 **Mary Robinson:** Nigel, you indicated earlier that the market will adjust. Will it?



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**Dr Glen:** I know the Secretary of State said that EWS1, the new forms, et cetera, will ease half a million people out of it. I do not know how yet, simply because I have not seen the details. It is a statement, but I do not know how it will actually work. As Dean says, it is the uncertainty in the market. As managing agents, we have had this argument. I know members of mine have gone to lenders and said, "This block is below 18 metres so therefore it does not need the EWS1 form". The mortgager is not obliged to lend, so the answer is, "No EWS, no mortgage. What do you want to do?"

Q27 **Mary Robinson:** Do you see that situation changing?

**Dr Glen:** I do not know what the detail is. I would love it if we did not need to use these things. You have to remember where EWS1 forms came from. They are not the problem. The problem is the mortgage community has turned around and said, "We can no longer trust the building safety certificate. We do not know how that building has been built, so we need something else". That is the problem. It is not the EWS1 form. It is the underlying uncertainty, which, as Dean says, puts everybody into a bit of a funk about it.

I am going to segue off on a completely different tack as well. Dean just reminded me that these loans to the sub-18 metres will crystallise on sale. There is no way that I will not turn round to you, Mary, and say, "You have 10 years left at £50. What is that? £6,000. I am going to knock £6,000 off my offering price". That is how it works. I went slightly off the topic, but it is important to realise this is a consequence.

Q28 **Mary Robinson:** Yes, it is important in terms of the wider market and the effect it is going to have on people who are living in these homes.

**Dr Glen:** It is not just going to affect these flats. These are feeder flats. I could be sitting in a mansion in Surrey with a moat, thinking, "Thank goodness I do not have cladding", but I have a chain. Somewhere down that chain is somebody with cladding, so it is going to affect everybody, not just the people who are actually physically living in those flats at the moment.

Q29 **Mary Robinson:** Has an estimate been done on the effect of this on the wider market?

**Dr Glen:** Not as far as I am aware, no.

**Dr Buckner:** No, not as far as we are aware. Echoing what Nigel just said, this will feed through to the whole chain. Anyone who wants to sell a property and trade up or trade down may have a buyer who wants to buy but cannot sell their property because of cladding issues. It is not just the people with cladding issues that are affected. It is the whole market.

Q30 **Mary Robinson:** How concerned should we be about this impact on the wider market?



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**Dr Glen:** We should be very concerned. We have a perfect storm here. It is ghastly what is happening to the market. We have the cladding. Then we believe the non-cladding is going to perhaps dwarf that. You have the stopping of the sales. Rentals could start stopping because, as management agents, we are being approached by the lettings agent saying, "You need to certify before I can rent that this building is safe". We are going, "We cannot because we do not know". Sorry to sound like a bit of a doom-monger here, but it could be very significant across the whole property market.

Q31 **Mary Robinson:** Are you seeing signs of that directly now?

**Dr Glen:** Yes. For quite some time now, yes.

**Dr Buckner:** There is another big impact. I do not know if a housing Committee wants to consider this, but the really big impact will come when it impacts banking capital ratios. Banks have a sliver of capital available to absorb losses. Some of those losses could be caused by borrowers defaulting on their mortgages. If those ratios begin to slip and banks become clearly in trouble, that affects all of us, because we all have money with banks. Okay, there is a compensation scheme there that is available, but then people have to claim on that. Could they be claiming on cladding deficits, or are they claiming on losing all their money to some high street bank? It is a really serious issue if we hit that point.

Q32 **Mary Robinson:** What are banks doing at the moment? Are they intervening or lobbying? What are they trying to do to head this off? In other words, are they involved?

**Dr Buckner:** Banks are lobbying. We know that. We do not know what the banks are doing, because obviously they would not be saying. One question I would have would be to the Bank of England, which looks at these capital ratios and the stress tests. My first question would be if the PRA for the Bank has done the relevant banking stress tests to include the impact of cladding. I cannot see that it has. Someone should ask them.

Q33 **Mary Robinson:** Nigel, do we know that there are any inquiries afoot to look into this very issue about banking ratios?

**Dr Glen:** Not that I am aware of. This is going to happen very soon. If I take my example, "William, great, we have the building safety fund, but I need £25,500 off you", William is going to say, "I cannot afford that". What then happens is you go to the mortgager and say, "William cannot afford it. We have to do this. Would you be prepared to put that in?" As Dean says, that affects their ratios. This is going to start happening very soon.

The horrible scenario on that is somebody without a mortgage. I am afraid you are bound to find a 90-year-old war veteran who has no mortgage and a state pension. That is forfeiture. That is the only way



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that can be achieved, if the requirement is to make the building safe. All these are coming very soon.

Q34 **Mary Robinson:** Going back a couple of decades, are we seeing another issue of repossessions, et cetera?

**Dr Glen:** It is quite possible, yes. It is quite possible. Nobody wants to go down that route but, if you have to make the building safe, you are obliged to. The only route for money at the moment is the leaseholders. That means either their mortgages have to pay or, if they do not have a mortgage and no access to funds, it is a forfeiture, which is a terrible thing. Nobody wants to go down that route.

Q35 **Mary Robinson:** William, this is the hard reality of it. It is the effect and the impact on the assets that people have put so much of their money and their future into. How do you see the effect on the wider market of these issues?

**Dr Martin:** I am sure you have probably all heard of Hayley, a leaseholder in Leeds who went bankrupt last year. Hayley should never have arrived at this situation. Hayley will not be the last to experience this, to have to declare bankruptcy and hand the flat back. There was a lot of talk just then about the chain. The first rung of the housing ladder has been effectively taken away by this problem. I think the *Times* reported recently that half of flat transactions, worth £1.6 billion, have been lost in September. The implications are huge.

One of the main problems is the Government's own consolidated advice note. That currently states that buildings of any height should have an assessment of cladding as part of their fire risk assessment. The lenders need the support and endorsement of the new RICS guidelines from Government, be that in a communication from MHCLG or from their expert panel, so it is consistent with current Government advice notes.

Q36 **Mary Robinson:** Do you think any of this will give the reassurance to people who are wanting to sell and buy these homes?

**Dr Martin:** Who knows? Until we tackle the things way beyond cladding and have a plan for them, I do not see a way forward.

Q37 **Mohammad Yasin:** The Government announced that a Gateway 2 developer levy will be introduced, hoping to ensure that industry takes collective responsibility for historical building safety defects. Do you think the industry has taken responsibility?

**Dr Martin:** No, absolutely not. The five biggest developers have made £10 billion in profits since Grenfell. They have given £4.5 billion to their shareholders in dividends, and £13 billion has been given out to developers in the Government Help to Buy scheme. In November, £17.1 billion was announced for new homebuilding funds. The idea of a £200 million a year levy for 10 years is entirely inadequate. The developers are laughing. They have got away scot-free. These are the people that have



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created this problem. If we look at it and say, "Okay, it is going to cost £15 billion", the current levy would see developers pay just 13%. Taxpayers would pay £5 billion and the leaseholders would pay over 50%. It is an absolute farce.

It really puts into perspective how little this levy is when you look at Persimmon's profits. It made £1.04 billion in pre-tax profits, meaning they themselves could actually pay the annual levy for the entire industry and use up less than 20% of their annual pre-tax profits. Where is the incentive to clean up its act?

**Dr Glen:** I have to echo what Will says. Why should anybody downstream of gateway 3—i.e. occupation—be held accountable for this? It is nothing to do with any of those people. You are saying "Does it pay it back?" No, it does not. We have seen that there is £5 billion going in. You are going to get £2 billion back. That is £3 billion left with the taxpayers. You can have a certain argument, a certain sympathy, with, "When I built this, I asked for permission to build. Building control said it was okay and has now changed the goalposts". You can have a bit of sympathy there. But when we are coming on to the non-cladding costs, which we have not factored into that and which I suspect, I hate to say, will equal this, that is just bad building. It is unconscionable.

No, I do not think we have yet bottomed out the better funding model. There are other parties involved, so people who falsified data to make their products available and installed. That is something I would be very keen to see. I am sure that is waiting for the Grenfell inquiry to finish, but that seems to be an obvious source of funding. There are warranties and insurance. That is being pursued at the moment. At the moment, it is a start, but it does not feel like a complete solution. Dean's proposal is one potential solution as well, as long as the leaseholders do not get stuck with it.

**Q38 Mohammad Yasin:** The Government are also proposing a new tax for the property development sector, rising to £2 billion over a decade. Do you think that this is a fair contribution, as the Government are suggesting?

**Dr Glen:** It really depends at what stage it comes in. If it means new buyers are eventually paying it, because it is being added to their bill, that does not seem fair either. Why should that brand new leaseholder or owner pay? If it is further upstream, so it affects the pre-sales price, if you like, that would be more applicable.

**Dr Martin:** No, I do not think so. I want to go back to something Nigel was just saying about it not just being the developers and other people. Like he was saying, the Grenfell inquiry is uncovering a horrendous amount of corruption from the likes of Kingspan, yet the market continues to seem to believe that these companies are not going to be subject to penalties. Their share prices keep increasing. UBS upgraded



the stock from “sell” to “neutral” this month. It does not seem to me as if the industry is taking responsibility.

The other people that we need to be looking at and asking hard questions of are the Government themselves. It is pretty concerning that the Building Safety Bill has been pushed through at such a pace before we have heard module 6 of the Grenfell inquiry, which looks at Government involvement as well.

**Dr Buckner:** I would echo what Nigel and Will have said. One of the questions was whether the £2 billion was enough. The LKP proposal came in at a bit larger—it might have been £4 billion or £5 billion—but that is all up for grabs anyway. The other thing is that the being paid over 10 years was actually part of the LKP proposal, which the Government borrowed without attribution, if you like. A significant part of our proposal is to start at year 5 and end at year 15. That is really important, because then you are not seizing up the market by extra costs. You are not penalising current first-time buyers. That five years would allow you a chance to get the market right, but we are not seeing that now. It seems more like a form of windfall tax and, at the same time, it is not really enough.

**Chair:** Thank you to all our witnesses. You have given us an awful lot of evidence. The information we received at first hand there, which Will gave us, was a really harrowing account of what it is like. In the end, we can talk about these figures, numbers and the technical details, but these are people’s homes. They have bought them as a place to live and enjoy, and that is the last thing they are able to do at present. They are sat in a home where they feel trapped in it, with these massive bills hanging round their necks, and frightened about the future. We simply cannot allow that to carry on. Thank you all very much indeed for coming this afternoon. That was really helpful evidence and we will be putting these challenging questions you raised with us to the Minister next week.

## Examination of witnesses

Witnesses: Lord Porter of Spalding and Kate Henderson.

Q39 **Chair:** We go on now to our second panel to give evidence today, and we welcome them both back to the Committee. Would you like to introduce yourselves? You do not need any introduction to us; it is for the people watching.

**Lord Porter of Spalding:** I am Gary Porter. I am the Local Government Association’s building safety spokesman. When I was chair, I was with the post-Grenfell fire work since the morning of the fire itself.

**Kate Henderson:** I am Kate Henderson. I am chief executive of the National Housing Federation. We are the voice of housing associations in England.



Q40 **Chair:** Thank you both for coming. We have heard, quite rightly, a lot about leaseholders and those who have bought the properties. As well as having an interest in that, from both your perspectives, there are also the interests of people who are tenants in properties, which I am sure we will come on to. To begin, the Secretary of State said most ACM cladding has been removed; 95% of ACM cladding has been remediated in high-rise building and 100% in social housing. Does that mean for social housing, for council housing and housing association properties, everything is all right now and it is all settled?

**Lord Porter of Spalding:** We should get on record before we start that the £3.5 billion fund that he has landed from the Treasury is a significant sum of money. It is much bigger than any of his predecessors managed to achieve. Still, that money will not fully cover anywhere near the final costs of this remediation work. In terms of ACM alone, all council-owned blocks have had it removed, but high-rise building safety issues are not confined to ACM.

**Kate Henderson:** From the housing association side of things, all buildings above 18 metres with ACM have been remediated or work is currently under way. That was due to the initial funding from the ACM cladding fund that has evolved into the building safety fund. That funding that housing associations and councils were eligible for made a tangible difference to the remediation works that have taken place.

Q41 **Chair:** What about the other funding challenges that both councils and housing associations are facing, and the access you have to the funds that have been made available?

**Kate Henderson:** As we understand it, the funding that is available to housing associations will be on the same terms as the current building safety fund. That means that housing associations will only be eligible to apply for funding to cover costs that would otherwise be passed on to leaseholders. That means that housing associations and councils cannot access funding for remedial works in properties where tenants live. We have concerns about how narrow the scope of the funding is more generally. It does not cover issues that are beyond cladding. The financing options do not look at things like compartmentation, which we know are really important in terms of fire safety.

You have heard already in the earlier session that a huge number of the costs that are being faced, whether by leaseholders or by housing associations, are non-cladding remediation costs. It is really important as we look at this funding that it is best used in a risk-based approach to ensure highest-risk buildings are remediated first, but also that it is not just for external cladding.

**Lord Porter of Spalding:** As Kate said, we are in the same position as councils. Technically, we are not able to access the building safety fund for that work if it is for properties where our tenants live. A knock-on effect from that is that some councils will not be able to afford to take on



the remedial work for non-ACM buildings. For those who can, the money will be diverted away from providing more affordable homes. That has a knock-on effect for homelessness, social security bills and things. We should be treated the same as private people. We should be able to access that fund to do our buildings. As Kate said, we should be prioritising the most dangerous buildings first, regardless of whose ownership they are in.

**Q42 Chair:** We will come on to the knock-on consequences of not being able to access the funds in another question. Have you done any assessment of the actual costs? You mentioned the fact that it is not just cladding. It is all the other work that, as we heard from our previous witnesses, will have been identified in these buildings. Have either the LGA or the National Housing Federation done any assessment the likely total costs on the buildings that councils and housing associations own?

**Lord Porter of Spalding:** We still have not yet got to a place where any of us will be keen to say, "That is the end of the building safety crisis. We have now identified all the problems". It seems that, on almost a monthly basis, we are uncovering new types of problems. Where we are now, we think somewhere in the region of at least £8 billion over the next 10 years.

**Kate Henderson:** Like Gary, we do not have a precise figure. I know data was picked up in the earlier session. There is not any clear and publicly available data, as far as we are aware, on scale of non-ACM combustible materials on high-rise buildings, or combustible materials, including ACM, on buildings below 18 metres. Without that review, it is quite difficult to put an estimate on the scale of the challenge. Government estimate that there are over 11,000 high-rise buildings in the country and that there are around 85,000 buildings between 11 metres and 18 metres. These are really big numbers. We do not know the scale and the extent to which they need remediation, though.

In looking across the sector, initial estimates are that it will be around £10 billion, so comparable figures to the LGA's, in terms of building safety. Until we have a proper risk-based assessment of buildings at different heights with different materials, we will not know the extent of those costs. It also has to take into account not just the building but the occupancy of the building—who is living there and what the building is used for.

**Q43 Chair:** Some people might say that your prioritisation in that way is the same as the Government's, putting the money that is available into the high-rise buildings—the highest, tallest buildings—because they are the most at risk.

**Lord Porter of Spalding:** If you have limited resource, surely we should be prioritising the highest risk first. It has to be the impact on human life that is the main thing to protect, and then work backwards from there. The trouble is that we keep finding new materials that are bringing out



dangers. It was only two years ago that we found out the state of the fire door industry and the glass-reinforced plastic fire doors. We do not know what we do not know in terms of building safety. The next fire may well throw up another product that has been tested badly, constructed badly, badly used or badly made in the first place. We have seen from some of the testimony that the scruples of some people in the product manufacturing industries leave a lot to be desired, at least.

**Kate Henderson:** I agree with that. We have always advocated, as has the LGA, for a risk-based approach. That means allocating funding to the buildings that need it most. Importantly—this is what we do not have yet—we need Government to take a strategic lead in identifying where those resources and the capacity are most needed for remedial work, so that they are allocated to people whose buildings are of highest risk.

As a sector, housing associations are looking at a risk-based approach. They are considering the risk to a building holistically. Height is clearly one factor, but we have to consider who lives in the building, the type and amount of cladding and whether there are sprinklers. There are examples where this just is not working with the current funding system. For example, you could consider a building that is 17 metres high but has a lot of ACM on it as higher risk than a building that is 20 metres high but has a small amount of another material. The way the current system is working is it is allocating funding based on a height and product basis only. The market-based approach for obtaining services from professionals means that we are only able to supply remediation to buildings where you can access that support, rather than buildings that are really the highest risk.

Q44 **Andrew Lewer:** Welcome to you both. The LGA said that it is unjust to leave leaseholders to bear the cost of remediation. What is your assessment of the long-term low-interest loan scheme for cladding remediation costs for buildings of between four and six storeys, with no leaseholder paying more than £50 a month?

**Lord Porter of Spalding:** It still leaves the leaseholders paying and we are adamant that leaseholders should not be the ones picking up the bill for this. Out of everybody involved with the building safety crisis, the only people we can all guarantee are innocent in it are the leaseholders and tenants. It is a very bizarre position where the least guilty are the most financially penalised. From an LGA perspective, we do not support the loan system.

To be fair to anybody who has tried to look at it, without seeing the real detail of the loan system, we do not understand how that is going to work. If there is an intention that the loan sits with the building rather than the leaseholder, at some point, when the leaseholder tries to sell, the sale price will reflect that there is a charge outstanding for paying back the loan. Until we get the real detail of it, I cannot see personally how you can come up with the scheme and try to get people to buy into it without seeing that detail. If, ultimately, it means the leaseholders pay,



it has to be wrong, because they are the only group of people that we can all say, with certainty, are innocent in this.

**Kate Henderson:** We appreciate that the Government have looked at trying to make these costs affordable on a monthly basis, but, fundamentally, these costs should not be borne by the leaseholders. We do not believe that people who bought their homes in good faith should have to pay for the failures of developers, manufacturers and regulators.

There is an additional thing to add. Again, we are waiting to see the detail of how the loan scheme will work, but some housing associations have expressed concern that the loan, by virtue of being issued to the freeholder of a building, could also impact upon borrowing capacity. In turn, that would then impact on the future of the supply of affordable housing. We do not agree with the alternative approach of issuing a loan to the leaseholder directly either. We do not think that would be acceptable and we do not think leaseholders should pay. There is an issue there around what that will do to sector borrowing.

In addition, there is this lack of funding to housing associations' tenanted properties. That is going to be another challenge for the sector, in terms of some lenders then being very risk-averse in terms of how they will lend to housing associations that have high-rise buildings, in terms of using that funding against loan security. There are a number of knock-on implications here that we really need to consider with the detail of the loan finance scheme.

Q45 **Andrew Lewer:** On that theme of knock-on costs, what is your assessment of the impact of the fund and the loan scheme on mixed-use buildings?

**Lord Porter of Spalding:** Mixed-use is going to be really interesting. If the building has some commercial use in there and it is only the residential leaseholders who are going to be expected to pick up the bill, are we not going to remediate the part of the building that is the mixed part of the use, or are we going to remediate that part of the building as well and expect the leaseholders to pay for that? It seems that, at the moment, without seeing any real detail of what we are talking about, it is very difficult for anybody to have a definite and firm position on that. I heard Clive say earlier that you are interviewing the Minister next week. Perhaps he will be ready for that question.

Q46 **Andrew Lewer:** You highlighted the concern it creates; that is for sure. Again, the LGA said that the cladding crisis is also affecting leaseholders whose building cladding systems are safe, because of the impact of the EWS1 form. In his statement, the Secretary of State said that he expected the interventions he is going to make, including on EWS1 forms, to provide the confidence to lenders that will "restore the effective lending, purchasing and selling of properties as soon as possible". How reassured are you that the necessary certainty has been provided to the market?



**Lord Porter of Spalding:** Saying they are not required—and they are not required; they were not brought in for low-rise buildings or for buildings that were safe—does not make that the case from the lender’s perspective. If they are all still insisting on having some form of proof, the industry does not have the capacity to do that work. There are not the approved inspectors to be able to check the work to make sure everybody has confidence in that. If I am being brutally honest, the money lenders have no financial interest in doing anything differently. If they are lending to people on buildings at discounted rates to get them tied into a mortgage in the first place, and then after two years deciding to put their mortgages up to variable rate and the leaseholder cannot move because they are trapped because they cannot get an EWS1 form, that suits the money-lending industry. They are automatically milking people for higher-rate interest.

**Kate Henderson:** In practice, whether or not lenders are satisfied that leaseholders will not face unaffordable bills is going to be what ultimately determines the outcome of whether this works or not. Given that non-external-wall issues are not going to be covered by this funding by Government, I would express doubt over lenders’ reactions and whether this will restore the balance that Government are looking for. We welcome the work of RICS and the fact that Government are trying to provide consistency in the valuation of flats, particularly to the delays of obtaining EWS1 forms and the lack of qualified assessors. They are steps in the right direction, potentially reducing the number of properties that fall into scope of the EWS1 forms, but it is lenders’ response to these funding proposals and proposed new guidance that will determine how the form is used in the future. I do not think we know that yet.

We are really concerned about how long the delays are with getting these assessments and the types of buildings that lenders are requiring them on. This is a particularly serious issue for low-rise buildings, where housing associations are working with fire safety experts to prioritise buildings that are highest risk, so generally the taller buildings. That means that, if you are a resident in a medium or low-rise building and your lender has asked you for one of these assessments, your housing association is working through a risk-based approach and it is likely that is going to be down the line. They are going to have to do the tallest or highest-risk buildings first.

We recently polled a sample of our membership and found that 42% of the EWS1 form requests are for those medium and low-rise buildings. There is a really big issue here. This means that, for people waiting to move, to re-mortgage or to staircase, it could be years because of the way that lenders are responding at the moment and the lack of assessors.

Q47 **Ian Byrne:** Lord Porter, I will direct the first part of the question at you, please. The £30 million waking watch relief fund, announced in December, only applies to the private sector. How is the social sector



ensuring residents are being kept safe, and how is that being paid for?

**Lord Porter of Spalding:** It was a hole in the LGA's knowledge about whether any of our members are deploying a waking watch. When we were prepping for this session last week, we realised we did not have the answer to that. I have asked the office to write around our members to find out if any are actually using waking watch, so that we can give you that information in writing, because we do not have it. Clearly, if we are deploying waking watch, that will not be paid for by the Government or the safety fund. That will be paid for by the social landlord.

**Q48 Ian Byrne:** That is the second part of my question gone, because I was going to ask about the impact it would have on the building of desperately needed new social housing. Until we get the data, we will not be able to establish that. Thanks very much for acknowledging that there is a gap there, and we will get the data so we can follow up, hopefully for next week when we see the Minister. That would be really handy.

Kate, I will ask you the second part of the question. Last autumn, in their response to our report on cladding remediation, the Government said, in publishing the draft Building Safety Bill, that they had "made it clear that it intends to address insurance issues related to building safety. This will include consideration of the challenges some high-rise residential buildings are experiencing in obtaining affordable buildings insurance cover". Last session we heard the witnesses talk about an average of a 400% increase in the cost of cover. I know from speaking with residents in Runcorn how this has affected them and the ability to move. It was causing real mental health issues. Kate, have the Government addressed the issue of insurance?

**Kate Henderson:** They have not addressed the issue of insurance yet. Just taking your previous question on that £30 million of the waking watch fund, while it is welcome that there is some funding there and any funding that will alleviate the burden of cost on leaseholders having to pay for fire safety issues is welcome, it is not enough. It is not going to be enough to fix sprinklers and alarms in properties.

We are, as housing associations, able to access this funding on behalf of leaseholders where the scale of remediation works means they have had no choice but to pass the cost of waking watch and other interim measures on to leaseholders. We know that that is happening with housing associations. There has been some access to the waking watch fund, but we also know that some of our members have not been passing that cost on, where they have been able to cover it and have not wanted to pass that cost on to leaseholders.

Where they are covering those costs themselves, that money comes out of the money that would be used to invest in services for existing tenants. Tenants are not paying for this out of service charges, but money that is collected through social rents is being diverted into immediate remediation costs and things like waking watch, and the other



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consequence of that is that it will mean less provision of building of social housing. On that point, some money is welcome. It is only available to cover the costs of leaseholders where the housing association is not otherwise able to cover that, and it does mean that those other costs are being diverted away from investing in services for social tenants.

In terms of building insurance premiums, our members tell us this has not been such an issue for them as reported in the private sector, which is quite interesting. We are monitoring it very closely. This could be because our members as social landlords have a long-term interest in the communities they serve, have these longstanding relationships with their insurance providers and can more clearly communicate the steps they are taking to reduce risk. It could be that they have been able to negotiate longer-term arrangements for their insurance, perhaps across a range of stocks, so it does not so disproportionately affect price. That said, we do understand that the residential insurance market is changing and costs could increase.

We are watching it really closely, but we have not seen it to the same extent that is happening in the private sector. I know that will be of little comfort to leaseholders whose costs are going up at the moment. There needs to be more support for them.

**Q49 Ian Byrne:** Thanks for that, Kate, and thanks very much for the first part of the answer. I really appreciate that. Have you got the data available of how many waking watches are actually getting used in social housing? Can you supply that to the Committee?

**Kate Henderson:** I do not know if we have specific data, but we would certainly be able to supply some case studies. This works quite differently in different buildings, depending on freeholder arrangements and type of building, but we could certainly provide some case studies. It would also be worth understanding from Government around applications to the waking watch fund, in terms of what is being approved and what is not being approved and the data that they are able to collect through that. I do not know if that is readily available from Government, but that would be really useful. I will come back to the Committee with any additional evidence that we can provide. It might be case studies rather than specific numbers, but we will come back to you.

**Q50 Ian Byrne:** Lord Porter, going back to the issue of insurance and what we heard in the previous session, what should the Government do to support those experiencing unaffordable insurance cover?

**Lord Porter of Spalding:** On the subject of insurance, this is a personal view rather than an LGA view. The Government have no choice; they must levy a windfall tax on the insurance industry. The insurance industry is profiteering the same as the money lenders are from the whole thing. The insured risk, while it was unknown, was being covered by everybody collectively. We were all paying some premium towards building insurance for high-rise buildings for fire safety. Now the risk is known,



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the insurance industry is loading the premiums of the people who live in the buildings where the risk has been identified, but they are not reducing the premiums for everybody else who was previously sharing the burden of that. There is no other way out of it. They are profiteering from doing what they are doing and the Government must levy a windfall tax on them.

Q51 **Ian Byrne:** I am not going to argue with that. It is an excellent answer, Lord Porter. Kate, would you like to add anything to that?

**Kate Henderson:** There is not an easy answer to the insurance question, but there are models of where the state has stepped in to underwrite risk. There are examples with flooding, with homes in high areas of flood risk, where it is either impossible or incredibly expensive to access insurance, where the state has stepped in with Flood Re, for example. We could look at similar models for buildings that need remediation. There is a role for the state there.

Q52 **Bob Blackman:** Welcome to our witnesses. Kate, if I can start with you, in terms of the impact of remediation costs on housing associations and residents, can you just elaborate on the wider concerns that are going to be felt not only by yourself as an organisation, but by the residents themselves?

**Kate Henderson:** It is really important that there has been such a focus on the impact of remediation on leaseholders who bought their homes in absolute good faith and are faced with an appalling situation of a failure of developers, manufacturers and regulation. What we have not heard in this debate—this is why I am really pleased with your question, Bob, and the focus of the Committee—is about the impact on people who are currently living in social housing whose homes need remediation, where there is no funding.

That means diverting funds away from planned repairs and maintenance and funds away from social tenants, who are often people on the lowest incomes in this country, who pay their rents. There is no money for the remediation of their properties. Housing associations are not for profit. Yes, they generate surpluses, but those surpluses are allocated both to investment in existing homes and communities and also to building much-needed social homes. There is a definite consequence there.

As part of this debate, we have also heard quite a lot around big developers or housing associations that are the larger housing associations and perhaps have more of the high-rise buildings, but actually the impact of the building safety crisis affects organisations of all sizes. I just wanted to give an example of a specialist housing association that we work with, which provides temporary accommodation to people experiencing homelessness. It was poised to start a much-needed new development of temporary accommodation to tackle homelessness in south London. What happened is that it discovered one of its existing buildings required remediation. Of course, that is non-negotiable and



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urgent, yet that building and that housing association do not qualify for Government funding. Therefore, it has made the right decision, which is that it will direct its funds to remediate that building, but it means it has had to pause on building a site that it has consent for, for a new much-needed provision of accommodation for people experiencing homelessness.

These are really difficult decisions that housing associations are having to make right now. It is really important that that impact is understood. It impacts housing associations of all sizes, whether it is the building of much-needed general-needs social housing or right through to that specialist accommodation, as a consequence of not having direct funding into the social housing sector.

Q53 **Bob Blackman:** What about the potential for increases in service charges and rents on social tenants?

**Kate Henderson:** If you are a social renter, you are in housing need. You tend to be on the lowest incomes in this country. Social rents are typically half of market rents. It would not be acceptable to pass remediation costs on through rents. Two-thirds of rents are covered by housing benefit anyway, so that will just be a knock-on consequence to universal credit.

Q54 **Bob Blackman:** It might be a tempting thing to do, for a housing association to say, "We have had to pay out all this money and, therefore, the service charge or the rent will have to go up commensurately", which then leads potentially to the housing benefit bill paying for it in the end anyway.

**Kate Henderson:** The rents for social renters and the service charges are regulated, so these costs will not be passed on to social renters. What will happen is that the rent that they pay will not be directed to perhaps promised investments into their homes, communities and neighbourhoods. Instead, it will be diverted, in many cases, into remediation costs. We are not going to see the cost of living shoot up as a result of this for social renters in housing association properties, but we may well see less investment in their home, community and neighbourhood, and that knock-on consequence of housing associations being able to build less. We know that there are hundreds of thousands or millions of people in housing need in the country.

Q55 **Bob Blackman:** Gary, the LGA has said the scale of the cladding crisis could well be large enough to seriously damage the housing market and pile yet more pressure on the post-Covid economy. In what ways could the housing market be damaged by this requirement? What are the implications for councils if this happens?

**Lord Porter of Spalding:** Clearly, the market is already starting to freeze in London. Even if it is not for an unsafe building, it is being able to prove that your building is not unsafe, so people are not able to move and the prices are coming down. We saw price reductions again in



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London this year. The knock-on effect for the market is the usual one. If London does not move, the rest of the country does not move. Most of the high-rise buildings are in London and that will have an impact. We have seen a lot of people, post Covid, wanting to get out of town to move to houses with more accommodation for those working from home. That will impact on the housing market.

If we are putting more pressure on the market, probably it is the increased costs that councils will have to pick up themselves and then will almost certainly be passing on for more homelessness and fewer houses being built by councils because money is being diverted away from the projects that we were on to do, in terms of replacement stock through sale through Right to Buy and stuff. The whole of the housing market is interconnected, and spending money or not spending money on building safety and the impact on confidence in the market will impact on everything else that we do. It is an open-ended failure that we will end up with.

**Q56** **Bob Blackman:** Kate has mentioned, quite rightly, the impact on housing associations of having to fund this remediation work, and she has given an example of a development that is not going to take place—at least not immediately—because of remediation. What is the impact on new affordable homes being developed as a result of this particular challenge, both in terms of the ability of the industry to supply staffing to do the work, but also on people to actually fund the work in the first place?

**Lord Porter of Spalding:** Clearly, the industry will not have enough skilled people to do the remediation work at the scale we are looking at anyway. That case has been made just on ACM buildings. When you put in HPL and go below high-rise to low-rise and medium-rise, the scale of the problem is just too significant for people to be able to manage to fix within the existing marketplace. We have not got the people even to do the boring bits, which are the inspections and the paperwork. They are not there. This is not going to be an easy fix overnight or over a few years. This is going to take years to do, which goes back to the point that we started with, where we have to prioritise the buildings that are the most dangerous.

**Q57** **Bob Blackman:** We all see that as being the way forward. The issue is always going to be what an acceptable risk is, which is always the key challenge in that respect, is it not? Is local government then planning for this? What can local government do to enable the work to be done and also the priority to be given?

**Lord Porter of Spalding:** I do not know, Bob, if I am being brutally honest. I do not know how we can do more than just play our part in working with everybody to try to get some sense of proportion put into some of this. Clearly, the Fire Safety Bill, with the way it is being interpreted, is now being used retrospectively on housing stock that was previously deemed to be safe and compliant with the building regulations.



That is the first time that I can recall changes to the regulation system being retrospective. I cannot recall that ever happening before. That is an unintended consequence of where we are now. Somebody needs to sit down and work through where we are with this. We cannot use the existing regulation or the new Fire Safety Bill to be able to do that.

Putting a levy on the construction industry will impact on new homes being built. You know what it is like when we put a red line around a piece of land; that increases the land value. That is where we need to take the value out. The development industry will just say, "If we have to pay an extra tax on these buildings, that gives us less money on the building site, the site is less viable and we are going to give you fewer affordable homes as a result of that", and that will impact on the number of affordable homes being built.

The industry will not take that money and take it out of its bottom line, will it? It will pass it through to wherever it is. To be fair, there are a lot of people in the building industry who did not build the flats that we are talking about. There is a moral position: why should that part of the construction industry not responsible for this pick up that bill?

I have said this before to the Committee. The public inquiry is being done the wrong way around. We should have gone for the crooks and the rogues first and then sorted everything out afterwards. The first part of the inquiry that concentrated on the impact on London was the wrong piece to do first. We knew that there were people who had been gaming the system from early doors post Grenfell. It was writ large for us that some people had been gaming this, and we should have gone for them first.

That is where the money should come from ideally. Even if it is not enough, at least the principle is established that if people do bad things, they have to pay the price for it. At the moment, we have a system that says people who do good things are paying the price and the people who have done the bad stuff are still walking around scot-free. It cannot be right.

**Q58 Ben Everitt:** I am basically just picking up where Gary left off, in relation to what you almost described as collective punishment. The Government have announced the Gateway 2 developer levy, which, in the words of the Government, is to "ensure that the industry takes collectively responsibility for historical building safety defects". Taking into account, Gary, what you just said—that there are plenty of builders out there that have not put unsafe cladding on—has the industry taken responsibility, and is the way that this is being rolled out the fairest way of doing it?

**Lord Porter of Spalding:** It is not the fairest way of doing it. Making people who are not responsible pay for somebody else's failure cannot be fair. It may well be the only way the Government come up with it, because ultimately, if the Government pay for it, it is not their money, is it? The Government do not have any money. They only have our money,



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so, ultimately, we are all going to pay the price for it one way or another. It will either be through taxation or levies charged on other people.

This is telling the building industry as a whole it is all their fault and then not telling the test industry, which certified products. We saw last week and the week before some of the evidence coming out there: 4 million fire doors failed and, according to the industry, they failed because the test industry did a bad test. I do not know whether that is true or not, or whether the fire door industry is as bad as the cladding industry, but, ultimately, those people are the people who should be held to account.

We know from our own perspective that the regulation and guidance system is partially to blame for this. There can be no other way of explaining such a large-scale systemic failure. If the rules were easy to understand and easy to apply, then this probably would not have happened, apart from those cases where people are deliberately gaming the system. We have seen high-rise failure right across the country for all types of tenure.

Q59 **Ben Everitt:** Essentially, you are saying people are getting off the hook.

**Lord Porter of Spalding:** We know that at the moment, do we not? We have seen some of the testimony coming out of the public inquiry. In any other walk of life, those people would have been straight off to the police station. How some people are getting away with it at the moment I do not know. It could be because the police are just building a much bigger case to sit there and do it, but, while we are waiting, those companies are still trading and still making profits.

The ironic thing out of this is that some of the people responsible for Grenfell's fire will be making huge profits because they will be reselling material. Some of the people who built bad jobs in the first place will be doing more work, so they will be making more money. The test houses that now it looks like are complicit in some underhand testing, by the looks of last week's statements, made a fortune out of testing materials post Grenfell. It just seems that all of the wrong people are making money and all of the wrong people are paying the price. The levy and other such things just amplify that for me.

Q60 **Ben Everitt:** In that bucket would you include the proposed tax of the property development sector, where the Government have suggested bringing in £2 billion over the next decade? Is that the same misguided missile, as it were?

**Lord Porter of Spalding:** The country's finances are in such a state that there is no way that any of us are going to get away without paying more tax going forward. Tax, if it is just a straightforward tax, is fair enough. If they can say, "Profits over X percentage should be taxed", and they can justify it, that is fine, but I would not justify it on the back of somebody else's mistakes. I would justify it on the back of the fact that the country needs the money. The reality is the building industry will not pay that



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tax. It will pass it on to whoever is buying the next set of homes, because that is how that works.

Q61 **Ben Everitt:** Yes, absolutely. Kate, do you have any comments there on the fairness and the scope of the scheme issues that Gary has pointed out?

**Kate Henderson:** I agree with Gary that Government should consider how to ensure that those product manufacturers, which had a fundamental role in creating unsafe buildings, as we have really seen clearly with the Grenfell Tower inquiry, should contribute to the cost of remediating buildings.

The proposal for a levy on future development and a tax on residential development could help. We would broadly welcome it as a way of ensuring that developers contribute to putting buildings right, particularly those developers that were responsible for some of this work in the first place.

One thing to be aware of, which Gary has highlighted, is about whether those costs get passed on or not. That is not just to the individual consumer buying their home. It is also to housing associations, which often buy properties through the planning process to be provided as affordable housing. We would want to be involved in the design of any developer levy to ensure that it does not squeeze out affordable housing contributions as a consequence of this being applied to developers.

You also said that the Government estimate that this will generate £2 billion over the next 10 years. We know that is not going to go anywhere near covering the cost of remediating all buildings that have safety concerns.

More broadly, while these ideas are absolutely worth looking at—a tax and a levy are worth pursuing, and product manufacturers are definitely worth looking at—what we really need right now is upfront funding to remediate buildings. We need that to be prioritised. We need a strategic approach by Government to ensure that the highest-risk buildings get the resources. It is not just the funding but also the people. There are not enough people to do this work. There are not enough assessors. There are not enough scaffolders. We are not equipped to deal with this and, therefore, we need to prioritise those buildings at highest risk first. That means a really strong central role from Government to take a strategic lead, to prioritise and to provide upfront funding.

We will, down the line, pursue warranties and litigation with developers, which housing associations are already doing. Much of those costs will be recouped, but only the Government can step in to make sure that the highest-risk buildings can be remediated in a timely way.

Q62 **Ben Everitt:** Kate, thank you very much. The point that you have highlighted there about the additional resources, in terms of money and



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people, is fundamental to this, because part of the Building Safety Bill and Fire Safety Bill has identified new roles—so, in addition to the pressured roles that we have already, there are new roles for the industry to come to terms with, train people on and roll out en masse. There is a significant issue with resourcing there.

I have one last question, just going to Gary, before I wrap up. Councils and fire services can take enforcement action to force owners to fix blocks, fine them if they do not and take more enforcement action to have a really significant part to play in driving this action. How much enforcement action has there been, and what hinders more action being taken?

**Lord Porter of Spalding:** The scale of enforcement is pretty hard to quantify, but we have about 40 buildings where our members have taken direct action. You know from previous evidence we have worked with Government for the joint inspection team. That works on the highest-risk buildings.

Ultimately, we can serve notices on the building owners to fix problems, but the building owners are able, by the way the law is constructed, to pass those costs directly back on to the leaseholders again. It is a vicious circle of the most innocent people in the whole thing being the ones expected to pick up the can. Like all things with enforcement, there are ways for unscrupulous landlords to delay and obfuscate when we are trying to get stuff done. The enforcement system is not the best one in the world, but I am not anywhere near qualified to come up with a better way of doing it. It takes brains much greater than mine to be able to work out an easy-to-apply, easy-to-understand and easy-to-pay-for system.

**Ben Everitt:** Gary, the plain speaking really helps.

**Chair:** Thank you from the Committee to Kate and to Gary for coming this afternoon. You have given us a lot of information and insight into the challenges facing the social housing sector, but also the wider housing sector. Clearly, again, there will be information there that will help the Committee when the Minister comes next week. Maybe after the session next week we will all have the necessary answers to these problems, but we will wait and see what the Minister has to say. Thank you both very much indeed for coming.