

Housing, Communities and Local Government Committee

Oral evidence: Work of Homes England, HC 819

Monday 15 November 2021

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Members present: Mr Clive Betts (Chair); Bob Blackman; Ian Byrne; Brendan Clarke-Smith; Florence Eshalomi; Ben Everitt; Rachel Hopkins; Andrew Lewer; Mary Robinson; Matt Vickers; Mohammad Yasin.

Questions 1 - 75

Witnesses

I: Peter Freeman, Chair, Homes England; Peter Denton, CEO, Homes England.

Examination of witnesses

Witnesses: Peter Freeman and Peter Denton.

Chair: Welcome, everyone, to this afternoon's session of the Housing, Communities and Local Government Committee. We have a one-off session this afternoon on the work of Homes England. We are very pleased to welcome both the chair and the chief executive of Homes England, who I will ask to introduce themselves in just a minute. To begin with, members of the Committee will want to put on record any interests they have that may be relevant to this inquiry. I am a vice-president of the Local Government Association.

Rachel Hopkins: I am a VP of the LGA, and I employ a councillor in my office.

Ian Byrne: I am still a councillor in Liverpool, and I employ a councillor in my office.

Florence Eshalomi: I am also a vice-president of the LGA.

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

Matt Vickers: I have a family member who is a councillor. I employ councillors in my office. I have family members who have a construction business and work in the industry.



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Andrew Lewer: In addition to the register of interests, I am a vice-president of the LGA.

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

Mohammad Yasin: I am a member of Bedford Town deal board.

Q1 **Chair:** Thank you very much indeed. Now we will go over to the important people this afternoon, our two witnesses. You are very welcome indeed. Perhaps I can begin by asking you to introduce yourselves before we go on to questions.

Peter Freeman: I am Peter Freeman. I have been chair of Homes England for just over a year now.

Peter Denton: Good afternoon. My name is Peter Denton. I have been the chief executive of Homes England since August.

Q2 **Chair:** You are both very welcome. You have both been in your jobs for a relatively short period of time. I have a very general question to kick off with: what is Homes England for?

Peter Freeman: When I was briefing the new Secretary of State with the other Peter a few weeks ago, and we told him how many different things we did, he said, "So, you are my Swiss Army knife." We are there to help the Government procure and make happen whatever current Government policy is in housing, whether it is the affordable housing grant, supporting SMEs, encouraging modern methods of construction, or helping rough sleepers into shelters.

We do a wide range of things. Some of them are by way of grants, and some of them are by way of loans. Sometimes we buy land and enable land to bring it forward when there has been market failure and nobody else is bringing the land forward. Fundamentally, it is a whole range of things across housing.

Historically, since the days of English Partnerships, it has been less in regeneration but, potentially with the levelling-up agenda, it may be more in regeneration again.

Q3 **Chair:** It seems like a bit of everything and anything, does it not?

Peter Freeman: It is, in a way. Most of our spending is not in the sense of our own balance sheet to work out within our board how we spend it; it is programmatic expenditure that comes with a fairly specific mandate. In a way, what makes Homes England special is its people, and the network of relationships and the skills they have. We have 1,400 people, of whom only 25% are in London; 75% are spread throughout the country with offices in Newcastle, Manchester, Coventry, Liverpool, Bristol and so on. As I go round the country, including the day I met you in Sheffield, there is a real sense that there are Homes England troopers, who are boots on the ground, who know the local council, the officers, the councillors, the local housing associations, the local builders and the



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local landowners, so that we can act as a catalyst. Beyond the money we hand out, we can also help convene and pull people together.

Peter Denton: You bring it together through the fact that we tend to only get involved either where market health needs to be addressed, so where there has been market failure, or as instructed in order to accelerate and bring forward things that either would not otherwise happen or would happen in a much longer time period. A typical example is in unlocking land, where they may well be contamination issues, multiple ownerships or other impediments to bringing that forward.

Q4 **Chair:** I understand that you are currently reviewing your strategic objectives. Why?

Peter Freeman: They were created about four years ago. Several Secretaries of State on, policies change. There is nothing that we regard as untoward within them, but we suspect that, working with the new Secretary of State—there have been two elections in between—we can probably sharpen them up to address the needs of the day more.

Q5 **Chair:** Is there anything specific that you are looking at?

Peter Freeman: We would like to wait and see what the new Secretary of State announces over the next few months to be more precise on that.

Q6 **Chair:** That is the levelling-up White Paper, is it?

Peter Freeman: There is that and whatever agenda there is on planning and other matters.

Q7 **Chair:** You see yourself as simply waiting for Government, not advising Government of your objectives and what you would like to see them requiring you to do.

Peter Freeman: Most of my first four or five months were taken up by fact-finding and writing a chair's review for the previous Secretary of State. One thing that I recommended—I am glad that it is being adopted—is that, like the Treasury and HMRC, we are looking to have more of a policy delivery partnership. The Treasury uses HMRC as the people who are going to implement tax policy, to get their feedback before it introduces a policy. In a similar way, because we are the coalface and the people in the market implementing policies, we would like to work very closely with the Department so that policies are, in a sense, hatched ready to be implemented. We are not there to say what the policy should be.

Q8 **Chair:** What is the point of the conversation then?

Peter Freeman: Within the nature of any policy, you can structure to implement it in different ways. We are focused on implementation.

Q9 **Chair:** Then this is the obvious question: did these conversations not happen in the past? You say that there could be an improvement on what has happened.



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Peter Freeman: That is right.

- Q10 **Chair:** Okay, that is a clear answer. You have a different relationship in London. You work with the GLA there. How is that going at present? Are relationships good? Could lessons be learned for the rest of the country about the way that London operates?

Peter Denton: We have a good working relationship with the GLA, at a senior level as well as a working level. We work co-operatively on the building safety agenda. We look to co-ordinate with regard to the affordable homes programme. While Homes England's mandate in London is different to the rest of the country's, we work on areas of common interest where we can provide, for example, infrastructure funding into London. My conversations to date have been very affable and very collaborative.

- Q11 **Chair:** Are there lessons for the rest of the country from how you work in London?

Peter Freeman: It is a slightly different relationship because of things like the affordable homes programme, which we distribute nationally outside London. We are a larger source of funds outside London than within London. Peter may add things, but I am most aware of activity in London where we are almost supporting the conceptual stage of bringing forward things like Old Oak, Thamesmead, Beckton and Barking Riverside. We are probably working almost more hand in glove with other mayoral authorities. It is different because the GLA is such a big beast in its own right and so long established.

- Q12 **Florence Eshalomi:** Good afternoon, both of you. The internal audit report for 2020-21 provided really limited opinion on Homes England's overall assurance, owing to "significant weakness in the frameworks of governance, risk management and controls" to the point where it could become "inadequate and ineffective". As CEO, Peter Denton, you are responsible for the management of the corporate directors, the management team and the agency's big programmes. What are you doing to address these weaknesses?

Peter Denton: The internal audit report comes to the accounting officer role, which is me now. When I joined in August, I was very acutely aware that, on my to-do list, this was probably at the top of things to focus on. I was very grateful that quite a lot of work had already been done before I joined.

Just to set the context, the internal audit report on us focused on a number of things. It focused on some principal risks, changing the management structures—not people structures, but changing the management of the organisation—and capacity and resilience, as well as other things including risk management and operational constraints. There had been an audit and risk committee in June that benefited from an external review, and it made certain recommendations that we have pulled together in what we call a control environment risk programme.



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Effectively, it is a holistic approach to addressing a number of things in one go.

We have bucketed those into six areas, including corporate health, so governance; workforce planning; data and management information—when I arrived, a lot of the data issues had already been resolved with the incorporation of new systems and approaches—bringing some aspects of Help to Buy back into risk appetite; and strengthening the risk management framework. Peter mentioned the sponsorship review that he undertook. There have been other sponsorship reviews with the Department, and that collective work is being focused on as well.

Finally is the transformation project and the approach we are taking to change predominantly old and inherited systems and processes into a more fit-for-purpose-today approach. In total, there are 27 aspects of focus that we have put together. We are looking to achieve 17 of these to be addressed by the end of the financial year in March. The other 10 are important, but not quite as important.

In that process, it is really important to emphasise the level of assurance that is going on. First of all, the executive team is looking to assure itself on this programme. Then, it is the audit and remuneration committee; then it is the board; then, through the quarterly shareholder meeting, it is the Department. I am comfortable that we have identified the areas that we need to improve upon, and those are well underway already.

I should emphasise that it was correct to identify these aspects but, to my knowledge, I have not seen anything where Homes England has been put at risk in actual fact. This is identification of risk management and information flows that could certainly be improved, and will be.

Peter Freeman: The board itself is taking a strong, positive and embracing role. We are being advised much earlier of anything. We are making more suggestions. Boards are always in danger of being the last place where information arrives, and debate is not full because, in a sense, the information has arrived too late. We are trying to become a board where all issues that are strategic, in terms of programmes or our ability to manage them, come to the board early.

There is a very good board with very wide experience. There is political experience; experience at high levels of financial services; local authority experience; and banking and risk experience. We have recruited a new chief executive who is very able and determined. He has already been through a transformation process when he went to Hyde four years ago. No balls were dropped but the systems were not as good as they should be. I believe they will be in the next few months.

Q13 **Florence Eshalomi:** Crucial to that would be that stability at the top. One of the things we have seen over the years is that instability in terms of a lot of interim exec directors. Just two weeks ago, you lost your chief land and development officer, Stephen Kinsella, who is going back to



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Barratt Homes, so there is another period of instability. One of the things in the report was that the agency had been hampered by that and that it was under strain. Do you feel that that period is now over and will there be more stability going forward?

Peter Denton: From the exec perspective, what was instructive to me in the example you gave was that there had been enough thought put into succession planning and the empowerment of other people such that, when our chief land and development officer resigned to go back to where he had been prior to Homes England, there were several choices of people that I felt very comfortable bringing in at the initial point in an interim role to manage that role.

Florence Eshalomi: It will be another interim role.

Peter Denton: Because we have to go through a process of full job search and appointment, we have to initially appoint an interim person, and then we will go out to secure a permanent role.

Q14 **Florence Eshalomi:** You cited data management and better planning. You will be aware of the recent report in *The Times* in terms of a number of people feeling that they have had difficulties in paying back the Help to Buy loan—people caught up in the cladding issue, which is at the forefront of everyone's mind. Do you feel that there is sufficient expertise to help people? That *Times* article quoted that there could be around 60,000 leaseholders caught up in that. Will you be addressing that in your new role, Peter?

Peter Denton: This is the article over the weekend.

Florence Eshalomi: Yes.

Peter Denton: The normal process to redeem a Help to Buy loan usually occurs through one of two situations: you sell the home or you redeem the actual Help to Buy loan itself. We have sought to be considerate of the situation with regard to homes that may be impacted by the cladding issues at the moment. If you are selling your home, we have taken the approach that, as long as we are comfortable that it was an arm's length sale, for example, the actual sales prices would be indicative of value as a result of that.

To the specific question you asked about redemption, our view and advice has been that, first of all, we would ideally like to get a RICS valuer for that. We put online specific guidance if you were in a situation of redemption where you had a cladding issue as well and required specialist advice and a valuation approach. We appreciate it is more costly, because you are typically asking for a surveyor who has more specialism in valuation of this type. We have sought to be compassionate with regard to situations like that such as subletting for those people. It is, at the moment, the requirement of the owner of the home to procure that valuation.



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We did go out to see if we could put a framework together from our existing valuation framework of valuers that might be prepared to get involved in these situations. Given the continuing issue, as I am sure you know, with regard to professional indemnity insurance, it is proving quite hard here to persuade enough valuers to be on board. Peter and I have asked the team to start looking at what we might be able to do with regard to a full procured framework for specialist valuers that can assist people in these regards.

In the situation where someone is wishing to redeem, when we first started having these situations, certainly before March this year, Target, which manages a lot of the administrative work for us, recognised that it needed to move towards implementing new processes around cladding situations and give specialist training. We believe that, since we introduced that training in March, there have been no material issues in the circa 80 clients that, as we understand it, have been caught up in that process since March 2021.

Florence Eshalomi: Maybe there needs to be an update on that article.

Q15 Ben Everitt: It was interesting, Peter, to hear you referring to the Help to Buy scheme within the context of the risk register. The equity loan scheme is the largest fund by value that you have, and the original version rolled up this year. How would you assess the performance of that original version of the scheme?

Peter Denton: You mean Help to Buy 1 rather than Help to Buy 2. It is probably helpful to set a few facts out first. As at the end of October, our exposure on a fair market value basis is £17.6 billion, and that is for both 1 and 2. The actual cost basis is £17.2 billion, so slightly lower. That reflects the inherent value in the equity book.

Something that we have not talked about, but which I focus on quite a lot, having run a housing association prior to this, is engagement surveys and net promoter scores. Help to Buy has a net promoter score of usually between 50 and 70. Zero means you are in positive territory. A net promoter score of that scale is well above the average for financial services. Help to Buy, from a customer perspective overall, is incredibly well received. We have helped over 330,000 people into homes.

Our evaluation of Help to Buy 1, given it has finished, is something that we are working with the Department on. We will start announcing—I think at the end of this month on 25 November—the first statistics for Help to Buy 2. If you link into Florence's question with regard to assurance, I am very focused on how we look at risk management on Help to Buy going forward. We do a pretty good job there, and I can talk about that further if that is of interest. There is always more that we can do, and I am quite keen to see, over the coming 12 months, an exploration of how we can work more with the existing clearing banks to look at not just risk management with regard to ourselves but risk management overall with the banking sector on mortgages.



Peter Freeman: Can I say a couple more things about the scale and success of it? The recent run rate is that something like 30% of new homes for sale have been Help to Buy. It is not a programme that is focused on one part of the country; it is a very significant programme in every region. It is not a programme that just helps a few big housebuilders; there are 4,000 developers registered for Help to Buy. That shows the scale and breadth it reaches.

Peter Denton: Nearly 90% of those are SMEs. Approximately 3,400 are SMEs that are building less than 40 homes.

Q16 **Ben Everitt:** I recognise the point about your net promoter score but, of course, they will be happy because they are being underwritten by the taxpayer to the tune of 17 billion quid, as you just said. There was a National Audit Office report in 2019 that flagged that Homes England might be overexposed—I think that was the phrase used—in relation to the scheme. Have you made an assessment of, in the event of a market downturn, how many of these loans would be written off and to what extent that would cost the taxpayer?

Peter Denton: To answer that, you have to understand slightly how we currently value the book. It would appear to me that, relative to the mortgage banks, the book is valued in a relatively conservative fashion already because it is valued as if everyone redeemed their loans today at today's values. On that basis, we then apply a certain set of characteristics relating to expected loss. We take certain scenarios, which can range from very minor—1% changes in value—all the way through to scenarios that relate to 11% or 12%, based on ONS data.

In addition to that, we focused that analysis on stress testing both arrears levels and other factors that would typically go into a downturn. Then we focus on, in technical parlance, loss given default—if a default on a situation occurred, what the resulting loss would be from that situation. Because there is no strong data on that, the agency, working with the Department, has taken a relatively conservative view and assumes there is about a 35% loss given default, which is quite high. That flows through, finally, into a review of the various security positions we have. If I bundle all that back together again, that is a relatively strong process already, and there are monthly stresses and, more importantly, quarterly deep stresses that we look to review.

There is a “but” coming. If you look at our accounts, they recognise that one of the biggest management judgments we have is the valuation and approach to Help to Buy. That is not because it is intrinsically risky; it is simply that it is often a value judgment. I will give you an example. Regional house indices are imperfect indices to use, because they include existing homes that are being sold, whereas Help to Buy is focused purely on new build. We have to use value judgment to pair that off.

There is more we can do, as I said earlier, to strengthen our views on risk management. Over the next 12 months, I want to do much more of a



peer review as to what the clearing banks are doing with regard to their own risk management processes. Are there any things we can learn from that? Frankly, are there things they can learn from us, in a sense? That discussion and dialogue with the wider clearing bank market would be a good thing.

Q17 Ben Everitt: It is really interesting to learn about the valuation methodology. Is it reflective of Homes England's unique place in the sector, or would you say that there are characteristics shared across the sector in that valuation methodology?

Peter Denton: A lot of what we are doing is very bank-orientated. Probability of defaults, loss given defaults, expected losses and so forth are very common parlance for banking. As Peter alluded to earlier, Homes England is full of a wide range of talents—not just surveyors, engineers and developers, but we have quite a substantial amount of bankers and, crucially, people who have been in risk assurance and credit in banks.

Q18 Ben Everitt: Do you think the methodology will have to change once the effects of levelling up start kicking in? You have described something that is quite sensitive to differential land values, different property prices and so on, and you referenced ONS data as a driver for that. We have started levelling up. When the results of levelling up start feeding through in some of these communities where, historically, land value has been lower and economies have not been functioning quite as highly as they could and should do, that is going to mess up your calculations, is it not?

Peter Denton: I do not believe so. The phrase "levelling up" is for the Secretary of State to interpret, as you know, over the coming period. He has promised his White Paper by December. In answer to your question, if done correctly, we would see it leading to values increasing as opposed to falling. The risk for us, or the risk for the book, is where you are getting value decline.

Q19 Ben Everitt: You are comfortable with actual value going up and book value remaining the same in terms of how you deal with risk to the loans on scheme 1.

Peter Denton: To pull it back to how it works today, I know I am stating the obvious, but it is a portfolio, so there will always be imbalances. My understanding is that last year there was more caution applied to the book in London because of what was going on in London relative to the rest of the country. Overall, as a book, as I have disclosed on the valuation versus cost, it is actually positive to cost. Those regional imbalances always flow through, as we adjust the book's value all the time, and I have not seen anything to suggest it would change going forward. But it is something to think about and challenge ourselves on.

Q20 Ben Everitt: This final question is probably a bit quicker and less technical. The new scheme was launched this year. What did you change? Why is it better?



Peter Denton: The crucial thing we changed was that it is now open to only first-time buyers. We had about 80% first-time buyers in the first scheme. Clearly, now it is 100%. To my knowledge, that was the principal change.

- Q21 **Matt Vickers:** In 2018, the Government announced a £1.3 billion land assembly fund to enable you, Homes England, to acquire challenging sites that the private sector cannot progress without public sector intervention. Your strategic plan sets a target of beginning construction of 4,000 new homes every year by the mid-2020s, a total of 23,000 by 2030, and that this fund will be self-financing by March 2023. Are you on course to meet those targets?

Peter Denton: The first thing to say is that Homes England does not build any homes. Homes England is only there to facilitate and allow others to do that. The land assembly fund, in the way that the organisation is run, is run by the same people and the same team that run the single land programme, which is effectively the inherited, as well as legacy, land interest that Homes England looks after as well. The land assembly fund was due to be self-funding, as is the predecessor one, by 2023-24, and it is likely to now be 2025-26 before it is self-funding.

There is a really important point, though, which is in portfolio construction. As a whole, because we already generate self-funding on the first fund, it generates sufficient surpluses that overall, as a portfolio between the two of them, we are not looking for any additional money from Treasury at the moment. They are, in totality, self-funding.

- Q22 **Matt Vickers:** In terms of the numbers delivered—the 4,000 new homes by the mid-2020s—is that where we are at?

Peter Denton: We are on track with regard to all our programmes. I am sure we will discuss the impacts of the pandemic, which has had a short-term impact, but, overall, my understanding is that we are on track to deliver, as said. The self-funding mechanism there is going to be delayed by a couple of years.

- Q23 **Matt Vickers:** At £5.5 billion, the largest of the funds for unlocking land for development is the housing infrastructure fund. How much land has it prepared for development, and how are you measuring success?

Peter Denton: The infrastructure fund has been a very large component of our unlocking of land in the recent past. In the 2021 year, we unlocked about 170,000 homes, and a very large component of that was the infrastructure fund. As a tool to be applied to unlocking situations, it has been very effective.

A challenge it has faced over the recent past is that the actual process requires the full involvement of local authorities, which, for the most part, have had considerable challenges and resource focused elsewhere during the pandemic. That has led to delays within the execution of the various



projects, but, as a tool, it has had a very powerful impact on unlocking land.

Q24 Matt Vickers: You also have an important role in disposing of publicly owned land. According to a report by the National Audit Office, between 2015 and 2018, a significant number of sites were disposed of for just £1 or less. Why was that, and is it still happening?

Peter Denton: On the first question, I just do not know the answer. I can come back to you, if that is of interest.

Q25 Matt Vickers: Is it still happening?

Peter Denton: Not to my knowledge. It is worth setting out some of the facts, because it will convey where we are. On the single land programme, there are about 2,000 parcels of land, so about 8,000 hectares, with the capacity for about 75,000 homes. What is really interesting is that a third of this land and, crucially, half of those homes are currently under contract. That is quite a lot. Of the remaining two-thirds, about 360 parcels are developable and will take time to work through.

As I alluded to earlier, the actual proceeds being delivered from the single land programme have been quite substantial and actually are in surplus now. It is achieving two objectives. One is that it is self-funding, and more than self-funding. The second is that it is delivering on that ambition.

It is worth reminding everyone that, within that portfolio, though, there are grass verges, bits of wood, and lots of little and sometimes big things as a result of inheritance of legacy from previous organisations. In Peter's review, he suggested that we look into—as we will be—whether we should be looking for a transfer of some of those interests that do not really have a commercial value; they are just things. Should we be transferring those to the Highways Agency? Should we be looking at putting those back with local authorities when relevant? Should we be looking at biodiversity net gain or offset using those pieces of land? There are other things that we would be doing but, overall, it is proving to be something that we are working through reasonably quickly.

Peter Freeman: They are known as the remnant portfolio, and they go back to the Commission for the New Towns, the RDAs and English Partnerships. When we can sell some of them for £1, we are delighted, in a sense, to have moved them from the book because there is maintenance and there is a health and safety risk. In a number of cases, we have had a proper discussion with the local authority, which has been willing to take a whole bunch of them. There are some local authorities where we might have 40 or 50 parcels, but they are often not wanting to be the custodian either, so there is a question of dowry. It tends to get sorted out if there is another transaction going on where they would positively like to do something and then it becomes a sidebar.



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- Q26 **Ian Byrne:** You talked about measuring success, Peter. We touched on Help to Buy as well. What about measuring success for the people who cannot get on the housing ladder? We are talking about social housing and council housing. How is Homes England measuring success with regard to its ability to build social housing stock and council housing?

Peter Denton: First of all, it will hopefully come as no surprise that this is very close to my own heart, given that I spent five years managing a housing association. If I can, I will answer your question from the perspective of a user first. When I ran Hyde, we were a strategic partner in the first strategic partnership round from Homes England. Equally, we were a strategic partner for the GLA.

As a user, I cannot tell you how important it is. It is an incredibly effective tool. It gave me certainty of my funding and confidence that I had someone there to support me as we built out, not just from the grant provision side, but from the support and energy I got from both Homes England and the GLA in addition to that and the advice we got. If you then focus on it from Homes England, we have £7.3 billion allocated to us for the AHP.

Chair: We are going to go into the affordable homes programme in a minute. We have a series of questions on that.

Peter Denton: I will pull back then. The question is about effectiveness for the provision of affordable housing. We are very committed.

- Q27 **Ian Byrne:** I hate the term “affordable housing”. Can we talk about Homes England’s focus on social housing and council housing, please?

Peter Denton: It is a very large part of what we do, not just through the AHP but through other funds that we provide. You should take comfort from the language and focus of the execs day to day. Peter has heard me sit in three investment committees now, and this is the question that I constantly look at on almost everything we are doing: what is that social housing provision that is occurring on that particular opportunity or that particular situation? How do we drive viability up? How do we encourage other people to work on a site, whether that be local authorities, housing associations or institutional capital? How do we drive affordability? How do we drive social housing on any site that we are working on?

- Q28 **Chair:** To pick up on the answer to the question from Matt Vickers about the targets that you said have shifted slightly from 2023 to 2025-26 in terms of the 4,000 new homes, could you send us a note with all the various funds you manage and how many homes you think will be produced, built and assisted over the next few years for each of the funds?

Peter Denton: We will absolutely do that. I should add that some funds are coming to an end or have come to an end. With the new spending review, we are going into new, but we would be very happy to do that.



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Q29 Mary Robinson: Setting the different terminology aside, you have recently allocated £5.2 billion through the affordable homes programme to 31 strategic partnerships. How do these partnerships work and how are you going to assure value for money from them?

Peter Denton: This is the second time this has occurred. We had the 2016 to 2021 strategic partnership process. For a first time through, as you heard me earlier speak as a user, it was incredibly effective. In terms of the 2021 to 2026 approach, it is following quite a lot of the methodology. There are 35 individual organisations involved and 31 partnerships, so the vast majority of the AHP is actually individual housing associations or investors. There are three or four that are crossing over with one or two partners. For the most part, the £5.2 billion will be allocated out to individual organisations.

We have focused on value for money in a number of ways. We have set, as agreed with the Department, certain targets. We want a certain percentage of modular methods of construction, which will be a minimum of 25%. We have set targets on SME involvement for the construction. That should be about 40% to 42% of all things being built under the £5.2 billion coming from SME construction. We have set targets that we have sought to meet on the percentage of rural and of supported and sheltered accommodation. We have focused on the broader geographics of this as well. Crucially, it is a form of continuous market engagement process, so people will put bids in and that is testing the value for money as well.

Overall, to deliver about 90,000 social or affordable homes through the AHP—the £5.2 billion—and, in addition, see about another 102,000 homes built as well, is a good result for where we are.

Q30 Mary Robinson: On the bidding process, were these organisations bidding towards a set of targets? How did that take place?

Peter Denton: Yes, they were set particular metrics that they were scored by. There was a scoring mechanism that related to their financial bid as well as meeting the criteria that were set out in the process, as I just articulated. There was a balancing between the two. Underlying a lot of the thinking was a confidence in those partners to be able to deliver. Did they have prior experience in land-led construction? Did they have the right relationships? Did they have the right resources and infrastructure within themselves? There was a kind of pre-evaluation of that as well.

Q31 Mary Robinson: Would any of those metrics have excluded the smaller house providers? I see that the strategic partners are mostly the larger housing providers. How can smaller providers access it?

Peter Denton: As we did with the 2016 to 2021 programme, we had a mixture of strategic partners. The strategic partnership process is designed to cater for strengthening skills and experience, and empowering housing associations to build larger-scale ambition. However, we always run what we call continuous market engagement.



We still have, in this allocation, about £2 billion. Already this year, we have allocated out to smaller and mid-sized housing associations on a continuous market engagement process. We try to balance both.

Q32 Mary Robinson: How are you working with local authorities to deliver affordable housing in the areas that you are working in?

Peter Denton: There are two points to make there. One is how we do it today, which is that there is a heavy engagement in a soft way between us, typically the local housing associations and the local authorities on need. Some local authorities are very public about what they would like to have, and that is taken into account by us and the housing associations. Sometimes it needs us to help and work with them to develop. Peter and I have already indicated that we would like to focus more on building on the local centres of local excellence that we have created with the local authorities, and how we can work, over the coming years, to develop more land-led skills and experience within local authorities in order to see more direct local authority affordable housing being built.

Q33 Mary Robinson: What else are you doing to support people into home ownership, and how successful have you been?

Peter Denton: It is worth reflecting that, of the 90,000 homes that would be built through the affordable homes programme's £5.2 billion, about half are shared ownership. When you look at the way the agency is working through two lenses—Help to Buy and shared ownership—we are not covering the entire range but we are certainly covering a broad range of types of customers who might aspire to have ownership of a home. Shared ownership is a very strong and good product because it allows people to have access to a form of ownership where they themselves can choose whether they build up over time. That is something that we want to continue to support.

Peter Freeman: We also operate First Homes, which is the new 30% discount. At the moment, it is a trial model but it is ready to be rolled out. We are also beginning to stand up a help to build programme for people who would like to own and build their own home.

Peter Denton: There is a softer side to this. We are working in Liverpool with Riverside where we are looking to repurpose existing terraced houses for rough sleepers. We are working with the Buchanan Trust, which is focusing on veterans. They not only look to occupy homes in due course but they also help build and refurbish them. There is a much more human side to what we are doing. It is not just numbers and programmes, but actually delivering for real people as well.

Q34 Mary Robinson: Do you set these as part of your metrics? Are these the types of things you are looking at when you engage—the softer side, if you like?



Peter Denton: It is a really good question. At somewhere like Homes England, you want to make sure that the staff buy into the mission of what we are trying to achieve. The way that we do that more effectively than targets is actually by building that common cultural purpose. Just as an observation, we share an awful lot of what is going on within the internal social engagement tools. In Kent, we are trialling two modular pre-fabricated net-zero homes that we are putting into the local area for homeless people, then ensuring that the local authority provides wraparound services as well. The amount of response you get internally on that kind of approach is very visible and very tangible.

Peter Freeman: I would build on that as a counterpoint to the point made earlier about turnover at the very top in the most senior people. There are a lot of people lower down who, if they have not been lifers, have been there a long time and have often been there a long time because they passionately believe in what we are doing, and they are completely happy with pay and rations less than they would earn in the private sector because they care about what they are doing.

Behind the technocrats of an affordable homes programme, I have met lots of people within it who are just completely committed to the sector. It is what they come to work for. That also carries on when we get into rough sleeping, care provision, veterans or whatever. It is really a caring organisation.

Q35 **Bob Blackman:** The Government announced this national home building fund of £7.1 billion, which we understand is aimed at smaller building companies and to prepare brownfield land for development. What is the plan for spending that money?

Peter Denton: There are two phrases that seem to sound very similar to each other. In the spending review 2020, there was a creation called the national home building fund, which was bringing a group of pre-existing grant and loan programmes together under that one banner. There is, potentially confusingly, something called the home building fund, which is broadly coming to an end now because it has achieved many of its goals and is virtually fully invested. I am afraid it is split into two: it is called the short-term fund and the long-term. I will explain each because it is important.

Q36 **Bob Blackman:** Define “short” and “long” for a start.

Peter Denton: Short-term is a few years, and long can be a fair number of years. Take the short-term fund. It looks to provide loans to developers where mainstream funding is not viable. That is often SMEs. Interestingly, this money is, by definition, recoverable. It is often loans. There is equity on occasion but it is predominantly loans. Homes England, as far as I can see—I have asked for some more detailed analysis—has been incredibly successful in recovering all the money in totality. On average, it looks like it recovers about 100%, or just over, when it is supposed to be providing loans to people who are in situations where



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they cannot achieve funding from other places. That is a good value for money equation.

Q37 Bob Blackman: This would be a small-scale developer who cannot get funding through banks or other financial institutions. It comes to you, and you finance them to do the building work and build the homes. Then you recover the money after that. You are basically acting as a finance operation.

Peter Denton: Correct. That funded £2.9 billion, and about 92% of the spend has gone to SMEs. Two thirds of those SMEs were in existence for less than three years, and we leveraged about five times private sector capital on that £2.9 billion and created over 100,000 jobs in the process. In addition to that, while the target for that fund was 59,000 homes to be started on-site and completions, we will achieve about 64,000 in total. The short-term fund is also driven by modern methods of construction incentivisations as well as sustainability. It has been quite successful.

The long-term is to support infrastructure and larger-scale development. It is a different format. It is typically unlocking places that otherwise would not be unlocked. Again, it is a loan format. Occasionally, it is equity but it is almost always a loan format. We have already enabled about 180,000 homes, which is the midway between the two business case targets. It was looking to unlock between 160,000 and 200,000 homes. That has managed to achieve about 180,000. It has achieved its objective. It was about £2 billion.

Q38 Bob Blackman: To be clear, what fund is this?

Peter Denton: That is the home building fund, which is one of the crucial subsets of the national home building fund.

Bob Blackman: You can understand the confusion.

Peter Denton: I totally understand.

Q39 Bob Blackman: What we are keen to understand is, when the Government have announced £7.1 billion for what we are told is the national home building fund, whether this is completely new money and a new fund, or whether it is to replace a fund that is coming to an end.

Peter Denton: I am going to be slightly cautious on this because I want to make sure my knowledge is correct, but I think it is the following. There is a manifesto commitment of £10 billion under the national home building fund. I think that is right. What has been announced is a recognition of existing commitments that have been made—I have just highlighted two of them—and, under the spending review that we have just completed, one of the things already announced is the £1.8 billion for the brownfield and infrastructure land fund. There is a mixture of existing money and new money that was reflected in that.

Q40 Bob Blackman: Can you put a figure on what “new money” is?



Peter Denton: What has been announced is the £1.8 billion brownfield and infrastructure land fund. What has also been announced is the £624 million of new lending power. I am not sure whether other things have yet been announced.

Peter Freeman: Can I put a couple of glosses in as somebody who has been a developer for 40 years? In terms of the short-term fund—the loan to smaller developers—when I did my first development 40 years ago, I walked into a branch of NatWest and walked out with a loan about an hour later. I had given a personal guarantee in between, but you really could do that. When I took up this post, I rang the head of residential lending in each of the clearing banks and asked, “What business can you do? How can you help us?” In effect, they all said, “We really do not want to lend to somebody who is building less than about 500 homes a year. We might because of some old relationship or with a special introduction.” There is a real gap in the market for the small rather than the medium. One of the things we can achieve for them is to get them that launch.

At the other end of the scale with the long-term fund, some of the loans are up to 15 years, and some are over £100 million, but they ought to open up schemes that might be 5,000 homes. If you are going to build 5,000 homes and you are going to put roads, roundabouts, new sewage treatment plants and a primary school in up front, even if you have a big equity base, you are reluctant to put all that equity into something that will produce, in effect, no direct return. It will produce a return over 20 years from building 5,000 homes. The 15-year loans we make to organisations as big as Urban & Civic, which is now part of the Wellcome Foundation, are nevertheless critical to their boards’ decisions to go ahead.

Peter Denton: Do you remember at the beginning we talked about what the purpose of Homes England is or how we do things? One of the ways that has become more visible to me is an example in this home building fund. We announced a couple of weeks ago an alliance with Octopus Energy and Octopus Lending for £175 million. That is, again, to SME building but it goes across a lot of different strategies and a lot of different thoughts. For example, the money is made to SMEs to build homes, and those SMEs have an incentive to build ever more energy efficient homes. The way the approach works is that they are targeting EPC B but, if they go beyond B, they get a margin benefit. As an SME, you are not only benefiting from capital you would not otherwise get, but we are incentivising them to be incredibly energy efficient homes as well.

Crucially for that, we are leveraging one part our money to three parts with Octopus, so we are effectively corner-stoning a strategy that we are bringing quite a substantial amount of private sector capital into as well. There are a lot of wins in that.

Q41 **Bob Blackman:** Back in 2008 there were something like 2,500 proper



building companies. We will not go into the details, but the crash meant there was a dramatic reduction in the number of small-scale builders that were in operation and that has still continued. Can you just update us on not only the money you have given out, but how many companies have been supported with these loans?

Peter Freeman: It is around 400.

Q42 **Bob Blackman:** Okay, so we are nowhere near the quantity of small-scale builders we used to have that were doing a reasonable amount of development work. Are you aiming, then, to increase the number of developers that are available, so that we get much more of a market being created, as we had back in the early 2000s?

Peter Denton: It is very clear that we need to continue pushing to support the diversification and resilience of the market—no question. That is a very clear message that we have to deliver upon. It would be seeing only part of the picture if we focused purely on, for example, the home building fund. As we mentioned already, the affordable homes programme is about 46% of deliveries through SMEs. Out of 3,500 registered developers with Help to Buy 2, 88% are SMEs. You have the housebuilding funds as well on top of that. You will find there a thematic through lots of different ways that we are dealing with the same challenge or the same focus, which is how we continue to diversify and make the market more resilient.

Bob Blackman: The Chair asked for a note at the beginning relating to what all the various funds are and what they are doing. It would be very helpful if in that note you specify how many firms are being assisted, so that we are promoting the amount of home building.

Q43 **Chair:** To elaborate further, as well as the number of firms being helped and the number of homes, what amount of money in each of the funds goes to the SMEs? You could have an awful lot of SMEs with a very small amount of money each and it is only a tiny percentage of the total.

Moving on now to what might be thought to be a slight conflict in the role that you have, as explained at the beginning, you have a role to help people to get a home in areas of very great housing pressure where prices are high. Help to Buy may be one particular example, but there are other funds that are directed to that purpose. On the other hand, we have levelling up coming with increasing speed on to the agenda and that will demand help to housebuilding in completely different parts of the country. How do you square up what look like two fairly conflicting objectives that you have?

Peter Freeman: I would partly refer to the meeting you had a week ago with the Secretary of State. It is clear that his view is that the 80-20 rule is changing. Even when the 80-20 rule was in place, it applied to some programmes, but not all programmes. It did not apply to the AHP or Help to Buy, for example, so two of our major programmes it did not apply to.



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We have this very strong network of offices and contacts throughout the country. As I said, only 25% of the staff are in the south-east, which is broadly the area of highest prices, although there are hotspots outside in places like Cheshire. I do not see a long-term problem between delivering levelling up and other requirements.

Q44 **Chair:** You spoke a little while ago about conversations with the Treasury to make sure that, whatever the policies are, they can be constructed in a way that can be best delivered. Are you having that same discussion with Government now about levelling up?

Peter Denton: Levelling up is a good example where the Department will consult with lots of different people. We will be one, but they will consult with many people in their thinking for that White Paper.

Q45 **Chair:** Have those conversations started?

Peter Denton: Yes.

Chair: You are not going to say how far they have gone.

Peter Denton: I always think it is appropriate, given the Secretary of State was with you a week ago, to refer to his comment, which is that he hopes to have a White Paper with you by December.

Q46 **Chair:** We are going to go on and explore one or two things about the Treasury Green Book in a minute, but you mentioned the 80-20 rule. What you are saying is that that is definitely going. That is your understanding, so in future you will not be applying it to the funds that you currently apply it to.

Peter Denton: It is not because we are disagreeing with anything; it is simply stating positions. The Secretary of State said that he was going to be looking at the 80-20 rule. It is not for us to prejudge where his thinking is.

Q47 **Chair:** Presumably, if there is at least a very strong consideration of a change, you are already beginning to plan how you might operate a change in policy.

Peter Denton: Peter alluded to it already, which is that 80-20 applied already to certain funds, such as the land funds and the short-term fund, but it did not apply, as Peter also said, to Help to Buy, which is pan-England, the affordable housing programme, which again is across England, and the home building fund long term, which, as I explained, is the fund that focuses on large-scale infrastructure projects. You would already see our engagement across the country in a reasonably fundamental way. If the Department decides to adjust the rules, we will adapt accordingly and we will comfortably adapt accordingly.

Q48 **Chair:** Okay, so obviously planning is happening. If you then get to a position where you are charged to make specific contributions towards levelling up, will you be developing metrics, so that we can all look at



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what you are doing and see how they are being measured?

Peter Denton: If I recall, you asked the same question of the Secretary of State.

Chair: You have obviously been reading *Hansard*.

Peter Denton: He was very clear that there were outcomes and metrics, which I think was his exact phrase. I am sure that he will be articulating those and we will be following them in due course.

Chair: I mentioned there the Green Book. That is probably as far as we are going to go on that issue for the time being. We can move on to the Green Book and look at that as well.

Q49 **Andrew Lewer:** Building on what we have just discussed, another area of contention has been the Treasury Green Book and the way the Department assesses benefits from public investment. It has been suggested that Homes England and the Department have given too much weight to the expected land value uplifts that are associated with a proposal when you are calculating its potential benefits and, as a result, that favours parts of the country, like London and the south more generally, that have those higher land values. Do you agree with that interpretation and that concern? Have you and the Department, therefore, revised how you might appraise potential uplifts in future and, therefore, where you would direct the funding?

Peter Denton: The Green Book, to state the obvious, is the preserve of the Treasury and Government first and foremost. We work based on the departmental appraisal handbook, which is reflective of the Green Book. You are referring to the fact that in December of last year the Green Book was revised to emphasise that policy objectives were the primary focus, rather than purely just economic. Last week, when quizzed, the Secretary of State reflected that land value uplift was having a disproportionate impact on decision making. When you focus on historical benefit-cost ratios, it has had a reasonably high level of impact.

One thing we are looking at, but only in a support role to the Department, is the recognition that land value uplift itself is a proxy for the benefit of new individuals locating to a particular area as a result of investment. It does not capture necessarily the externalities to broader society and those who already live in the area. We are working quite well with the Department on looking at research projects and investigation of that to see how we can demonstrate the broader benefits to the public.

Q50 **Andrew Lewer:** You have indicated there that both Homes England and the Department have quite a large degree of ability to interpret the Green Book, almost making use of the Green Book rather than regarding it as your guiding set of principles. Would that be right?

Peter Denton: No, to be clear, it is the guiding set of principles. As I understand it, it does encourage us to look at, first, policy objectives and,



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secondly, public value. Overall public value for housing and regeneration as an area of academic focus has been much more recent. In my time at Hyde, we looked at a lot of the social value work that was coming out of affordable social housing, and there is a richness to research and evidence-based support that we should be looking at and taking account of going forward.

- Q51 **Andrew Lewer:** An organisation that has touched upon what you have just said there is Homes for the North. It has reflected, also in line with this previous Green Book interpretation, that Homes England has used too strict a definition of additionality in terms of value for money in the past, as you have just alluded to, even within its affordable homes programme.

One of the concerns with that is that, if those programmes are, therefore, to be funded, they have to deliver net additional housing, which means that regeneration schemes that involve the demolition and replacement of unfit housing struggle to get funding, because they are knocking down existing and building replacements rather than new. Is that a fair criticism in the past and, whether it is or not, are you focused on that and attempting to do something about it in the future?

Peter Denton: I recently met with Homes for the North as well and listened to its arguments directly. As we talked about, the decision making for the AHP allocations has always been a mixture of economic and other policy, and other factors, so it would be incorrect to say that this has been overly driven by land value uplift. You have heard from the Secretary of State that he has a very immediate focus on all of this, which will be again encapsulated in the White Paper. We should wait for that to see how this gets reflected, but when I look at what he said to you, he was pretty clear as to what his thinking was in this area.

- Q52 **Andrew Lewer:** If the economic-only includes land uplift or new homes, it is only part of the overall economic picture that a regeneration project in a challenging area would deliver in terms of a reduction of other social costs, such as ill health and so on. Is that forming part of your thinking in future?

Peter Denton: Again, it is the Department that will be leading on this, but, to your question, Peter is the guilty party in terms of regeneration. I think you would observe that when you regenerate a place you unquestionably lift it up economically, culturally, socially and in many other ways for existing people who live there as much as new people.

Peter Freeman: In assessing where regeneration goes, there is always the impact, if Government money is in it, beyond the site itself and there are some places where it can mushroom. You can sort out 10 acres and you know another 40 or 50 acres can then be picked up by the private sector once you have created the confidence in that initial seed. It is important to join up different bits of government, including transport—there are a lot of sites around railway stations and waterways—in order



to bring together the things that can have the most profound and explosive effect beyond the boundary.

Q53 **Mohammad Yasin:** Homes England has been criticised for focusing too much on the number of houses delivered and neglecting design, beauty and quality. In your view, is this a fair criticism and, if you agree, how would you explain the lack of focus on quality, especially considering that both your statutory and strategic objectives mention improving the quality of housing?

Peter Freeman: I really believe that, if you want to get a higher number of houses, designing better houses will help you get it, because part of the blockage to the number is resistance from existing residents, and the better the quality of future design, the less resistance there will be. Not only are you making the lives of the people who move into the new homes better, but you are making the lives of the people who live around them better. I completely believe in improving the average standard of homes design.

We are also very committed to sustainability standards, but the limitation is that we are not a housebuilder ourselves. We can have influence and we have to balance how hard we push that influence. We can have influence when we lend money to people by putting standards into it. We can have influence when we sell sites to people, but we have to balance getting back to the Treasury the right value for the site as against setting standards that might diminish the receipt from it.

We have a softer influence to the extent that we sit on panels, take part in awards and whatever. You may know that one of our main board members is Sadie Morgan, a very well-known architect who is completely passionate about net-zero and good design. She is also on the National Infrastructure Commission. We in the process of designing a subcommittee of the board to look at all the design and sustainability issues. It is unfair to criticise us for not caring and it is probably pretty unfair to criticise us for not trying to show leadership in the sector, but with the restraint that we do not build the homes.

Peter Denton: The only framework that is used with the National Planning Policy Framework is called Building for a Healthy Life, which we developed with the HBF and the NHS. We have introduced that as, effectively, a pass-fail gateway in all our development contracts. We have trained hundreds of staff on it. We are undertaking a pilot at the moment where we are trying to rebalance, in the framework for people bidding for sites that we are selling on, between the quantitative and the qualitative. Typically, it has been 70-30; we are moving to 50-50.

Peter mentioned Sadie Morgan. We have a dedicated design and master developer team. We are getting an external audit with the Design Network. We sponsor awards, such as the best master planning and placemaking project. We are undertaking pilots with the Department in



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design as well. We are very committed to design and we are showing that by the way we work.

Mohammad Yasin: You think the criticism was unfair.

Peter Denton: I do.

- Q54 **Mohammad Yasin:** The Building Better, Building Beautiful Commission said Building for Life, your measure of design quality, had merits but that it still represented the lowest common denominator approach. Do you agree? If so, will you change, or have you changed, how you measure design quality?

Peter Denton: The focus that we will have is always one of continual improvement. Design and beauty have been not just phrases, but clear messages that we will be incorporating more and more into what we do. I have not read the Building Better, Building Beautiful Commission report, so I cannot really comment any further.

- Q55 **Ian Byrne:** The Grenfell inquiry was told time and time again about how awful the construction industry is. In a recent Building Safety Bill Committee we were discussing the culture within the construction industry. Considering the huge power that Homes England wields, how are you going to be adding to this debate about how we change the culture within the construction industry? What measures are you putting in place? What can you influence?

Peter Freeman: Are you talking about safety onsite?

- Q56 **Ian Byrne:** I am talking about the construction industry per se. If you are appointing a lead developer, how do we know what you are putting in place to ensure that that lead developer is contributing to changing the culture that we are hearing about? Does that make sense?

Peter Freeman: It does make sense.

Peter Denton: I will have a go at it. There are two different areas you could look at: the what and the how. For example, when people are borrowing money from us or increasingly working on infrastructure positions, we are requiring them to commit to a much more engaged and open culture within their own organisations, so for example inclusiveness and diversity approaches to their staff and how they are openly talking about how they are going to engage on the wellbeing and culture of their own organisations.

Then on the "what", for example, if we are selling a piece of land, we want to ensure that what they bid on is actually achieved in terms of design quality and environmental standards. We are typically putting requirements in contractual terms to meet design codes, to meet the standards we have just set out and, crucially, to hold them to account on their bid process. I have seen at first hand that occurring in the organisation over my time here, where we continue to remind contracts



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of what they agreed in the procurement process: "You said you would do this, this, this and this. We want to ensure that you are actually achieving it".

We take our ambassadorial and purchasing power roles, if that is the right way of putting it, very seriously, not just for what these people are achieving, but for how they run and manage their own organisations.

Q57 Ian Byrne: Is there an acknowledgement that you can be a part of this change as Homes England?

Peter Denton: That is right. I am really interested to see how we bring more of that purchasing power together to a place or a set of people rather than just programmes. I am looking forward to trying to figure that out further over the coming period.

Q58 Chair: To follow up on that, is that an admission that perhaps in the past Home England has not seen itself as having any responsibility for getting involved in these sorts of matters? I am just thinking of the inquiry we had about leasehold, the mis-selling of leasehold products, the encouragement of people to go to the developer's solicitor, and them getting terms and conditions on their lease that were quite dreadful. The Competition and Markets Authority stepped in and said this was mis-selling. A lot of those homes had been funded through Help to Buy and no one from Homes England seemed to take any account of it. There was no intervention or involvement at all from Homes England.

Peter Denton: I cannot comment on that specifically. To your overriding point, we at Homes England have to take a leadership role in demonstrating that we challenge our counterparties in multiple ways, as I have just described. We cannot be a second regulator. There is a Building Safety Regulator for affordable housing, there is an affordable housing regulator and there are other forms of regulation. I fully subscribe to the idea that we can use the influence and the soft power we have, as well as the purchasing power, to ensure that we convey the best principles and the best attitudes that can be achieved as a third party.

Q59 Chair: I appreciate you cannot be a second regulator or an additional regulator, but if you are providing the money for the sale you ought to be at least interested in what is being sold and how.

Peter Denton: We are interested.

Q60 Mary Robinson: Very much on that point, how do you demonstrate that you are interested in what happens? In other words, where does your responsibility end with a project? At what point do you say, "This is not for us anymore. We will stand back"? In other words, it could be problems at first fix. It could be all sorts of snagging with the building. It could be people living in buildings that are unsafe or have real problems. At what point in the whole process do you step back and say, "It is not us anymore"?



Peter Freeman: That is a very good question. In an ideal world, having sold the land to a responsible builder, that would be the end of the process, because it would then carry out its part. In a world that is less ideal, it is a minority of cases, but it is the cases that you always hear about because they are newsworthy. I cannot cite examples, but we can and do try to step back in and speak to the developer. I feel it was right for us to do that but, if they are not directly in breach of a contract with us, we can do that only in a human soft influence way.

Peter Denton: I will have a go at answering it in a coalface way. If you look at it, if we are making a loan product or even an equity product to an SME through the short or long-term funds, we have a very standard banking process and a very standard monitoring process with project monitors and staged payments. It is a very orderly and normalised process that you would see at any bank and those are gates. You need to ensure that you have got to a certain point, not just in physical build, but in quality, adherence to design, planning, et cetera. There is a natural process to ensure discipline there.

If you look at the AHP, we monitor those build programmes very carefully. Ultimately, we are not working in an explicit way, but there is the regulator that sits there monitoring that process as well. Then with regard to land, for example, as I articulated earlier, we try very hard to put conditions into contracts for sale.

Our job is finished when the market can take over. We are there only for market failure or to accelerate. Once that is done, our job is finished. That is not a good use of public money thereafter, so we need to bring someone else into the fray. We can ensure that they adhere to, as I said, design standards, certain environmental and sustainability targets and biodiversity targets. The standard is a 10% increase in biodiversity. We want to see more than that and we are achieving more than that.

We will put those conditions in, but there is some work for me, frankly, and then to report into the board, to make that a much clearer and more holistic cultural approach than I have just articulated. If you think what I have just done, I have just gone through different things. We probably need to bring that forward more with our staff as an overriding thing.

Chair: Yes, because, linking back to the leasehold issue, it was not just the odd case. All major developers were using Help to Buy and were ripping leaseholders off at the same time.

Q61 **Bob Blackman:** You mentioned at the beginning of this session your review of strategic objectives. I am sure this one will not be cold, namely on improving construction productivity, particularly in the areas of modern methods of construction and apprenticeships. How are you getting on with achieving more modern methods of construction and more apprenticeships, particularly given that we need skilled individuals within the building industry to do the jobs that we need done?



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Peter Freeman: I will pick up MMC; you have the apprenticeships. As you know on MMC, there are seven categories and we are, in a sense, agnostic about not ranking them as one being higher quality than the other. They have different applicabilities and we would encourage all of them. We encourage them because we think in time they may reduce cost. At the moment, sadly, they do not have the scale to reduce cost. They should increase quality, embrace safety, and increase insulation and net zero.

They also enable workforces that are remote from site to work in conditions that are encouraging more female labour, particularly in the construction industry, by working in a way that is different from having to get into a white van and get to a muddy site far from home. They can also move jobs to locations other than where the work is, so sometimes you can go to a labour pool that is less expensive to deliver homes. Throughout our programmes, whether it is lending to SMEs or grants for affordable housing programmes, we mandate typically around 25% of the outcome to be some form of MMC.

Q62 **Bob Blackman:** To clarify, is it 25% overall or 25% of every loan?

Peter Freeman: It is 25% of the projects they do with us. We also support, with loans in some cases, equity companies, like Orca, that are at the most advanced end of modular manufacturing. As well as supporting them in a financing sense, so that they can grow and reach scalability, we encourage and help to facilitate people to use their product. It is absolutely not a one size fits all or a complete replacement, but it is an essential addition to traditional building, in part because of the ageing of our labour force.

Q63 **Bob Blackman:** When we did modern methods of construction as an inquiry, one of the places we went to suggested that there was strong resistance from skilled building workers to going into the factory environment. They would much rather be out onsite doing the job rather than being in a factory.

Peter Freeman: They are different sets of people.

Bob Blackman: They tend to be newer, younger people, possibly, going into either their first or second jobs in factories.

Peter Freeman: It is additive.

Q64 **Peter Denton:** With regard to apprenticeships per se, I am not aware that we have got involved in this that much, because it is typically the development and construction companies that are undertaking those. We have a small number of apprenticeships ourselves.

Bob Blackman: There are no conditions in loans about taking younger people on apprenticeships, for example.

Peter Freeman: We will come back to you.



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Peter Denton: I do not know for sure.

Bob Blackman: That would be very helpful, just as feedback.

Peter Denton: It is a really good question. I just do not know the answer.

Bob Blackman: If you are not doing it, you should be.

Peter Freeman: It is a good point.

Q65 **Bob Blackman:** According to your strategic plan, one of the key performance indicators is the share of supported completions using MMC, but your latest annual report does not include this KPI. It seems strange. How are you performing against that key performance indicator?

Peter Denton: As I understand it, certain KPIs have proved harder to track and that is one of them.

Q66 **Bob Blackman:** In that case, what is the point of having a key performance indicator you cannot track?

Peter Denton: I am not going to disagree with you. There is a focus—again, it is a focus I have that—as we come out probably in the spring of next year with a new strategy for Homes England, that we unquestionably need to ensure that we can have management information to articulate on all of these. I am not prejudging, but I would almost give you 100% certainty that modern methods of construction will have a focus and a KPI. It is one that we will need to measure from day one.

Q67 **Bob Blackman:** There are, as you have mentioned, Peter, a series of different types of modern methods of construction. As a Committee, not necessarily in this process, but in previous inquiries, we have been to sites and seen various types of MMC, which might be difficult to quantify. However, when you are taking pods of bathrooms from Italy to put into flats in London it is one thing, but when you are assembling a whole house, effectively, transporting it to site and maybe assembling onsite, it is a totally different mechanism, both of which speed up the whole process.

Peter Denton: If we are going to be successful in delivering diversification and better productivity through MMC, there are four things we need to focus on, one of which we have talked a lot about in the last few minutes, which is volume. We need to challenge ourselves further on delivering additional volume. A lot of the challenges of this approach will dissipate if we can have more volume going through.

A target or a strategic focus for us is going to be volume, but there are three others. One is interoperability. Systems and the way that the standards of this new area work are ideally uniform across everyone. That might not be just us. In fact, we might be a small part of that.



The two others are more to do with us. One is finance. There is an enormous upfront investment required in creating these factories and we have been supporting that already. That is something we need to look at, as we keep talking about, not just for volumetric large-scale factory of the whole house, but also panel systems, timber frames and so forth.

Finally, one that is getting better is our engagement with the mainstream clearing banks to get accreditation and warranties on the homes, which is really important. There are a number of ways that the agency has already been delivering on, which we do not always talk about, because these other three things often get left to the focus of volume, but I would say all four are as important as each other to make a success of this.

- Q68 **Andrew Lewer:** It is a slight contraflow really. All these sessions, understandably, lead to everybody, including me, saying, "We should think about this, we should look at apprenticeships, we should look at MMC, we should look at the north and we should look at a huge range of factors." How do you ensure that, while all those things are taken on board, you retain a level of proportionality, so that there are not so many complex requirements upon people that certain groups of constructors are not able to take part in your procedures?

Peter Denton: It is really hard, because as a society there are lots of things we want. We want sustainable, decent, safe and beautiful houses. We want a sense of place. We want community. We want to diversify our market. There is an imperfect science to this, which is about articulating the business plans very clearly, not just to the outside world, but to our own staff to say, "These are the objectives we have been set by the Department; these are the ways we want to achieve them", and sticking to that. The only way I can really answer that, ultimately, is clarity—to be incredibly clear as to what objectives we are trying to achieve in a particular set of circumstances.

- Q69 **Andrew Lewer:** It is an unrelated but reflective anecdote that, when I was a council leader, we often used not to bid in for ERDF or ESF funds, because they were so unbelievably complicated and asked so many requirements and things that we did not take advantage of the opportunity, in a sense. We were just like, "We cannot deal with all of this. We are just not going to bother".

Peter Denton: If there is a positive in regard to that, it is that Homes England for the most part is a process of continuous market engagement. When local authorities or other parties are not quite ready or they need support to get ready, that is part of our job. That is part of the job that is often not as visible, but which is as much there as the outputs at the end.

Chair: We could not end the session before mentioning sustainability and net zero.

- Q70 **Ian Byrne:** According to your most recent annual report, Homes England has a key role in delivering the Government's ambitions for sustainability,



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including the UK's net zero target, which is great. How are you contributing to sustainability and net zero, and how are you measuring the success of your contribution?

Peter Denton: As you know, we are part of an overall picture. We focus on three areas of activity. First, we are focused on meeting the UN sustainable development goals. We are there to focus on the Government's greening commitments and we are there to ensure, in our part, sustainable homes and net zero. We are focused on new build and that is very much our focus on the activities that we have at the moment. In particular, we are focused on what we call the future homes standard, which is the approach the Department has consulted on regarding a staged process to achieve net zero, certainly for us, in new build.

I can go into more detail, if it is of interest. Our activities are focused on research, piloting, encouraging and using our land to support initiatives that will further that objective of ultimately getting to a point where we are seeing volumetric net zero building or certainly being net zero ready, so that when the energy infrastructure of the country is decarbonised those homes are already ready for that as well. That is definitely a very clear objective that we have been set and are adhering to.

Q71 **Ian Byrne:** A glaring omission from your strategic objectives is sustainability and net zero. Is this something you are going to change?

Peter Denton: If you go back to the 2008 Act that created us, it is not just about delivering homes and regeneration. It used the broader phrase of sustainability. The answer to your question is yes.

Q72 **Florence Eshalomi:** Just on sustainability, one of the key issues that came out is sustainable building materials. In light of the issues around building safety, how are you going to be addressing that to make sure that the materials in future builds are not just fire safe, but sustainable?

Peter Denton: For fire safety, there is, as you know, a Building Safety Regulator and other processes that will look to accredit building materials appropriately. From a sustainability perspective, it is a good challenge for us. We are moving towards the Future Homes Standard starting to be implemented from 2025. We are going to be doing large-scale pilots and trialling, maybe not in 2022, but probably in 2023.

It has to be part of that that we are focused not only on the whole picture, but on the individual component aspects to ensure that we look at where the timber frame came from as much as anything. Our role is to hand over to the market and we are not there to police the market overall, but, as we have talked about earlier today, finding a way through our purchasing power and position to influence that market is a good call.

Q73 **Chair:** As a brief follow-up from me, you mentioned in passing First Homes, which is a new scheme that you are going to be involved in. Could you very briefly tell us what your role is and how you are going to make the First Homes programme work?



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Peter Denton: We have had two roles so far. We have worked with the Department. As you know, it is going to go into the planning system, but in advance of that there have been two phases to that. First, we have worked on what we call phase one, which is a set of test sites in Shirebrook and Bolsover, Derbyshire. We have been working with Keepmoat and Vistry on those to test the principle of it being part of a mixed community build and then the sales thereafter.

As you may be aware, there is a phase 2, which we have been managing on behalf of the Department. That is funded by £150 million of allocated money, and that is a commitment to deliver up to 1,500 first homes as a broader pilot to the initiative. That will provide learning to ourselves and the Department. The bidding deadline closed on 27 September, the results of which will be made public in not too long a time.

Q74 **Chair:** These pilots are to see whether the product works, essentially, in the format that it has been developed, and then it will be taken up as part of the 106 agreements or whatever it is by developers on individual schemes.

Peter Denton: At the moment, the agency's focus is purely on the two trial phases. As I said, we are focused on ensuring that that phase 2 in particular will tell us not just the construction side, but also how placemaking and a sense of place works, and how it will go through the sales market. That will inform us and the Department going forward.

Q75 **Chair:** Finally, I just have one general question. We talked earlier about all the various funds that you are responsible for, how they relate to each other and how maybe they are even challenging for you to remember on occasion, let alone anybody else. Do you think there would be some merit in the Department simply giving you some strategic objectives and then saying, "Get on with it"?

Peter Denton: Again, I am going to not quite cop out. We heard our Secretary of State acknowledge, on your very question as well, about the number of programmes, and you will find that there is a rationality and an observation of that that will be recognised in the coming period.

Chair: That is a good politician's answer that leads us in the right direction without quite making any commitment. Thank you both very much indeed for coming and answering so many questions across such a range of issues this afternoon. That has been appreciated.