



# HOUSE OF LORDS

Revised transcript of evidence taken before

## **The Select Committee on National Policy for the Built Environment**

Inquiry on

### **BUILT ENVIRONMENT**

*Evidence Session No. 5*

*Heard in Public*

*Questions 52 - 63*

THURSDAY 10 SEPTEMBER 2015

11.10 am

Witnesses: Lord Best and Kathleen Kelly

#### USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on [www.parliamentlive.tv](http://www.parliamentlive.tv).

Members present

Baroness O'Cathain (Chairman)  
Baroness Andrews  
Baroness Finlay of Llandaff  
Lord Inglewood  
Earl of Lytton  
Baroness Parminter  
Baroness Rawlings  
Baroness Whitaker  
Lord Woolmer of Leeds  
Baroness Young of Old Scone

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**Examination of Witnesses**

**Lord Best**, former Chief Executive of the National Housing Federation, former Chief Executive of the Joseph Rowntree Foundation and Joseph Rowntree Housing Trust, and **Kathleen Kelly**, Assistant Director of Policy and Research, National Housing Federation

**Q52 The Chairman:**

Welcome to this evidence session of the Select Committee on National Policy for the Built Environment. You have in front of you a list of the interests that have been declared by members of the Committee. A transcript of the meeting will be taken and published on the Committee website. You will have the opportunity to make corrections to that transcript, where necessary. Could I begin, for the record, by asking each of you to briefly introduce yourselves to the Committee, please?

**Lord Best:** I am Richard Best. I have been involved in housing things for 45 years as either a chief executive or on the board of a housing association, so that is a special interest. I do have other interests outside the housing association world. I have been involved with the Local Government Association as its president for nine years. I chair the Council of the Property Ombudsman for the private sector and, here, I look after your Lordships' All-Party Parliamentary Group on Housing and Care for Older People, which is a Parliamentary Group, I should say, not just for your Lordships. But older people's housing and care is my special concern.

**The Chairman:** That is why you thought of it in terms of the House of Lords, in terms of the age structure. Thank you very much indeed. Ms Kelly, are you Ms or Mrs?

**Kathleen Kelly:** Ms, just to be very modern about it. Hello, I am Kathleen Kelly. I am assistant director of policy and research at the National Housing Federation. Prior to that I worked at the Joseph Rowntree Foundation and before that in central government, at what is now the Department for Communities and Local Government.

I am really very pleased to be here today to represent our members. We have some 1,200 members and they provide homes for around 5 million people. What is really important to bear in mind is that our members made a really firm commitment to ending the housing crisis, and last year they built more than one in three of the new homes in England. They have an ambition to do much more, building on their really good record of increasing their output of new homes during the recession, when other providers had to really scale back on their delivery.

We are the most successful example of public and private partnerships in the UK. We contribute £14 billion a year to the British economy. We are very keen to share the ambitions of government to deliver more homes and to provide more opportunities to own your own home. As well as providing homes fit for the future, it is also important to recognise that our members provide a variety of services. They help people into work, they revitalise local economies and they stick with local communities and local economies over the long term. With the right conditions, our members tell us, they can continue to do more of that. They can build more, provide more opportunities for more people to rent and own, and continue to work on revitalising local economies.

**Q53 The Chairman:** Thank you very much indeed, both of you. I am asking the first question, which is: there is a degree of political consensus on the need for more housing but, in practice, housing completions rarely meet the targets that have been set. What in your view are the reasons for this? What are the roadblocks, in simple terms, Lord Best?

**Lord Best:** The overarching roadblock is the hope, indeed the expectation, that the private sector housebuilders will do the job for us. My core message is that the housebuilders are never going to do very much more than half of all the housebuilding that we require every year. Over the last 30 years, they have averaged 123,000 homes a year. That is about half what we need. We might get them up to 60% of the homes that are required but, if we expect them to do 100%, we are going to go on and on being disappointed that we have not built enough homes at the end of the year. We used to have local authorities doing the other half. We took them out of the picture and we have not succeeded in replacing the loss

that we experienced once the councils had gone. It is the other half; it is the 40% to 50% of housebuilding that fails us. We have not put it back again.

The housebuilders are doing fine. I saw the results this week for the Berkeley Group, which is actually going to become part of the FTSE 100 now. They make some very substantial profits. Redrow has its results out. The housebuilders are doing fine. They do not have to solve the housing problems of this country. That is not their remit. They have to be profitable and do well for their shareholders, and they are being profitable and doing well for their shareholders. They are not going to be the whole story, which is why we need these other players. We need to build them up, which is going to be my theme for the day.

**The Chairman:** Thank you, Lord Best. In fact, if it is so brilliant and Berkeley homes are doing so well—and I declare an interest, as I live in one of their houses—surely other people must say, “Gosh, look at that sector. They are doing so well. Why do we not go in and contribute to the building of the remaining half of the houses that we need?”. Is there no addition to the whole sector, in terms of the players in it, or is it all in the hands of half a dozen or a dozen major builders?

**Lord Best:** Absolutely it is in the hands of the half a dozen to a dozen. The smaller housebuilders, the SME housebuilders, really have not come back after the recession. They took a nosedive. It has been very difficult for them to borrow money since then. Banks do not want to lend to people who may go bust. Property is a little iffy; they have been through the crash. They cannot borrow money; they have been written out of the script. We need to bring them back.

**The Chairman:** How?

**Lord Best:** We have schemes of guaranteeing their loans, which are absolutely vital, and government support for those SME builders. I am not going to pin my hopes, though, on that being the whole solution. We are hopeful that the Self-build and Custom Housebuilding Act, as it now is—I took it through the House of Lords when it came from the Commons—will enable the SMEs and smaller housebuilders to do more with people building their own homes on small plots or working with smaller housebuilders to develop small sites, to their own specification. It is an excellent piece of legislation that is starting the process of trying to get the small builders back and trying to get people doing their own thing: self-build, not actually building it but commissioning local builders. But these things are not going to produce the big numbers that we require.

**The Chairman:** Are there skills problems? Do we have enough architects, quantity surveyors and people who could show some flair and start another building company?

**Lord Best:** We are desperately short of skills in all kinds of areas, not least the operatives on site, the actual people to build the homes. The industry is pretty hopeless. I chaired an inquiry with a colleague Nick Raynsford from the other House. We came up with the statistic that we are going to need 427,000 more people in the building industry in the next five years, and 7,200 apprenticeships completed their course last year. We are just not bringing them on. What we are doing is importing those wonderful Polish workers, of course. The Big Six have their recruitment offices in Poland and so on. It is great to see them here, but this is not good for local employment, and in the end it is self-defeating. We need to train our own. We need to bring on our own, so there needs to be apprenticeships and training, and that goes right through the industry. I repeat that I do not think we are going to get the private sector to do it all for us. We are going to need other players in this. You were talking earlier about the garden cities and that movement. It is great, but again these are relatively small numbers. It is a really important little piece of the jigsaw, but these are relatively small numbers. My Self-build and Custom Housebuilding people are in relatively small numbers. We may be able to get the institutional investors into some renting, get this new-look private rented sector, get the insurance companies and the pension funds investing, and some developers are doing that. It is just starting. If we get 5,000 homes out of that pipeline in a year, we would be doing quite well. That is well worth nurturing. I think we come down to whether the councils will get cracking again. Is there any hope of that, and what can we get out of the housing associations?

**Kathleen Kelly:** There are three main reasons why enough homes do not get built, in addition to the prevailing economic climate. We need better access to land for new homes. If we had only 1% of the available land, we could meet housing need for 25 years, so it is more about how we bring land forward. Secondly, we need the right investment framework, so rather than a proliferation of different funds targeted at different issues, our members could actually lever in much more of their own investment, deliver economies of scale and scale up their delivery, if we had a strategic funding network focused on outcomes, rather than a proliferation of individual funding streams.

Lastly, it is important to get red tape right and reduce the amount of red tape, particularly that housing associations face. Particularly important in that is the way that we value

homes. Housing associations have something like 1.2 million homes from local authorities, but the way they have to value those homes for borrowing purposes is very low, sometimes only 30% of the actual value of a home, whereas other associations are able to use a market value, subject to tenancy, which is more like 60% of the value of the existing home. You could change that at the stroke of a pen and it would release a lot more capacity. Even individual associations tell us that could release millions of pounds, so that could be a really useful way of delivering more capacity and levelling the playing field amongst all associations.

Equally, we need to modernise the allocation framework so that we can provide for a broader range of need in local areas, consider what the local housing market circumstances require and how to deliver that. Lastly, we would be really keen to work with government to provide a rent-setting framework that avoids all the confusion of the current system, and is actually fit for purpose and fit for the future, so that it can reflect not just local market circumstances, but actually customers' needs too

**Q54 Baroness Finlay of Llandaff:** I wanted to pick up on Lord Best's comment about apprentices, and wonder what the Department for Education's response has been to the shortage of young people coming out of school, going into all the building skills sector, and whether there has been a discussion about pulling that into the teenage years of education as well, in schools.

**Lord Best:** Absolutely, it is the 14 to 19 year-olds whom we have to capture. We need to grow our own workforce. We need to concentrate on that age group. There are good signs that people recognise this. Not everyone is going to go off to university and all that. Apprenticeships, in a lot of industries now, are becoming really significant. The construction industry is lagging behind, I would say. There are one or two wonderful exemplars at the top of the industry, where you get real leadership, but the mass of the construction industry cannot be bothered to get into all that, trying to work with schools, trying to bring people on, trying to change the image.

It is not about working in the rain on a nasty building site any more. There is all kinds of stuff that goes on—draftsmen, people behind the scenes, people on site doing very exciting and interesting things. It is a modern and really rather brilliant industry, if only it would get its act together and bring on that next generation.

**The Chairman:** Should some emphasis be put on the people who run academies? For example, I am thinking of Lord Baker, who has his technological type academy and not one NEET has come away from those academies. It is a brilliant template. I do not know why it does not get much more coverage. Surely there would be a way of doing that. You see poor kids going into these academies, and you know that they are not academic and you know they are going to struggle, whereas if they found themselves at a lathe or something, they would just be terrific. The whole education thing does need encouraging, I would have thought.

**Q55 Baroness Andrews:** Kathleen and Richard, you both talked about the right conditions for the housing association industry to fulfil its potential, and you have identified many of the same things as our previous witnesses, for example land supply. That came out very strongly, but you also mentioned the right financial structures and the simplification of bureaucracies around funding investment, conditions to raise money, the renting situation, rent controls, and so on and so forth. Of those, which is the most important constraint? If we had to prioritise how we were going to liberate the housing association industry to fulfil its potential, which one should we prioritise?

Secondly, could you give us your frank assessment of the impact of the Government's decision to move on the right to buy, in relation to housing associations, and what it will do to your members and their capacity to provide?

**Kathleen Kelly:** That is a very good question, and one of the tricky things about answering that is that these are interconnected pieces of the jigsaw puzzle. You need all the things in place to make that happen. The top three things would really be the priority. If we can absolutely identify where land is available for housing and take a different approach to how we identify that, such as zoning to be clear about what housing type land can deliver and what the planning requirements are, so that people then compete on the quality of the development and not on the price of the land, that would be a really useful start, and the Government have already made some moves in that direction. There are more powers you could give there.

The case for a more strategic funding framework and capital investment in the longer term is made. It is anti-cyclical; it is counter-cyclical. Housing associations have been able to carry on building during the crash, which has meant that they could keep some more of the small suppliers and the small builders going. They provided 12,000 apprenticeships. They are

keen to work with the local economy and invest in the development of the local labour market as well.

Also, the red tape makes a difference, and clearly it is very difficult at the moment to answer the impact of right to buy, because we do not have a very clear framework for the policy and what it means. What we do know is that the 1% rent reduction over four years is going to take £4 billion out of the housing association sector, which comes on top of ending rent convergence a year early. These are very challenging circumstances, but our members are clear that they can deliver more and they want to deliver more. If we have those three conditions right, around land investment and red tape, our largest developers are telling us that they could increase supply by 25% over this Parliament.

**Baroness Andrews:** There are huge constraints, are there not? They are absolutely systemic to your ability to do your business. What happens if, in the next five years, we cannot or we refuse to address those issues?

**Kathleen Kelly:** The housing association sector has a no-default record, which is very impressive. It has also been very resilient in the recession. Although we saw a 63% cut in capital grant in the 2010 spending review, housing associations increased their own housing supply by 22% during the crash. They are adaptable, they are flexible, they are innovative. They plan their business plans over 30 years, and they are working through at the moment the impact of the changes and getting revisions to the board.

They are still committed to ending the housing crisis within a generation and they still want to build more homes and to up their supply. What we ask are just the right conditions to enable us to really build at scale, because housing associations are the sector that has the capacity. They are at a take-off point where they can do much more, which is why we are keen to work with the Government to deliver that aspiration.

Kate's suggestion that it would be good for all government departments and government policies to pull together around the same aims is very important, because at the moment there are some competing tensions on those, but our members are clear that they are here to deliver and they want to deliver. They are here for the long term for their local communities and to end the housing crisis.

**Q56 Baroness Whitaker:** Could I just explore a little more the failure of the construction industry to create its own workforce? When I used to work with the manufacturing sector, which was quite a while ago, the construction industry was by far the least enlightened, the

most dangerous, the most badly organised and the most badly invested. This did not apply, on the whole, to the larger firms; it was more a feature of the medium and the small firms.

This dearth of a skilled workforce obviously affects public sector housebuilding as well as the private sector. I think it would be important for us to know what should be done to improve the construction industry's approach to this. Is it a question of the structure of the industry? What in your view are the main reasons why it is so bad in this area? Obviously the university technical colleges are going to make a big difference—that is one of the reasons why they were developed—but that is a generation ahead. What can be done now?

**Lord Best:** You made a very good point, Baroness Whitaker, that the safety record of the industry used to be hopeless. It was a very unsafe place to work. That has been fixed. At the Olympic Games, which was the largest development that we have seen for ages, nobody was seriously injured on any of those building sites. It was a triumph. We look at what happens in some other countries and you realise how dangerous this can be.

How did the industry make that huge change? There was a summit of the captains of the industry. They sat around and they said, "This is going to be a priority. We are going to fix this". Together they understand their relationship with the Department for Education and so on. They are the people who know what they want and they how to get there. They made it happen. The central recommendation at the end of the report that Nick Raynsford and I produced was to have a summit. "Get your heads around this. You are the guys who can fix it. Do what you did for safety", because they could repeat it. It is not rocket science.

**Q57 Earl of Lytton:** Chairman, quite a lot of what I was going to ask has been passed by and I really wonder whether we should not move on to another question. It would be interesting perhaps to hear Lord Best's view of the blocks, particularly in the light of the housing association sector, according to the Chancellor, as we see from a press cutting, questioning whether it is doing what it was designed to do: a vehicle for building homes. If he thinks of it as a vehicle for building homes, could we start with whether you actually agree that that is structurally how it is organised?

**Lord Best:** I must say I was very disappointed with that. They were perhaps just off-the-cuff remarks from the Chancellor, but the housing associations are feeling a little unloved generally. They are feeling that people are coming at them. When I first came into this world, they had just under 100,000 homes and now they have two point something million. They have grown very big and that has been against all kinds of pressures and difficulties.

They have done a fantastically important job and now they are feeling that people are against them.

It was earlier this week when the Chancellor said that most of the housing associations, the majority—because there are over 1,500 of them—are not developing at all. “What do we need them for?”. They are not all about developing all the time. Some of the old almshouse trusts have not done anything since 1592, but good. What they are doing is looking after what they have. In fact, it has been government policy to confine the development to the larger players, because that has been the more economical and sensible way of doing development on scale, so it has been Government policy. The housing associations have actually exceeded the targets set for them by the Government’s agent, which is the Homes and Communities Agency. I think they are 11,000-odd homes ahead of the target set by government, so they have done pretty well. We should not knock them too hard.

They now face these various trials and tribulations. Their tenants have had the upsets of the so-called “bedroom tax” and those welfare things. They now have been told to reduce their rents by 1% each year in real terms for the next four years. This means that their income is cut. The right to buy could well deprive them of a lot of properties. We could talk at length about that.

We want to stop knocking the people who really do have the opportunity to grow, expand and solve this endless problem that we do not build enough homes. We are not going to get the housebuilders to do it. The housing associations are capable of gearing up and doing a good deal more. They need the resource. What has fuelled the growth from 100,000 to 2.2 million has not been charitable money or even voluntary effort, although we have had quite a bit of those things. It has been public investment. It is treating housing like railways, like HS2 or airports. Housing we need for the economy of the nation, as well as the wellbeing of the nation. We need to invest in it.

There has been a 63% cut—Kathleen will correct me—in the grant funding to housing associations over recent years. It is quite tough for them to keep up the development pipeline and it is not kind to knock them when they are struggling to achieve that. The first thing is to be more supportive of the housing associations, because we desperately need them. We have a big quango with lots of red tape. If people are worrying about their efficiency, and there are lots of key indicators of performance they have to run through, we do not need too much more breathing down their neck. They could do with a bit of

liberating to get going. Let us not knock it; they are well regulated and have the capacity to grow, if not exponentially, a good deal more than they are at the moment. Let us give them a chance.

**Kathleen Kelly:** The thing that I would say in addition to that is that housing associations and the delivery of new homes provide a really good deal for the public investment that goes in. Housing associations have raised £76 billion in private investment. For every £1 of public investment that goes into delivering a new home, housing associations put in £6 of their own resources. They fund up to 85% of the cost of building a new home themselves.

I would support everything that Richard said, because associations are working together with government, in partnership with government, to deliver. It is important to see that as a relationship that can prosper in the right conditions and can really achieve the potential that the housing associations have to deliver more new homes.

**The Chairman:** You have certainly upped my knowledge on this, so thank you very much indeed. I will look at the papers with a more jaundiced eye in the future.

**Q58 Baroness Young of Old Scone:** We have heard a lot about the housing associations, but what is your view on whether the local government role should have a renaissance in social housebuilding? If so, what would need to be put in place for that to happen?

**Lord Best:** The problem with local authority housebuilding is with all the money they borrow, the 85% that did not come in grants for housing associations. If they borrow that same chunk of money themselves, it counts against the public sector net debt. It is public expenditure, which means that it adds to the deficit. None of us would want to see the deficit grow, and the Government are not keen to see local authorities borrowing money to do more. Therefore, there is a cap on what they can do. This is very inhibiting, because although lots of local authorities have now transferred all their council stock to housing associations or especially created new ones, and they do not have the capacity to do much, quite a few of them are up for it and ready to go. They have land, even on their own council estates. Those ghastly garages that have not seen a car for 30 years can be demolished and we can get bungalows for people under occupying full family houses round the corner to move in. All kinds of good things can happen. A lot of councils are up for it, but this inhibition on their borrowing really holds them back.

Can we change that? Can we remove that cap, that ceiling, on their borrowing without affecting the deficit? We could if we changed the definition that applies to public sector

borrowing, and used the same one that most countries in the EU use, the OECD uses and the IMF uses. If you can classify it as trading, if you are getting a rental income back and you are repaying what you borrow, it is in a box and does not count as public expenditure because it is self-contained. You are getting revenue to repay the debt that you have taken out, so you are in the clear.

I went with a delegation from the LGA to see Danny Alexander and say, "Come on, can we not change this definition to be like other countries?". He gave me the proper Treasury reply: "We must not frighten the horses. The international banking community, if they see us changing definitions, will get very agitated. This is not good for the credit rating of the country". I do not think it would create such a big fuss to change our definition and allow local authorities to borrow more.

I remember well when we were first talking about this definition, when housing associations were not regarded as public bodies and could borrow, and local authorities were not. I can remember the discussions, which had a good deal of politics about them. It was at a time when generally the nation was not keen on seeing a lot more council-house building. We were all fed up with ghastly tower blocks and monolithic estates. People did not want local authorities to have the resources then and the definition actually reflected a kind of political mood at the time. I think we could change it now without the international banking community getting too upset. Although local authorities are so out of practice that you will not get all that much out of them immediately, we could get a bigger pipeline, a sensible pipeline. They have the land resources that so often are the absolute essence of getting more homes built.

**Kathleen Kelly:** I would support what Lord Best has said. I would say that there are two really important things about the local authority role in housebuilding. One is that of course everybody can make a contribution to ending the housing crisis. If local authorities want to build, they should be enabled to build. The second is that we should not forget the really important strategic enabling role of local authorities in bringing development forward and in getting homes built in their area. We would like to see them have more powers to map land in their area and bring land forward, because that sort of role is really valuable in enabling the right homes to get built at the right prices, in the right places and, in reference to your earlier evidence session, in terms of parcelling up sites in the right way as well to make sure

that they come forward effectively. Local authorities have two roles and we need to see them both as equally important.

**Baroness Young of Old Scone:** Can I have one more supplementary on that—a tiny little one? If you were asked to judge the local authorities that we have at the moment, what percentage of them are doing this strategic role of enabling and facilitating the rest of the market?

**Kathleen Kelly:** That is a very good question. I would not have the number to hand, because it is actually a responsibility that they all have. They have to develop local plans in order to identify what land is needed in their area. Capacity is very different across local authorities, and some are much more geared up and enabled to do that. If you think of an authority like Manchester, which is a combined authority and has a city deal, it has aligned all its priorities and is demonstrating a lot of leadership about what it wants to see in an area. Cambridge operates in a similar way, in terms of developing lots of strategic partnerships. There are examples of really good practice, and those authorities that do well at those things can be enabled to do more.

**The Chairman:** That is very interesting, because it is a mixed bag. Is there an overarching umbrella organisation of local authorities where you could put the boot in?

**Lord Best:** That might be a question for me. I have been president of the Local Government Association. Quite a bit of this is a planning question, rather than directly the housing departments at the district level, and so on. It is unitary authorities, metropolitan authorities, London boroughs and county-level planning. That probably brings us on to other planning issues.

I would say in answer to the question, “How many local authorities?”, that it is probably a minority that are taking an active role in seeing their area, what is needed in it and making darn sure that the housing associations and housebuilders are working together. That is, I am afraid, a minority sport. They feel very underresourced to me, very much the junior partner in a discussion. When you have a private developer sat there and a representative of the council sat there, very often there is quite an unequal negotiation going on. They feel an underresourced group.

**Q59 Baroness Andrews:** Can I press you both on the housing revenue account? I think this is really important. Is it not possible to raise the housing revenue account cap without bringing it on to the public account? That is my first question. Secondly, would you agree

that the Government's plans for right to buy, extended to the housing associations, would confuse the public status of the housing association and its funding, and are more likely to bring the housing association and its funding on to the public account, thereby increasing the notion of the national debt? My third question is a supplementary really: what has been the impact of the community infrastructure levy on housing supply? Has it made any positive difference or, indeed, has it made a negative difference?

**Lord Best:** We cannot get more out of the housing revenue account without affecting public expenditure, as definitions currently stand. We are trapped at the moment. We have to change the definition. The point that Baroness Andrews is making about the housing associations is whether there is a point at which they would be treated like local authorities, with all their borrowing regarded as public expenditure.

This is down to the ONS, the Office for National Statistics, which defines what is or is not a public body. At the moment, housing associations are regarded not as public but as private bodies, but you begin to worry when you see that their rents are controlled by government; there is a lot of regulation and red tape around what they do; and now there is the possibility, at any rate, that they will be told they must sell their properties to the occupiers at these discounts and they will be told what to do with the money.

At what point does one have to accept that they have become public bodies? That is something I am not at all in favour of. If we get to that point, then it is not just that their existing debt—they have about £64 billion of debt still outstanding—goes on to the national debt. That is not very good news if you are trying to reduce the national debt. All that private borrowing goes on there but, worse than that, the borrowing they want to do each year, about £4.5 billion of private borrowing that fuels what they do, would suddenly start counting as public expenditure—and, of course, the Chancellor would have to say, “Clamp down on this. We have to cap this as we do with local authorities”, and then the golden goose is well and truly shot.

**Baroness Andrews:** You must be very concerned about that.

**Lord Best:** I think it is a threat. The ONS is an independent body. People say that the Government are not going to let the ONS get away with that, but in fact the ONS has shown itself to be quite independent-minded. I think the danger is real.

**Baroness Andrews:** We had that debate about the status of the housing associations about 10 years ago. It was a hard debate and it was finally hard won. There is a real issue here for the housing associations, and I am interested in what you say.

**Kathleen Kelly:** If I take your second two points, there is clearly a risk that right to buy could be a reclassification risk for housing associations. All Lord Best's points are true in that case. Our members tell us that you could do much more on a voluntary basis. We share the ambition to give people more opportunities to own and there may be more effective ways of doing that than through the framework, which might avoid those risks. Clearly, we are keen to work with government to talk about that.

**Q60 Lord Inglewood:** Can I go back to right at the beginning of the evidence, please? It struck me that if I was an avid free marketeer I would be puzzled by the pattern that Richard Best pointed to. Somewhere over a third of the housing requirement in this country seems to be unable to be met by private enterprise. That seems to be the case from the evidence. What nobody has suggested to any of us is why.

**Kathleen Kelly:** One thing that is really important to recognise is the difference in business model. Housing associations are there to serve their local communities, and that is based on a not-for-profit model where they do not have to pay out any dividends; they reinvest all that back into building new homes and the services they provide. That provides a different sort of model in terms of what they are trying to achieve, which means that housing associations are able to take different decisions.

We have talked a fair bit about the supply chain this morning. A lot of associations, for example, keep their management and maintenance internally and they develop apprenticeships, so that they can keep developing the local workforce. Those that build also use that as an opportunity to operate in that way. Some developers do some of those things too. Also, our members are active in local schools.

**Lord Inglewood:** You are saying what your members do, but were I to be an avid free marketeer I would say, "The private sector can deliver what you deliver. They would do it differently, but they would. They would be more efficient". I want to know why it is that failure is taking place. It is a market failure.

**Kathleen Kelly:** I would not necessarily say that it is efficiency. It is to do with what you set out to achieve. For example, if you build a lot of new homes in a local area, you are likely to reduce prices. If your profit depends on prices, that might not be a sensible business choice.

If you are a not-for-profit provider, then you tend to take decisions over the longer term and to think differently about how your return might play out.

For example, Home Group, in a recent joint venture with Gateshead and Galliford Try, have a mixed portfolio of what they are developing, because they are taking a very long-term view of the development, which enables them to do some lower-priced housing as well as higher-priced housing. The local authority has managed to put in the land on a deferred payment basis, so that can move the development along more quickly. There is scope for more partnerships along those lines that would deliver everybody's objectives.

**Lord Inglewood:** I am genuinely interested in this. Why can the private sector not enter into these partnerships with deferred payments and affordable housing conditions imposed on planning consents?

**Kathleen Kelly:** They can and they do.

**Lord Inglewood:** They do not particularly like it.

**Kathleen Kelly:** It is very much an individual decision for the organisation, given their particular goals. I would not say that none of them like it, but actually it is possible for them to do that and some of them will make that choice. It is their individual business choice and their board choice, rather than necessarily something that they would all choose to do.

**The Chairman:** If I understand the point that Lord Inglewood is making, and I hope I do, there is certainly a huge opportunity here for entrepreneurs to get involved.

**Lord Inglewood:** I am wondering. I do not know. I would like to know why there is this apparent black hole and I do not know the answer.

**Lord Best:** It is very difficult for entrepreneurs to break into this. The big players have access to large-scale borrowing, to the acquisition of sites and indeed to the acquisition of options on sites. We were hearing a bit about that in the previous session. They in effect have it sewn up pretty well, but you only go as fast as the market will take you in terms of what you build. I watch the developments in York. The developments stop if house prices are not going up. If, for the next lot you build, you are going to have to sell more cheaply than the ones you have just sold, you are not going to build them. You sit tight, wait and go at the speed of the market.

You are always working on the basis that the market must be driven up, but the market will not go upwards if we build houses everywhere, as Kate Barker has demonstrated. In the

end, house prices will, at the very least, stabilise if we build enough houses. It is not in the interests of those who are doing perfectly well.

I think a lot of housebuilders do a very good job. In running housing associations, I know that what I never managed to do was to build exactly on budget, exactly on time. We always were pressurised, one way or another, to add some bells and whistles, and I would not say to give in to pressures, but we would always do the right thing. At the end of it, we could never match the way that housebuilders could always produce the goods, on the button, for the price that they said at the beginning. They do their job, but they only go at the speed of the market and that is always leaving behind the 40% or whatever. That is how the market works: it does not do everything that could be done.

It is also the case that a lot of people are not able to buy on the open market. Of course they are not, and we have decided, collectively as a country, that if we are going to subsidise anybody it is probably best not to subsidise, if you can help it, those that are purely profit-making bodies if there are alternative providers who are there for the long term and are going to manage and look after the properties for years to come. We have chosen the housing associations as the bodies that we want to give subsidies to.

**Lord Inglewood:** Is it then fair to say that the basic proposition is that there is this part of the market for housing that cannot afford what the market would require to be paid to deliver it? Therefore, for social reasons we have decided that there is a need to subsidise somebody, somewhere, in order to achieve what we want. The vehicle through which we are doing that as a society is this particular sector.

**Kathleen Kelly:** That is a fair response, but we have to remember that not building enough is also a drain on the economy, not just for social purposes—there are very good financial reasons for choosing that route, too. It is not just about having a social purpose and providing homes, although that is crucial and is at the heart of our members' core purpose; it is also helpful to the local economy. If you meet affordable housing need in full, that is £8 billion contribution to the economy in England, so there is a very good economic reason for doing it too.

**Baroness Rawlings:** I am a bit confused, because as you explained very clearly the housing association is reinvesting all its profits back into the housing association, so it is not having to give to shareholders or anything like the private sector. So why do they not have more money to build more houses? They obviously have some sort of charitable status as well, so

there is some sort of advantage. I do not quite understand why they are not actually building where we need them so badly.

**Lord Best:** The process that you described is the way the system works. In the early years, they got loads of grant, so they created the new homes on the back of government making that possible. Then, because those properties all increased in value, they could borrow against the value of those properties to do the next lot of housing. But of course if you borrow 100% of the cost of doing it, you have a very big mortgage and your rents are going to be very high, so you need some subsidy to take the edge off those market rents for the rents that you charge. You are then constantly reinvesting. You are borrowing against the assets that you are creating.

That is how we have this incredible growth out of the housing associations: constant borrowing against the rising values that they have. If it was constant borrowing of 100% of what you need, with no injection of anything else, then the rents you would have to charge would be too high or the housing benefit bill would go through the roof. We still need the resource to take the edge off the full market impact of borrowing everything.

**Kathleen Kelly:** It is important to recognise that as part of that picture, housing associations have diversified, so they provide a lot of shared ownership. They provide homes with discounted sales, as well as rented houses at a variety of different rents. They have a very clear niche in helping people into low-cost home ownership.

**The Chairman:** They are probably also more risk averse than the big companies, because they probably have stacks of money in the bank anyway.

**Lord Best:** They are, you are right.

**Q61 Lord Woolmer of Leeds:** You talked at different times about the management of the built environment. One of the interests for this Committee is the quality of the built environment, place and all that. In the public sector and social sector housing, what are the principles of successful long-term management of the assets of the built environment that you own that contribute to the sense of quality for the people who live there? Is that a part of the remit to which you work, and, if it is, how is that followed through? What lessons are there for this Committee from what you have achieved, which might be sensible to take forward in the private sector?

**Kathleen Kelly:** One of the main differences about housing associations from many other organisations is that they do want to stay around for the long term. There are three key

principles that they adopt: design for the long term, managing places, and working with local communities for the long term. They are getting the design right of the wider environment, the development itself and the homes in there, so that they are fit not just for today but for tomorrow. Secondly, it is about providing good access to opportunities, whether that is employment, green space, places to meet or transport links. Thirdly, it is about providing for a wide variety of people, providing for the local community and including them in decisions about the design of places and about the delivery of new homes, as well as, in many cases, the running of some housing associations.

If I can give you an example, Regenda in Limehurst Village in Oldham has a 10-year vision to revitalise that local community. They have actually worked with partners, including residents and the local authority, to have a key role in shaping that 10-year vision. That includes what homes will be provided, what services will be delivered and what that whole community looks like. Limehurst has secured £5 million of new investment, with a further £12 million proposed over the next five years, so they really are keen to stay around for the longer term. That means you make different decisions. If you know you are going to be there in five, 10 or 20 years, or in many cases 100 or 150 years, you are very keen to get it right and to work with the people who are going to be living in those communities and working with you in those communities.

**Lord Best:** With Bournville village in Birmingham and the one that I inherited in York, the New Earswick village of the Joseph Rowntree Trust, these garden villages were the start of the idea that you look at a whole community together. You look at a place. You make a place. You think of all the things that are required for that. I have to tell you that New Earswick in York is still going strong, at 1,100-odd homes in this village, with the amenities that go with it. A garden village implies, rightly, that the landscaping and the environment are important, and there are facilities for people to meet together. There are things we cannot do nowadays; there is a very nice cricket pitch. We cannot afford those things any more, but the idea of having a masterplan, in which you look at all the elements of what will make life good, remains.

Rowntree is now doing a new garden village on the other side of York called Derwenthorpe. If you are planning any outings, I think that this is a pretty wonderful example. There is combined heat and power. Nowadays, energy efficiency is very much at the core of these things. It has its little lake with ducks on it and some things that might look a bit superficial,

but it also has high-quality housing, a mix of people, plenty of home ownership and plenty of renting as well, all mixed together. It is half way through being built.

The design does not have to be a pastiche. I am rather fond of Poundbury, but not everybody is. Derwenthorpe is not a pastiche of an ancient village; it is a modern new village, but it looks and feels great. It is about masterplanning the whole of the community as an entity. It has a jogging track round the outside, so people can have a jog in the morning. It has cycle paths across. You can walk to the school.

**The Chairman:** I think you sold it to us. I actually know somebody who lives in one of your villages.

**Lord Woolmer of Leeds:** Every witness we speak to can always come up with one or two excellent examples. I am concerned about the overwhelming majority of places. In the public sector and, as you said, the private sector, some dreadful places have been built. My question was really more fundamental than that. Are there any principles that have to be abided by within the housing association movement in new developments? What assessment do you make nationally of the extent to which the excellent examples are, in general, followed through? If we simply produce a report that gives some very special examples of excellence here, there and everywhere, it betrays the truth that faces most people. I am concerned by the extent to which you have some guidelines that have to be followed through—an assessment every three or five years of how this is being followed through. What happens on that side of things?

**Kathleen Kelly:** Housing associations are subject to different design standards for their homes, which tend to be better quality, although those have been changing over the years, it is fair to say. They are subject to that, but some of what is different is their ethos: staying with a development for the long term and staying with the community. In answer to your question about why more of it does not happen, there is clearly a housing crisis, which means that people are very conscious of the need to build more. There are also problems with the number of resources—local planners and local authorities—and there is a skills shortage there too. That can make it difficult for everybody to make the case effectively that you need to have a masterplan for an area, and that actually the quality of what you build today matters very much, both today and tomorrow, not least for energy efficiency and the quality of the green spaces, as Richard mentioned, which support healthy living and more use of the outdoors.

That principle is hard to deliver when you are under pressure to deliver more and more, without recourse to those plans. There could be a much stronger and clearer vision about how you make local places the thriving and prosperous communities that we all want to see, but I would say that most people do aspire to those principles. It is just in the practice that they sometimes slip. Housing associations certainly have to have higher standards in the property they deliver, and they are very aware of the risk of getting it wrong, because they are there for the long term.

**The Chairman:** We are running out of time again, I am afraid. I am a very bad Chairman, but I was just wondering, Baroness Finlay, whether you want to ask your question, because it dovetails completely with what you have just been saying.

**Q62 Baroness Finlay of Llandaff:** Very briefly, because you have touched on the need for healthy communities, we know that we have an ageing population. We know loneliness is a big problem. Where are the levers that should or could come in to make sure that these splendid principles that you have outlined and best practice actually become the norm, rather than the exceptional best practice? At the moment, example is not enough.

**Lord Best:** You are linking, absolutely properly, housing and health. This is so important, particularly of course for older people: all that business of preventing accidents, preventing people from not being able to come out of hospital because the home will not receive them, readmissions to hospitals endlessly because of the problems of the home, and people being cold and miserable in the home. Health and housing are absolutely interlinked and we need to ensure structurally that people take note of that everywhere.

We now have the health and well-being boards up and down the country, which bring together local authorities and the health service. That is a critical point at which those two things can be talked about together. I see a shake of a head.

**Baroness Finlay of Llandaff:** They are not doing it. That is the problem.

**Lord Best:** Some are. It is the old story: some are and some are not. Where they are, they are showing what can be done. With the combined authorities, Manchester now being a great example, health is closer to local government. There are new opportunities to think about housing and about health in the same breath, because they work together. You save a fortune for the hospital, the health service and social care if you get the housing right, as we all know.

**Kathleen Kelly:** We know that poor housing costs the NHS £1.4 billion a year, and we are working very closely with Public Health England and the Department of Health to put housing at the centre stage of health decisions. We have done work with NHS boards on how you can use NHS land to reduce the pressure on services, such as providing reablement services to enable people to come out of hospital earlier and to prevent people from going into hospital. Housing associations are uniquely placed in that we know our residents very well. We know all the people that they are connected with, so actually our members do provide a lot of services.

The right strategic funding framework that is very clear about the outcomes it wants to achieve, and departments working together in that way, both nationally and in combined authorities, can deliver a lot of value and what is needed in a local area. Whether that is about the ageing population or mental health, a lot of the schemes that exist have real success in reducing people's reliance on medication or their reliance on emergency services, like A&E at hospitals.

**Baroness Finlay of Llandaff:** Should we be requiring an assessment of those factors in all planning?

**Lord Best:** Absolutely, they come together. That is such an important point.

**Q63 The Chairman:** Can I ask a question that Lady Andrews, who had to go off to another meeting, would have asked? I do not want a reply, but I would be very grateful if you could scribble down a few words on it. Do housing associations involve their residents in the management of homes and surrounding areas? Piggybacking on that is even getting discussion groups going with them. That makes them feel wanted, and they would have very good ideas on the very points about health and maintenance—the point about people coming out of hospital and even having something like a rota of visitors and people looking after them. It does seem the right way to do it. I have hogged that question. I am sorry about that.

It has been a fascinating session. Thank you very much indeed. I am sure there are lots of things that you will think about, as soon as you are out of that door. You are probably thinking about them now, but could we ask you to think about them and let us know? If you were in my position, what do you think I should really be thinking about? On that happy note, I say have a very good weekend and thank you very much.