



Communities and Local Government Committee

Oral evidence: Housing Associations and the Right to Buy, HC 370

Wednesday 4 November 2015

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Evidence from witnesses:

Members present: Mr Clive Betts (Chair); Jo Cox; Helen Hayes; Liz Kendall; Kevin Hollinrake; Julian Knight; David Mackintosh; Mr Mark Prisk; Mary Robinson; Alison Thewliss.

Questions 64 – 143

Witnesses: **Nicholas Harris**, Deputy Chief Executive, Stonewater, **Ian McDermott**, Chief Operating Officer, Sanctuary Group, and **David Montague**, Chief Executive, L&Q Housing, gave evidence.

Chair: Welcome, everyone, to the Select Committee's second evidence session in its inquiry into housing associations and the right to buy. You are most welcome to join us today. Before we begin taking evidence, as Select Committee members we need to put our particular interests on the record that might be pertinent to this inquiry. I am a vice-president of the Local Government Association.

Helen Hayes: I am currently a councillor in the London Borough of Southwark and I employ a councillor in my staff team at Westminster.

Q64 Chair: We are speculating as to why we have a name plate with nobody behind it. I do not quite know what has happened. Could the witnesses we do have say who they are and the organisations they represent? You are certainly most welcome. Thank you for coming today.

David Montague: I am David Montague, Chief Executive of L&Q.

Ian McDermott: I am Ian McDermott, Chief Operating Officer for Sanctuary.

Q65 Chair: We do not have Nicholas Harris, who we were expecting. Presumably, we are trying to find out what has happened. Unfortunately, we will have to carry on with the witnesses we have and see what happens as a result. I open with a fairly obvious question. One of the probably unexpected things to happen since you submitted your written evidence—indeed, since the discussions between the Nat Fed and the Ministers—is that the ONS has come out and said that you are now all part of the public sector now. Did that come as a surprise? Were you anticipating it? What difference do you think it is going to make?

David Montague: Obviously, we knew that the ONS was reviewing our status and that the decision could go either way, so we were prepared for the outcome that we heard last Friday. For a moment there were shockwaves across the sector as a result of the announcement and some disappointment, but Government moved very swiftly to reassure us that action would be taken to place us very firmly back into the private sector. Similarly, the HCA's regulation committee wrote to all of us and reassured us that action was being taken and until then it was business as usual, particularly in relation to our borrowing and spending plans. Therefore, we have gained the reassurance we need and, as a consequence of Friday's decision, we will gain the clarity we have needed for some years.

Ian McDermott: Similarly, we had anticipated that this was a potential outcome. As I understand it, it is primarily a statistical change rather than any change in our status. The concern would be if that introduced any restrictions on our ability to borrow and therefore build, but, as David has already said, we are awaiting the response from the Government to see what detailed proposals they come forward with to put us back into the private sector, which I think is where we should be and where we can best add value to the whole process of building houses.

Q66 Mr Prisk: Are your members reassured by what they have heard since the ONS announcement about your status?

David Montague: The immediate reaction of the ratings agencies was that becoming public sector organisations was a credit negative, but I am sure they will be reassured by the action taken by the Government.

Ian McDermott: I think the reaction to government is to say that it would have to change the level of regulation. That is what has

generated Moody's assessment of the impact on our credit rating. The issue is about any reduction that might accompany any further deregulation.

David Montague: What is essential now is that we strike the right balance between sufficient deregulation to restore housing associations to the independent private sector but not so much that it spooks our investors or undermines our social purpose.

Q67 Chair: What change of regulation are you looking for? There is a wonderful two-line clause in the Housing and Planning Bill which says that the Government would almost be able to bring in regulations to remove regulations. What are you looking for?

Ian McDermott: I think the answer to that lies with the people who define what makes the public sector and what makes the private sector. Until we understand in detail what generated the change—I do not think anyone, other than the ONS, understands that in detail—I suspect the changes we anticipate will be around control of our own assets and our ability to make constitutional changes within the organisation without seeking regulatory approval.

David Montague: I agree. Those are the key things.

Q68 Chair: Let's be a little mischievous. You say "control of our own assets". That means you could not be forced to sell those assets if you did not want to.

David Montague: That is not what we have in mind, if you are referring to the right to buy. The whole sector has embraced the NHF's voluntary proposal, and that is absolutely not what we have in mind.

Q69 Chair: Are you both signed up to that policy?

Ian McDermott: Yes, we are.

David Montague: Yes.

Q70 Chair: Did you sign up to it because the alternative was a statutory requirement rather than a voluntary one, or because you actually believed in the voluntary agreement of itself?

David Montague: As a starting point, speaking from an L&Q perspective and I think a g15 perspective as well, we believe in home ownership. Many of our customers want to buy a home; they want to buy the home they already live in. We believe in mixed tenant communities, and our cross-subsidy model requires an element of sale in order to generate a profit so we can fund our affordable housing.

Building homes for sale is a fundamental part of the housing association model. We want to be able to manage our assets more effectively than we do currently, so there is a great deal of overlap between what government wants and what we want. Naturally, we were concerned that a statutory route would give us less flexibility in the longer term, so we were prepared to support a voluntary deal because it is better for us, for our residents and for social housing in the long term.

Ian McDermott: The other thing that changed was the economic proposition. Selling our assets at full market value does not seem to me a terribly controversial thing of itself. I accept that it is wound up in a whole series of other objectives, but providing a subsidy to enable us to sell at full market value was certainly a significant factor in supporting the deal.

Q71 Chair: Looking at individual properties, do you think there is a real discretion not to sell particular properties or properties in particular locations? Are you likely to use it and use a portable discount instead?

David Montague: We are. For example, all of our stock in Richmond was acquired on the legal understanding that it would never be sold. That is one of the many complications that a statutory right to buy would have had to tackle. That is just one example of many. Therefore, we will not be offering for sale our stock in Richmond, but it would be great to be able to offer our tenants in Richmond an alternative through a portable discount.

Ian McDermott: I would agree wholeheartedly with that, and add that we have stock in national parks, for example, which was built with covenants around selling. Those will not be for sale, but we will be offering portable discounts to those residents.

Q72 Chair: Is it meaningful to say to someone, "You can't buy your home there, but buy one if you find another one 50 miles away"?

David Montague: It does not have to be.

Q73 Chair: You probably have quite a long way to travel before you find somewhere outside a national park.

David Montague: That is true.

Ian McDermott: But legally we could not sell them if we wanted to, and we do not want to anyway.

Q74 Julian Knight: David, with the IFS predicting a 12% loss of income and rent reductions of 1%, are members of the g15 considering redundancies or even mergers?

David Montague: Yes is the short answer. A lot of people are talking about consolidation and specific mergers at the moment. Only last week Genesis in the Thames Valley announced their intention to proceed from an outline business case to a full business case; Circle, Anglia and Affinity Sutton are already on record as looking to combine forces, so rent reductions have triggered a wave of consolidation. We have not seen a great deal of it yet, but I am convinced we will see a lot more of it in the coming months and years. A number of redundancies have been announced in the press already. I am sure that many housing associations will have to make some difficult choices. For L&Q, the annual loss by year four is almost £60 million. That goes straight from our top line to our bottom line. For g15, the annual loss by year four is £500 million; for the sector, we estimate that the annual loss is £1.6 billion. Imagine what we could have done with that money if we had borrowed against it. That is a lot of homes. We have lost a very significant amount. The sector is determined to recover those losses to maintain its ambitions, and that means we will have to make some tough choices.

Q75 Julian Knight: Do you think, therefore, that the IFS is underestimating the levels of losses?

David Montague: I think that it is about 12%.

Ian McDermott: We would echo that. For us, by 2020 we are looking at a loss of about £55 million per year. The way we will tackle that is by changing our business plans. We aim to make up about 50% through efficiency savings and the rest through income generation, but we need to put the surpluses back to where they were so we can continue to contribute to the building programme we want to.

Q76 Chair: Nicholas Harris has just joined us. Welcome. If you would introduce yourself to the Committee and tell us the organisation you represent that would be helpful as a start.

Nicholas Harris: My name is Nick Harris. I am Deputy Chief Executive of Stonewater Housing Association. We are the result of a recent merger in January of this year between Raglan Housing Association and Jephson Housing Association. We have about 31,000 homes from North Yorkshire to Plymouth and Eastbourne in the south of the country.

Q77 Chair: You were a little late for us today.

Nicholas Harris: We were stuck in the large queue outside.

Q78 Chair: That is something we need to look into. It is not acceptable that witnesses are stuck in that way. We will certainly take that up with the House authorities. There needs to be a way of dealing with that. I am sorry about that. We have just been talking about the change from ONS and what that might mean, and the arrangements for the right to buy. Julian Knight has just asked a question about the effect of the rent changes and the budget on your organisation and possible redundancies and mergers. Perhaps you would also like to say a little about that in response.

Nicholas Harris: As a result of the July budget, we estimate that after the four-year period our income will have fallen by £34 million. Obviously, we have had to reappraise our business plan and take a fresh look at how we are going to deliver our services in the future. We have also had to take a fresh look at what properties we can develop in the future, where we can develop those new properties and what numbers we can do.

Q79 Julian Knight: What sort of percentage would you put on that £34 million?

Nicholas Harris: Our turnover is £160 million.

Q80 Julian Knight: It is 20%. David, are there too many housing associations? Should we welcome the opportunity to see some mergers?

David Montague: Personally, I think diversity is part of the strength of the sector. Consolidation is inevitable as a result of recent changes. Large housing associations have a responsibility to support others. As an example, L&Q a few weeks ago set aside enough money to support a 200-home programme to help small and medium housing associations to replace right-to-buy stock before it is lost. We have a responsibility to support smaller housing associations. Consolidation is inevitable. Therefore, the National Housing Federation is publishing a new merger code to ensure that happens in a transparent, responsible and orderly way. It is inevitable.

Ian McDermott: Last year we built over 3,000 homes. That is about the size of two average-sized housing associations. We did that and reduced our management costs at the same time. If the question is whether the sector is organised in the most efficient way, the answer is absolutely not. However, there are associations that serve a particular purpose or support a particular client group. For that reason it is right that they have a focus separate from the rest of the organisations, but

I do not think that, if you were going to design the system, you would start from where it is at the moment.

Q81 Julian Knight: Do you think that the effect of the cuts and reduction in income will affect your ability to develop and build over the next few years?

David Montague: L&Q has decided that it wants to maintain its ambition. We have committed to £12 billion worth of investment over the next 10 years to deliver 50,000 homes. That commitment on 9 July is the same as it was on 7 July so we have maintained that ambition, but we have had to make some changes and compromises. Prior to the budget, 50% of all new homes we developed were affordable, either sub-market rent or low-cost home ownership. Post budget, only 40% will be affordable and 60% will be either market rent or market sale. We are having to make some changes to maintain our overall level of ambition.

Ian McDermott: We have increased the number of homes we said we would develop over the next 10 years, but what we build will change. There will be less affordable rent and more low-cost home ownership going forward.

Q82 Julian Knight: You say “affordable”. Is that as a percentage of the total?

Ian McDermott: That is overall. What we wanted to do was protect the amount of affordable housing we were going to develop. In order to do that we have expanded what we will do in terms of low-cost home ownership, providing cross-subsidy from one to the other. It was really a mechanism to make sure we could still deliver 5,000 units of affordable housing over 10 years on top of all the shared ownership and low-cost home ownership.

Nicholas Harris: Stonewater is a recent amalgamation, to come back to your earlier question. One of our drivers was to be able to develop and provide more accommodation. We have had to scale back our aspiration from about 7,500 to 5,000 homes over 10 years. There has been a significant impact on our initial aspiration. Like L&Q and Sanctuary, we are looking at the product mix but also the geographic mix. We are looking to see which geographic areas and parts of the country will work better under the new regime than under the old one. We are re-profiling where our activity will be in the future to some extent.

Q83 Julian Knight: In summary, what you have said to me effectively, reading between the lines, is that you will increase your building over the next few years but the percentage of that building that is affordable will be lower. Will the total number of affordable homes remain relatively unchanged?

David Montague: We have committed to a minimum of 1,000 new affordable rented homes a year. That is less than we would have produced prior to the rent reduction.

Q84 Julian Knight: It is lower in total.

David Montague: Yes, but the overall number is the same with slightly fewer affordable rents, but we have guaranteed a minimum of 1,000 a year.

Ian McDermott: We have slightly increased the amount of affordable homes we will be providing, and we have significantly increased the amount of low-cost home ownership that we will be providing.

Nicholas Harris: We have reduced it.

Q85 Julian Knight: You have reduced the number of affordable homes.

Nicholas Harris: Yes.

Q86 Helen Hayes: You talked about re-profiling your future plans. Are the homes which you are not now planning to build as affordable homes but as subsidised homes for home ownership ones that have planning permission already, or are you profiling further into the future? What happens to the homes you are committed to for which you have planning permission in the short term within this change of policy?

David Montague: There is no change as far as committed schemes and schemes which are currently being built. The 10-year mix will not change. For us, it is about changing the mix in future commitments.

Ian McDermott: We will build the programme as we currently envisage it over the next two or three years. What we have done is create the financial capacity to build the additional homes. We do not have the sites identified for those at the moment but we know we have the capacity to do that and that there is land out there.

Nicholas Harris: We are pretty much committed to 2018 as part the HCA programme, so we will deliver what we have committed to, but post 2018 the mix will be different from what we would have done prior to the July budget.

Q87 Helen Hayes: Does the HCA remain committed even with this forthcoming change in legislation or do you know? Will the Government require you to switch in terms of the funding from building affordable homes to building subsidised homes for home ownership? Do you have assurance from the Government?

Nicholas Harris: We have a committed programme that we have entered into. The assumption is that is a commitment we have entered into with the HCA and that will be met.

David Montague: The uncertainty relates to the future, particularly in regard to starter-home initiatives. We are presently unsure as to whether, even if we want to, we can maintain the same level of affordable rented housing as we did before. Much depends upon the new section 106 obligations.

Chair: We will move on to that issue in a second.

Q88 Kevin Hollinrake: I apologise for being late. Does your assumption going forward about the numbers of houses you could provide depend on the take-up of the extension to right to buy? Have you predicted those numbers?

David Montague: It does not for us. We have deliberately excluded right to buy, which we think is a cautious thing to do. We recently went out to the bond markets and we did not want to introduce that level of uncertainty into our business plan. The fact we had excluded right to buy was welcomed by investors. Savills and we believe that the impact will be broadly positive.

Q89 Kevin Hollinrake: Does that mean you will be building more homes than you are predicting?

David Montague: Yes, because we will be replacing the homes that we have lost, but presently we have left that out of our business plan because we need to see a bit more detail before we proceed.

Q90 Kevin Hollinrake: It could be significantly more than you are predicting.

David Montague: It depends on how many homes on which people exercise their right to buy, but we will at least replace those homes.

Q91 Kevin Hollinrake: Have you made a prediction for that?

David Montague: We think L&Q will lose about 10% of its stock through right to buy. That figure is generally supported by the Nat

Fed. We expect that housing associations in London and the south east will lose around 10% of their stock. That figure rises to 35% in the midlands and the north.

Ian McDermott: Our prediction is quite a modest one. It is that about 200 to 300 homes a year will be sold under the right to buy. If more than that are sold our business plan is flexible and we will develop more to meet that shortfall. We have done a similar thing. We have been talking to local authorities about the response to it. One offer that was made was not just to make up our shortfall but also to make up the shortfall of other smaller associations that are not developing and therefore do not have the development capacity. Therefore, it is not simply about replacing our own properties lost under the right to buy but making offers to smaller associations and talking directly to local authorities to pick up losses made by other associations that are not developing.

Nicholas Harris: We are working on the assumption that we are going to get full value from any right to buy, but the devil is in the detail. We have been quite prudent and have made no assumption at this stage as regards to what the impact will be on us from the right to buy receipts. However, I said earlier that our programme was to build 5,000 homes a year. We see that very much as a floor, and if the right to buy receipts come in in a way that may well happen it will give the opportunity to develop more homes.

Like Sanctuary, we estimate that probably about 200 homes a year could potentially go by right to buy. Interestingly, the report by Savills shows that the nearer to London the more unaffordable right to buy becomes for a large number of people. In the north east and north west of the country it could be very attractive. Closer to London it becomes more expensive. We estimate that in the south east probably about 50% of our tenants could not afford the right to buy just because of the level of valuations in the home counties, without taking into account any of the issues of access to finance and affordability checks that mortgage companies will need to do.

Q92 Mr Prisk: Given the extension of the right to buy policy and the income from the sales that should arise from it, do you see a net increase or fall in homes? In other words, would you be building more than you would otherwise have built?

David Montague: We are committed to at least replace the homes we lose and we are going to do much better than that if we can.

Ian McDermott: It is a similar commitment from us.

Nicholas Harris: And from us. The difference for us, probably because of our big geographic spread, is that our commitment is to replace like for like, but it may well not be in the same local authority area, because there are issues of availability of opportunities and land in some of the local authority areas. Although it is like for like, it may not be in exactly the same location.

Q93 Mr Prisk: That is interesting because often the narrative is that this will lead to a direct loss, so it is interesting to hear that view from each of you. Can I turn to another part of the Housing and Planning Bill, which we debated at Second Reading on Monday in the House, and look at starter homes, which you referred to a moment ago, Mr Montague? Do you think this initiative will help the overall situation in terms of supply? Is it going to represent a net increase, or not?

David Montague: I am less positive about the starter home initiative. It certainly has a role outside London. I think it is more challenging to make it work inside London. A £450,000 limit suggests that, even after the discount, you will need a salary in excess of £100,000. I am sure that homes will fly off the shelves with a £100,000 discount, but whether it will increase supply I am not sure. If you contrast the starter home initiative with shared ownership, the average shared owner earns £38,000, which is much closer to the average salary in London. Our view is that we could build many more homes if the same money was invested in shared ownership.

Ian McDermott: I think it is choreographing the relationship between shared ownership and starter homes and how that is going to work, making sure that one is not competing with the other. That is the concern that we have about it. We have a big programme of shared ownership. We think that it offers an awful lot of value to customers. The concern is that we get the balance right between the two products in any particular location so one does not start consuming the other's demand.

Nicholas Harris: It depends on which part of the country you are looking at. In some parts of the country starter homes would be a very attractive opportunity for people. I am a bit concerned that it could freeze out some parts of the marketplace, so people who would want to buy something on a scheme by way of shared ownership that would be taken up by starter homes could be deprived of that opportunity. I do wonder whether developers are going to be chasing the same market because, if you are under 40, you are probably better off trying to get a starter home than buying one off the shelf from the developer. I wonder what sort of impact that will have within the economics of those schemes.

Q94 Mr Prisk: One of the challenges is that government has to set a figure that starter homes run up to. From the point of view of a lot of people, in London it has been set at a very high figure, namely, £450,000. I suppose it comes back to the question of what any of us thinks is affordable these days in that sense. Clearly, governments have to set a maximum; they could hardly not do so, but would it be realistic to draw the line in London significantly below that? The natural instinct is to say, "How on earth can £450,000 be affordable?", but if it were dropped to £250,000 there would not be a home available to buy in the first place, so it would become a non-policy. Do you think Government have got that threshold right?

David Montague: For the reasons you have outlined, they probably have, but my concern is whether the money that will be invested into the starter home initiative could be better invested in something else.

Ian McDermott: I think that is right. Getting the balance right between the two and making sure they are complementary in a particular location is the key.

Nicholas Harris: We generally operate outside London and £250,000 is quite a good level outside London.

Q95 Mr Prisk: Just looking at tenure, which we have touched on before, there is a suspicion among some that maybe this is a conscious shift away from rent towards sale. Do you think that you as organisations will now be substantially more focused on homes to sell rather than to rent than you would have done, say, 12 months ago?

David Montague: I think there is a general shift towards more housing for sale among housing associations. If you look at g15, one-third of us are predicting that we will do the same amount of affordable rent; two-thirds are predicting less; 80% of us are saying that the thing we will replace it with is housing for sale. L&Q is in a slightly different position because we already have a 50,000 home programme, of which half is for sale. Our ratings agencies are saying that we will be downgraded if we increase our sales exposure. We already have a lot of exposure, so it really depends on where you are in terms of current exposure.

Ian McDermott: There is no question that we will be doing more for sale. Our history is one of low-cost houses for rent. That is what we have done historically. We are going to do a lot more for sale going forward, but in part that is to support our overall charitable objective of providing homes for low-income families, so it will enable us to provide affordable rented accommodation, as well as the homes that we are

selling. Therefore, one enables us to fulfil our more charitable objective.

Nicholas Harris: We want to provide rented accommodation; that is our main driver. We have always provided shared ownership. At the moment, that is about 25% of our overall programme, and for reasons of cross-subsidisation we are looking to see whether we can increase to about a third of our programme. The general direction of travel is to do more shared ownership and more homes for sale than we have done previously. We will probably be increasing it by about 8%, so not massively but still in that overall direction.

Q96 Liz Kendall: I have two questions. First, why has shared ownership not taken off in the way it might? Secondly, what would make the biggest difference in giving shared ownership the boost many people think it needs?

David Montague: From a London perspective, it has been hugely successful. We sell shared ownership homes far quicker than we sell homes for outright sale. It has been an immensely popular scheme and we would love to do more of it but, like everything, it could be improved. There are too many slightly different shared ownership products, and I think the whole shared ownership market needs to be simplified. We need to make it more attractive for people when they finally want to move on; we need to be more transparent about service charges. There is a lot we can do. Given that the average salary in London is £36,000, there will be huge and increasing demand for shared ownership. It is in our interests and the interests of mortgage providers to engage with that demand.

Ian McDermott: From our point of view, the more of it there is the more familiar people will become with it as a product, and the more comfortable the mortgage industry will be in lending towards it. Therefore, the more of it there is the more it will get traction.

Nicholas Harris: I think it has been really successful. Whenever we have a scheme generally we sell it easily. There is a problem with the name "shared ownership". When I was talking to my daughter about shared ownership she said, "I don't want to share a house with somebody". The name itself can be a bit misleading to some people, so maybe we need to find another name that explains more what it is.

The other brake on shared ownership is that there are only a small number of mortgage companies that will lend. There are only four or five companies in that market, so it is not seen as mainstream. If we could do something about the name and mainstream access to finance I think it would be even more successful, but we do not have problems selling.

Q97 Liz Kendall: I did not mean for housing associations directly but the housing market more broadly. For shared ownership, it is difficult to find the properties, as you would access normally, through websites, but there is also the issue with mortgage lenders. It is straying slightly beyond your specific role, but it is not as broad as it could be.

David Montague: It is a tiny part of the mortgage market. If I were a mortgage provider I would be slightly irritated by this small thing called shared ownership that did not quite fit into my system. I agree with Ian that, as it grows and becomes more mainstream, it will become more attractive to mortgage providers.

Q98 Chair: On the starter homes initiative, without looking at the amounts of the initiative or the detail, are you in any way concerned—we have not seen the final regulations—that local authorities may be forced to give priority to starter homes as part of section 106 agreements rather than affordable rent or shared ownership?

David Montague: Yes, we are. We would much prefer the starter home initiative to be as well as rather than instead of affordable rent and shared ownership. While we embrace ownership, our roots are in affordable rented housing and we are very keen, especially in London, to continue to provide it.

Ian McDermott: About one-third of our programme last year was section 106 agreements. It is an important part of what we do, and without it we would have to work a lot harder to find the sites to build the properties in the numbers we have talked about. It will be interesting to see what the new regulations say when they are published.

Nicholas Harris: For us, particularly in rural areas where section 106 opportunities are probably the only affordable housing to come along, because of problems of land supply and planning restrictions, to remove from the local authority the ability to decide what mix they want on that scheme would be extremely problematic.

Q99 Helen Hayes: I have a few questions about London in particular where I know the housing pressures are much more intense than in some other parts of the country. How easy do you find it to build in London?

David Montague: It can be pretty hard work on occasion, but what we have in London is a mayor who is committed to housing supply, and pretty much every London borough is committed to new supply as well. While it might be difficult, there is a real desire to build more homes.

For L&Q, it is absolutely our centre of gravity and we will do as much as we can there.

Ian McDermott: It is not Sanctuary's centre of gravity, but getting the London housing market right is absolutely essential for the economy nationally. We play our part; we build in London. We were talking to a north London local authority only last week about how we could help them with that. Finding sites is a challenge, but that is true for everybody.

Nicholas Harris: We do not develop in London.

Q100 Helen Hayes: Perhaps this question is for David and Ian only. Do you think there is enough land available in London to build the new homes you have in your programme and replace the homes you will lose through the right to buy?

David Montague: I think there is. Liberating it is a bit of a challenge. We are fully behind the London Land Commission and are keen to see it deliver. We are prepared to guarantee that we will build homes on that land as soon as it becomes available, but it is the single biggest restriction for us. We are just one organisation. L&Q has a 50,000 home ambition; we have the financial capacity to deliver. What we lack is the land, so we tend to do work with those local authorities that want to do work with us. We are doing some great work with the GLA, which has at its disposal its own land bank. The key to this is partnership and a combination of landowners and the capacity of housing associations.

Ian McDermott: We see London as a slightly different model from the rest of the country in terms of having to work more closely with developers in London that have sites already but may not want to develop the whole of those sites themselves. As David said, partnership in London is key to unlocking the level of building that we lack and aspire to.

Q101 Helen Hayes: Do you think there is more that public bodies like TfL, the NHS, some of the boroughs and central Government Departments could do to make the underused land that they hold available for housing in London?

David Montague: I think we are moving in the right direction. The London Land Commission is exactly the kind of initiative we need. I would like to see that developed a lot faster and go beyond local authority and public sector land holdings. I would like to see a register of all developable land in London and some credible plans for putting it to use.

Q102 Helen Hayes: Lots of London local authorities are very committed to building housing, but it is a pretty mixed picture. Some councils are very progressive and forward thinking in their pitches for new development; some are less so. What do you think accounts for that inconsistency and do you think there is more some councils could do to build homes for their residents?

David Montague: There is more that all of us can and must do to build more homes. The crisis in London is becoming an emergency, and we desperately need to do something about it. Young people are leaving London. Ambulance drivers are driving to Birmingham. The northern power house cities are proposing something that is attracting young people and putting out the red carpets for those who have traditionally invested in London. London has competition and it needs to respond.

Ian McDermott: One of the concerns expressed to us as a national provider by the London boroughs is that we will sell homes under right to buy in London and then re-provide them in the north of the country. That is not our ambition; it is not our intention. We want to build them in London and they need to be re-provided in London.

Q103 Helen Hayes: Do you think that some of the planning reforms in the Housing and Planning Bill, like the requirement for councils to grant planning permission in principle, will make it easier or harder for some of the London boroughs to deliver housing? I am thinking particularly of the difficulties that sometimes arise in existing local communities when housing associations and developers come along and want to build additional homes in their neighbourhood.

David Montague: Some planning reform is bound to help. As an organisation that is committed to London, we have to work with the community. We cannot land homes that local people do not want, so we invest a lot of time making sure we get it right and we have support from the local community. I think the NPPF has taken us a long way forward. Planning is easier today than it was just a few years ago. The biggest issue for us is land.

Ian McDermott: It is sites for us too.

Q104 Helen Hayes: In relation to the replacement homes under right to buy, do you think it is important that those homes are built within a certain distance of the homes that are lost?

David Montague: As far as is possible. g15 is presently having a conversation with all London boroughs, with a bit of help from the GLA. We want to ensure that social housing in London is protected and, as

far as possible, we will replace one for one in the same area, but the reality is that in places like Westminster that will be very difficult. We need to be honest and practical in the way we approach a solution.

Q105 Mr Prisk: I want to follow on the question about TfL. Maybe this is for David Montague rather than the whole panel. There is a debate going on as to whether TfL should sell outright many of its holdings or whether it should hold the land in freehold or long leasehold, depending on their existing ownership, and act as a partner. From a practical point of view, as a developer, which is easier to deliver?

David Montague: We will do what works and what our partners want as far as we can, but the second option is our preferred way. We think it makes much more sense to share some risk and enjoy the benefits of having done so over the long term. It means there is a lower cash outlay in the early days, which means we can finance the project easier than we would otherwise have done. If we are regenerating an area, or building new homes in an area, we are increasing value and it does not make sense for the landowner to miss out on that increase in value.

Q106 Chair: To come back to the point Helen raised about one-for-one replacement, your answer was that you would try to do it in the same area, with some caveats about difficult areas. You did not use the words "like-for-like replacement".

David Montague: It is like for like as far as we can, but we are having a conversation with local authorities at the moment. We want to do what is needed. There is no point in us simply saying "like for like" if what is needed locally is different, so the starting point is understanding what is needed and then working together to ensure that we deliver it.

Q107 Chair: Is there any area in London where there is not a need for social rented housing?

David Montague: Each local authority will have a different view. Some local authorities will believe they would like to see more home ownership and they have more than enough affordable housing. The conversation starts by understanding what is needed locally. It is not for us to impose our thoughts on a local authority.

Ian McDermott: Likewise, we are talking to local authorities about what it is they want to provide. Our default position as reflected in our business plan is like-for-like replacement with affordable rented housing.

Q108 Chair: And you have already committed that in an earlier question.

Nicholas Harris: Yes.

Q109 Liz Kendall: How many of the homes sold under right to buy do you think will end up in the private rented sector in a couple of years' time?

Nicholas Harris: As to council estates, a big number of properties that on perhaps the second or third change of ownership seem to be within the private rented sector. That can quite often be a bit of a challenge if you are doing a regeneration or trying to make major changes within that estate. That will be a bit of a challenge moving forward. Of course, you cannot restrict to whom people sell. If you are in a rural area, you can ask for a local connection or local employment, but longer term you cannot restrict that.

Q110 Liz Kendall: What impact does that have? Do you think it matters?

Nicholas Harris: It can have a positive and negative impact. Sometimes the condition of former right to buy properties is poor because the landlord has not invested in the upkeep of the accommodation; sometimes it is very good. The important thing always to bear in mind is that it is still providing a home for somebody to live in. It is a different form of tenure, but somebody is still living there and it is providing them a home.

Ian McDermott: It is quite a difficult thing to track. We have looked at the stock we have sold. Where it is flats and the service charge and billing address is different from the address of the property we have sold that would suggest there is an absentee landlord. In London, about 30% of the properties we have sold on our estates are now in the hands of landlords. It does create some interesting challenges. In one of the estates we are redeveloping in Scotland one particular landlord owns 19 of the properties, which in some ways makes it easier but also is not perhaps what was intended.

Q111 Liz Kendall: In five years' time what is the social housing sector going to look like following these changes?

David Montague: We have seen an awful lot of change in a very short space of time. I think the sector has been a bit shocked by how much change there has been, but housing associations are resilient, creative and ambitious organisations. I think we will find a way through this, but we can only find a way through it in partnership with local

authorities. My fear is that we will see less genuinely affordable housing, particularly in London.

The average L&Q tenant has an income of around £13,000, so no matter what their ambitions might be it is very unlikely they will exercise their right to buy. There is a very long waiting list of people in very similar circumstances in London who are crucial to making London work. We absolutely must provide for those people as well. There is a general swing towards home ownership and we will embrace that, but, at the same time, we are going to preserve our balance sheet to ensure we provide as much genuinely affordable housing as we can.

Ian McDermott: There is still an awful lot of detail to come. Until we have seen it, digested it and understand what our future status is it is quite a difficult thing to predict. We are staying close to our ambitions and making sure we are one organisation that manages our homes as efficiently as possible and that, whatever the changes, we can respond actively to them. We have to have a purpose and add housing; we have to add value; we have to be housing people in need if we are to stay relevant in these changing times. That is what we are wedded to, but how it will look in future is difficult to say until some of that detail is available.

Q112 Liz Kendall: Do you think it will be possible to keep to your fundamental purpose?

David Montague: It will not be easy, but we will.

Ian McDermott: Yes. The other thing I would add is that the pressures, demands and opportunities are increasingly different in different areas of the country where we operate. I think they are different now in London and in the north and in Scotland.

Liz Kendall: Do not forget the midlands.

Ian McDermott: The midlands, south west and any other region I forgot.

Nicholas Harris: I think it is going to be more fragmented. To pick up Ian's point, how this pans out in the midlands or north east will be very different from how it pans out in London and the home counties. To answer your question regarding whether we will keep to our purpose, our purpose is to provide accommodation for people who cannot meet their housing needs through the open market. With house prices and what is going on in the housing market, there are huge numbers of people who cannot meet their housing needs through the open market, so the need for us is even greater than it was probably five or 10 years ago.

Q113 Liz Kendall: You mentioned not just actual homes but the additional services many housing associations provide, certainly the ones I have worked with in my patch in the midlands. What is that going to look like?

Nicholas Harris: I think our relationship is going to be different. Particularly with pay to stay, we are entering uncharted territory where we are collecting people's incomes and asking how much income they have earned this year, who is in their house, what they earn, etc. I think the nature of our relationship with our tenants will become quite different from what it has been in the past. That is a bit of a concern for us. Some of the reforms or changes will have a fundamental impact on the nature of the relationship between our tenants and us.

Q114 Liz Kendall: Could you describe it in a word or two? What do you think it will move from to?

Nicholas Harris: Up until very recently, traditionally we would house purely on housing need; we would not look to see whether somebody could afford the rent, because the rent was always going to be paid for by housing benefit. Now we need to look to see whether people can afford the rent we are offering. We estimate that, if you are on benefit and the rent is about £120 a week, you will have to eat into your other personal allowances to pay the difference. That is a big change.

I also believe that we are going to be asking people what their income is, who is living with them and who the two highest earners are within their household to then change their rent. We do not have the detail about how pay to stay will be implemented, but one can imagine all sorts of situations: people coming out of relationships, income changing, or people losing jobs. I can see a yo-yo of what rent people are paying, which leads to huge administration for us to manage that and keep control of it. I think it puts us in a different relationship with our tenants. It is not something we have had in the past and I think that is going to be quite different.

Ian McDermott: There are clearly areas where we are the predominant landlord and therefore we have a duty which is not simply as a landlord but as a custodian of the wellbeing of that particular neighbourhood. That has to stay; we have to stay focused on that. I do not think it is an option for us to abandon that part of the work we do. It is in our interests in terms of maintaining the values and the wellbeing of the people who live there that we continue to address those issues. We are not going to have as much money to spend in those areas, and increasingly it will be about co-ordination, but we have to find ways of making sure that in that broader sense of place

and locality we continue to play a very active role. Not to do so would be very short-sighted, and would not be in our long-term interests.

David Montague: For L&Q, in four years' time the minimum we have to find is £60 million. We will be producing more market rented housing and slightly less affordable rented housing. We are going to have to improve our online offer, partly because people want it and partly because it will be more efficient to do so. We are going to have to be more agile than we are currently, which means that the person who comes round to see you might not come from the office round the corner but from somewhere else, but we have to do that in a way that remains locally connected. It is absolutely essential that we are connected to the community, the local authority, police, health service and so on. What we are currently trying to square is how to provide a locally relevant and connected service while reducing the cost of that service. That is what we must do.

We are still committed to investing in communities. We have just increased the amount we commit to £10 million a year, but the amount we invest will be focused far more on getting people into work. The best way out of poverty is through work; the best way to sustain your tenancy is by finding employment. Much more of our community investment activities will be focused on skills training and employment. Finally, we are going to be supporting smaller organisations so that together we can deliver our social mission. We have recently put £10 million into St Mungo's, a homeless charity in London. We are about to put in another £10 million. We have just committed to another £5 million for Thames Reach. We think we have a responsibility as a financially strong organisation to support like-minded people so we can find a way through this together.

Q115 Chair: When David Orr came to give evidence at the first evidence session he said, on behalf of housing associations, he would like to see housing associations have the freedom to set their own rents to avoid the problems that have arisen from the budget. Is that something you would welcome?

David Montague: There has to be an answer to what happens in year five. We have just been out to the bond markets. The first question everybody asked was, "What on earth is going on, and what is going to happen to your rents in year five?" At the moment we do not have an answer to that, so we need some certainty. We have limited choices. I would support David Orr and the Nat Fed's view that in five years' time housing associations should be able to set their own rents, bearing in mind that the vast majority of us are charities, have worked over many generations with local authorities and have used the flexibility we were given by the coalition Government on affordable

rents in a very responsible way. It is something we must sort out. On rents, all of us have created a bit of a mess over many years. There is one development in L&Q where you can pay £95 or £130 for a two-bed flat, or you can pay £140 for a one-bed flat, or £350 a week for the same flat. None of that makes any sense. At some point we need to stand back and make sense of rents, and housing associations are best placed to do that.

Ian McDermott: Can I just use an example? In Scotland there are no restrictions on our ability to increase rents, and rents generally are lower. The presumption that, left to our own devices, we will hike rents up and charge as much as we can is not borne out by the evidence north of the border. We want to see freedom over rent-setting. The evidence suggests that when that happens we take a very responsible view about what is affordable to our residents.

Nicholas Harris: It is a fundamental responsibility for a board of directors to set the rents. I concur that what we desperately need is certainty from year five.

Q116 Helen Hayes: I want to push you a bit further on the question of properties that have been sold under the right to buy ending up in the private rented sector. In the future the residents living in those homes will still be your residents and you will be the freeholder. Those homes will still be on your estates, but the residents who are living in those homes will be paying market rent and will have far less secure forms of tenure. Do you think it matters? I think it does. For example, at Committee stage of the Housing and Planning Bill might it be worth seeking an amendment to provide a covenant to prevent the subletting of homes that have been sold under the right to buy?

David Montague: I share your concerns. I wonder how the mortgage market will react to restrictions in use. It might make buying your home through right to buy a lot less attractive than it otherwise would have been, but I really do share those concerns. It is a shame that homes which were previously providing good quality security and affordability find themselves in a very different place.

Ian McDermott: Under-investment in homes that have been previously bought is a problem. The circumstances you describe quite often result in under-investment, as well as people potentially paying higher rent. It is a really difficult problem to solve, and I am not sure that simply putting a covenant on the sale is the right thing to do. It is a problem, but quite how it is best dealt with I am not entirely sure.

Nicholas Harris: I cannot see that you can put a covenant to restrict it, because you will be basically encumbering somebody's right to their

property and deciding what to do with it. If you have the right to buy you should be able to buy unencumbered.

Chair: We will have to leave it there and move on to the next set of witnesses. Thank you very much indeed for coming and answering a very wide range of questions.

Examination of Witnesses

Witnesses: **Stephen Javes**, Chief Executive, Orwell Housing, **Diana Kingdon**, Chief Executive, Greenoak Housing Association, **Hugh Owen**, Director of Policy and Communication, Riverside Group, and **Tony Stacey**, Chief Executive, South Yorkshire Housing Association, gave evidence.

Q117 Chair: We now move on to our second panel of witnesses. Thank you very much for coming. If you just begin by saying who you are and the organisation you represent. If you just go down the row, thank you.

Tony Stacey: I am Tony Stacey; I am with South Yorkshire Housing Association. Up until very recently I used to chair the PlaceShapers group.

Diana Kingdon: Diana Kingdon; I am Chief Executive of Greenoak Housing Association based in Woking, the only small association represented here today.

Stephen Javes: I am Stephen Javes, Chief Executive of Orwell Housing.

Hugh Owen: *I am Hugh Owen, Director of Policy and Communication at Riverside.*

Q118 Chair: *Thank you very much for coming. Tony and I so know each other reasonably well as we come from the same part of the world, and we have regular chats about housing issues, so this is just a continuation of those. As I began with the previous witnesses, the ONS made a decision earlier in the week that you are now part of the public sector in their view from a statistical point of view. Has that made any significant change? Are you comfortable with it? What do you want to do to change it if you are not?*

Tony Stacey: If I go first on this, as at today it has not made very much change at all. We will carry on with an organisation run by a

board that sets our strategy and has no control over our funding. Practically speaking, it has not changed things. In the medium term it has changed things very significantly. Personally, I welcome the reclassification because I think it will require the Government to make up their mind about whether or not housing associations really are independent organisations. The Prime Minister only a few weeks ago mistakenly called us public sector organisations. I thought it was very helpful that Greg Clark put out his written ministerial answer on Monday this week saying that he wanted to get us off the balance sheet just as quickly as possible. If that happens then I think it gives us the opportunity to have clarity about our role, our independence and our mission in a way that has really been fuzzy over the last decade or so.

My final point on this is that I think if CLG and the Minister are going to do that, one of the first things he will need to do is have a look through the Housing and Planning Bill. There are an awful lot of centralising and controlling measures in the Housing and Planning Bill that will need to come out if housing associations are going to be reclassified as independent organisations.

Diana Kingdon: As this is a financial assessment, I was advised that it should have very little impact on us for the time being. I think that if it went wider than that then there would be greater concerns, but we have received some reassuring statements, and we hope that the classification will be changed.

Stephen Javes: I have no real concerns at the moment. I would echo some of those thoughts and welcome the interventions from the Secretary of State.

Hugh Owen: While we have seen the reassurances, instinctively we feel quite uneasy. There is a psychological issue here in terms of how we are regarded by politicians and our partners. The reassurance from the Secretary of State in particular is really welcome, but, while we have seen that reassurance, in a sense the fact that Government want to put ONS in a position to reverse that decision would imply that in the longer term there are significant issues there. As Tony said, the decision was based upon things that happened seven years ago. There is a whole series of things happening through both the Housing and Planning Bill and the Welfare Reform and Work Bill that potentially could make things even worse. There is a sense that there is incremental change here. It is a time to step back and fundamentally re-examine the relationship between the sector and the state, and resolve this once and for all.

Q119 Chair: If you cannot give all the examples, it might be helpful to put something else in writing. There is a clause in the Housing and Planning Bill that says the Secretary of State can take action to bring in regulations to give greater freedom to housing associations, so the power is there. What would you like to see the Secretary of State do to enact that and what would you like to see taken out of the Bill that you think complicates the issue even further?

Tony Stacey: I will take the most obvious one: pay to stay. Pay to stay is a centralising, controlling measure, which certainly at SYHA we would never adopt. It will cost us far more to administer pay to stay than it will generate additional income for us. That decision should be left to individual associations to decide in consultation with their tenants and local authorities to come up with the right solution for that particular housing market.

The other obvious example that is not in the Bill but has been suggested very recently, is that housing associations should only be able to give five-year tenancies; we should not be able to give permanent tenancies anymore. My general message is that Government should back off on that kind of thing. This is up to independent organisations' boards to make those strategic decisions based on the places that they are working in.

Hugh Owen: The fundamental test of an independent organisation is control over income and assets. Where there is government grant that has been given there are terms and conditions around that, which I do not think any of us would argue with. Fundamentally, looking at those issues, rent-setting and control over disposals would be pretty much top of the list. Having said that, there is a little bit of beware of what you wish for here, because there are the lenders as well. We need to be really wary of that. Some of the comfort that the lenders have from a regulator who stands behind the sector and is prepared to intervene in extremis is clearly part of the credit worthiness of the sector. It is a debate that needs to be quite open and needs to involve lenders as well as associations and government.

Stephen Javes: I have nothing to add to that.

Q120 Chair: Coming on to right to buy, are you in favour of the voluntary agreement and are you likely to use your discretion not to sell in certain circumstances?

Stephen Javes: I am in favour of it, and we will certainly look at removing stock from the sales canvas. For example, we operate in East Anglia, Norfolk and Suffolk primarily, and in rural housing it will be very important to sustain rural communities. We also have a significant

portfolio of supported housing with care and we would argue very strongly that that should be exempted in the very broadest sense.

Diana Kingdon: My association did not support the Federation's voluntary offer. We did understand that the Federation had a difficult task to do in representing associations across the country with very differing circumstances. Our board did have the opportunity to meet and it had a very vigorous discussion. We were very conscious of our own charitable objectives, but in particular we were concerned about the implications for our sheltered housing stock and for our rural developments. Around one-third of our housing is sheltered with support. We could obviously exclude them ourselves, but the difficulty would be in re-providing. We do not see why we should be giving a portable discount for people who are in the most suitable housing for them at the current time with the support that they need. The concern is that they could be persuaded by family members to move out of somewhere where they do have adequate support. We are very concerned about rural developments as well and we would have preferred to have seen it go through the legislative procedure so that we could have had exclusions rather than it being a voluntary act.

Tony Stacey: Our board voted in favour of it, but it was a split vote on the board with the Chair and two other members voting against it. I remember Helen in the last hearing used the phrase, "It was like being asked to shoot yourself in the knee before somebody else shot you in the head", and it did feel like that. Even those board members who voted in favour of it, the majority of them did so with a heavy heart. The reason we did support the Nat Fed with it though is that in the north, where we work, there is a particular issue with regards to the replacement costs for the homes that we will need to build in the future. Our average open market value is £80,000; the average cost of replacing new build will be about £125,000. We must have the flexibility that the Nat Fed was able to negotiate with Greg Clark. That is the reason we went for it. It retains our sovereignty and it gives us the flexibility to be able to make it work. A compulsory scheme would not necessarily have done that.

Hugh Owen: From a Riverside perspective, we were in favour given the context within which our board was asked to make the decision. We also spoke to our tenants, three-quarters of whom were in favour. We were attracted to the voluntary deal partly because we felt it was an opportunity to examine some of the fundamental flaws of what you might call "right to buy 1".

Whilst some of the detail is yet to be worked through, we would like to look at the issues such as leakage into the private rented sector and explore whether there are solutions to that. We do that with shared

ownership. We apply affordability tests within shared ownership and clearly the whole issue around one-to-one replacement is very significant as well. We felt that a voluntary deal would give us the opportunity to examine some of those issues. It is interesting to see that Ian Cole's report to this Committee picks up on those issues of whether we can deal with some of those inadvertent consequences of right to buy with a better form of right to buy that will give our tenants opportunities. We support that.

Q121 Julian Knight: Did you say two-thirds of your tenants were in favour?

Hugh Owen: Three-quarters.

Julian Knight: Because we had a tenants' representative body in here a few weeks ago and, listening to the evidence she gave, you would imagine that this was the worst thing that had ever happened. Frankly, all they were concerned about was the potential for a devaluing of services. It seems that your experience is that you have seen from your tenants that they do welcome the idea of right to buy.

Hugh Owen: That was not quite the question that we posed to them. In a sense, we described the circumstances we faced and asked whether they thought it was best for us to support a voluntary deal in those circumstances. Having said that, many of our tenants aspire to buy and we support them in doing that already. We actually have a voluntary product that we use. Our concern is whether we can we replace the stock and whether we can prevent unsustainable home ownership leakage into the private rented sector and some of the consequences of that?

Q122 Julian Knight: Just to follow up on that point—you say you have a voluntary product already in place. What lessons can you learn from how that has played out that perhaps the rest of the industry could learn or you will learn going forwards?

Hugh Owen: For example, with the voluntary product, we both apply an affordability test and we restrict sub-letting in that product. It can be a way to do that, or we can restrict sub-letting without consent. We understand there are circumstances where it is perfectly legitimate. Indeed a mortgagee in possession, to give them confidence to continue lending, may need to be in a slightly different position anyway. However, if we are in the loop there and are required to give consent to that and can examine those circumstances, which is exactly what we do for many of our shared ownership schemes, we think that is probably the best thing worth exploring at least.

Q123 Kevin Hollinrake: Is it possible to share with us that survey that you did—the questions you asked and the original responses?

Hugh Owen: Absolutely. I will forward that.

Q124 Jo Cox: What assessment have you all made of the potential take-up by tenants of the right to buy policy, and over what timeline?

Tony Stacey: We estimate that 1,000 of our tenants, which is about 25%, could afford to buy. On a daily basis now we are ringing people up and saying, “How was the repair to your ball valve?” and they say, “Great—when can I buy my home?” It is popular in our area. I have mentioned to you that our average value is £80,000. If you start to get very sizeable discounts on top of that it really does open up access for people.

Diana Kingdon: As a small association, it is very difficult for us to assess the impact. We do not collect the income figures for our tenants, and because we have got a large proportion of sheltered housing and we have a large proportion of one-bedroom units, I do not think we can gather much useful information from other associations.

Stephen Javes: It is something around 10%.

Hugh Owen: We have modelled a slightly higher figure. We have come at it in two directions. We looked at income figures, some of it modelled and some of it surveyed income figures and, not dissimilar to Tony’s figures, we think around 20% could theoretically afford to access a mortgage in their own name. We also know that with right to buy there are often other people stepping in to help people purchase. We have looked at our historic experience because quite a few of our tenants already have the preserved right to buy. We have looked at our sales figures and we have gone for a figure of about 15%.

Having said that, we have had to do that for business planning purposes, but who knows? We do not know what the latent demand is sitting out there. What we feel is that the profile will be very heavily weighted to the early years and that is exactly what happened under the statutory scheme, so it will not be even. We would expect to see a flood of sales in two or three years and then a tailing off, and then probably a variation according to the housing market.

Q125 Jo Cox: Is that your planning on timeline as well—a flood and then a pause?

Stephen Javes: Yes. When you look at the local authorities and right to buy you see exactly that. You see that large hit early on that lasts for about 10 years and then you see it tailing off.

Q126 Mr Prisk: Your figures, I am assuming, incorporate the impact of the Mortgage Market Review, because they radically change affordability and practice for many people, particularly, I suspect, many of your tenants. Certainly in the debate about whether the additional 800,000 out of the 1.3 million would or would not be able to exercise this, the brutal reality is it is more likely to be 200,000 or 15-20% depending on where you are geographically. You have all reflected that with figures between 10% and 25%. Do your figures specifically model the current standards that are expected through the MMR?

Tony Stacey: They do, Mark, but they are relatively broad brush, because the data on our tenants' incomes has to be a guess. We have to do it by coming up with a distribution curve based on statistics around incomes of tenants who have moved in recently. We do not go back as a matter of routine and collect incomes for tenants who have been there for a while.

Stephen Javes: We are very fortunate in having a very high level of profiling up into the late 1990s. I would say that the figure that I have given you reflects that and takes that into account.

Hugh Owen: I would not want to over-claim the sophistication of our calculations. However, our observation based on experience is that 80% of our purchasing in the preserved right to buy last year were cash buyers, and elderly cash buyers. That is quite a distinct segment, because to be in a position where you have got a preserved right to buy years and years after a stock transfer, given the new tenants do not get that, means that they are likely to be quite elderly and have not previously exercised their right to right to buy. Having said that, that does illustrate the potentially significant impact of cash purchases through others helping. It would be very hard to devise a scheme that outlawed that but, at the far end of that, there are some unscrupulous individuals and companies who would be very tempted. We have seen this happen before and we need to find a way of absolutely preventing that happening.

Q127 Chair: How?

Hugh Owen: By offering to buy the property, allowing someone to live in it rent-free and then when they pass on—

Chair: No, how do you stop it?

Hugh Owen: Potentially through some form of vetting. Ultimately, we can apply some sort of affordability test. This is to be worked out in the detail of the voluntary scheme, but at least a voluntary scheme means that we can have these discussions.

Q128 Jo Cox: What happens if that assumption of between 10% and 25% take-up becomes 50-75% take-up? Is there a viability question or a concern you would have if we did in any bit of the country start to hit that kind of take-up level?

Tony Stacey: I think there certainly would be. The speed with which we can replace properties is relatively slow; it is slower than we would like. The typical progress from starting a scheme to finishing it is way over two years. It is two, two-and-a-half, two-and-three-quarter years, so just getting it replaced within three years, bearing in mind the Government want to do it within two, is going to be a real challenge. However, my understanding is that the real way in which this is going to be rationed and tapered is because government will not have the kind of funds in year one to meet the demands. There must be some tapering process that will come from government rather than from us.

Stephen Javes: There is no doubt that if you went to those staggering figures it would have a massive impact on viability because you have lost that rental income.

Hugh Owen: In some ways though, that is another merit of a voluntary deal, because none of us do really know. We have all tried to model, but if the unexpected happens, in the context of a voluntary deal you can turn the tap down. You can turn it up as well. In a statutory solution it is very difficult.

Q129 Mary Robinson: Larger and smaller housing associations seem to be affected by this and are dealing with it in different ways. I am interested in looking at how the effects of the 1% per annum cut to rent is going to impact on your housing associations. Would you agree with David Orr, who said that the cut is an existential threat to many housing associations?

Stephen Javes: It is certainly a threat, but then it is caveated with how you deal with that, which we have been discussing. There is no doubt about that. It is making people rethink their positions in very many ways, and we can continue to discuss that. It is all about where you start from and if you have a very healthy organisation it will see this through and come out at the other end. It may not climb back to the aspirations it had at the beginning, but it may come some way back. It is certainly no bad thing to make people and organisations have a look at themselves.

We, as an organisation, build as an agent for the HCA; we partner with other housing associations and local authorities. We are seeing that some of the people we build for are relatively embryonic stock transfers and we are seeing significant pain in those areas with those organisations. Others that have been around longer are more readily able to deal with what is ahead.

Diana Kingdon: For many small associations that I have spoken to, they will be able to cope with the 1% rent cut. It will have an impact. You have to be very resourceful as a small association, and many of the small ones have a lot of voluntary input. Our association is developing; we have trebled our size in the last 10 years and we currently have a development about to go onsite of 18 units. However, it will affect our future capacity. We do not feel that we should be cutting our services to tenants. We feel that they are at an appropriate level. However, it will cut our future development capacity after our current scheme onsite by about one-third.

Tony Stacey: I mentioned the PlaceShapers group earlier on. There are 116 of them with 800,000 homes, so it is a very significant body of stock. PlaceShapers are large, medium and small associations. None of the PlaceShapers that I am aware of are actually going out of business as a result of the 1% cut over four years. What they are doing is adapting in very different ways. Do not assume that it is just the largest associations that are coming out of this relatively healthy. I used to work for London and Quadrant. It made a surplus last year of £200 million. It is about the financial structure of the business rather than size necessarily.

One of the things that has not come out so far either in the first hearing or today is the impact on supported housing schemes. The vast majority of supported housing rents are going to be cut in the same way as the general needs rents are going to be cut. The problem there is that 80% or more of costs in supported housing schemes relate to staff salaries. There are only so many times that you can go around the block with regards rationalisation and trimming overheads. That means that a lot of supported housing schemes will close.

Therefore, there probably is not an existential threat, but I am aware of one association that is thinking of closing over 100 schemes. Greg Clark knows about all of this; he understands this issue. The problem is that the Treasury calculated the full impact on the whole rent take from the sector, and, therefore, it is very difficult now for us to make exemptions and start to claw out some of the supported housing issues. In terms of a campaigning issue, the National Housing Federation feels very strongly about it, I know that Riverside does and certainly PlaceShapers does.

Hugh Owen: I would absolutely echo what Tony says. It is not an existential threat to Riverside. It is very difficult and I would not want anyone to be under any illusions that this is an easy set of circumstances to deal with. We have quite a significant supported housing element called Riverside Care and Support. If you look at our supported housing in purely financial terms, their operating margins are very slim to say the least. The rest of the organisation, effectively, cross-subsidises. We think that it is a really important part of what we do and we are dedicated to continuing to do that. However, when you apply the rent cut as well, effectively it becomes a loss making part of the organisation. We are going to have to make some really difficult decisions.

I work for an organisation where we see this as a fundamental part of our core mission. We know a lot of other housing associations that probably have smaller supported housing businesses where I think it would be very tempting, looking for the less efficient areas of the business, to quietly stop doing supported housing. I think there is a real threat of death by 1,000 cuts and a real shrinkage in supported housing as a result of this, and there is a very strong case for seeking an exemption. We are very much supporting PlaceShapers and the National Housing Federation in making a case for an exemption on the face of the Welfare Reform and Work Bill.

Stephen Javes: I would echo that. We have very substantial exposure in supported housing care with young people, older people and people with learning difficulties. There is no doubt that in terms of housing management the fundamental, simple functions of signing up a tenancy in family housing may take X amount of time. If you are dealing with somebody that is in crisis in a women's refuge, if you are dealing with somebody who has a learning difficulty, or even potentially an older person, you may spend two, three or four times X of management time just dealing with that person. It is as basic as that, in that you do need that time. It costs you more money for a similar sort of rent and, therefore, there is a very strong case for saying the minus 1% should not apply.

Q130 Mary Robinson: It seems to me that there is consensus around the supported housing schemes. In terms of an exemption, how would you frame that and what other partners would you involve in doing so?

Diana Kingdon: One of the opportunities you could look at is the right to acquire. Right to acquire was introduced in the late 1990s, and that allowed for the exclusion of rural properties. There is a precedent that could be used for rural, as well as supported housing.

Stephen Javes: I cannot remember, and I do not want to sound too much of an anorak either, but in answer to the question, somewhere in the 2015 Rent Standard—and I am probably going to get it about right; I think it is paragraphs 321 through to 326—there is the specialist definition. It is so narrow it is worthless, frankly, but further on in there there is a much broader definition of supported housing that perhaps could be looked at. I am pretty sure it sits in there. You might even move that into sheltered housing as well.

Hugh Owen: The definition that has formed the basis of an amendment at Committee stage within the Commons is around the definition of specified accommodation. That is a definition that belongs to the DWP, which is why it seems very logical. Notwithstanding the fact that it is actually used as a definition already, we know that one of the issues with that is there is question about how much accommodation that captures. The DWP has commissioned research to examine that that does not report until next year.

Whether that is a credible definition, given the timescales now—we know that the Government are pushing this Bill through very quickly. There are other definitions. There is a regulatory definition, which is audited, of supported housing. We all tell the regulator, at pain of death for getting it wrong, how much supported housing we have. It strikes us that it is not beyond the wit of the sector, working with DCLG and DWP, to come up with an adequate definition that would frame an exemption.

Stephen Javes: Just if I may, there is some rhetoric around waiting until the DWP report is published. I would say do not wait; let's make the presumption that you make the change now. If, after the DWP report is published, there is a different conversation to be had, let's have that then. There will be a lot of pain in the meantime if you wait.

Q131 Mary Robinson: If housing associations go down the route of letting go of that sector in favour of concentrating on core responsibilities, how would that conflict with your philanthropic duties?

Stephen Javes: It is fundamental to our organisation and what we believe in, and our board would never want to let go of it. It would be something they would let go of with a great deal of angst.

Tony Stacey: You are seeing a parting of the waves at the moment where some associations, as Stephen said, typically where it is a small part of the business, are saying, "This is far too risky. We'll let go of it". Other associations just see this as core business. We have always done it; it is absolutely the heart of what we stand for.

Q132 Mary Robinson: Just one more final view. We talked earlier about surpluses that have been built up. The Minister has suggested that those surpluses should be used to offset the reduction in the rent. Is that something that could be done?

Stephen Javes: I just wonder whether this is an opportunity to dispel some myths on this. People also talk about reserves and they are two very different things. Surpluses are about the cash that comes onto the profit and loss or I and E in a given year. That money stays in the sector. It is used for development and for delivering good quality homes, programme maintenance, community work etc. It does not go anywhere. The reserves part that people talk about—the billions and billions of reserves sitting in housing associations—are not cash. They are not something you can take out in a wheelbarrow and spend. They are an accounting practice that just happens to suit them. They are our investment in our properties over the lifetime of our organisations, and they are two very different things.

You may not be doing it, but I would just say be very careful about the surplus you see on the I and E and the reserves that you see sitting on the balance sheet. They are two very different things. The reserves have already been invested in those homes. In terms of offsetting, I do not think that is what housing associations are about. Housing associations are still about taking those surpluses and using them to develop, provide new homes and provide quality homes in quality communities.

Q133 Mary Robinson: I thought the Minister was specifically mentioning surpluses rather than reserves, so it would be set aside and be intended to be used for other purposes. Surpluses seem to say that that money has been put aside that could be used. Are you saying that that is not a possibility?

Hugh Owen: That money is used. That was a great explanation. There was another great explanation in the written evidence that g15 submitted to the Committee: "Any housing association that builds homes is a net borrower". Notwithstanding what our income and expenditure accounts say—because they do not fully take account of the cost of building homes—if you look at the money that comes in and the money that goes out, certainly in the case of Riverside, last year, notwithstanding that our accounts showed a £50 million surplus, we had to borrow £20 million worth of funding. We have to do that every year to build homes. If we are going to have a sustainable development programme not just for one, two or three years but for five or 10 years, given that we now operate in an environment where there is very little grants—that is quite a significant issue as well—then

we are required to generate surpluses to reduce our borrowing requirements. g15 explains it far better than I do, but that is the position.

Diana Kingdon: I really want to correct my previous answer because, with our sheltered housing, we actually feel we can absorb the 1% cut. However, our remaining concern is over right to buy. That is a much bigger concern.

Q134 Jo Cox: I have a few questions on how the right to buy policy might affect your capacity to build. Generally, do you think the extension of right to buy and the income from sales will allow you to build more homes in the future?

Tony Stacey: In terms of the northern issue, which I mentioned earlier on, if all we are getting back is £80,000 and the cost of building new is £120,000, it does not work, does it? It does not stack up. That is why those flexibilities are so important for us. One of the flexibilities in there that we will undoubtedly have to use is that we should be able to go out into the open market and buy in second-hand properties, which we could buy for that sort of figure.

It will lead to more new building. We definitely will try and do that as much as we possibly can. As Stephen said earlier on, there is a danger of losing cash flow here. What you have to do is get ahead of yourself and anticipate how many homes you are going to sell in the year ahead, otherwise you are going to be standing still for that two-and-a-half-year development period. That is where our thinking is going now. We are thinking about how we replace homes that may be sold. The Prime Minister said he wants to see the first homes sold next year. Whether that is introduced across the country is a different matter, but we are starting to think now about how we can replace that and get ahead of ourselves.

Q135 Jo Cox: Tony, do you think you will end up building more homes than was in your previous business plan, the same or fewer, and what type?

Tony Stacey: It is difficult to say. What will definitely be fewer is the amount of new homes outside the right to buy replacement than we otherwise would have done. I mentioned in my submission to the Committee that I think it has taken 200 new homes out of our development programme over the next four years. Our real focus will be to make sure that we can replace and I will exaggerate to make the point. If that has to be entirely through second-hand properties in order to keep ourselves going and to keep the social rented housing going—because that is our commitment: we want to replace. You heard the phrase, “like

for like” used by David and Ian earlier on. That is absolutely where we stand. If we are selling a social rented home we would like to see it replaced with a social rented home. That is going to be our starting point. There will be flex around that. If that is the starting point and the only way we can do it is by buying in second-hand properties, that is what we will do.

Diana Kingdon: My association based in Woking is on the boundary of a lot of rural areas and Greenoak has worked with three local authorities and parishes where we have provided rural homes in small villages, often only four to eight properties. Those are primarily built by small associations because of the amount of time, investment and the locality. What we are particularly concerned about is, first, the potential loss of social rented housing in those villages and the almost impossibility of being able to replace them, certainly in that locality, and the very difficult task, if we give portable discounts, of actually finding any replacement homes. We think that it could have a devastating effect on small parishes. They have all been working at their neighbourhood plans. They have identified suitable sites and worked hard at this over the last year or two.

I have spoken to two parish councils, the local authorities and some other housing associations and what we fear is, having identified these sites, which are often provided either free or at agricultural values, that land will not be made available if there is a risk of right to buy. Unless they are excluded, there will always be a potential risk that either the association that owns them will use their discretion to exclude them or that, at some future time, that will happen because the key to it has been actually keeping those in perpetuity for local people. It does not exclude building on these sites and mixed developments because that is generally what is now happening. In these small schemes, you may have one low-cost home ownership, a couple of shared ownership and maybe three social housing renting. That is a very good model for local communities and has been very well supported.

Stephen Javes: Our ambition will be like for like, but in the same way that Tony talks about the values, there are large tranches in Norfolk and Suffolk where there are some affluent pockets. There are large tranches in the coastal strip around the ports of Great Yarmouth and Lowestoft where it will be very difficult to replace properties. There are areas where you would be lucky to make £100,000 on a sale and you still have the similar build costs that Tony has already alluded to of maybe £120,000 or £125,000. The rhetoric is that we would like to do that, but we need flexibility and that flexibility may well be that if we sell for £1 million we spend £1 million. However, that may not provide the 10 houses that are sold; it might provide six or seven. That has its problems, because it is usually a maintenance problem for the future. If

you are buying spec housing from the market or from the property market, you have not got consistency. The cost of life of that property, going into the future, has its problems because they have all got different boilers and windows, and you cannot buy in bulk. It is not as simple as it looks on the face of it.

Hugh Owen: In our case, in the last five years, we have built about 500 homes a year. That is exactly what we have in our business plan going forward, and even our revised business plan after the voluntary right to buy deal. We suspect quite a lot of those will be right to buy replacement, so that will not necessarily be net growth for Riverside's affordable housing stock. What happens thereafter may well depend on what happens in the comprehensive spending review or subsequent reviews in terms of the Government's view about ongoing subsidy to the sector. We still have an affordable homes programme that provides some grant funding, but if that went entirely we would probably see a reduction in provision. While the position may be different down here where land values are much higher and the ability for cross-subsidy is significant, certainly where we work there are limited opportunities for that. The importance of ongoing subsidy and an ongoing programme cannot really be understated.

Q136 Jo Cox: What about section 106 and the requirements for starter homes? Again, do you think that is going to lead to fewer homes for affordable rent?

Tony Stacey: It must do; it has to. Section 106 funding makes up about 40% of our new supply. It need not necessarily, but I think this will be down to individual local authorities. My hunch is that a lot of house builders will see the provision of starter homes as being a more profitable activity for them. What the local authorities need to do is to work out what the implicit subsidy is that is going into starter homes. Just for the sake of example, suppose it is only half that goes into a starter home in comparison with section 106 social rented housing. In that instance, the local authority should say, "You need to provide twice as many then". In other words, balance up the playing field and then the developer can look at what is the best option for them. That gives us a fighting chance. If it is just a money-making activity for developers by switching into starter homes they are not going to come to us first.

Stephen Javes: You have to let the local authorities take a view. There cannot be a presumption that starter homes sit above the 106 or even the SIL. It has to sit there as part of the mix. The local authorities need that discretion to understand their own market places and, perhaps through liaising with us, decide what they are going to do. There is no doubt about that. With the starter homes, I just wonder

whether it is actually just going to help people into home ownership who perhaps were always going to be able to afford to get into home ownership, and you are just discounting it for people. I was looking at some property values in Lowestoft this morning. You could go and buy three-bed house costing £167,000 now. If that were discounted, you are still looking at a mortgage of over £40,000. I just wonder whether it is going to be the panacea that people perhaps hope that it will be.

Q137 Helen Hayes: I just have a final few questions on the impact on small housing associations. Diana, I wanted to ask you about the pay to stay policy. Do you think that your own association and smaller housing associations generally would be able to administer it?

Diana Kingdon: I think that most of these proposals are going to have a disproportionate effect on small associations in terms of administration. What were you talking about, sorry?

Helen Hayes: Pay to stay.

Diana Kingdon: On pay to stay, as I said before, we do not have income levels, but our concern is that market rents in the areas we operate are about twice the level of social housing rents. If pay to stay starts at £30,000 outside London, which I think is the figure, that is just slightly over two people on minimum wage. Then, to be faced with a doubling of rent is going to cause either huge hardship or it is going to be a disincentive to work. That really needs to be looked at very carefully. It is one of the areas that I think associations should be able to decide for themselves and not be impelled to do. It is certainly going to have a big effect on our housing management and on our relationship with tenants.

Hugh Owen: Pay to stay is also known as high income social tenants. £30,000 is the threshold outside of London. If you look at a family with two children, that is a lower quartile gross income. I just cannot see how that could be described as high income. Certainly, our view is that the thresholds are wrong and we need to look at a taper to apply to it. We contrasted two areas in which we work, one is Liverpool and the other is Bromley, which is not so far away from here. In Liverpool, for someone earning £30,000 and a penny, their rent will go up by about £38 a week. In Bromley, it would go up by £257 a week. It is hugely inequitable if that is the final scheme and I am not sure it will be the final scheme. There is a consultation happening about that.

There is also an issue around existing tenants and the extent to which this is just seen as patently unfair. There is an issue around whether we can increase the rent at will for existing tenants because of their tenancy agreements. That is a practical issue. However, for people

who have done the right thing and who have got on but are not in a position to buy all of a sudden to be affected by what feels like punitive increases just strikes us as wholly wrong. I think it is very different for new tenants, where there is a new deal and a new bargain and you can explain all of that, but applying it retrospectively just feels very difficult.

Q138 Helen Hayes: In terms of the administration costs of looking at pay to stay, will the additional rent that you receive from having a different profile of properties cover the admin costs of tracking down salary information?

Tony Stacey: We do not think it will. I watched the first session and I thought David Orr described really well: the way that the basic landlord-tenant relationship will change. The straight answer to your question is we do not think it will. The average income of our tenants now is less than £1,000 a month.

Q139 Helen Hayes: A final question. Tony, I think you spoke a little bit about this before, but if could I have just a little bit more detail on what you think the impact of the proposal to limit the use of lifetime tenancies in social housing will be?

Tony Stacey: It will disrupt the relationship. At the moment, there is a conversation between our customers, our local authorities and us about what our offer should be. That is based on the individual circumstances in the housing market. The disruption that a scheme imposed by Whitehall would have would be fundamental. It is a voluntary scheme and within Yorkshire and the Humber there is only one association that I am aware of that has adopted that. Their experience has been that the vast majority of tenants at the end of five years just get a renewal of tenancy agreement.

Stephen Javes: I have nothing really to add.

Hugh Owen: I think geography is a big factor here. We allow our operating divisions to introduce a scheme should they choose. They have to go through an approval process to do so and it has only actually happened in one particular instance. In a lot of neighbourhoods where we work, certainly, there are not enough economically active households. Far be it from trying to move people on, we are trying to actively attract people into neighbourhoods to put down roots and stay. My suspicion is that were we to implement such a policy, I suspect we would just renew the vast majority. When people want to move, they move. Certainly, with right to buy now being a phenomenal incentive for people with means to change their tenure, effectively, I suspect it will be an irrelevance.

Stephen Javes: I said I had nothing to add, but in terms of the affordable rent tenancies and the five years there—this is where I throw out the banana skin, but I will bring it back—we are seeing real customer resistance in terms of people wanting to take the tenancies. There would not be because it is a home for the next five years at least. There is a communication piece with the incoming tenant around the presumption within the organisation that they are going to renew. There is an overarching thing for me with all of this stuff that you just touched on. In a relatively free market where people can aspire, I still have a belief—a lot of this stuff is right at the edges of making a difference—that if people feel that they can aspire into ownership or whatever they will move on anyway.

Q140 David Mackintosh: On this point, a lot of local authorities over the last five years have made those changes around tenancies, going from lifetime tenancies to shorter ones. In fact, when I was a council leader we looked at it initially for three years; we did some consultation and we ended up with five years. It is not wrong to have that presumption that you will renew. I think that is a good thing. However, you talked a bit about the engagement with tenants. This gives you that opportunity at least every five years to have that conversation and to make sure that it is right for you as housing associations and right for them. I would really just say that I would not be too concerned about the process. I think it is actually a very useful prospect if it is managed in the right way. It is worth looking at the experience of lots of local authorities because they have managed a similar process in the distant past.

Stephen Javes: I would not disagree with that. It is about talking to people.

Tony Stacey: Absolutely right. There is one main thing I am resisting though. I heard very recently a chair of a housing association use this phrase: they described tenants as “bed blockers”. I just think that is the wrong way of thinking about this. From my point of view, if one of our tenants, because they have a low income, they are vulnerable or whatever it might be, decides that they want to stay in a social rented house for the rest of their lives, why should they not be able to do that?

Q141 David Mackintosh: My view is that this is for you to look at and negotiate with the Government. However, I do think circumstances can change over those five years and, particularly with local authorities where there is a shortage of the housing supply, it is a useful conversation to have at a regular interval and to reassess. It is just part of tenant engagement. I certainly would not describe tenants as bed blockers, but I do think it is an important part of the process. I just think it is a useful exercise to engage in and look at what has been done.

Hugh Owen: I want to think we are having those conversations anyway. I suspect voluntary right to buy has changed the picture somewhat anyway because of the new opportunities afforded to tenants. Tony picked up on the point earlier that reclassification may well have done as well. Assets, income and now tenancy terms as well—rolling back to private sector would be all the more difficult I suspect.

Q142 Mr Prisk: Just on the point about high income and where we draw that line, you said £30,000 was the wrong area. Do you accept, however, that there is a sense of unfairness for people where there are two people who are on a similar income, which we will call “high”—we can define what that is—and one is in the private rented sector paying substantially more while the other, by dint of birth or happenstance or whatever, was on a lower income but is now doing very well and is enjoying the benefit of the lower rent? Therefore, there is this need to have flexibility so that that can be represented in what they pay and there is fairness. There are practical problems with it, but do you accept the principle that for two people on similarly “high” incomes, as we will call them, one to be able to continue to enjoy a social low rent when the other does not is a problem?

Hugh Owen: It is really hard to disagree with that logic. In a sense, it is about where the threshold is. When this was originally mooted a number of years ago, I can remember writing our consultation response and saying in that that the Government has a tax system that could deal with this as an issue. That would get rid of a lot of the administrative issues as well. We are not the sort of agencies who will be good at collecting real-time income; I can absolutely guarantee you that.

We struggle enough with our data as it is and we are trying to improve all of that. The Government have an agency that does that brilliantly, which is HMRC. They have a method of adjusting taxation in accordance with live real-time income information. It strikes me that if the Government wanted to pursue this as a policy, it would not be impossible to identify the benefit of having a high income and having a subsidy, and find a way of clawing that back through the tax system if they really wanted to do it.

It is interesting to see that HMRC are actually mentioned in the draft legislation. I am not quite sure what their role will be and how willing they will be to play that role, but it is interesting to see that they are there anyway because they are the people who know incomes, not us. I cannot disagree with the principle. I would agree with you there. I think it is just where the thresholds are set and, at the moment, £30,000 and a penny is a very blunt instrument?

Q143 Mr Prisk: Would the logic from your answer be that, therefore, the question is when you change to a higher tax bracket?

Hugh Owen: It might be. Another area where the Government defines high income is around child benefit and they have chosen £50,000 as a threshold there to start withdrawing child benefit through the tax system. There are precedents elsewhere and a bit of consistency might be welcome.

Chair: Thank you all very much, indeed, for coming in and answering a wide range of questions for us. That brings us to the end of our public proceedings today.