



Communities and Local Government Committee

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

Monday 14 December 2015

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Watch the session

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

Evidence from witnesses:

Questions 204 – 281

Witnesses: **Nicola McCrudden**, Director, Chartered Institute of Housing Northern Ireland, **Eileen Patterson**, Board Member, Chartered Institute of Housing Northern Ireland and Director, Housing Services, Fold Housing Association, and **Dr Mary Taylor**, Chief Executive, Scottish Federation of Housing Associations.

Chair: Welcome to our evidence session on our inquiry into housing associations and the right to buy. Thank you very much for coming. Before we start hearing evidence, we will just ask members of the Committee to put on record any interests that may be relevant. I am a vice-president of the Local Government Association. Does anyone else want to put anything on the record?

Helen Hayes: I am a local councillor in the London Borough of Southwark, and I employ a councillor in my parliamentary team.

David Mackintosh: I am a Northamptonshire county councillor.

Julian Knight: I employ a councillor in my office.

Q204 Chair: That is all on the record. So, for our records as well, if you could just go down the row and say who you are and the organisation you are here representing today?

Dr Taylor: Mary Taylor, from the Scottish Federation of Housing Associations, SFHA.

Eileen Patterson: Eileen Patterson, Director of Housing with Fold Housing Association and board member of the Chartered Institute of Housing.

Nicola McCrudden: Nicola McCrudden, Director with the Chartered Institute of Housing in Northern Ireland.

Q205 Chair: Thank you very much for coming. Essentially, we are looking at the situation as it affects housing associations operating in England, but it is always good to have a look elsewhere and see how things are done there, and whether we can learn a few lessons. What lessons do you think we can learn from how housing associations operate in your area? Are there things that you think you are doing better that we could replicate, or things that maybe are not quite so good, and we ought to be aware of and beware of?

Dr Taylor: Since you are looking at me, I will start. The lesson from Scotland that people would want me to articulate is that it should be abolished. You will be aware from our written evidence that the Scottish Parliament has decided to abolish a policy that was introduced in this Parliament, coming up for 40 years ago, which has lost some half a million houses to the socially rented sector and that has ended up with some of those properties in the private rented sector at rents approximately 50% higher than social rents for the exact same properties, in worse conditions. That has impacted on our ability to manage the assets of social landlords, and on the public purse in terms of the housing benefit bill, and has constrained access for aspiring tenants and for those needing to move. I can elaborate on all of these points, if you would like me to do that.

Q206 Chair: We will perhaps ask some more specific questions in a minute, unless you want to say a little bit more at this stage.

Dr Taylor: If I can just elaborate a little on the prices, because the prices that we have had in Scotland are very different. They are very different markets, although there is huge disparity in the various markets; there is as much disparity within Scotland as there is within England, so the markets in former mining areas in Ayrshire will be completely different from those in economically buoyant areas like Aberdeen and Aberdeenshire. But the average price after discount, just

last year, was £40,000, compared with an average price in Scotland of £154,000. The properties are still being sold to the very few numbers of people that are executing the right to buy while it exists, and having huge discounts paid to them.

I just want to set on record that we will share with the clerks a correction to paragraph 17, which suggests that the average price over time has been £22,141. That is correct, as is the £115,000, but the meaning that we have given to that is completely the wrong way around, so we will correct that in a written submission again.

Eileen Patterson: Just to share a bit of the experience in Northern Ireland, housing associations in Northern Ireland have had a statutory duty to offer the right to buy. Northern Ireland is a bit unique, in that all social tenants are allocated from the one waiting list, and they all have the same secure tenancy, so they all have the same right to buy. It has been a statutory duty since 2003.

You have to give consideration to what objectives it is you want to meet by a right to buy or house sales policy, and there are a number of lessons you can learn from Northern Ireland. Given that there is one scheme, we have had no discretion, and we have had no ability to consider local markets. The exemptions from the scheme are very, very minimal. For most properties, the right to buy can be exercised, the very few exemptions being sheltered housing, grouped and supported housing, and two-bedroom bungalows. We have lost a lot of accommodation, particularly purpose-built accommodation that the right to buy has been exercised in, and it is very difficult to replace that. Although we have received a grant for the discount that has been applied, it is very difficult to put back. You just cannot put it back one-for-one.

The other lesson that you could learn is in relation to discounts that are applied in the historic cost. We have a historic cost indicator, whereby if it has been purchased, built or improved within the previous 10 years, the discount will not go below that level—the cost of provision or improvement. There are some areas that we build in that are deprived areas, and the market value is less than the historic cost, in that the market value is less than what it cost us to build it. We have had to sell at market value at a substantial loss, and that loss is then felt by the housing association.

Being a housing association and operating under the mixed funding regime, most of the funding for providing that property has come through private finance. So we will have a mortgage, and the interest to pay on that private finance, even though we have lost the asset. It may be that the policy has good objectives—to increase home ownership, although there may be other ways of doing it—but there are lessons to be learned,

and by us having the one scheme that applies to everybody with no discretion, there definitely could be lessons learned from making sure that does not happen.

Nicola McCrudden: Thank you very much for inviting us, first and foremost. I would like to echo what Eileen has just said, and a lot of our members would be in agreement with that. Because of what is happening in England around right to buy, and developments in Scotland, we conducted a survey recently of our members in Northern Ireland to find out how they felt about right to buy or the house sales schemes locally, and reviewing that to see where they wanted to take that. That happened a few weeks ago, which is probably one of the reasons why we were invited up in front of you.

We were not really surprised at the mixed reaction that came back from members. There was a varying degree of experiences and a large range of opinions, but overall, around 90% of our members felt that the scheme itself should either be scrapped or reviewed. Around 56% felt it should be ended altogether, but in saying that, 11% felt it should continue as-is. In terms of replacing the stock that is sold, it is fair to say that was probably the largest issue that arose for members. Sixty per cent. said that they were unable to replace fully the number of homes that they had lost through the scheme, and that was evenly split between those who were able to replace around half of the homes and those who were able to replace less. Replacing stock was a huge issue for members.

The varying degrees of experience were to do with location of stock. Some of the respondents came back and said, "It is extremely hard to replace stock in high-demand areas where the house sales scheme was very popular". It was also very difficult to replace stock on a one-for-one basis in rural areas, in particular, and also—as Eileen was saying—to protect stock that was purpose-built, or adapted for special needs. Those would be the three main areas.

To put this into some context, the Housing Executive was by far the largest landlord, and that has 88,000 properties. Historically, it has not been able to replace all the stock that it has sold; it has actually sold 119,000 units. It is estimated to sell an additional 3,250 units over the next decade. Our housing association sector is quite small; there are 38,000 properties, so whenever we ask the associations about the numbers that they were selling—and given the fact that it is a suppressed market, because we have had a huge house price crash and negative equity situation, and there are obviously issues around being able to access mortgage finance as well—they are currently selling between one and 10 homes. Some of our associations are quite small; they have less than 500, and there are some that have over 5,000, including Fold Housing Associations. So they are roughly selling between one and 10, and they are having difficulties replacing those at the minute. I am happy

to come onto some of the impacts on tenants as well, if that is appropriate.

Q207 Chair: Just in terms of the one-for-one replacement, what about the Scottish situation? We have heard from both of you about the situation in Northern Ireland, but perhaps you could just say what the situation is in Scotland?

Dr Taylor: We have got some stats in our written submission—paragraphs 19 onwards—which show that one in three of the properties that were sold were replaced, using the available receipts. There was an element of recycling and an element of additional borrowing and rent increases. Only one in three of the properties sold was actually replaced.

Q208 Chair: Would they generally be replaced in the same area with the same type of property?

Dr Taylor: There was a higher incidence of sales of cottage-type properties, so not in flatted accommodation. It is more likely that the replacement will have been in the form of flatted accommodation, but typically, in similar locations, because given the way that the receipt system worked, it was typically the case that the receipt went back to the landlord who had sold the house under the right to buy. That would be where the demand would express itself, through waiting lists in the local area.

Q209 Alison Thewliss: Just to pick up on the situation in Northern Ireland, I understand there are some controls over right to buy properties ending up in the private rented sector afterwards. Could you tell us a wee bit more about how that operates, and whether that has been effective?

Nicola McCrudden: A lot of the properties have ended up in the private rented sector, but there would not be controls, as such. That, again, was another issue that the housing associations raised with us: loss of stock into the private rented sector, where quite often they are finding that private tenants are moving into the properties and getting local housing allowance paid at a much higher rent. It also leads on to problems with estate management, as well; if there are issues of anti-social behaviour, we find it much more difficult to deal with that. Also, there is the issue of cyclical repairs and maintenance, which can cause problems in the private rented sector, or even home ownership, where landlords or homeowners have not got the finances to maintain their properties, particularly if it is adjoined to stock. That can cause difficulties.

Dr Taylor: Can I come in on that point? There is a particular issue in Scotland. The whole concept of the tenement is pretty unique to Scotland, and it has a different legislative regime that does put a requirement on any owners in a tenemental block to take part in common repairs. It makes it very difficult for any social landlord trying to undertake asset management for what constitutes a tenement if there are owner-occupiers who simply do not have the wherewithal to take part in all of that. You can see on the streets blocks where there may be a majority marginal owner-occupation, where the social landlord has done everything in the street except this one block, because the marginal owners have effectively held the thing up; not because they wanted to, but because they could not afford to take part in schemes to improve the asset. That, in turn, has an impact on insulation and the fabric of the building, on carbon emissions, and all sorts of other factors that would be seen as good, in and of themselves, from a public policy point of view.

Eileen Patterson: That is one of the ways that we do try to get around it. Since 2003, when we have had to statutorily offer the right to buy, we do have a clause stating that if that person wants to resell within 10 years, they must offer it back to us to purchase, and we have, on occasion, repurchased that property. The experience in Northern Ireland, more so, has been in the large Housing Executive estates, where lots of tenants exercised the right to buy. They have subsequently moved on and moved up the housing ladder, and you will have a fairly high proportion of those now private rented, which is why this clause has come in. Hopefully, within the 10 years, we would buy back into our stock.

Q210 Alison Thewliss: Would that be at an increased cost to the housing association, or at the same cost?

Eileen Patterson: It will be at market value. Everything will be assessed at market value as at that time. We will sell it at a discount, and then when we buy it back, it will be at market value, which may have increased.

Q211 Alison Thewliss: Nicola, you touched on the impacts on tenants, and you said you wanted to talk a wee bit more about that. Could you maybe expand on that?

Nicola McCrudden: Moving forward in terms of access to finance, we do not have the same number of schemes available to assist marginal homeowners into home ownership as you would have here. That is a bit of an issue moving forward. We have seen a slowdown in the number of homes being sold because of difficulties in getting access to affordable mortgage finance. We also have to

remember that Northern Ireland house prices just completely shot up at one stage, and quickly fell, which is why we are quite often in a negative equity situation. Because of that, a lot of former tenants who had bought their homes, who were homeowners, got access to affordable credit, and they borrowed significant sums of money and secured that against their properties.

Then, because of an income shock or change in circumstances, a number of them found it very difficult to repay that, and all of a sudden now they have an asset, as well, and they are entitled to receive credit. Quite often, they were targeted by what were, then, sub-prime lenders and brokers to take out loans to enhance their properties and put on extensions and conservatories. Then, because of the recession, they ended up in a situation where they could not afford to repay the secured loan, and sometimes the mortgage as well, and ended up having to hand the keys back—or the property was actually repossessed—and they ended up presenting as homeless to the Housing Executive or waiting to be rehoused, or are now rehoused back in social housing stock.

That is maybe quite unique to our circumstances, given the boom and bust, but nonetheless, there is a lesson to be learned there in terms of support for tenants who buy their own homes, enabling them to understand financial product and financial capability. It is extremely important that they think in the longer term about how they are going to finance additional loans that they take out, or in fact budget for future repairs and maintenance work that need doing to the property, and even things like rates, or council tax as it is here. Quite often, some tenants are not even aware that they may have to pay that themselves.

Q212 Alison Thewliss: Regarding the proposals to abolish right to buy in Scotland, there was pressured area status. Could you tell the Committee a bit more about how that worked in different areas?

Dr Taylor: Pressured area status was introduced in the early part of this century. It was a device to allow local authorities, where the demand for housing was already outstripping the supply of available lets, to make a bid to protect that area from future right to buy sales, and it has been used quite extensively. I am not sure that we have a great deal more information; I can certainly unearth what else there is and send that to the Committee, if that would be of interest.

Q213 Alison Thewliss: Some of the previous witnesses we had highlighted issues in rural areas, where perhaps there had not been as

many houses built; they wanted to protect their housing in some kind of way.

Dr Taylor: One of the areas that occurs to me is around Fife. Fife is a very varied area, north of Edinburgh and the Forth Road Bridge, and it contains former mining areas; it contains the area around St Andrews, which is particularly pressured; and it includes Fife coastal areas, which have a lot of tourist demand for accommodation. There are huge disparities within that one area regarding what constitutes pressure. In some areas, there is an excess and it is fairly easy to access a let in a property; in other areas, it is virtually impossible, and you could be on a waiting list for 20 years. It is as fine-grained as that: some really quite detailed market areas within Fife, which is one single local authority, can be defined as pressured areas.

Q214 David Mackintosh: What alternative routes into home ownership do you support?

Dr Taylor: Our members have been engaged with a whole variety of new supply: shared equity, shared ownership, low-cost home ownership, and all manner of things. I could certainly send you a great deal of information about that. We were at pains to say that our opposition, for many decades, to right to buy was not opposition to home ownership of itself; it is about the terms on which it is conducted, and the impact that it has, very similar to the sorts of things that our colleagues from Northern Ireland have been talking about.

Eileen Patterson: It is similar in Northern Ireland. We would not be opposed to promoting and enabling home ownership where it is an affordable option for the person; that is very important. Co-ownership has been very successful in Northern Ireland, although there is a very specific housing association that does just that; we would like to see that widened out, allowing all of us to potentially look at providing a few mixed tender schemes and a co-ownership part of what we do build, and offer that option.

Q215 David Mackintosh: Do you think England should ensure there are support mechanisms to facilitate the transition into ownership, particularly with regard to the maintenance responsibilities?

Eileen Patterson: Absolutely, and Nicola has touched on just that. We have seen experience where people have exercised the right to buy, and at that point in time can afford the financial obligations that go with it. The problem is not having the appreciation and understanding. Within the housing association, we set aside the money we are going to need for future investments and improvements. When people exercise the right to buy, they do not always understand the implications and the need for that, and budget management—that

there will be a series of bills that come along, not just the mortgage. They may well have been very used to just having the rent and rates. They definitely need support with budgeting management and everything that goes along with home ownership.

Nicola McCrudden: Just to add to that, some tenants may not actually be aware that they are no longer entitled to repairs once they buy their own home. We might think that that is a bit naive, but genuinely, there are tenants who feel, if there is a kitchen improvement scheme in there, that they will be entitled to a new kitchen if they have bought their property. Unfortunately, that is not the case.

Dr Taylor: Just to elaborate on a point I was making earlier, in relation to flatted blocks, even if the language is different there are similarities here around the way that management is required to protect the interests of social tenants in a block where there might be a right to buy or a voluntary sale exercise. People who are embarking on a purchase in that situation need to know what their obligations are going to be, and there needs to be effective leasehold management, if I have got the English terminology correct; it would be known as “factoring” in Scotland. An awful lot of factoring arrangements have bitten the dust over the years: they are extremely difficult to deliver, because people simply do not have the funds to set aside to build up a rainy day fund to mend the roof while the sun is shining.

Q216 Chair: Are there mechanisms or policies that are helping people into home ownership by other routes? Has that involved the giving of any discounts on properties, or assistance? If so, have you had mechanisms to ensure those discounts are passed on at the next stage when the property is resold, or are they a permanent benefit to the first individual buying that property?

Dr Taylor: In Scotland, they vary quite considerably according to whether they are a discount to the individual on the house. In that case, it is very often to stimulate supply or re-incentivise developers to supply housing at the low-cost end of the market, so there may not be any requirement, but there are other schemes and initiatives. There is a whole variety of different initiatives and projects, each with its own slightly different combination of incentives and constraints. I am not aware of any that require, as in Northern Ireland, the property to be sold back to the original seller, necessarily, or at a particular price or arrangement. But they vary hugely, and if you are interested in further information on that, we can certainly access that.

Eileen Patterson: In Northern Ireland, under the right to buy, it is that person who exercises the right who benefits from all of that discount, and unfortunately, in Northern Ireland, we have not got very

many other opportunities into home ownership. I have mentioned co-ownership, but we do not have many other options available that we have had any intervention in.

Q217 Alison Thewliss: I was going to ask a wee bit more about the impact of right to buy on homelessness, and Northern Ireland's and Scotland's ability to deal with homeless applications.

Eileen Patterson: The Housing Executive ultimately has the statutory duty to assess for homelessness. Touching on something Mary said earlier, we have some areas of high housing need in Northern Ireland where we will never be able to meet the demand. The supply will never meet demand, and we are selling houses in those areas, because any social tenant in Northern Ireland enjoys the same right to buy. So very often, you are assessing homelessness and you know you are going to have great difficulty in providing a permanent home for those people. In Northern Ireland, it has to be social rented accommodation at this stage, as well. It goes back to my earlier point, in that we have one scheme that applies everywhere, which cannot take account of local markets and cannot take account of supply and demand. So, very often, in the areas of highest demand where you may see homelessness, we are selling properties, and we just think, "Does this stack up?"

Nicola McCrudden: The Committee might want to be aware, as well, that the house sales scheme is currently under review in Northern Ireland. Initially, it was in the Housing Strategy to see whether it could be enhanced and widened out to more housing association tenants, but interestingly the terms of reference are being drawn up, and it is going to look at issues around whether it is value for money to sell the homes, or whether it is better to build homes or hold onto the homes.

It is also going to be looking at things like discount levels. We had quite a significant discount; it was up to well over 70%. It is now down to 60%, but it is actually capped at around £24,000. The maximum amount of discount the tenant can get is £24,000, but even at that, they are going to look at whether any changes can be made to that. Also, a lot of associations are calling for certain types of stock to be protected, because at the minute it is only sheltered group housing schemes with supported housing, and also one or two-bed ground floor accommodation, excluding flats. If you have a three-bed bungalow, which are in high demand and very hard and costly to replace, then that can be sold, but because we have very robust equality legislation in Northern Ireland, it really is a very "one size fits all" approach, which is not very helpful at the minute. Obviously, in England, you are looking at bringing in some kind of discretion around exemptions, which I would encourage and support.

Q218 Jo Cox: I had a quick question on the administrative cost of implementing the right to buy policy. I saw in some evidence from the Scottish Federation that around 80% of applications were aborted. That seems very high. I wondered whether you could reflect on the cost of aborted applications, and whether you had any thoughts on whether that figure really is the norm?

Dr Taylor: There would be a significant number of people who think that they might be able to exercise their right to buy, but, in fact, once they have seen the valuation or the discount—or realised the constraints or the liabilities that they might be taking on—bail out at that point. I am not sure what additional administrative costs there will be. Every single landlord will have details of all that, and it will vary according to their skill; whether they have got specialist staff; how much work is involved; and how many cases are involved. It could vary hugely, because the sector in Scotland varies from some quite small landlords who have got generic staff doing all manner of things to some really large landlords with specialists working in this field, so the costs will be quite widely varied.

Eileen Patterson: Could I maybe share our own operational experience? We do have a number who will register an application and then not proceed, and there are administrative costs associated with it, because we have to carry out a survey to get market value, and we have to calculate the discount. But within our scheme, we do charge a valuation fee towards the administration costs. That is refunded if they exercise the right to buy and it goes through. Associations can set that limit; it is a very arbitrary figure in Fold. We charge £100. It does not cover our costs, but it goes some way towards it. If the application proceeds to sale, we then refund that.

Nicola McCrudden: I have a few Housing Executive statistics for you. Last year, there were about 1,000 applications, and around 470 were completed, so that is just under half. In our survey, some of the comments that came back were that it is quite a lengthy, drawn-out process. We read into that that perhaps some of the associations felt that it was diverting their attention and resources away from the core business to actually have to process these claims, and it can be quite a drawn-out process.

Q219 Kevin Hollinrake: Dr Taylor, I understand that levels of owner-occupation in Scotland are below those in England, and previously our expert adviser was telling us that problems around provision of social housing are more acute in Scotland than they are in England. What

policies are you employing in Scotland to try to improve the situation north of the border?

Dr Taylor: The approach north of the border has been to try to increase supply. We are in a situation where household formation is increasing; the population is increasing. We recently commissioned research from a team led by Sheffield Hallam University to assess housing need, which showed that we need to build somewhere in the region of 18,000 houses a year, of which 12,000 a year need to be affordable. Obviously we are moving towards an election in May next year, and various political parties are making commitments towards that target that we have set them, jointly with our colleagues in the CIH in Scotland and with Shelter, of 12,000 a year. That has a price tag attached to it, because there has to be subsidy to make that work, at rents that people can actually afford.

A rent in Scotland will be set by the social landlord independently to cover the costs and with some shared notion of affordability. In practice, rents are set at about £65 a week, which we regard as affordable—£65 to £70 a week depending on size. There will be some less than that and some more than that. In particular, for new housing, which is more likely to be at higher energy efficiency standards, the average rent in a new-build scheme, for the purpose of calculating the subsidy, is set at around £75 a week, in recognition of the fact that the heating bills in a more energy-efficient house will be significantly reduced. That will give you some idea of some of the comparisons between Scotland and England in terms of the regimes and the rent levels north and south of the border.

There is a recognition in the Scottish policy community that there needs to be more affordable housing, that public investment is an important part of all that, that it needs to be a level that allows all landlords to take part, wherever they are, whatever scale they are on, and for that to be sustained and planned over a long period. We have had some very difficult experience recently caused by the disruption in the volume of investment and the scale of investment on a per-unit basis.

Q220 Kevin Hollinrake: You said you were against right to buy, right at the start of your submission, and you have replaced only one property for every three sold. If it had been one-for-one, would you have a different view?

Dr Taylor: We might have had a different view, yes. Gosh, that is speculation, is it not? I am not sure. The objection to it was as much based on the loss of stock, so a commitment to a one-for-one replacement would produce quite a different scenario, probably. However, that is speculation. I repeat the point that we are not against home ownership. It has a place, and our members actively engage in

promoting low-cost home ownership and some intermediate rent, as well, between social renting and owner-occupation.

We see ourselves as making a contribution right across the spectrum. However, it is when stock that is needed in the social sector is lost to another sector, and may end up in the private rented sector at a higher cost, that we see that as uneconomic and therefore undesirable.

Chair: Thank you for coming and giving evidence this afternoon.

Examination of Witnesses

Witnesses: **Fiona MacGregor**, Director, Regulation, Homes and Communities Agency, **Jonathan Walters**, Deputy Director, Strategy and Performance, Homes and Communities Agency, and **Piers Williamson**, Chief Executive, The Housing Finance Corporation, gave evidence.

Q221 Chair: Thank you for coming and giving evidence to us this afternoon. For our records, could you just say who you are and the organisations you are representing?

Jonathan Walters: Jonathan Walters, from the Social Housing Regulator and the HCA.

Fiona MacGregor: Fiona MacGregor, Director of Regulation at the Homes and Communities Agency.

Piers Williamson: Piers Williamson, Chief Executive of THFC. We are also the delivery partner for the affordable homes guarantee scheme.

Q222 Julian Knight: I am going to address the first questions to Fiona and Jonathan, if I may. Bearing in mind the 1% rent reduction for four years in social housing, have all the housing associations now presented you with their revised business plans in this area?

Fiona MacGregor: Everyone with more than 1,000 homes—which are the organisations we have asked to do that—have done so by the deadline, which we said in our letter was 30 October. We are working through those returns at the minute, and what it tells us in headline terms is that, in most cases, organisations will be able to find ways to manage the impact of the rent cuts. There are lots of different actions being taken to manage those impacts. In some cases it will mean changes to services, for example, and in other cases—I think you have heard evidence from some of the associations that have appeared before you in previous sessions—they are looking to implement the rent

cuts in such a way as to maintain their margins, and wherever possible to continue with their aspirations in terms of development and supply. It is a mixed picture but, overarching, the key message is that it is not causing an immediate threat to any organisation's viability, which is a key area for us as one of the things we focus on as a regulator.

Q223 Julian Knight: Jonathan, do you have anything to add to that?

Jonathan Walters: No.

Q224 Julian Knight: You say they have responded to you now, but is there anyone you are working through the process with? This is the initial documentation you have had in. I noticed in an article in *Inside Housing* you said that if you had any concerns you would move to in-depth assessments. Are you producing any in-depth assessments of any of these housing associations?

Fiona MacGregor: There are two things I would say on that. We have a set programme of in-depth assessments that we undertake, and that is not just on organisations about which we might have concerns. We are doing that as part of our programmed approach, to make sure that we get through as many of those as we can, as quickly as possible. There are a number of steps we would take before we move to an in-depth assessment on someone who has given us their financial returns. At the moment we are at the stage of exploring with them how realistic their plans might be for implementation. We are not yet at the point where we think we need to do an in-depth assessment on any individual organisation based on the business plan returns that they have given us.

It is important to note that the rent cuts will clearly have an impact on some of the businesses and providers that we regulate, but it is not immediate. It has not been introduced yet, and it will take some time before it starts to bite, so there is time for us to work with those organisations to make sure that the plans that they have put in place, and which the boards have given us assurance on, are going to be effective and will help them to manage the risks.

Q225 Julian Knight: I am not sure from your answer whether there is a percentage of those housing associations that have responded to you with which you are at a stage where you may wish to carry out an in-depth assessment.

Fiona MacGregor: At the moment there is no one with whom we have got an immediate plan to carry out an in-depth assessment, because we do not think we need to.

Q226 Julian Knight: Jon, how well do you think housing associations have met the challenge, as a sector as a whole, to react to the 1% rent reduction?

Jonathan Walters: We have received the financial information they sent us, and we have also been out talking to associations since the announcement was made in the summer Budget. We have some headline internal figures, and once we are fully sure of them we will put them into the public domain. Our early conclusions are that associations have generally looked to cut management costs and discretionary activities. Some of them have looked again at their repair costs and looked to find efficiencies there, where they can. There have been some quite difficult trade-offs for some associations about some of what you might call the non-core lettings and tenant management services. On some of the more discretionary community-focused activities, associations are challenging themselves as to whether they are the right things for them to be involved with in this context.

As Fiona highlighted, associations have as far as possible tried to protect their development pipeline, so they have looked at what they can supply, and are still trying to build as many homes as they can. The mix of tenures that they are looking to build has changed, so we expect to see a shift towards more sale-type units being built. Associations have also looked at their existing stock base, and looked at whether there are units that they actually find quite costly to maintain but that have a value in the private sector, and therefore as those units become vacant, they expect to sell more of them units, recycling the receipts into building new replacement homes.

Q227 Julian Knight: Fiona, anything to add to that?

Fiona MacGregor: No, I have nothing to add.

Q228 Julian Knight: There are lots of points arising from that answer. When you say "discretionary activity", what kind of discretionary activity do you mean?

Jonathan Walters: Associations often engage in a wide range of activities, supporting the communities within which they work. That might be about employment, training, financial skills, or social inclusion. There are a whole range of things associations do, and I think the boards and the executive teams of these organisations are

questioning themselves as to whether these are the right things for those organisations to be engaged in. That is a decision for those boards and executive teams; as a regulator, we do not prescribe what the right answer is. However, they are having that discussion, and in some cases they are coming to the conclusion that the best way they can deliver their charitable objectives is to scale back on some of those things, but to build more homes. In other parts of the country, in other places, people are saying, "Actually, our job is to carry on with those types of activity", so we are seeing a really mixed picture emerging across the piece.

Q229 Julian Knight: Do you have any concerns if you hear about repair costs being cut back?

Fiona MacGregor: One of the things, going forward, that we will look at and test with organisations is that they may make some saving in repair costs, but if we think it is going to have a seriously detrimental impact on their business and on their tenants, we would probe that further with them. They have got standards to meet in the home standard, and we would seek assurance from the providers and their boards that they were still in a position to be able to do that. In most cases—in fact I would say in all cases—we do not expect any organisation to undertake maintenance cuts or major repairs cuts to the extent that it is seriously detrimental, but they might re-phase. They might do things over a slightly longer time.

Q230 Julian Knight: You are effectively looking at short-term cash flow; is that what you mean?

Fiona MacGregor: That is the point, yes.

Q231 Julian Knight: Mr Williamson, how satisfied is your organisation, The Housing Finance Corporation, that the sector has reacted appropriately to the reduction in projected income? Has lender confidence, for example, been affected?

Piers Williamson: It is early days. We are predominantly a long-term lender. We lend for 30 years, so we lend over £5 billion now. Compared with the last answer, the views we have seen so far are slightly more nuanced. At one end of the spectrum we see associations taking a decent go at managing costs. At the other end of the spectrum, we are starting to see associations contemplating cutting back development, simply because they cannot afford, in cash-flow terms, to do that, and more or less all stops in between. We have moved beyond what I would call the "Oh my God" moment. There is a lot of change in a short time, and it will probably take us six to 12

months to get a really considered view of where associations are starting to get to grips—particularly with cost cuts—because the worst part of the measures are four years away. The very first part of the measures start biting from next April, and there is nothing like the reality of cash flow to make organisations react. In the main, they are appropriate responses that you might expect at this stage. My principal concern is what might happen after 2020. From a lender perspective, we have moved from a position where in March of this year we apparently had a 10-year rent settlement, to one where we have the Government, four months or something like that after that settlement came into place, moving to a position up to 2020, and then a slight question mark beyond that. That is my principal concern. That is unfinished business at the minute.

Q232 Julian Knight: What would you like to see as a lender?

Piers Williamson: I would like to see certainty. I am not a deficit denier, so I understand the Government have a job to do. Equally, as a long-term lender, we have choices. This is a marvellous sector versus other parts of the mortgage sector, where actually there is very long-term finance, financing very long-term assets. There are parts of the residential mortgage market that would love to be like this. To go to a position where effectively lender confidence pulls in the maturity of lending is a detrimental step. This was a sector that went all the way through the credit crunch with approaching £60 billion of debt without any sniff of any sort of financial issue, versus Northern Rock or Bradford & Bingley, which needed the money much quicker. A principal reason why they weathered the storm so well was because the maturity of their debt finance was so long.

Q233 Mr Mark Prisk: Coming back to the HCA, if I may, the sector you encompass and regulate is enormously broad, from almshouses to large, multi-million pound commercial entities. One of my concerns, listening to your brief and understanding the background to it, is, in the way that general policy frames your role, whether we need to better distinguish between the types of RPs that you regulate. Do you have the flexibility at the moment, or is this something that is under consideration for needing to be modernised? We know that the Housing and Planning Bill allows the Secretary of State to adjust regulation. Is the work that you are undertaking part of that discussion?

Fiona MacGregor: First, at the moment we do distinguish for how we regulate for those organisations who own fewer than 1,000 homes, and much more actively those who own over 1,000 homes. Secondly, we are considering whether we need to review the under-1,000 and move to something that is a little bit more nuanced in risk terms. You can

have fewer than 1,000 homes but still have a reasonably risky business, and you can have more than 1,000 homes and have a very stable, safe business, depending on the activities that you are undertaking. That is something that we intend to revisit with the regulation committee during the course of next year. As we come to conclusions, we will discuss things with the Department and if necessary with Ministers to make sure it is clear what we intend to do and that that fits within the remit that we have been set as the regulator.

Q234 Chair: Following on from that, we had evidence before that some associations, because they have specialist, supported accommodation, may be particularly hit by the proposals to cut rent levels. Has that been a factor that has been flagged up to you, and also—it may be a bit of a time in which to have done it—the changes in the Budget making it so that in future social rented tenancies might be linked to the local housing allowance, and that any single person up to 35 would get only a shared accommodation rate rather than the full rate of housing benefit? Are those sorts of issues being flagged up to you, which might be challenging for particular sorts of supported accommodation?

Fiona MacGregor: They are being flagged to us. In terms of the rent cuts themselves, we are in a position at the moment, as is the sector, of waiting for the details on exceptions, and exceptions for supported housing. I understand that that will be forthcoming early in the new year. We will get a better picture at that point, as will providers. Similarly, in terms of the shared accommodation rate for under-35s, DWP has not yet provided the details of the circumstances in which that will apply, and if it will apply to all properties, including supported housing. Again, once we see that detail we can get a much better picture from individual organisations as to what impact it might have for them.

Q235 Chair: The exceptions there could be important for the viability of some very specialist associations.

Fiona MacGregor: It will certainly be important for them in terms of what actions they choose to take to manage the impact of the rent cuts. It will depend on the scale of their business, and whether they only do supported housing or if it is part of a wider business where they can cross-subsidise to some extent, and carry on. It really does depend on each individual business.

Q236 Mary Robinson: I would like to explore the impact of the ONS decision to reclassify housing associations as public bodies, if I may.

Can you tell me how lenders have reacted to proposals for deregulation? You answered earlier about confidence. How important is investor confidence when considering deregulation?

Fiona MacGregor: Certainly the initial reaction of lenders to the classification decision was very measured, as it has been throughout all the changes that we have seen so far. However, rightly, as you point out, they are interested in what it means from a deregulation perspective. We do not have the detail of the legislation and the clauses yet, although the Minister may say more on that, possibly tomorrow. Lenders have indicated to us that they will be looking closely at the detail of what comes forward, in terms of the areas that the ONS identified, and our ability to appoint officers to the boards of individual organisations.

Our understanding of the ONS's concern in that regard is that they want us to define as clearly as possible the circumstances in which we might use those powers. If we can do so appropriately then lenders will be able to take some comfort from that. Once the clauses are made available, Government have given a commitment. We will do the same: we will work with lenders to make sure that we get the balance right between getting to a point where providers can be declassified again while maintaining lender confidence, where possible.

Q237 Mary Robinson: So this question of balance and independence is obviously key. What do you think is the right balance between giving the sector enough independence to not be classified as public bodies and enough regulation to reassure those investors?

Fiona MacGregor: None of us can prejudge how the ONS will respond to a deregulation package. The conversation that we are having with lenders is set in the wider context of our continued powers to be able to ensure that the financial viability and good governance of providers are maintained, which are not in any way affected by the ONS decision. In terms of our powers to react, our regulatory approach is set in the context of an ongoing flow of information from individual providers, where we can spot where there might be problems coming forward. Our powers to act in those circumstances are unchanged, and that is one of the areas that lenders are able to take comfort from. Jonathan might want to add a bit more.

Jonathan Walters: I agree with everything Fiona has just said. For us and for lenders it is the ability of the regulator to spot problems early and then to work with the organisation, and other organisations that may be able to help, to resolve those situations. The Cosmopolitan case a few years ago is a case in point, where we spotted an issue and then worked with other organisations to be able to rescue that provider and protect the social housing assets and the tenants

within those properties. Getting that balance right is really important. As Fiona said, that core work is unaffected by the ONS decision and so we remain committed to that. I think lenders take considerable confidence from our ability to do that.

Q238 Mary Robinson: Would you be able to quantify in any way how much deregulation would be needed to offset the additional measures in the Housing and Planning Bill?

Jonathan Walters: The ONS has clearly set out in their statement the five areas. Clearly the Government will want to address those five areas. There is then a question for any new legislation that may come in, and I am sure Government will be looking at any new legislation that comes in and they will want to think about its classificatory impact. They may decide they are forced to look again at certain measures or they may decide that they are perfectly compatible with a sector that remains in the private sector.

Q239 Mary Robinson: In your view, will the Bill make the reclassification of housing associations as private bodies any harder?

Jonathan Walters: I think that is clearly a matter for the ONS. It is not our job or our place to be able to speculate on Government policy. We absolutely have been working with Government on the deregulatory measures and working quite hard with them on some of the areas around consents and around the appointment of officers, to be able to, as Fiona said, walk that balance between deregulating while maintaining lender confidence.

Q240 Mary Robinson: There have been suggestions that the Government are considering privatising the estate in housing associations. What do you think of this?

Jonathan Walters: There was the article in the *FT* recently, where there was some speculation on this, and it was interesting; we were obviously in the office that morning. When that article was first published there was some concern from lenders as to whether this would actually happen, and concern in the media. During the course of the morning it was clear to lenders that it was very unclear how Government would be able to price the sale of that grant, because obviously you can realise any return only when a tenant moves and you can dispose of the property on the open market and recycle the grant. From a lender perspective they thought, "A tenant might not move for 30 years, I might not get any money back, and therefore from my perspective it is very hard to see how we could price what we would

be willing to pay for that Government stake". So by the middle of the day most lenders had dismissed the story as probably unlikely to happen in practice. But whatever Government want to do would be a matter for them.

Q241 Mr Mark Prisk: If I may focus on the HCA, the Housing and Planning Bill has a new duty for you under, I think, clause 58—as if you did not have anything else to do. This is focusing on the question of home ownership, and your ability to monitor the compliance of RPs under your aegis. How do you see—and perhaps this is principally for Ms MacGregor—this new role of monitoring the compliance in terms of home ownership?

Fiona MacGregor: The first thing to say is that it very much depends on what home ownership criteria are set. We will be asked to monitor against the home ownership criteria themselves, and those have not been finalised or decided yet. Along with the NHF, which made the offer on the voluntary deal to Government, we will be involved in discussing what those criteria look like. If you look at the NHF offer document, they envisage that we—and this might involve the wider HCA—would monitor, for example, replacement properties, but also sales rates. This has been made very clear and has been confirmed by the Minister; it will not be our role to enforce the right to buy, because clearly at that point it is not voluntary, but we will gather some information around sales rates and what individual organisations are doing. Then, if requested, we will report to the Secretary of State, who might choose to publish the outcome of that.

Q242 Mr Mark Prisk: The understanding around the Bill is that the Secretary of State has the ability to publish the details of how the criteria are being met across the sector and so on. Are there actually any enforcement powers to challenge the housing association if they then decide not to implement that right to buy?

Fiona MacGregor: We are not enforcing the right to buy.

Q243 Mr Mark Prisk: The other half of the question around this new duty is your ability to do what you do now and then take on this additional role. Are you satisfied that you have the resources to take on this additional role as you are currently established?

Fiona MacGregor: I think once we see the details of the criteria and what we are being asked to do from a monitoring perspective, we will be in a better position to answer that question. Our current intention is to use some of the data collection methodologies that we currently have in train and we might simply adapt those and make it as

streamlined as possible, so that there is not an unnecessary burden either on the organisations that we regulate or indeed on ourselves in terms of analysis. At that point we will be able to take a view on whether we can meet that within our agreed resources.

Q244 Mr Mark Prisk: There is another side of the equation, which is possibly more significant, given that, as you said at the beginning, there are some substantial consolidations now. We have heard earlier in evidence today that there are some very large players now. Indeed, some of our housing associations are going to be vying with large commercial entities in their scale, especially as they consolidate. This requires quite substantial resources to monitor, and I wonder whether you feel that you have the resources you need and indeed the skillsets to deal with a changing sector that you are managing or overseeing.

Fiona MacGregor: I might hand over to Jonathan in a minute, who can talk to you about some of the changes the regulator has introduced over a longer time than I have been in post, but at headline level I would say that the regulator recognised some time ago that the sector was evolving; it was becoming more commercial; it was becoming more complex, and, over time, particularly following the Cosmopolitan case, we have brought in additional resources and skills at senior level. We are satisfied that, as things currently stand, we are better resourced and better skilled to deal with a more complex sector. However, we do keep that very much under review with the regulation committee and in discussion with Government to make sure that we are able to regulate the complexity of the sector that we face.

Jonathan Walters: I would echo that, and add that in April this year we introduced a new regulatory standard around governance and financial viability, updating the previous one. In that, we placed specific emphasis on associations being able to stress-test their business, and being able to understand how risk flows around the group. As associations have become more complex, as you describe, they often have a range of joint ventures, SPVs with private developers and so on, and it is very important that the board of the main organisation actually understands what will happen if the JV over here goes under: "How does that risk flow back onto my main balance sheet? What will that do to my ability to meet my debts and meet my banking covenants?"

We saw a little while ago the direction of travel in the sector, and we were keen that boards start to skill themselves up, so we set higher bars in terms of the skillsets required to be on the board of a housing association. We have absolutely tried to stress the importance of stress-testing, and it was interesting, in the light of the 1% rent cut, that a number of organisations knew what they were going to do. They

had already been stress-testing their top-line income level as part of that process, and identified the kinds of things that they might do to respond to that. As associations take on more and more commercial development we will be reinforcing that need for stress-testing and having mitigation plans in place, so that you know what will happen in the event of some of your commercial developments not working out in the way you would hope.

Q245 Helen Hayes: As you know, the affordable homes guarantee scheme will end at the end of this financial year. Can you tell the Committee what you believe the effect of the ending of that scheme will be?

Fiona MacGregor: I will let Piers talk from the HFC's point of view. From our perspective, we recently published a quarterly survey and there remains access to finance in the wider market that housing associations have been able to tap into, notwithstanding all the changes that have been going on around. The guarantee scheme might have an impact in terms of the pricing that they can obtain finance at, but in terms of access to finance, we think that will remain available.

Piers Williamson: The guarantee scheme, when it was set up, was viewed as a creature of market failure. We were coming out of the post-2008 phase of the market, and the then Government viewed it as an important step to promote incremental output, and incremental output it has produced. To date, from what we have lent directly, we estimate 13,000 additional affordable homes have been built, and by the end of the scheme, if we are able to work through all the pipeline of HAs that have shown an interest, we might be able to support up to 27,000 incremental homes.

If you look at the cost of debt, the cost of bond finance has been around 3.25% across the scheme as a whole. We have also introduced a large chunk of European Investment Bank money, and that has funded at an average of 2.5%, so conservatively we would view that the saving over direct issuance of bond finance is about 1% across the entire scheme. If you looked at what that additional cash sum retained in the sector buys you, we estimate it buys you today about £500 million of incremental debt capacity. As a substitute for grant, that is something that will be forgone because the scheme ends.

Equally, I quite understand the rationale of HM Treasury around, "Why does one do guarantees in the first place?" It is important to have the discipline of orderly markets, but in a market where grant is rationed, or it is shifted over into home ownership products—under this scheme around a fifth of the output has been shared ownership output—by giving that capacity to housing associations, they can go on

to produce more shared ownership output. Although the benefits of the scheme are around affordable rental predominantly, the capacity that is created can be tuned towards the types of policy outcome that the current Government wants.

Q246 Helen Hayes: And in terms of other financing that is available in the market, do you believe it will be available to ensure that housing associations are able to replace homes which are sold under right to buy at a rate of at least one-for-one?

Piers Williamson: Right to buy is cash generative in its own right, so actually if you are able to churn at one-to-one, you may not require a large amount of incremental finance. The finance is available at a cost. The nature of the increased risk that I think is inherent in the types of thing that have already been discussed over the next three to five years means the cost of finance will go up. It is just supply and demand, at the end of the day.

Q247 Helen Hayes: The self-financing depends on the debt profile of the properties that are being sold, to some extent, does it not?

Piers Williamson: Sure. I am just trying to point out that, actually, the first thing that happens after right to buy is you get a large pile of cash in. In a sense, it is credit-positive.

Q248 Helen Hayes: Do you have anything to add on that?

Jonathan Walters: No, the sector has generally been raising £4 billion to £5 billion a year, and that is what it is forecasting to continue to raise. We see no reason why it will not continue to do so. Access to finance has never really been an issue for the sector. Even through the credit crunch, as the traditional banks stopped lending, they went to the capital markets and found they were very willing to lend in those circumstances as well.

Q249 Helen Hayes: Just going back to long-term financing, which we were discussing earlier, in the light of the enforced changes to rent income levels and uncertainty over income in five years' time, are lenders now more wary of offering long-term financing commitments for the provision of new homes?

Piers Williamson: The first reaction has been a margin reaction. If you look at the differential costs, for instance, between an organisation like London and Quadrant, which is the nearest thing to an undoubted credit there is in the market and our own guaranteed issuance, which is Government guaranteed, that spread widened from

about 1% to about 1.4% post-July. That was the market reacting to the increased risk around the rent cuts. I do not think it is a matter of availability, but there is evidence that the market is pricing in higher risk, and it is differentiating more between housing association credits. Moody's has just produced an industry summary output, which is very helpful in terms of starting to pick up some of that differentiation. At one end of the spectrum, they will see safe steady housing associations that perhaps should be doing more. At the other end of the spectrum, they are concerned about housing associations that are relatively aggressive developers and the fact that, for instance, over a three-to-five-year period, social housing income is not sufficient to cover the cost of debt. That is quite an important benchmark—that 1:1 ratio between core social housing revenue and the cost of debt associated with it. That means that those associations are taking on more risk.

Q250 Helen Hayes: Some members of this Committee also sit on the Housing and Planning Public Bill Committee, which has been deliberating over the last few weeks. We heard evidence from the Royal Town Planning Institute that planning permissions per year granted by local authorities currently stand at around 242,000, whereas completions and starts are only between 131,000 and 133,000. That seems to indicate that planning permission is not the problem in terms of the delivery of new homes. Why do you believe that more homes are not currently being built?

Fiona MacGregor: We can really probably only comment in terms of registered providers. I do not think we see any evidence at all of registered providers seeking planning approval and then not building out quickly. It is in their interests to build out quickly; it is part of their core social purpose, if you like, to increase supply. Particularly for rented housing, the faster they can build it, the faster they can get the income in to service the debt. We do not see any evidence of a time lag between planning approvals and build-out from associations.

Q251 Helen Hayes: What are the reasons for the gap that still exists between demand and supply?

Fiona MacGregor: In terms of planning approvals and build-out rates?

Helen Hayes: Yes, or indeed other reasons why the building of new homes is not keeping pace with the demand for new homes.

Fiona MacGregor: That is a very big question. There are issues about access to land. That is one of the frequently stated reasons that both house-builders and housing associations give in terms of how much they can build out. There is a question that HBF and house-builders might want to respond to in terms of the model that

they build out to. They might take a view on getting the balance right from their perspective between volume of homes that they build and the prices that they want to be able to sell at. That is something that I think HBF would be better placed to respond to than probably we are.

Piers Williamson: There is a direct correlation between the end-of-grant cycles and the amount of housing output from housing associations. For Q1 2015, housing associations actually produced their largest number of units since private finance was introduced. That has tailed off post that Q1.

Q252 Helen Hayes: Okay, thank you. Finally, what is the role of the HCA in supporting the provision of new homes across all sectors?

Fiona MacGregor: As regulator, we have got a couple of roles. In the wider HCA, we have a very big role in terms of delivering some of the programmes that Government fund. We have a very successful track record in delivering those programmes. There are bits of the HCA that deal with the disposal of public land. Again, we have a good track record of meeting agreed targets in terms of disposing of land to bring forward whatever the target is for capacity in relation to the number of homes. From a regulation perspective, I think we see our role in terms of promoting supply, and promoting supply of all tenures as being to ensure that we have got a well-regulated sector that can attract funding at reasonable prices, so that, within the context of Government policy and programmes, the sector can deliver.

Q253 Helen Hayes: Do you think the lack of any grant funding at all in the CSR for homes for social rent is a problem?

Fiona MacGregor: The feedback we are getting from housing associations is that they plan to do what they can within the constraints that have been applied in terms of grant funding, using their own resources and cross-subsidy from sales programmes—as Jonathan said, we have seen a bit of an increase in fixed asset sales, for example—and using their own resources to bring forward rented homes without grant. They are seeking to prioritise that and to do as much of that as they reasonably can. The other feedback we are getting is that they may well prioritise, where it is appropriate to do so given the market, rented homes as a one-for-one replacement for right to buy once the deal is introduced.

Q254 Chair: Just to follow up on that, I met five of the largest housing associations in Sheffield the other week. They said that, in the market there, they doubted that they would be able to access much of the grant for shared ownership because they just do not think the market is

there for it. They wanted to know whether the HCA had any freedom, if there was not a take-up of that grant, to switch it to other products where they might be able to build and meet a real need locally.

Fiona MacGregor: I am wearing an old hat here, rather than my current hat as Director for Regulation. In terms of the funding for shared ownership and the new money that has been announced—the £4 billion—we are developing, at the minute, what the rules and requirements around that funding will be. That will take a bit of time in terms of the prospectus. Whether there is freedom and flexibility then to do any switches will really depend on those discussions and the outcomes of them.

Q255 Chair: So we can ask the question and get a bit more information from you when?

Fiona MacGregor: I do not have a timescale at the moment for when the prospectus might be available, but I am very happy to write to you once we have got that to bring it to your attention.

Q256 Chair: That would be helpful, yes. I just have two other points. Going back to Piers Williamson, you have talked about the uncertainties and about the effect that that can have on lenders. Certainly, rent uncertainties is one issue. Some of the other uncertainties were alluded to. There was the article in the *FT* speculating about the potential privatisation of Government debt. That would be a much bigger uncertainty. How are lenders reacting to that at present? Are they having quiet words with Ministers about the fact that a step too far might be undertaken, which would really spook lenders in their relationship with associations?

Piers Williamson: It is not Government debt; it is grant. I think the devil is in the detail. So, in relation to the question over grant, if that grant were purchased at 20p in the pound or something by a hedge fund, and that hedge fund ended up in some form of workout situation, the workouts in the sector so far have been quite well orchestrated and well managed. Each creditor knew where the other creditors sat, and there was a relatively level playing field. The history of aggressive hedge funds using positions, in this case as an unsecured creditor, to potentially unsettle that balanced position is quite considerable. That would have been my primary concern around the question on grant.

On the broader question about nationalisation or privatisation, the ONS says these are—whatever it is—1,500 independent businesses that are accountable for making their own decisions. I think it is probably outside my province to say, “If those are nationalised or privatised,

what are the consequences?" On expropriation of assets, you have to go back in the history books to docks or coal mines to understand some of the cases that came about. However, it seems to me that there is a body of support for charities as a whole, both in a political sphere and outside Parliament, saying, "These are independent organisations. Do I have a view as a lender?" As a lender, if something is nationalised, in a sense, so long as my debt is repaid, I am ambivalent. However, so far as a social good is concerned, this is a sector that has produced a significant contribution to the overall amount of housing output in this country, and a lot of expertise has been built up around developing new properties. Therefore, I think it would be a shame to see that wasted.

Q257 Chair: So, in some ways, outright nationalisation, from a financial point of view, is not an issue if you get your money back as lenders. However, further interference that may affect the performance of the organisations would be a concern.

Piers Williamson: You have taken evidence from Scotland and Northern Ireland this afternoon. There are varying regulatory models in the UK. Scotland has an independent regulator. Northern Ireland and Wales both have Government regulators, effectively. I would say that the most effective regulation is arm's length regulation, where these institutions do not go running to their parents when things go wrong. They are fundamentally accountable for their own governance. That is a very important discipline and one that we wholly endorse in my organisation. I would perceive more interference from Government as a bad thing.

Q258 Chair: Therefore, would freedom to set rents by associations be something that you would welcome? David Orr said that that was his first ask of Ministers, when he came to give evidence.

Piers Williamson: Again, there are different models around the country. Scotland and Northern Ireland have more freedom than here. I am relatively ambivalent in England.

Q259 Chair: A politician's answer; we will pass over it. Just one final question to the regulator: if someone phones you up in a few months' time and says, "My association will not sell me the house I live in", do you say, "Right, okay, we can offer you assurance; we can sort it all out for you", or do you find somebody else to pass them on to?

Fiona MacGregor: We would not do that at the time. As part of the details that are being worked up through the voluntary right to buy deal, one of the matters we need to settle is whether or not it will be the HCA who deals with individual tenant complaints or whether it will be, for example, the Housing Ombudsman.

Q260 Chair: You do not know at this stage.

Fiona MacGregor: We do not know at this stage, but by the time the scheme is launched and up and running, it will be absolutely clear.

Q261 Chair: One or the other of you will get the hospital pass.

Fiona MacGregor: At the moment, it appears to be a choice between one or other of us, yes.

Chair: No doubt, we will learn more about that when we see the Minister tomorrow. Thank you very much for coming to give evidence to us today.

Examination of Witnesses

Witnesses: **Anna Clarke**, Senior Research Associate, Cambridge Centre for Housing and Planning Research, and **Lord Kerslake**, Chairman, Peabody Housing Association, gave evidence.

Q262 Chair: We seem to be a bit lop-sided at present, but we will carry on regardless. Thank you very much for coming. If you could just say who you are and the organisation you are representing, that would be helpful for us to start.

Anna Clarke: I am Anna Clarke. I am from the Cambridge Centre for Housing and Planning Research.

Lord Kerslake: I am Bob Kerslake, Chair of Peabody.

Q263 Chair: That is your hat for this afternoon, is it? Just to kick off, one of the things we have been trying to explore in our inquiry is what the impact would be on affordable housing and on social rented housing, as a result of the right to buy policies and the sale of council homes to fund the right to buy. Is it going to lead to the same number of social rented houses—affordable rented houses—at the end of the process? Is it going to lead to more or less, and will there be different impacts in different places?

Lord Kerslake: My judgment would be that it will be less, for a number of reasons. First of all, you cannot see the right to buy policy in isolation from the wider set of policies that are going on at the moment. Collectively, they add up to a move away from affordable social rented housing. I say that because if you look at the funding that came through in the autumn statement, the affordable housing

programme will end after the 2015-18 programme, apart from very particular properties, such as supported housing. So the funding stream to support social rented ends.

Secondly, on the right to buy, we know from the Chartered Institute of Housing's assessment that the numbers do not add up. There is not enough money from the sale of high-value properties to replace the high-value property you have sold to fund the discount and to make a contribution to the brownfield fund. Thirdly, the impact of the rent reduction will affect housing associations' ability to build new affordable housing. Fourthly, even if the money is there, I do not think it is physically possible to rebuild the houses in the places where they have been sold. If you look at the recent survey that was done, I think by the LGA, out of 144 councils, only two had built more properties than they had sold under right to buy. The evidence is pretty clear. Indeed, the assessment by the OBR was that something like 34,000 fewer affordable homes would be built as a consequence of the recent measures. The fewer will almost certainly be in the social rented area.

Anna Clarke: I would echo a lot of what Bob has just said, especially about the very fast-changing policy environment and so much else happening at the same time. We probably will not even know in the future whether we did manage to replace them one-to-one because so many other things have affected output at the same point in time.

The research that we have been doing for the Joseph Rowntree Foundation very recently looking at the impact of the right to buy did not attempt to assess whether sufficient money was going to be available from the sale of local authority dwellings to fund the replacement. That was not what we looked at. We looked at the impact of building back at different tenures. If you are looking at what would be the impact on the supply of socially rented housing or even, broadly, at sub-market rental housing, that will depend on whether you are building back one-for-one rented housing or whether you decide to build shared ownership, help to buy or some other form of housing with it instead. So, you are not necessarily looking for like for like.

In terms of whether it is possible to build back, you need to differentiate between the right to buy for housing associations and local authority sales. If they are given the full market value back for the house they sell, housing associations ought, in many market situations, to be able to replace that with something broadly similar. For local authorities, it is not so easy at all because they are not allowed to keep the full value of the house they sell. They have got to give some of it to provide the cross-subsidy for the right to buy and more to Government. They will not be able to build back something similar to

what they are selling. They will have to build back something that is cheaper, in a different location, smaller and that somehow can be done with less money than the house they sold.

Q264 Chair: One point there—I think it is an important one that we often overlook—is that, in trying to measure the impact of a policy, it is not just sufficient to say, “This number of properties have now been built”; you have got to say, “How many would have been built if that policy hadn’t been in place?” Is it possible to do that at all because we are bedevilled in trying to get a proper analysis of the impact of almost anything.

Anna Clarke: We spend our lives trying to do that. There are all sorts of ways you can try to do it. You can make estimates; you can look at what happens in other parts of the United Kingdom; you can look at how much of the provision was built with subsidy through S106 agreements and so forth, and how much. If they are only getting the grant on completion of a house, then there should be some sort of accounting done as to how many houses have been built. You can try and do that, but it is very difficult. We are not doing it in a very controlled, scientific way because so many other things are changing at the same time.

Q265 Chair: Did you want to come in on that, Bob?

Lord Kerslake: The only thing I perhaps should have said was that the changes around section 106 will also impact, and the scoring of starter homes under the affordable homes definition is a significant issue as well. A third of all affordable homes under the current definition have come through planning gain in London. I think that will impact on the number of affordable homes as well—truly affordable.

Q266 Chair: We are going to have an inquiry schedule announced into the changes to the NPPF, which contains that particular re-definition of starter homes.

Lord Kerslake: I am on record as saying that I think it is hard in London to see a property that requires a salary of £77,000 and a deposit of £90,000 as really meeting the definition of affordable.

Q267 Bob Blackman: You took the words out of my mouth because the first question I was going to ask is: how do you see these policies affecting housing across the country and, indeed, across London? We often look at London as being separate, but London has specific markets as well within it. How do you see the variation taking place? Anna, do you want to start?

Anna Clarke: When we modelled the impact of the local authority sales, it was very hard to say what the impact will be, when the detail of how it is going to be worked out has not yet been published. We are going off a Conservative party press release, which is all we have got. That is not even available anymore. We are going off a second-hand reproduction of it in terms of these threshold levels. They do seem to be roughly in line with the top third of prices by size by region, which has also been mentioned. There is compatibility within the different things we are looking at, but nothing has been published precisely. If you do it by number of bedrooms and by region, you end up with a strange pattern that shows you the effect of regional boundaries.

Within London, as you would expect, the central London boroughs have a lot more high-value stock than the outer London boroughs. You then see a London commuter-belt effect, where local authorities in the east or south-east region that are near to London have a very high proportion of their stock deemed to be high-value, even though it is probably slightly cheaper than over the border in outer London. However, they are being judged against the regional thresholds for the east or the south-east. So you get these, kind of, boundary effects of the regions that affect where things are deemed high value.

For the right to buy sales, you would assume the spread would be a bit more even and that it would not be as localised. However, the local authority high-value stock is an extremely localised issue. More than half the local authorities in England do not own any stock at all, so they are completely unaffected. Most of the London boroughs do, though, so London is particularly hit by that policy. Our analysis of the right to buy suggested that London would have fewer tenants who could afford it, which is not surprising really, because house prices are very high, although we also thought that more of them who could afford it would probably try to do so because a lot of them will be affected by the pay to stay. This is partly what I mean by it being very hard, with so many fast-changing policies all coming in at the same time. It is likely that if people see their rent greatly increase to something close to market rent, they will do everything they can to buy. There is a great deal of uncertainty around the impact of the policy in London, more so than the rest of the country.

Lord Kerslake: I have just a few points to add, really. I agree with everything Anna has said. There is a huge amount of policy to settle here. To give you one example, the pilot that is being run on right to buy has a 10-year residency requirement. So, clearly, a restriction has been put on eligibility in part to manage the cost of right to buys. Because the whole thing does not add up in aggregate, we do not yet know how much that sort of restriction is going to continue on

in the scheme beyond the pilot period. However, it is hard to see how you can avoid some kind of restrictions on the scheme. That is one real uncertainty we have here. It will be very different across the country, but in London it is set against the backdrop of an acute housing crisis. I would say it is the worst housing crisis in my lifetime. The challenge we face is that the policies will not do enough to drive new supply in London in the way that is needed. In London, the impact will be more severe. The numbers suggest that London will be a net contributor towards the policy outside London because of its high-value properties. In the centre of London, over time—it will be quite a long time—it will shift the makeup of that part of London to have fewer people on lower incomes. That seems to me to be almost inevitable. As I have said in other places, it seems perverse to see money flowing out of London—the place that has the most acute crisis—for housing.

Q268 Bob Blackman: One of the concerns that was expressed is that if you sell a high-value home in, say, Westminster or Kensington and Chelsea, which under the right to buy might quite easily be a sale of £300,000 or £400,000, you could probably build, in the north, about eight houses at cost price. One of the concerns is, obviously, if the policy takes that form, houses, flats or whatever will not be built in central London or other parts of London to replace those that are being sold. How important is that as an issue to be resolved in this dilemma?

Lord Kerslake: It is an important issue for London because the character of London has always been mixed tenure and mixed income. It is how it functions and how it has the mix of workers to do jobs in the area. I think, willy-nilly, over time, this could fundamentally shift how people think about central London and the people who live there. It is that significant when you bring it together with other policies. In my view, that would be unfortunate, really. The voluntary agreement is welcome in the sense that we will be able to use our discretion not to include properties that were funded entirely through charitable funds. That is helpful. Many of those are in central London. We think we would have discretion on about 10,000 properties of our 28,000 under the proposals in the voluntary deal. However, nevertheless, the net impact over time will be to shift the makeup of central London and to shift its character and the way it operates.

Q269 Bob Blackman: Anna, do you want to add anything?

Anna Clarke: No, I agree with all that; especially in relation to the right to buy, that is the case. With the sale of local authority stock, they have said that it should be replaced within the local authority it is sold in. This is quite a challenge for some of the higher-value boroughs of London because they would be in a situation of having to build

something. Before they let it, it is instantly vacant. It has to be sold. It is very hard to build below the thresholds if you are in a very central London borough. You would have to build housing that is, in some way, very poor quality and very cheap in order to come below the high-value thresholds because almost all your housing is high value in that borough. There is a real issue for central London boroughs, and the same would go for the commuter-belt areas. If they are trying to build back within their area, they cannot build anything that would be below the high-value thresholds.

Lord Kerslake: It is just worth adding one last point. In the latest iteration of this in the Housing and Planning Bill, we are not talking about the actual level of high-value property sales, but a notional deduction from local authorities based on an estimate of what they might have sold. It is not entirely clear to me, with that new model, which means they might not sell the number, whether they are under an obligation still to replace one-for-one. I am not entirely sure how that now works, basically. I think that has muddied the water a little bit in how the process will work.

Q270 Bob Blackman: Has the London Housing Consortium come to any conclusions on the impact of all these policies yet?

Lord Kerslake: I think we are going to produce an interim report by the end of December, and what that interim report will say is that, just as I have said, we face an unprecedented crisis of supply in London. We need to be building 50,000 to 60,000 homes a year in London, and we are probably doing half of that in the best year we have had for some time. If you add up the last 10 years, it is 190,000. The problem is getting away from us in London, truthfully. Large parts of London are now becoming not affordable for ordinary people. The average price of a property is £500,000; the average income is £24,000. We are in completely unobtainable territory.

I think our commission will say that the central things that are needed in London are for housing to be seen as a vital part of infrastructure, and for it to be planned over a 10-year period. It has taken us a while to get into this problem; it is going to take us a while to get out of it. Crucially, I think there needs to be a new devolution deal on housing for London, so that London can take the lead on addressing a lot more of these issues itself and design the right solutions for London and London's housing market. Those are the sorts of areas that we will be focusing on.

Q271 Liz Kendall: *This is a question for Lord Kerslake. Why have enough homes not been built under successive Governments?*

Lord Kerslake: How long have we got? There is a whole raft of reasons. It is not that good things have not been done. They have, and they have had an impact under different Governments. The truth is, though, that they have not had enough impact in terms of the key issues around land, capacity in the sector, finance and the underlying drivers of the market. There is a whole raft of things, but my fundamental view would be, now, that we have been focused on a lot of initiatives—often quite short-terms ones—and not enough on treating housing as vital infrastructure over a long period. That has been the core problem.

Alongside that, we have not harnessed all the potential players to deliver new supply. We have sometimes veered between it being all about the public sector and then all about the private sector. Actually, we need every part of the system to be contributing on a sustained basis over a long period of time. Housing associations have played their part. Local authorities should be given more flexibility to play their part as well. They have been contained over the last period from building. Part of the reason why we face such a problem now is a series of short-term measures that have not been bad things in themselves, but that have not matched up to the task. There is a sense in which we have not harnessed all the key players and we have not treated housing as a key infrastructure for the country. These are the big things.

One last point I would make is that planning is an issue. As has been said, it is not necessarily the issue, but it is certainly an issue for housing supply. What has happened to the structure of the house-building industry, which has massively consolidated, is interesting. In 1990, there were 12,000 SME house-builders. By 2015, there were 3,000. It is a complete reduction in numbers. This is not a criticism of the house-builders, but their model, therefore, is very reliant on a relatively small number of suppliers in a market where there have been very few new entrants to the market. You ask the question about why there are loads of permission sites. The answer is because house-builders will only build out at a rate they are comfortable about sale on in what has been a very cyclical market. You need massively more permission sites than you have if you want to get the rate of build that is necessary. There are a whole range of reasons, all of which I think we will go into in the commission report. The answer has got to be a comprehensive approach; there is no one magic bullet that gets us out of it.

Q272 Liz Kendall: But why, underlying that, have we not seen it as a key part of infrastructure? You have listed a number of areas, but underneath it is an issue about why we have not got to grips with housing.

Lord Kerslake: The person who gave me the best insight is sitting to the right here. Housing in this country has been seen as a private good. It is a while since the public have held Government responsible for supply. If you go back to the post-war era, there was no doubt that Government were held accountable for supply. We went through a period then when people saw it as how the market works, and I think we are returning to a period now—and all parties are reflecting this—where people have started returning to a view that actually Government do have a responsibility here to do something about this, particularly in London. I think the biggest reason is that it stopped being seen as a responsibility of Government, and that is changing.

Q273 Liz Kendall: My second question, which you have touched on, is whether the Government's one-for-one replacement policy achievable?

Anna Clarke: I think I covered it, really. For the right to buy, it ought to be in most market conditions, but it does depend on whether they have got very old, run-down stock that they sell through right to buy. It costs more to build a new house. New houses, on average, sell for more than second-hand houses because they are new. If what you are selling is the lower end of the market locally, that does make it difficult to do one-for-one. There are some difficulties, but, broadly, if they are getting the full price back, you would expect them to be able to get close to that. The story is very different for local authorities who will be selling their higher-value stock because they are not getting the full value, being allowed to keep it and spending it on buying a new house. At best, they would have to build something a lot cheaper, and I think it should be difficult for them in many situations.

Lord Kerslake: I think there are four points to this, really. One is that on the aggregate policy of right to buy for housing associations and local authorities replacing their high-value sales, as I say, the Chartered Institute of Housing's analysis shows that the numbers do not add up. That really just reinforces Anna's point. You simply cannot make the numbers work on that basis.

Secondly, as far as housing associations are concerned, you probably can make the money add up, but there will then be quite a physical difficulty in finding the land and building out at the rate you sell. It would require unprecedented rates of build. The evidence from local authorities where we introduced this policy is that they have not

been able to keep track with the rate of right to buy sales. If you think about that first period, if you have no restrictions on right to buy, you are going to get a surge of purchases. Your ability to replace those at the same speed at which you sell them in the places where they are sold makes this, if not impossible, very difficult to achieve.

Q274 Bob Blackman: A lot of housing associations are now taking the view that they are just going to build houses for sale—starter homes, whatever. Are they potentially impinging on their charitable status by doing so?

Lord Kerslake: I cannot give a general answer for all housing associations. What I have said quite clearly in a number of places is that housing associations have to start with their mission. What are they there for? In the case of Peabody, it is to ameliorate the condition of the poor and needy in this great metropolis, London. That is our mission. That is what we were set by George Peabody. So, for us, we cannot become AN Other house-builder. That is not what we are there for. We would want a mixed-build portfolio between some social housing, some affordable shared ownership, if you like, and some that are outright sale. The outright sale has always been to enable us to cross-subsidise and keep the rate of subsidy down. It is not that we do not build for sale; we do, and are quite happy to do that. However, we cannot only build for sale. We must be producing social rented and accessible shared ownership. For me, that is part of the deal of being Peabody. It is part of our mission. So we may shift the mix, but it should stay there. Almost as important as their charitable status—that is for them to examine—is their mission: why are they there?

Q275 Bob Blackman: Anna, do you have a view on the position?

Anna Clarke: Yes, it is interesting. This relates to a piece of work we have just finished previously for the Joseph Rowntree Foundation, looking at that sort of thing. Yes, there is a big distinction to be made between the activities that housing associations are doing, which they see as forming part of their charitable activities, and what they do, which they see as providing cross-subsidy. So market sale and market rent are both products that we will see far more of being built than previously. That may be taking some of their time and effort, but, in theory at least, it should be providing the cross-subsidy and not using it.

On starter homes and so forth, they do have missions—and Peabody's mission statement is entirely common; you find similar things in a lot of them—but they also, many times, feel that they are constrained by what the Government are providing the subsidy to do. In the past, they may have been able to see themselves as fulfilling

their mission through the money they were given, and now it is becoming much harder because the Government are not giving them the money to provide the housing that is really affordable to the people that their mission is to provide for. That puts them in the very difficult position of whether to go on developing housing that is not really affordable to the people that they are providing for and rely on the DWP to top up the difference, or whether to go for a different client group, and whether the client group of people who cannot quite afford to buy is within the broader remit of people in housing need.

Q276 Bob Blackman: But if they take that decision to become, effectively, commercial house-builders are they then—

Anna Clarke: I do not think they are taking that decision.

Q277 Bob Blackman: We have got some evidence from some housing associations that basically says that they are going to move away from building anything for rent to building houses and flats for sale. Is there a challenge, potentially, to their charitable status if they take that decision?

Anna Clarke: If they did it as their sole purpose of being, I guess there would be. However, I am not aware of them doing that and saying that that is now what they do.

Lord Kerslake: One or two have hinted at that, to be fair, Anna. I think they should look at both what their underlying purpose is, and also the charitable issue, before they make that final decision.

Q278 Helen Hayes: I have a similar question. We have had housing association after housing association in front of this Committee telling us that, in response to the Government's changes in policy, they will be re-profiling their programme going forward and they will be building fewer homes for social rent. Some of them say that they will be building more homes at affordable rent, but we know about the problems with the definition of affordable rent. They say they will be building more homes for sale and more homes of other types. I was just wondering where the balance sits. It is clearly an erosion of charitable purpose if the charitable purpose is to build homes for those in the most housing need, or something akin to it. Within that re-profiling, most of them are not becoming full-blown housing developers for the private market, but there is an erosion of it. I just wondered how you feel about the shifting of the balance.

Anna Clarke: I think the balance probably sits in a different place for different housing associations. They do differ a bit in their ethos and where they see it as going. It is also often about balancing

their duty to their current tenants with their obligation to provide housing for the future. The conversions that are necessary to move from social rent to affordable rent to fund affordable rent development are difficult for many of them to grapple with, and there are some that have refused to do that and have said they will only build a smaller development programme of social rent or no development even, because they are not prepared to put the rent levels up for their existing tenants. However, our research suggests that they are in the minority and that most of them do see developing as absolutely at the core of what they are doing. They are not just managing existing stock; they want to develop and go forward with that. They feel pushed into developing tenures that are not what they would like to do ideally, because that is the only way they can develop anything at all.

Lord Kerslake: Peabody is relatively new to having an extensive development programme. In fact, it stopped for quite a period and only really resurrected its programme in the last three to five years. We have now got a programme of about 8,000, of which about 40% will be for sale. The balance will be 50:50 social/affordable rent and shared ownership. The impact of the rent reduction in four years is £42 million. If you take it over 30 years, it is £712 million, so this is quite big money. That is assuming we return to CPI plus one after four years, which is not a given yet, I have to say. What Anna says is absolutely right: this is quite challenging. I do not think it is easy to say where that balance lies. We will have a view. We might shift to 50% sales, say, but if we move to a point where we are not delivering affordable rent in any meaningful numbers, then that would be beyond where we feel it is appropriate, not least because we set a lot of store by our relationships with local authorities. For them, building a mix is really important as well. So even if we were prepared to throw out that mission, I am not sure local authorities would be that keen to deal with us, to be frank.

Q279 Bob Blackman: Finally, what do you think the impact of the extension of right to buy is going to be on poverty levels across the country?

Anna Clarke: This was one of the things that the Joseph Rowntree Foundation were particularly keen that we looked at. Broadly, it depends very much on what tenure you build back. If you can replace one-to-one with a property at the same rent level as the one you sell, there is actually a positive impact on poverty levels because not all the housing that you sell through the right to buy would otherwise have come up again for re-let, whereas every new house that you build is instantly vacant and you are able to let it to somebody. If you can do that and build it all back at the same rent level, for as long

as you have got this reservoir of high-value council housing to keep supplying it with, which, of course, is a diminishing reservoir—you cannot sell the same number each year, year on year, unless you continually stretch your definition of high value—for the 10 years or so whilst you have got a reasonable stock of that available to cross-subsidise, you could have a positive impact.

However, if you build back affordable rent or you build back shared ownership, then people who would otherwise have been able to access social rented housing will have to pay higher rents; either there will be an affordable rent that is expensive, or they will have to find housing in the private rented sector, which is more expensive. This has an impact on the housing benefit bill and it has an impact on their poverty. Our analysis looked at the proportion of tenants who were not in receipt of housing benefit who were below the poverty line of 60% median income, and it was about half of them. Half of people entering social housing would be already poor, and you are making them poorer by having higher rents.

Q280 Chair: In terms of starter homes, what is the reaction—this is probably to Peabody in particular—from housing associations if they are told, “To get any development programme through 106 arrangements it has got to be starter homes or nothing”?

Lord Kerslake: I think the issue about starter homes is not necessarily with the product, although there are issues with the product. It is about the fact that it looks to be taking centre stage in new supply at the expense of affordable or social rent. That is the thing that worries me. It is worth going back and saying that the initial policy was actually a new source of supply on what were called brownfield exception sites. That was the thinking behind the policy in the first instance under the coalition Government. It did not happen at the expense of other sources of supply. It has now become much bigger in size and is definitely substituting for other forms of affordable housing—social rent and so on. It is a very different story now. The point I would make about starter homes is there are still quite a few issues to unpack about how starter homes work. The concerns are not just with, say, housing associations or even local authorities; they are also with lenders and house-builders. Privately, a number of house-builders will say that what we are creating here is a competing product to some of their own products. Therefore, there are quite a few issues still to resolve with starter homes as a product, as well as the issue of it substituting for affordable rent. I hope that that answers your question.

Q281 Chair: Yes, and I suppose there is the problem of the discount for five years. What happens if someone sells it after four years?

Do they sell it at the discounted price and the person who buys it for the next year—

Lord Kerslake: Is five years the right period of time? That is another question. Some of these things will no doubt be debated when the Bill comes out of the Commons and goes into the Lords, I suspect.

Chair: Okay, that is a nice way of pushing that one off. Thank you both very much for coming this afternoon and giving evidence to us. It is appreciated.