

# Public Accounts Committee

## Oral evidence: Right to Buy, HC 880

Wednesday 09 March 2016

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Members present: Meg Hillier (Chair), Deidre Brock, Chris Evans, Nigel Mills, David Mowat, Stephen Phillips, John Pugh, Karin Smyth

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, Tim Phillips, Director and Aileen Murphie, Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

*Witnesses:* David Orr, Chief Executive, National Housing Federation, Lord Kerslake, former Permanent Secretary, Department for Communities and Local Government, and President, Local Government Association, and Terrie Alafat, Chief Executive, Chartered Institute of Housing, gave evidence.

**Q1 Chair:** Good afternoon. Welcome to the Public Accounts Committee on Wednesday 9 March 2016.

We are here today doing something that is quite unusual for the Public Accounts Committee—with the support of the National Audit Office—which is looking at the Government's extension of Right to Buy to housing association tenants. Why it is unusual is that the legislation is still going through the House; normally both the NAO and this Committee look at things after the event, so that we can evaluate whether taxpayers' money has been spent well, wisely and effectively. On this occasion, we have been very keen to look at this issue in advance because of the impact on so many of our constituents, but also because it involves major expenditure of taxpayers' money. We wanted to look at it early to make our views known in order to hopefully help Government shape their policy in the most effective way.

Our first panel today is David Orr from the National Housing Federation, Lord Kerslake, who has many hats and many past hats but is also here as himself, as it were, and Terrie Alafat from the Chartered Institute of Housing. Welcome to you all. We are here to discuss the Right to Buy and so our hashtag today is #righttobuy.

I am also pleased to welcome members of Islington Council's policy and performance scrutiny committee, who are here today to look at this issue. We have a second panel after this, with the permanent secretary from the Department.

I will kick off with a question to all of you in turn: how do you expect the Right to Buy to impact on housing association tenants and local authorities? Perhaps we could start with you, David Orr.

**David Orr:** As is always the case, the impact will be differential in different parts of the country. Actually, one of the things I always worry about is single policy measures that have different impacts in different parts of the country.

In terms of the way that we framed the offer that we made to Government on the voluntary Right to Buy, what we tried to do was to ensure that where tenants wanted to buy and housing associations were in a position to sell, they would be able to do so and at a level of remuneration—a sales price—that met the full market value and therefore gave housing associations collectively the opportunity to build replacements. I think that is the position that we ended up in. There is inevitably going to be some flow. There will be a gap between sales and re-provision, but, in the main, I think that this deal will give a number of people who have not previously had the opportunity to own a home the chance to do so, but it will not do so—in the long term—at the expense of supply. Given that the Right to Buy as it has been operating since 1980 has completely failed to address the replacement challenge, for me that was one of the key things that we wanted to achieve in the negotiations that we had.

**Q2 Chair:** Are you saying that you are confident that replacement will take place and is something that will be delivered?

**David Orr:** I am confident that if we sell, let us say, 1,000 homes under the Right to Buy, there will be 1,000 or more new homes built. I am very confident that we will be able to do that.

**Q3 Stephen Phillips:** But they will not necessarily be built in the same geographical location as those that have been sold under these plans, will they?

**David Orr:** Not necessarily, no, but that is not necessarily a bad thing of course; there are markets that are over-provided, as well as those that are under-provided. I think, actually—

**Q4 Stephen Phillips:** I understand that and that is fine. But if one looks—this is not really for me; it is more for Ms Hillier—at the position in London, where a high-value home is sold in order to fund Right to Buy elsewhere, because of property prices in London you are not going to be able to replace that high-value home, are you?

**David Orr:** The offer that we made to Government was restricted to what happens with housing associations and housing association sales. But actually, London is interesting. I think, and the early evidence suggests, that while there may be appetite in London, the cost of a sale is likely to mean that there is going to be a relatively small number of sales under the Right to Buy because prices, even with big discounts, are so high. The other thing is that if we do sell in London the amount of money that will be generated by those sales will be greater than anywhere else in the

country, so there is more potential to be able to invest. Housing associations operating in London have been explicit and completely clear that their expectation and ambition is to build in London—indeed, to build significantly more than they are presently doing, not just because of the right to buy but where that is a factor.

**Q5 Stephen Phillips:** Even though, for those who are going to buy in London, the housing association is essentially going to be giving £102,500 discounts?

**David Orr:** The housing association is not going to be giving £102,000 discounts; the Government is going to be giving £102,000 discounts. For me, that is really important. The thing that makes this scheme work with a discount is the fact that Government has agreed that it will cover the full cost of that discount, so the housing association will receive the full vacant possession market value. It is that which gives me confidence. There are plenty of properties owned by housing associations in London now that may have been acquired at, built and even maintained with a total cost against them of £50,000 or £100,000 that are now worth £500,000. If a housing association is able to get a sale price of £500,000, they are unlocking asset that is presently not available for use, turning that into cash, and will be able to use that to invest in new supply. It is clearly possible to make this work.

**Q6 Stephen Phillips:** That is great for the housing association—forgive me Mr Orr, I just want to press you a little on this—but it is going to be funded by the sale of higher value local authority housing for the local authorities that still have housing. If, for example, an authority like Hackney has a four-bedroom terraced house, which regrettably now costs three quarters of a million pounds, and that becomes available and they are obliged to sell it, how does the local authority then replace that £750,000 house with like-for-like?

**David Orr:** I have to say two or three things in response to that. First, our starting point in the conversation that we had with Government was a clear, unambiguous commitment from the Government to deliver a statutory Right to Buy. All of these questions would have been the same if it had been a statutory Right to Buy, but with far less flexibility. The Government's proposal—not ours—was to pay the cost of the discount by the sale of high-value council housing. We never proposed that and we have never supported or endorsed it as a proposition. What we have had to do is to focus on the things that we were able to negotiate on, and the things that we were able to negotiate on were the relationship between housing associations and Government—

**Stephen Phillips:** In a sense I am pressing you on something that is not your fault—I understand that.

**David Orr:** Having said that, local authorities will be in the same position as housing associations. They also are the owners of stock that has quite substantial presently-trapped equity. I do not think any of us went out looking for any of this, but when it became inevitable that something was going to happen in that space, the ambition was to try to work out something that protected those interests as best we possibly could.

If local authorities are required by Government to sell high-value assets, they will have the equity turned into cash. According to the structure as I understand it, some of that is clearly going to return to the Treasury, and that is a matter to raise with Government and Treasury officials, but some of it will still be available for local authorities. I know that this is not the easiest environment in

which to make this point at this precise moment, but central to all of this is the fact that this approach is going to work best where local authorities and housing associations work hand in glove together and think strategically about the challenge that all of this presents, and how together we can deliver the biggest number of new homes.

**Q7Chair:** I am sure we will come back to this, probably with this panel as well as the next, but I should just comment that Haringey Council returned £15 million that it received to build replacements. Its cabinet member for housing and regeneration, Councillor Alan Strickland, said that the red tape meant that it was unable to offer the cash to local housing associations. We want to come back to the practical issues, but I just wanted to—

**David Orr:** That was not in this programme, though, of course. That was in the—

**Q8Chair:** No, that is true. You are fair to point that out. But that was under a Right to Buy programme. Clearly we want to learn lessons from previous programmes in order to make sure that, in our job as a Committee, we hold the Government's feet to the fire—or the Department's feet to the fire—to make sure that the problems of previous policies are not replicated in the proposals for the current policy.

I want to ask Lord Kerslake, if I may, how this will impact on the various bodies involved.

**Lord Kerslake:** Thank you very much for that, Chair. I will seek to answer as chair of Peabody but also to say how it looks to me as president of the Local Government Association and as a Member of the House of Lords currently considering this legislation.

Let me start with Peabody. Clearly, one of the things we need to get right is the sales process, and we will learn from the pilots. One of the issues that I think we should have in mind is to what extent the risks of fraud and related inappropriate activity are likely to arise. I say that because the prize has grown here. I did a valuation of what the value of Right to Buy was in 1980, uprated for inflation, and it was £30,000—give or take—for a house and £40,000 for a flat.

**Q9 Chair:** Sorry, £30,000 for a house and £40,000 for a flat?

**Lord Kerslake:** Yes, just over those figures. That is what it was then, uprated for inflation. But, of course, house prices have gone up way in excess of that, and we could see—and will see, indeed—many people getting the maximum discount of over £100,000. So there is more money at stake here and more risk, and we need to manage that. I think Terrie will say a bit more, but there is some evidence of growing fraud here. That is one issue that we need to get right.

A second issue is the one-for-one replacement policy. David is absolutely right that we will make our best endeavours to deliver one-for-one, but that is not the same as like for like. I particularly take the point about London—obviously Peabody is a London housing association—where it will be very hard to deliver an affordable rented property in the areas where we are likely to sell them. Typically they will sell in higher value areas—typically the places where it is hard to get the land.

**Q10 Stephen Phillips:** Are there planning constraints as well?

**Lord Kerslake:** There will be issues about how planning works. I think most boroughs want to see more housing, but the reality of available land in the areas where you have sold—and you think of our stock—is one of the issues. We will, through the voluntary agreement, take a decision not to sell any of our stock funded through charitable donations rather than Government grant. So one-for-one is a challenge, particularly if you put it in the context of other Government policy relating to rents and to affordable housing grants, and of the completion of the programme in 2018. It will be a challenge and we will do our best, but we must not say that it will be straightforward.

The last thing we do not really yet know in detail is how the regulatory regime will work. Ministers have been very clear about discretion, but we need, obviously, to see that and how that plays out in practice.

I will just say a few words about how this looks from a local government perspective. Bluntly, they feel they are on the wrong end of this policy. They feel that they are picking up the bill for a central Government policy. They feel that very deeply, I have to say. Indeed, David, we have had to work very hard to maintain good relationships between housing associations and local authorities as a consequence of this. There is a really big issue here that needs to be recognised about who benefits and who pays for this policy.

There is a second, critical point here, which is the lack of available information. The brief states that the Committee wants to explore the question of the cost of the RTB discounts, the definition of high-value sales and the size of the levy. As we sit here now, with the Bill well advanced in the House of Lords, I cannot answer any of those questions. That is a major issue for local government and I have to say it is a major issue as well for the Lords, who are very uncomfortable with dealing with these issues later on, through secondary legislation.

In so far as we do have information, a very big question is, “How do the numbers add up?” In other words, can you fund the cost of one-for-one replacement in a local authority—two for one if it is in London—and the discount and, indeed, the contribution to the brownfield land regeneration fund from the sale after you have taken out the revaluation? A number of calculations have been done: I have yet to see what might be called an official calculation—

**Q11 Chair:** There isn't one.

**Lord Kerslake:** If there was one, I would be keen to see it. But the calculations—and the CIH did some excellent work on this—suggest that there is a shortfall here. The reason that that is relevant, both to local authorities and to housing associations, is that if there is a shortfall, there are two or three potential ways in which it might be addressed.

**Q12 Chair:** Can I hurry you along a little bit? I want to hear from Terrie Alafat too.

**Lord Kerslake:** Yes. Sorry about this; I will finish in two seconds. One of the ways it might be addressed is by containing demand in a given year or by containing eligibility, which would put housing associations on the front line of saying no to people who think that we should be saying yes. A second issue is that it may bear on the level of the levy and the definition of high-value houses. Can I just finish with two last points?

**Q13 Chair:** Go on, then—if you’re quick.

**Lord Kerslake:** The real issue for local authorities is the impact on neighbourhoods: the double whammy of both housing association and local authority sales is critical to them. It will change neighbourhoods, most particularly in London. Finally, there is the issue of the impact on the development capacity of local authorities themselves to build new homes.

**Terrie Alafat:** Some of my points have been picked up, but I will pick up on a few things Bob said as well. The first is the impact on local authorities and housing associations, and tenants of both housing associations and local authorities. Obviously, we recognise the aspiration to allow housing association tenants to buy their properties. That is fine. We are also very pleased that there are pilots under way to learn the lessons and shape that policy. For example, there are lessons around fraud, as Bob mentioned, and lessons around targeting the subsidy—the example of where someone may be buying their property but they are actually buying it on behalf of another family member. There is a huge amount of evidence, but the good thing is the pilots can test that.

We have two main concerns. Bob has picked up one of them. One is replacement of the homes sold. That is just assuming a one for one—not a like for like, but just the overall numbers. We did some modelling in October based on what we knew at the time. We think it was pretty robust—it was based on turnover of stock, net voids, and so on—but obviously, as Bob said, we have not yet seen how the high-value sales will work, so that is the best that we have. That analysis showed that we would be losing 7,000 council homes per annum and that the funding did not quite stack up. Obviously, we are very keen to be able to see the Government’s analysis—the detail around the policy to do with high-value sales—so that we can see whether, at least overall, the numbers stack up.

But I think the more significant issue—and Bob has touched upon this—is that the impact of the high-value sales will not be spread evenly by landlord or by type of property, and of course where the houses are built will not necessarily match the properties that have been lost.

**Q14 Stephen Phillips:** On the first of those points, what do you mean by “landlord”?

**Terrie Alafat:** A housing association or council landlord that might be selling high-value stock.

**Q15 Stephen Phillips:** It is only the local authority landlords who have to—

**Terrie Alafat:** The high-value, yes, but housing associations will be giving the Right to Buy as well, so—

**Lord Kerslake:** The sales will happen in the same place.

**Terrie Alafat:** Yes. What I am trying to say is that the overall impact of sales in a local authority area will impact on the distribution of the housing that is available in that area. That is inevitable with this kind of policy, and we do not understand enough about how that will play its way through. The replacement—the policy as it existed was in terms of affordable rent—is that we are now looking at affordable housing, which could be a range of different types of housing. What our

members are telling us is that, if you look at the historical patterns around Right to Buy, not surprisingly there are certain types of stock—larger family homes in higher value areas—that will probably be more or less attractive and, of course, more or less affordable, which I think David has picked up on.

There is a real issue about the impact on the local housing supply to meet local housing need, which I think is a key point. Of course, the other thing that no one is really talking about is that the existing tenants will also be impacted because, when you look at the availability of stock, it also includes tenants that may be overcrowded moving to a larger property. We know that there will be a supply of housing in exchange, but how long will that take and where will that be? There is quite a lot here to understand about the impact in local authority areas and housing associations around meeting housing need. That is our big worry.

The second thing I would like to raise is that, if you look at the overall trend, in terms of affordable housing for rent, it is definitely becoming less and less over time. We have done some calculations looking into the future, based on Right to Buy policies, estimates of the Right to Buy being extended, the shift to affordable rent and, simply, sales. We could see a significant loss in social rented housing by 2020, so we think that this policy needs to be taking that into account and thinking about what we are going to end up with, in terms of types of tenure and housing, in different local areas.

**Q16 Chair:** You highlighted a number of issues there, and one of the key issues, as you say, is the loss of certain types of housing in terms of size and price. One of the things that is very apparent from the NAO's delving into this is that there weren't alternative methods. You have all said, and I paraphrase you, that you broadly support the right of tenants to buy their home. Do you think there could have been alternative ways that the Government could have delivered on its professed objective?

I will take you in order. If you could, be a bit briefer in your answers please. We do have another panel to get to.

**David Orr:** Big questions for small answers. First of all, I think we have to be very clear: the right here is the right to have a discount, not a right to buy in the way that the 1980s-style local authority Right to Buy was a right to buy.

**Q17 Chair:** Because your members can refuse to sell their homes?

**David Orr:** Our members have discretion about whether or not they will sell. That is not marginal; it is absolutely central. What we have crafted is something that is not the same as the local authority Right to Buy process. From our point of view, the challenge was not whether we could sit down and have a strategic conversation with the Government and others about a range of different options. The challenge was a predetermined—

**Q18 Chair:** Mr Orr, forgive me. Maybe I was not clear in my questioning. We recognise the challenge that you and your organisation face but, given that you are the head of the National



Housing Federation and represent all housing associations, there may have been other ways that the Government could have considered in delivering that opportunity. Had you had a free hand to give that advice, would you have given them any other advice?

**David Orr:** I have said to Select Committees and other organisations here that a £100,000 discount under this scheme will deliver one family or household into owner-occupation. Also, £100,000 is enough to support the development of four new homes for shared ownership, putting four new homes into the economy and ensuring four households have the opportunity to have a foot on the housing ladder, so yes, there are other ways that the money could have been spent.

**Lord Kerslake:** I put forward an amendment yesterday in fact, in the House of Lords, which would have, instead of giving a cash discount, given an equity loan, in the same way that Help to Buy works at the moment. That would have effectively given the same opportunity to buy, because the loan stands behind a mortgage, so you can still get your mortgage; it would have been a much less expensive scheme for the Government, because it scores as debt rather than deficit; and it would have avoided what has proved to be a very contentious and difficult policy with local authorities. Personally, had I had the opportunity, I would have advocated that instead of a cash discount, an equity loan seems fairer to all concerned.

**Terrie Alafat:** I agree with what David said about the fact that, if you had a certain amount of funding and wanted to increase home ownership and increase supply, there is probably a better way of doing that, and that is probably through direct investment. As I said earlier, we were very pleased to see increased investment in shared ownership, for which we have been pushing for quite a long time. It can be expanded and it does offer more home ownership opportunities for people, but at the same time it adds to supply. We think that if you were to look at the options, it would at least be good to look at that, in terms of value for money.

**Lord Kerslake:** What I am saying is that there was another way of delivering that manifesto commitment.

**Q19 David Mowat:** A by-product of that would have been that it takes away the risk of fraud that you mentioned earlier. Is that right?

**Lord Kerslake:** Absolutely right, because it is a loan.

**Q20 David Mowat:** But the other issue is that because it is a loan, presumably it has to be paid off at some point. Or are you saying that it would be a deferred payment?

**Lord Kerslake:** Well, currently Help to Buy is five years interest-free, and then an escalating charge that is still very manageable.

**Q21 David Mowat:** So the model would be that it would be paid off only when the property was sold.

**Lord Kerslake:** Almost certainly. I think it is 15 years for Help to Buy—it is certainly a long period.



**Q22 Chair:** I represent an inner-city constituency, Hackney South and Shoreditch, and I have represented inner London as an elected representative for more than 20 years now. We know, as I'm sure you do, that there are many third-party companies that come and offer deals to tenants to help them to purchase their home, especially if it is a system-built concrete property above the fourth floor for which they couldn't get a mortgage from a traditional, regulated mortgage lender. A lot of our right-to-buy sales have gone to those companies that become landlords and are now increasing the number of private sector landlords. How would you guard against that kind of activity happening under this proposal? Is it a worry for you?

**Lord Kerslake:** It is a worry. I understand that, in the case of the pilots, individual interviews are happening with every single tenant who wishes to buy.

**Q23 Chair:** Do you think an individual interview with a tenant is going to stop this happening?

**Lord Kerslake:** No, I don't. It is a genuine concern. We will do our very best to identify where it is happening through individual interviews, if that's what we do, but there is quite a capacity involved in doing that.

**Q24 Chair:** But whether or not we like it there is nothing illegal in it, is there?

**Lord Kerslake:** As I understand it, certain forms of it are legal—I am not an expert on it—but you are certainly right to say that there are plenty of ways in which people can manipulate the system in order to deliver a financial gain.

**Q25 Chair:** Can I put that to David Orr? Your members will be having to make decisions. I have spoken to London & Quadrant, who are doing the pilot in London. They come back with all the work that they do on checks—for example, they look at money laundering—but they say that rich relatives from somewhere will suddenly cough up the money. There are these issues that will help tenants to buy the home. It is difficult to pin down some of the things that happen.

**David Orr:** We have to be clear about the difference between things that we don't particularly like and things that are illegal or actively fraud. Of course, there are plenty of people in the market generally who have the assistance of family and friends to be able to buy a house. We would be on rather thin ice if we suggested that people who are tenants of housing associations should not be able to do that.

**Q26 Chair:** What about third-party companies?

**David Orr:** It might be helpful for me to say what we are actually doing in the pilots. Both Government and housing associations have a very keen concern about fraud, and we are very aware of the experience of it. First, the Federation and the five pilot housing associations have commissioned an evaluation on an "as you go" basis by Sheffield and Sheffield Hallam universities.

This is one of the things they are going to be looking at and it will be the subject of regular reports through the system.

Secondly, there is a system in place for validating the source of funds for all those applicants seeking to buy under voluntary right to buy. The application form for all the pilots includes a mandatory section on source of funds. If you don't fill that out, you don't get to proceed. There are anti-money laundering checks, proof of bank statements and all those kinds of thing, but the pilots also require proof that all applicants have been resident in the property for at least 12 months prior to the date of the application.

They make it a condition that all named parties at the start of the application remain at the end and that no new applicants are allowed to join during the process, so that at the point at which the application is being made, the housing association that is selling knows who is buying. Are those completely foolproof? No, but I think they are a proper recognition of the concern and sensible measures that can be put in place, which will allow us to test how effective they are and take further steps to make amendments as the scheme develops.

**Q27 Stephen Phillips:** I am trying to understand how the pilots are working. Let's say I went to one of the pilot areas and started knocking people up and saying, "Would you like to make fifty grand?"—what's to stop me lending a person money to buy their home and then five years later splitting the sale proceeds and getting half of the benefit? I'm sure you're going to say that that is not something you'd like, but is it something that is permitted, as an investor?

**David Orr:** The prospective purchaser has to demonstrate where the money is coming from.

**Q28 Stephen Phillips:** You may not like where the money is coming from, but is there anything to stop me going and treating this as an investment vehicle and basically getting fifty grand off the Government discount on the house price?

**David Orr:** No, although it would be something that the selling housing association would take account of in assessing affordability. This has been an issue for 35 years; it is not a new issue. This gives us an opportunity to rethink fraud in Right to Buy much more generally.

**Q29 Stephen Phillips:** As I understand it, you are saying that this is not fraud; it is just something that nobody particularly likes, but it does go on.

**David Orr:** If we do not like this, there have to be rules—probably legislation—to stop it happening, because this is what happens in the market.

**Terrie Alafat:** I want to make a couple of comments on the fraud point, because there are some lessons from the existing schemes. It is a big, big problem. I pulled out a figure that the Audit Commission came out with in 2014, which estimated that there had been nearly a fivefold increase since 2009-10, costing the public purse £12.3 million per annum.

**Q30 Chair:** A fivefold increase in what?

**Terrie Alafat:** In fraud. We know it is a big problem; that's one thing. The second thing I was going to say is that anecdotal evidence from our members, who of course are already operating the scheme, is that they have struggled to cope with the increased number of applications with the extended discount they have had. That is partly to do with quite tight—

**Q31 Chair:** Just to be clear, for anyone watching: that is the extended discount under the existing scheme, not the housing association one.

**Terrie Alafat:** Under the existing scheme, for council tenants. That is partly to do with statutory deadlines and the amount of time they have to investigate. There are some really interesting points from the existing scheme that probably should be taken into account in designing the new scheme. David Orr has said to me that it is quite resource-intensive—the interviews and whatever—but the downside is that you have these sorts of dangers around increased fraud.

**Lord Kerslake:** The key thing for me is that it is one thing to do this during a pilot, but we have to develop it as a model that works at scale as well.

**Q32 David Mowat:** I am having some difficulty understanding this fraud point. If I were to lend someone the money to enable them to procure a property, which they couldn't otherwise have done because of income constraints or whatever, and part of that deal was that I would be reimbursed when the property is sold—effectively, I suppose, giving me access to the Right to Buy discount—is that fraud in the way you are talking about?

**Terrie Alafat:** No, can I just clarify? I was talking about fraud—real fraud, but there is a second—

**Q33 David Mowat:** So give me an example of how real fraud would manifest itself.

**Terrie Alafat:** If someone came forward and was giving information about themselves that was not correct, lying about their application and that kind of thing, that is fraud.

**Q34 David Mowat:** There is another thing I do not totally understand in Mr Orr's answer. Presumably, the title has to pass. There will be a land registry entry that will say who owns the property, and that person or persons will presumably be the same people who were the tenants, effectively. It has to be the tenants, doesn't it? Other people cannot be introduced to that. Am I right? That is part of the protection of this.

**David Orr:** I tell you what—we will provide you with a written description of how this works or ought to work. People can have an interest without necessarily owning the title. It is possible for me as a purchaser to do a deal with someone else which is secured against the title. We will provide you with a written explanation.

There is something that I think is really important here. The bottom line is that, ever since the right to buy was introduced, the fact of the discount has meant that there have been people

who are not themselves eligible for the discount who have tried to find ways of getting their hands on it and have used sharp practices to do so. That will continue.

**Q35 David Mowat:** I understand, but Lord Kerslake's evidence is that that is much more likely to happen now because of the size of the discount.

**Lord Kerslake:** That was precisely my point: the prize is bigger.

**Terrie Alafat:** I want to clarify this, because I think we are talking about two things here. One is fraudulent activity. The point I was making is that we should learn from what we've had so far and make certain that we have got proper assessments, the right information, the right amount of time and the right processes. The second issue, which is where we get into other people involved, is, are the discounts targeted in the way that we would like to see them targeted? Your point is really a very good one, because there are ways to tighten that up. You could do things like introducing mandatory affordability assessments, which give you a lot more information about that. I'm sure the Department is in contact with the mainstream lenders about trying to make certain that that is happening. If applicants are prevented from including a third party on the application, or indeed from adding names to property deeds, that could be another safeguard. There are two issues here, and that is an issue that could be at least minimised or resolved, but one would have to look at those kinds of options.

**David Mowat:** I'm not an expert in this, but I was slightly surprised that you are implying that the title can pass to somebody who was not on the original tenancy agreement. That just seems extraordinary.

**Chair:** Perhaps that is a question for our second panel.

**Q36 Karin Smyth:** The other side of that coin is the report that Mr Orr referred to from Sheffield Hallam, which identified the proportion of housing association tenants who can afford to buy their properties. For the record, across England it is 13%, and in the south-west and east of England—Mr Phillips will be interested in this—it is 11%. In the south-east, 6% can afford to buy, and in London it is 1%. The reality is that very few people have been identified who can afford to. If the policy is to be successful, money has to come from somewhere.

**Lord Kerslake:** That's right. It will be a proportion of tenants who can afford to buy, and a calculation has been done of that. The conjunction of the fact that people who are more financially able to buy are of a higher income, alongside the policy of a sale of council houses, which benefits social rented tenants, is one of the big issues of concern about this policy.

**Q37 Chair:** Can I ask whether you have done any analysis of the impact—Terrie Alafat, you touched on this in your evidence—of the loss of social rented housing? At the moment, current tenants are on a lower rent than the new 80% affordable rate that the Mayor of London and others have promoted. It is different from affordable home ownership. "Affordable" has got a very wide definition under the current Government. Have you looked at what will happen to those people who can't afford to live in my area, for instance, where the private rented sector is out of reach? Home ownership is out of reach not just in my borough but in most of London. London & Quadrant tell me that the average income of their tenants is £14,000 a year. Have you done any analysis of where

those people will go—not the current tenants, but the future tenants on that income—on a geographical basis?

**Terrie Alafat:** We have not done that analysis, but it is one of the big questions that we are looking at now. We are asking those kinds of questions. Home ownership at the highest levels was about 71%. Most developed countries have about 25% to 30% of people who can't afford to buy. Some of the changes that we are looking at now—not just right to buy, but the other changes—are going to affect quite significantly the tenure split, as well as affordability in different areas. It is a big question coming out of all this, in terms of looking forward, but we have not done that area-by-area analysis. Our UK housing review comes out next week, which is our analysis of the existing information and data that looks at shifts in the housing market. It may give us some indications about changes in affordability, for example, which touches partly on what you are asking.

**Q38 Chair:** Lord Kerslake, of the many hats you wear, are you aware of any analysis from any of your organisations?

**Lord Kerslake:** I have not seen any analysis. In the London Housing Commission report, which we recently published, we looked at the issue of affordability in London and accessibility to rented properties. It is very difficult indeed. The most likely outcome of a lot of it is overcrowding of private rented properties.

**David Orr:** It is not possible to do that modelling yet in respect of the voluntary right to buy, because the thing that will determine demand is the amount of money that Government make available to pay for the discount. We have at this stage no idea how much that is.

**Q39 Chair:** Just to be clear for housing association tenants who may be watching and interested in this, you are after the pilots. There are 600 properties that the Government will pay the discount for from central Government funds. After the pilots, you do not yet have any idea of the scale and it will depend on the rate of sale of council housing.

**David Orr:** That is correct. I am anxious about the slow decline of the availability of good quality social rented homes—genuinely affordable homes to rent—for people who are economically active, but cannot afford to have their housing needs met in the market. This is an issue of policy in other places much more than in relation to the Right to Buy. Every Government since 1974, of left and right, has invested at least some capital in the provision of new social rented homes. On the programme that was announced in the spending review, after the present programme finishes, the new programme, apart from some supported housing, is all to support the owner-occupation of one kind or another. So this will be the first Government since 1974 not to invest any capital in new supply of social rented homes, and I think that will have a more profound impact over time.

It means housing associations that wish to continue to deliver that core product are having to look at releasing some of the trapped assets in the stock that they already have for trading commercially, building for sale, making profit, and using that profit as the subsidy that used to come from Government to keep some kind of programme of social rented homes going. That is a very different business model. It has some possibility of success, but it does imply a very substantial change.

**Q40 Chair:** You talk about profound in relation to the future. In my constituency, in my surgery on Monday, there were two people who had in the past been able to rent in the private sector, but cannot afford to do that now, and there is no option for them at all. If the Committee will indulge me, Hackney's problems today are often the wider problems tomorrow, so I have big concerns for my constituency. Lord Kerslake, you look like you want to add a quick comment.

**Lord Kerslake:** The additional point I would make is that what most housing associations will do, including Peabody, is to shift the mix of tenure on what they build. We will typically build 40% for sale. We will increase that to 50% in order to make the schemes viable in the absence of grant, and because of the impact of the rent reduction.

**Terrie Alafat:** As David and I mentioned earlier, we have done some analysis looking forward on the loss of social rented housing based on right to buy—the current policy—and the proposed extension, the shift from social to affordable rent, and sales that happen anyway. By 2020 we think there will be a loss of about 300,000-odd socially rented homes across the country. That is just a very top-level analysis, but it does give you a sense of how much the tenure is actually changing over time. We need to understand better what the impact of that is, and of course in London it will have a particular impact because of the affordability issues.

**Q41 Stephen Phillips:** That was the answer I wanted. In your analysis last October, which you earlier described as robust, you said your best estimate was that Right to Buy discounts will cost £2 billion a year, and you equate that to a loss of 300,000 social housing homes. Is that right?

**Terrie Alafat:** Yes. We had an upper range of about 7,000 a year; the lower range was 3,000, and the £2 billion equated to the 7,000. But that was simply looking at one aspect. If there wasn't enough funding available to fund—remember—replacement on the right to buy, replacement on the council house, and also, of course, there was funding to go into the brownfield sites as well. We thought that there would be a shortage, basically; there would be a funding gap and that could be the loss of it. It was an estimate at the time.

The kinds of numbers we are talking about now are the cumulative totals of a number of different housing policies—just to let you know. And it was an estimate, obviously, but we're still concerned. Once we see in detail from Government how they will take forward the high-value sales, we will return to the analysis and we will see what it means, but it was based on the assumptions at the time in terms of what we knew.

**Q42 Stephen Phillips:** I have a final question on that. We are looking at this very early in the lifetime of the policy, which is unusual for this Committee, but where are those homes going to be lost from? Will they all be lost from the south-east of England?

**Terrie Alafat:** Our analysis didn't allow us that granularity, so I would not want to jump to that conclusion, but obviously there are going to be differential impacts.

**David Orr:** The place where there will be the biggest number of sales is in low-value markets where the purchase price is low and where the discount will mean that in some places people will be able to buy a home for £20,000, £25,000 or £30,000. The early evidence from the pilot is that the biggest number of actual applications has come from the north, where the prices are low, rather than the south, where the prices are much higher.

**Q43 Stephen Phillips:** Take an area such as Lincolnshire, where my constituency is and which is economically very strong and significant numbers of people even commute to London daily. We may end up losing quite a lot of social housing stock because of the implementation of this policy, as we will end up having to sell.

**David Orr:** There is likely to be a reduction in social housing stock because of the impact of a whole range of policies. Disaggregating exactly which bit is responsible for what is much more difficult to do. One of the things that this arrangement, the voluntary Right to Buy, does is to create at least the possibility—I can't guarantee how it will play out—that housing associations will be able to re-provision with social rented homes. That's not all we will do, but that is one of the products that will be produced as a result.

**Q44 Stephen Phillips:** And yet the funding will have to come from the sale of the higher value homes, which are largely not going to be in these areas. That was the point that I think you began on, with the geographical—the way in which this is going to—I can't remember your words.

**David Orr:** It does not play consistently across the country.

**Lord Kerslake:** Not in the areas where the sales happen—that's the point.

**Q45 Chair:** I have two last questions. First, if you have looked at the National Audit Office's work on this, you will know that it is concerned—as are we—about the impact assessments, or lack of them, on the proposals before the House of Lords at the moment. Do you think that has affected, or will affect, the implementation of the policy, or have you got any hope that this will resolve itself before full implementation beyond the pilots?

**David Orr:** I don't think it has affected the implementation of the policy, because the implementation is based on the offer we made that was accepted by Government and that is now being tested by the pilots. And I think it's worth saying that the five housing associations involved and colleagues in DCLG have been working very hard indeed to ensure that these pilots are real, genuine pilots. There has been a very strong sense of the importance of getting this right and that has been a shared endeavour between the associations and colleagues in Government.

**Lord Kerslake:** It has impacted on the ability of Parliament to scrutinise properly the proposals as the legislation goes through Parliament—there is no doubt about that. As David rightly says, we have much more of a sense of how this will work for housing associations than we do in terms of how it will work for local authorities.

**Terrie Alafat:** I agree with that, actually. I think that's the issue.

**Q46 Chair:** My final question is about the impact on housing benefit, because we raised issues earlier about where some of these properties go when they are sold. If you look around Islington and Hackney, a lot of the right-to-buy properties have now become private rented properties. I know London best, but I know elsewhere too. That can only mean private rents; housing benefit can help to pay for those. Terrie Alafat, I guess I am looking at you—has the



Chartered Institute of Housing done any assessment of the impact of this policy proposal on the housing benefit bill?

**Terrie Alafat:** We haven't, but I looked again at the piece of research that was done by Sheffield University for the Select Committee, where they did a literature review and looked at the possible impact. Actually, that concludes that that is one of the significant issues. You can look at specific areas in London, and we all know from the research that a fair number of these properties end up in the private rented sector at higher housing benefit, which is what they've concluded. We haven't done a more extensive study, but there is a certain amount of evidence that that is the case.

**Q47 Chair:** Do you know if you will be looking further at that element of it?

**Terrie Alafat:** We have not planned that in particular, but I have someone who focuses on welfare issues, so we are always looking at the sort of impact on welfare.

**Chair:** We will keep an eye out for that. I thank you all very much for your evidence, which is very helpful. We are now going to move to our second panel. I ask the Department for Communities and Local Government to come forward.

### Examination of Witnesses

*Witnesses:* Melanie Dawes, Permanent Secretary, Department for Communities and Local Government, and Peter Schofield, Director General, Housing and Planning, DCLG, gave evidence.

**Q48 Chair:** While we are getting settled, a reminder that our hashtag today is #righttobuy. We are here to look at the Government's policy of extending Right to Buy to housing association tenants, which is currently going through the House of Lords.

I am pleased to welcome Melanie Dawes, the Permanent Secretary of the Department for Communities and Local Government, and Peter Schofield, who is director general for housing and planning at the Department for Communities and Local Government.

Melanie Dawes, we know and appreciate that you are in an interesting position here. The Committee is keen to do pre-scrutiny, as you know, to ensure that we safeguard taxpayers' money as the policy is developed. We appreciate, though, that there may be some constraints on what you can tell us, because you will still be advising Ministers on certain things. We appreciate your constitutional position, but we are hoping for as much transparency as possible. The aim, which I hope you share, is to make sure that a good, workable policy comes out that, whatever our views of the policy, is actually delivering as much value for money for taxpayers as possible.

First, as accounting officer for this policy and its implementation, how do you see it fitting in with wider Government policy on housing? Your Department is responsible for delivering housing policy overall.

**Melanie Dawes:** Thank you very much for your statement recognising the position that Peter and I are in today. We will endeavour to answer your questions as fully as we can. We want to be transparent with you but, as you say, there are some constraints on us.

How do these two policies fit more widely into the Government's overall policy for housing? Well, we published our single departmental plan, along with other Departments, a little while ago. We have two high-level objectives on housing: one is to increase the supply of housing, with an ambition for 1 million homes; the second is to increase home ownership. The Right to Buy for housing association tenants fits into both those objectives, as does the sale of high-value assets, because with one-for-one replacement in particular, both policies are intended to increase the overall stock of housing, and of course the Right to Buy has a direct impact on home ownership. At the very broadest level, both policies fit in with the Government's big strategic objectives.

**Q49 Chair:** We heard earlier about the tension between one-for-one replacement and like-for-like replacement, and the danger with one-for-one is that we will lose certain sizes of properties at social rent levels. How does that fit with Government policy to make sure that there is a degree of affordable housing—we may disagree about the levels—available for people on low incomes who will never be able to buy their own home?

**Melanie Dawes:** As you say, it is not like-for-like but one-for-one overall. We will probably want to come on to London, where we are looking for a higher degree of replacement from the high-value asset sales; we are working with the London boroughs and the GLA towards that. In the end,

what Ministers have been trying to do is to ensure that there is some flexibility for housing associations and local authorities to make sure that they are able to reflect local housing need and that they are not too constrained in having to sell or replace to too rigid a national prescription. We are balancing the need for flexibility, partly as a way to ensure implementation of one-for-one replacements.

**Q50 Chair:** So to be clear: there will be different models in different regions of the country. Will that be by negotiation? How are you going to work that?

**Melanie Dawes:** We are still working through some of that, but let me talk a little more about the flexibility. For local authorities the Government has said—and actually this has been welcomed by local government—that we will almost certainly adopt a formula approach rather than requiring particular homes to be sold, so that local government can then make sure that they are not selling, for example, properties where there is a very specific housing need that they need to cater for in their area.

**Q51 Chair:** So the totals will just be the cash sum from sales.

**Melanie Dawes:** Yes. That is the sort of flexibility that we are considering. Obviously the details of how all that will work, and also things like exemptions for certain types of property and the portable discount for housing associations is designed to give housing associations flexibility where they think they need it, on the kinds of properties they sell.

**Q52 Chair:** We are going to come on to some of those specific properties in a moment. On the issue around the cash sum that local authorities will be having to pay out of their housing revenue account, will that be expected at a particular point in the financial year, or will it be expected to be received after sale of those properties?

**Melanie Dawes:** Well that is something that we are working through at the moment. We are going to need to go through all that detail with local government.

**Q53 Chair:** So the simple answer is you don't know at this point.

**Melanie Dawes:** We don't have a settled decision on the profiling at this stage.

**Q54 Chair:** Okay—well “okay” is perhaps not the right word, but you know what I mean. In terms of targeting, you talked about possible differential approaches in different regions, I will bring in Karin Smyth in a moment, but there are some areas—you mentioned London—where if some of these high-value properties are sold and not replaced like for like, there will be swathes of people who cannot afford to rent privately and cannot afford to buy, and there will be fewer social housing properties offered for social rent available. Have you done an impact assessment of the impact in certain parts particularly of London and the south-east, where this is going to be an issue?

**Melanie Dawes:** We have certainly worked very closely with the London boroughs.

**Q55 Chair:** So have you done an impact assessment?

**Melanie Dawes:** We have looked at a lot of the numbers with them. Our impact assessment, all our value-for-money analysis on the high-value asset sales, is a continuing process as we get more information, and as our Ministers make decisions along the way; so this is a continuous process of constant evaluation. Peter may want to say more about this, but as you can imagine we had a very strong representation from London last summer that they wanted to work with us to manage the impact of the high-value asset sales policy.

It is already the case in London that some boroughs find it hard to replace after the Right to Buy, or indeed to build in accordance with the affordable housing programme. It is a variable picture, of course, reflecting the variance in land values across the city. There has been a lot of interest from the boroughs in how they can work together and how they can work together with the GLA; and we have been working alongside them.

**Q56 Chair:** I am just bit concerned. The Bill is going through the Lords and legislation is being enacted, but what you are saying to me is you don't know the full impact. I picked on London, because I have got a particular interest there, as have many others, and it is going to be a big issue. You don't actually know the full impact on London.

**Peter Schofield:** It is not fair to say we don't know the full impact.

**Q57 Chair:** Okay, share it with us. Tell us, if you can.

**Peter Schofield:** Exactly as the Report from the NAO sets out, this is a continuous process. We have been going through a process of engagement, of data collection; in fact we have got about 16 million different pieces of data that we have collected over the quarter.

**Q58 Chair:** What is it telling you?

**Peter Schofield:** It is telling us where the valuable assets are; it is telling us about the rate of churn.

**Q59 Stephen Phillips:** What do you mean by "rate of churn"?

**Peter Schofield:** What I am talking about here is the frequency with which those properties become vacant. Alongside that, we are obviously also doing our ongoing evaluation on the rate of replacement of Right to Buy from the old scheme, and some of the implications in different parts of the country. So we are pulling it together. It comes together in advice that we put to Ministers. We are not at the moment at the point where we can talk about exactly what it is telling us.

**Q60 Chair:** It is just interesting that we have got a Bill about to become law—subject to their Lordships' scrutiny of it, of course—and yet there is not a full impact assessment. That suggests to

me that there is a lot of room for discussion, manoeuvring and local negotiation about how or whether this policy is implemented exactly in a uniform form across the country.

**Peter Schofield:** I think the key point about the legislation is it sets an enabling power; then the precise nature of the formula will be set out in secondary legislation, following Royal Assent. In terms of the nature of parliamentary scrutiny, it is important to see it in the context of the steps with which this is being introduced.

**Q61 Chair:** I know you have to say that. I will hand over to Karin Smyth in a moment, but my final question, for now, is about housing benefit. You heard from the previous set of witnesses, and we have had evidence on this from elsewhere, about concerns that the housing benefit bill will simply go up. Ms Dawes, you highlighted the fact that there are already areas—London boroughs in particular—that are finding it hard to house people who qualify for social housing but for whom there is no social home. As you know, they are very often being housed in temporary accommodation in the private sector, at huge expense to the taxpayer through housing benefit, because there is no option. Is not the danger that if the wrong number of properties in high-value areas are sold, the individuals who would move into those larger high-value homes will end up in the private sector? Sometimes there are even people in the same property in the private sector. That will raise the housing benefit bill. Have you done a full analysis of the impact?

**Melanie Dawes:** The answer is yes, we do look at the housing benefit impacts of these policies.

**Q62 Chair:** You do, but have you done it for this policy?

**Melanie Dawes:** Yes, we have done it. We did it for the 2012 changes to the scheme, with the extension of the Right to Buy, and we are factoring that in now, in accordance with the Green Book. That is one of the things we take into account. Can I clarify something? I said earlier that some London boroughs find it hard to build replacement homes—that was the point I was making.

**Chair:** Okay, well, I would put it to you that some find it hard to find any home. I had someone at my surgery who has a two-year-old and is pregnant, and she and her husband are currently living in a hostel and paying £245 a week, with the support of housing benefit. It is very difficult for them to try to work with that environment. I think they are working a bit, but it is difficult. If they are lucky, they will get into private sector accommodation—that is probably their best option—at an even higher rent than the £245 a week, and it will be housing benefit footing that bill. That is not uncommon for those of us who are London MPs. I am sure it is true for other Members as well, but I plead the London point for a moment.

**Q63 Karin Smyth:** I have tried to map the process that underpins how this works. I wonder whether you can help me to understand how it works from your perspective. The first thing is that a high-value asset is identified. Who identifies it?

**Peter Schofield:** I will describe the process. Obviously the Bill is still going through Parliament—

**Q64 Karin Smyth:** Who identifies the high-value asset? I want to understand the first bit of the process.

**Peter Schofield:** I feel I need to start by setting out the legislative framework we are working within, because I think that explains it.

**Q65 Karin Smyth:** What I mean is, is it identified in Whitehall or locally?

**Peter Schofield:** What happens is that there will be a determination set by Government around a formula, which will then identify how much is anticipated in net receipts from each stock-holding authority. That will be based on information that has been provided by the local authority about the value of its properties and the rate at which they become vacant. It is then up to the local authority to decide how it meets that net receipt determination. Obviously it can do that by way of—

**Q66 Karin Smyth:** That's not my question, is it? We have talked about London where there is lots of expensive property, but property is also very expensive in Bristol and there is great demand in the housing market. I might have a view about what is a high-value asset. Will that be determined in Bristol or in Whitehall?

**Peter Schofield:** There will be a process in which we set a formula—

**Q67 Karin Smyth:** Okay, in Whitehall.

**Peter Schofield:** Well, it will be based on information provided by every local authority that is a stock-holding authority.

**Q68 Karin Smyth:** But that final decision will be determined in Whitehall.

**Peter Schofield:** There will be secondary legislation determined in Parliament to set out the nature of the formula. That will then set a determination, so Bristol will be told that there is a net receipt that's required—

**Q69 Karin Smyth:** That's very helpful: Bristol will be told what the value is. Thank you. So each different part of the country will identify different levels of high-value assets.

**Melanie Dawes:** That's not quite correct. We have asked all local authorities to give us details of the stock that they hold now—the housing that they have—and to band that and tell us what those values are. We have taken in that information in the past few months and we are now working that through. On the back of that, the Government will decide the formula by which they expect to ask local government to provide receipts to us. That will be subject to consultation. We are legally bound to do that. Once we have agreed those formulae, local authorities will decide which assets they wish to sell.

**Q70 Stephen Phillips:** So there will be a formula. Presumably you are designing it by reference to the information that you have had from local authorities.

**Melanie Dawes:** Yes.

**Q71 Stephen Phillips:** So the definition of a high-value asset will be in accordance with the formula, but will vary from local authority area to local authority area because you will take into account, for example, rurality and average house price—a number of different things will feed into the formula. Is that right, Ms Dawes?

**Melanie Dawes:** Yes, but I should say that all these details have yet to be determined. We do not yet have a final—

**Q72 Stephen Phillips:** The concern for the Committee and certainly for this individual member of the Committee is that Whitehall's ability to construct these formulae—we can look, for example, at the police funding formula—is worse than notoriously bad. How will you ensure that you get it right?

**Melanie Dawes:** This is one reason why we have invested in the data collection. It has been a big exercise and has taken a number of months, but that is why we thought it was extremely important that we did it. I think that was the responsible thing to do. We have engaged very actively with local government during that period as well. We have been talking to well over 100 local authorities. This policy applies to all stock-owning authorities. We have had direct contact with almost all of them and also with the LGA and other local government representing bodies, and we are having very detailed discussions about how this should work. It will be subject to consultation as well.

**Q73 Stephen Phillips:** Two years down the line, I will be able to look at the formula and say, "Right, a high-value asset in the North Kesteven local authority area is a local authority home that is worth more than £200,000. A high-value asset in Hackney or Bristol is one that is worth more than £400,000." Is that right?

**Melanie Dawes:** That depends on how we set the formula.

**Q74 Karin Smyth:** I think the point has been made. Do you have any idea of how many of these high-value assets, once they are determined, there will be in the country? You don't, because of the formula.

**Melanie Dawes:** We do not have final decisions on the costings—

**Q75 Karin Smyth:** So we do not know how many there will be. Can you explain the levy that is then paid by the local authorities?



**Melanie Dawes:** Once we have worked out what we think the appropriate contribution is from each authority, we will set that out in a determination, on which we will consult, and then that will be the amount that each local authority is required to pay us. As I said, the timings of that have yet to be determined; the amounts have yet to be determined; and the formula has yet to be determined. But those are the details we are working through at the moment.

**Q76 Karin Smyth:** Up to 30% of the value of the asset can be held by the local authority, so that money would stay in Bristol, plus the future income stream, plus the cost of any land, and it would then build another property in Bristol. Is that right? Is that the process?

**Peter Schofield:** It is not quite that. The 30% relates to the existing regime. If we apply the same approach, it is 30% of the replacement cost of the new home. It is not 30% of the receipt from the home that is sold; it is 30% of the replacement cost. Then the remainder is funded by borrowing by the council against the income stream that comes from the rent going forward. That is how, together, you fund the cost of the replacement, and it is set with reference to the same structure that we use for homes built by housing associations, where under the affordable rent model we pay a grant component and then—

**Q77 Karin Smyth:** I own these assets in Bristol, because I am a Bristol council tax payer, and I am just trying to establish how much of my Bristol council tax paid-for asset starts to go across the system. So 70% goes to housing associations. The 30%—

**Peter Schofield:** No, sorry, this goes back to my point—

**Karin Smyth:** That 70% goes to housing associations.

**Peter Schofield:** No, no, no. This goes back to my point that the 30% does not relate to the value of the proceeds; it relates to the cost. It is 30% of the cost of a replacement home. Once the council have sold their high-value asset home, they will have to, first, pay down the debt that is associated with that. They will then need to look at how the formula works in terms of the cost of transactions, but there will then be a remaining amount. If we follow the scheme that we currently have for right to buy, the local authority will be able to use up to 30%—the amount that is equivalent to 30% of the cost of the replacement of the home. The remainder would come back to Government to fund the right to buy discounts.

**Q78 Karin Smyth:** That sounds like a lot of cost to a local authority. Do you consider this to be a new burden on local authorities?

**Peter Schofield:** We are taking account of the cost to local authorities in the impact assessment, and we are looking at this in the context of the way we set the formula. It is one of the things that has come out of our engagement with local authorities, thinking particularly about the transaction costs associated with doing the sales. So that is one of the things that we are considering how we factor in. But the 30%, as I say, is what is retained. That is 30% of the value of the cost of replacing—

**Q79 Karin Smyth:** Local government has an asset that it could do something with. It will be charged a levy on that asset—that is already a cost to the local authority if it holds on to the asset. If it sells the asset, it retains up to 30% to do as you described in the formula. It then has another transaction cost in terms of producing the like for like, hasn't it? These are new burdens on local authorities, by definition, aren't they? There is a lot of cost to local authorities in this process.

**Peter Schofield:** No. Let me talk through one way of how this could work. As I say, the final formula has not been set out, but I will try to provide a bit of clarity.

The local authority raises the funds from selling its high-value asset. It then deducts the value of the debt associated with the home. It then deducts the transaction cost that it has incurred in selling the asset. It retains an amount equivalent to 30% of the cost of building a replacement home. It is not 30% of the receipts. You think about what the cost of replacing the home would be, then you take 30% of that. The remainder is what then would return to Government in the form of a payment that would cover the cost of right-to-buy discounts.

**Q80 Karin Smyth:** Why was the figure of 30% settled on?

**Peter Schofield:** None of this has been settled. The 30% relates the scheme that we currently have for Right to Buy for council housing. The 30% ensures value for money for this route for providing new affordable homes, compared with the affordable rent programme, which we deliver through housing associations. So under both schemes the landlord, whether it be the council replacing council homes or the housing association building a new affordable rent home, receives a certain amount of equity in the form of grant in the case of housing association homes, or retained receipts for replacement of Right to Buy under the 2012 scheme. The remainder gets borrowed. If we allowed local authorities to retain more than 30%, then effectively we would be spending more on replacing affordable housing through councils than we do currently through housing associations.

**Q81 Chair:** Can we be clear about definitions? You talk about replacing affordable housing; actually, if a social rented council home or, under the new scheme, a housing association home that is sold, under the new model of what affordable is, it is replaced not with something at a similar rent, but with something that is at a higher rate. We just need to be clear about that—it is a factual point that I want to clarify.

**Peter Schofield:** Yes. Normally it is at affordable rent level—

**Q82 Chair:** So it is not replacing. You used the word “replacing”. We’re not picking on individual words, but we need to be really clear that social housing rents and affordable rents are now defined differently, so something sold that has a social housing rent is not replaced—affordable is not replaced with affordable; it is a different type of affordable, which is actually higher rent, isn't it? Just to be clear.

**Peter Schofield:** It is up to 80%. Some new homes that have been built are at a lower percentage than that. Indeed, as the NAO Report sets out, I think this Committee has looked at the affordable homes programme in the past and taken a view in terms of its value for money.

**Q83 Stephen Phillips:** I did not understand something you said, Mr Schofield. You said that when the high-value asset is sold, the local authority deducts the transaction cost, which I understand. Then you said that it deducts the debt that is associated with the property—that is what I understood you to say. What is that a reference to?

**Peter Schofield:** What I was talking about then is that new housing built by councils or by housing associations—

**Stephen Phillips:** Might have a loan or something associated with it.

**Peter Schofield:** —would have a loan attached to it covered in the housing revenue account.

**Q84 Stephen Phillips:** May I ask about the levy? If the local authority does not or cannot sell the high-value assets in order to fund the levy, do they have to borrow the money to pay the levy to central Government? How does that work?

**Peter Schofield:** These details are to be set out, but the point about—

**Q85 Stephen Phillips:** I understand that, and I know we are at a very early stage, but what happens in a very illiquid market, for example, if the local authority cannot sell the high-value stock in order to fund the levy to central Government?

**Melanie Dawes:** Those are all the sorts of thing we are taking into account now in conversation with local government about what kind of margins we might need around timings and so on.

Can I just clarify the earlier point about new burdens? As Peter said, it is our intent that local authorities will be able to keep an amount of money to cover their extra administration costs for this policy. If that were not the case, it would be a new burden. It is essentially the same thing, but our intent is to cover that cost. We have also specifically identified a new burden from the extra data that we have asked them to collect over the last few months, so we are alive to the new burden issues with this policy, as you would expect.

**Chair:** I am sure they will be reassured.

**Q86 Karin Smyth:** You are almost acting as a broker in this movement of money between the local authorities and the asset and the transfer to housing associations, so presumably there is a fair degree of cost that you are holding as well. How is that being accounted for?

**Melanie Dawes:** We will be managing the flows of money from local government and then out again to housing associations. I should be clear that this is two sets of policies, each of which we are evaluating on value-for-money grounds, but they are connected through the financing. We are discussing with the Treasury how to manage that; there are a number of different options. I wouldn't describe us as a broker, to be honest, but in the way that we do on many policies, we are operating as a financing system, if you like.

**Q87 Karin Smyth:** Okay. How much do you think that would cost you as a Department?

**Melanie Dawes:** For us, it is a question of our own departmental administration costs. It is our job—my job as permanent secretary—to make sure we can deliver the policies the Government asks us to deliver, and we factor in administration costs for us and for the Homes and Communities Agency. They will probably offer a prospectus and explain how it works, in a similar way to how we run the affordable housing programme. We have those mechanisms already in place.

**Q88 Karin Smyth:** The point that we are concerned about is that this is a very complicated process. There is a lot we do not know anything about yet, as you said. There is potential for lots of things to go wrong in different parts of the country, and we will be very keen to keep an eye on that.

Can we move on to the impact assessments? To start on a positive note, paragraph 3.13 of the NAO Report commends the Department's impact assessments of the original policy, so that is good, but there are obviously some concerns about the impact assessment of this. Do you want to comment on their conclusions? In paragraph 3.17, they have concerns about the impact assessment process.

**Melanie Dawes:** We are grateful for the NAO's engagement on this, and they worked with us quickly to pull together their memorandum. There are three considerations for us when thinking about impact assessments.

The first consideration for me as accounting officer is to make sure that, as we make decisions on these policies, Ministers have access to all the economic and value for money analysis that they need to do so. That is my responsibility, and I am comfortable that we have delivered on that. The NAO recognised the weight of evidence that we have brought to bear over the last few months. At the moment, this is not published information, and the NAO did not feel able to look at it, for reasons I fully understand, because it is still policy under development. We talked through the process we followed, and we have used Green Book analysis. We have drawn on the experience of the 2012 impact assessment, which I think was a good document.

That is the first consideration. The second consideration for us was whether we needed to do a regulatory policy impact assessment, in line with the guidance from the Regulatory Policy Committee. We were advised by them, and we concluded that we did not need to do an analysis or a formal impact assessment of that type, because there are no impacts on the private sector here, and in the case of housing associations it is a voluntary deal. We did consider that; we are regulated by them to make sure we do not ever miss a trick by missing an analysis that we should do.

That was our second consideration. The third was the impact assessment for the Bill, and what to publish alongside the Bill. There we were in an early stage of policy development; this is a big priority for the Government. It is a key manifesto commitment. Ministers were keen to ensure that the Right to Buy is available as early as it can be. As we have already explained, we have published an outline impact assessment, which is not uncommon for Bills of this nature. In fact, the Enterprise Bill has quite a similar overall impact assessment to our own Bill and the clauses that we are talking about today.

Obviously, we recognise that not all the detail is available now. As the secondary legislation comes through on high-value assets, as we publish more details of the voluntary deal with housing associations, and as the evaluation of the pilots with housing associations becomes available, more detail will be made public. For us, there are three different considerations, which is why, although I absolutely agree with the NAO in terms of what we should see from value for money assessments, I do not think they have applied it, in all fairness, to the right document in looking at the impact assessment for the Bill. It was not ever intended—we do not feel it was possible at that stage, actually—to produce that level of detail.

**Chair:** You say it is not unusual. I think Bob Kerslake agreed in his evidence that it is not desirable for Parliament to make decisions on legislation without this information. As you mentioned the NAO, it might be worth bringing in Aileen Murphie from the NAO on the issue of the impact assessment.

**Aileen Murphie:** We have reviewed the impact assessment that was published in the public domain alongside the Bill, using the tried and tested methodology that we have used before. Because it does not contain much detail, our assessment is that it is weak. There is a lot of other work ongoing, but that was incomplete and not brought together in one space, so it was not possible to evaluate it at this point. As we have said in various places, so many things are yet to be determined. We analysed what we could that was in the public domain and had been presented to Parliament.

**Q89 Karin Smyth:** I have the Cabinet Office’s “Guide to Making Legislation”, which details this. Its requirement is that the impact assessment is for something that affects “private sector, civil society organisations or public services.” In comment No. 2, Ms Dawes, you mentioned the regulatory body—is that same as the Cabinet Office? Forgive me for not being clear on that.

**Melanie Dawes:** No, it is different. The regulatory policy impact assessments are different.

**Q90 Karin Smyth:** You said that they talked about civil society organisations and the private sector. You did not mention public services. My concern is local government organisations. Can you pick up on that, and then perhaps Aileen can come in?

**Melanie Dawes:** The Cabinet Office guidance is essentially designed for a Bill where all of the detail has already been determined. That is a slightly different set of circumstances from the one in which we found ourselves. It is often the case for other Bills—it is a high priority for the Government, and the legislation is being brought forward as consultation. The policy development then continues on the details in time for secondary legislation when it comes later. We discussed what our approach should be with the Cabinet Office—the authors of this guidance. They were clear and remain clear that our obligation would have been, were we covered by this, to have provided a regulatory policy impact assessment had there been an impact on the private sector, which there was not in this case.

**Karin Smyth:** We are talking about the public sector.

**Melanie Dawes:** Yes. That was the requirement on us. We are clear that we have fulfilled the requirements. Of course, it is important that we acknowledge that we need to bring forward more information in due course. That will happen during the course—

**Q91 Stephen Phillips:** What does “in due course” mean?

**Melanie Dawes:** Well, following Royal Assent, there will be secondary legislation on the high-value assets clauses. We will bring forward a determination for local government funding, which we will be required—

**Q92 Stephen Phillips:** It is deeply unsatisfactory, Ms Dawes, isn't it? The Cabinet Office tells you and every other Government Department that when you lay legislation before Parliament, you should publish an impact assessment. Yes, I appreciate that this is a high priority for the Government, but you are essentially treating all the parliamentarians around this table with contempt, because you are putting in place primary legislation that does not contain the detail that we need to know in order to form a view when we vote individually on the legislation. Then you are saying, “Don't worry, because there will be an impact assessment when we lay the secondary legislation before Parliament.”

Now, you know as well as I do that the opportunity for Parliament to debate secondary legislation, certainly in the House of Commons, is extremely limited—still less the ability to actually change or scrutinise it. You, as a Department, are asking us to take something on faith—namely, that it's going to work—without actually laying a proper impact assessment before us.

**Melanie Dawes:** I must come back and say that neither I nor my Ministers would in any way intend to treat Parliament with anything other than respect. I just want to say that on the record.

**Q93 Stephen Phillips:** Why not do the work first and then bring the legislation forward, then?

**Melanie Dawes:** Well, this was a manifesto commitment, and it's a high priority for the Government. The decision that was taken was to introduce this legislation. I believe that we've done all the value for money analysis that we needed to have done, and we are doing our best to get all the information we need to make sure the decisions are soundly based.

**Q94 Stephen Phillips:** Fine, so you must have done that value for money assessment to be able to advise Ministers and not to have to ask for a ministerial direction. You've advised them that this is fine and that the value for money impact assessment isn't going to change anything, but nothing's been laid before Parliament to enable me, Mr Mills, Mr Mowat, Ms Hillier or Ms Smyth to form the same view.

**Melanie Dawes:** We have done, in particular, a business case assessment for the pilots, which David Orr talked about earlier, for which we receive money from the Treasury in the spending review. On other areas, the analysis is still ongoing as the policy is in development. A lot of these decisions have not yet been taken.

**Q95 Stephen Phillips:** So you're doing it on the hoof, are you?

**Melanie Dawes:** No, we're doing it as one does policy well, which is to develop it in consultation and discussion with the people who are going to be affected, and with data. We are investing in data as we go along. If we had made decisions six months ago without that information, that wouldn't have been a sensible approach. We're actually trying to do this in the right way, and we will reveal the information as decisions are made. They haven't been made in every area yet.

**Q96 Karin Smyth:** That would be very helpful. Paragraph 3.23 looks at the various groups that are to be affected by the impact assessment. We heard in previous evidence that there were perhaps better ways of doing this policy.

**Chair:** Different ways.

**Karin Smyth:** Actually, the phrasing was "better done through other ways". That is why we are very interested in this. We have only one option before us, and we want to make sure it's right. I think it would be very helpful if you could briefly take us through those groups. Is there anything else that you wanted to highlight, in terms of how they might be affected or what we might want to pick up, from the housing associations through to the Government?

**Melanie Dawes:** I don't have a lot to add to the points that the NAO made. We can literally go through them one by one—

**Q97 Karin Smyth:** So you agree with the assessments that they made?

**Melanie Dawes:** These are the groups that are likely to have an impact on them, but the details of that will depend on how we do this. As our own impact assessment for the Bill said, we are looking at things like properties that may be exempted.

**Q98 Chair:** So can I just be clear about this? If you are looking at exempting properties, that suggests that you are doing an equality impact assessment as well. The bit that's missing from this list is the people who are not yet tenants, but are future potential tenants—the woman who came to my surgery on Monday, for example. Have you done an equality impact assessment?

**Melanie Dawes:** We have, yes. We have those, and they are available should anybody wish to see them. That's how the process works. We said in paragraph 4.2.6 of our high-value assets impact assessment of the Bill that, "The policy could impact on prospective new council tenants, or tenants wishing to transfer to a new council home—however, encouraging the building of more homes which reflect housing need and increasing overall housing supply is at the heart of this proposal." We set out a few other issues there around the flexibilities for local authorities. We have identified that as one of the areas of impact, but the precise impact and the numerical cost-benefit analysis that will start to flow from that, in terms of the final value for money assessment, will depend on decisions that haven't yet been taken, although they are under consideration.

**Q99 Karin Smyth:** Okay. So that list identifies that there is a bit of time lag. Obviously, this a very quick-moving feast. Is there anything in those groups that you are worried about and would like to share with us now, in addition to that list?



**Peter Schofield:** I was going to refer back to David Orr's earlier evidence on the five pilots. The evidence that we are bringing out from that and the evaluation that he described quite well is going to inform the way that we develop our value for money assessment. That will cover some of the points down here, won't it, such as the implications for housing associations and housing association tenants? There is some interesting information that will come out of that on the ease of application, the likely drop-out rate and the likely take-up rate. Some quite interesting things will come out of that, and we will reflect on that. As David said earlier, that is ongoing.

**Q100 Karin Smyth:** I wasn't quite clear—when will we know that?

**Peter Schofield:** Well, it's ongoing. I thought David set that out quite well in his evidence earlier. It is happening in real time. The five housing associations that are taking part in the pilots along with the National Housing Federation, which David represents, have commissioned an evaluation, and we are working very closely with them to understand that. For example, we started the scheme and tenants had the ability to register in those various areas under the five housing associations from the time of the autumn statement. Then, on 25 January, they were able to start putting applications in. We are getting evidence on the rate of take-up, and that affects, for example, our thinking about the cost of Right to Buy discounts going forward.

**Q101 Stephen Phillips:** Have you looked at the intergenerational impacts of the policy? That was something that I and many others were concerned about long before *The Guardian* got on its high horse yesterday. How does it affect, for example, the group of millennials under the age of 30 who find it almost impossible to get access to housing?

**Melanie Dawes:** Well, with the sort of impact assessment we do, when it comes to the value for money analysis we look at the overall impact on housing supply, and both the policies will increase housing supply.

**Q102 Stephen Phillips:** The answer to my question is that you do not look at the intergenerational aspects of the policy or value for money in that context.

**Melanie Dawes:** I am not at this moment quite sure how far the Green Book requires us to do that, if I am honest. We can look into that and come back to you and let you know what our appraisal guidance tells you.

**Q103 Stephen Phillips:** If you can write to us, Ms Dawes, both about what the requirement is and about any work that has been done in that area—

**Melanie Dawes:** But what I can say is that both these policies—the high-value assets and Right to Buy—have at their heart the building of additional homes to replace those that are sold, and that therefore has an impact on the overall housing market that is positive.



**Q104 Stephen Phillips:** I accept that it may have a positive impact for those under 30 who find it difficult to access affordable housing, but I would like to know that that is something that the Department has considered, if it has to.

**Melanie Dawes:** We have certainly done the analysis that we are required to in accordance with the Treasury Green Book, which is being revised right now, in fact, and is due to be republished quite soon. So we have done a pretty comprehensive analysis in line with that. I cannot tell you right now how far those sort of age distribution issues—

**Chair:** I think Mr Phillips' point is well made and reflects the views of a number of us around this table.

**Q105 Karin Smyth:** You have just highlighted what was going to be my final point, which is that in order for the policy to work and to contribute to new homes, the housing association tenant must be able to buy and the local authority must be able to sell a high-value property. We have established that we do not yet know what that high-value property is or how many of them there are, or where they are in the country.

I want to focus on the first part of that equation, which we talked about in the earlier session, namely housing association tenants' ability to buy. I would be interested in your view. The figures are from the Sheffield Hallam report. The percentage of housing association tenants who can afford to buy under the scheme is 13% across England, 1% in London, 6% in the south-east, 11% in the east of England and the south-west and 24% in the midlands and the north. Can we have your thoughts on that, please?

**Melanie Dawes:** Well, that is obviously interesting research. I have not read it myself, but one of the things that we are going to be looking at through the pilot is precisely what kind of interest there is. David Orr was telling us earlier that he thinks that there will be a lot of interest in lower-value, lower house price areas, so we will be exploring that. It remains to be seen, however. Once we get a feel for the demand, that will help us and housing associations to work through some of the details of what the offer should be.

**Q106 Stephen Phillips:** Ms Dawes, you are advising Ministers on this. You need to read this.

**Melanie Dawes:** I have not myself read that particular piece of analysis, but I am very confident that the experts in my Department have.

**Q107 Stephen Phillips:** Let me say it again: Ms Dawes, you are advising Ministers on this and it is an area of developing policy. This is an important piece of work and you need to read it.

**Melanie Dawes:** Okay, I will read it.

**Q108 Chair:** But, Ms Dawes, the wider point Mr Phillips is making is that if the policy is developed, given the cost of developing the legislation, going through all the analysis you are doing in the Department and the discounts, if in the end only 1% of people in London and 6% of people in

the south-east can buy a property, it may be that it is not very good value for money. So I think Mr Phillips's point is well made. Somebody in your Department should be doing that full analysis. If you are not going to sell many properties through this to meet the Government's stated objective of increasing home ownership, it is going to be problematic.

**Melanie Dawes:** We are doing that analysis.

**Q109 Karin Smyth:** The first part of my statement applies. The policy is dependent on being able to sell a high-value property and on housing association tenants being able to afford to buy. Otherwise, the policy simply cannot work. That is why we are so concerned about the impact assessment and those statistics. That is a crucial part of this hearing.

**Peter Schofield:** And that is another reason why we have been doing the pilots. I can answer the question you asked a bit earlier in terms of the timing of information coming out of the pilots. One of the things is that we have found with the reinvigoration of Right to Buy since 2012 is that it is one thing to have an assessment about affordability and another actually knowing how much of that translates into real demand and effective demand that leads to take-up. So we will get the first report from the evaluation of the pilots in May, and then that will be coming in real time every three weeks. So it gives us the opportunity over these crucial stages in the process to take account of what is really happening in terms of translating affordability into real demand.

**Q110 Karin Smyth:** This will be my final point. On the previous policy, 474 properties have been sold in Bristol under Right to Buy in the last three years. There have been 21 starts, which is one for every 23, so we are not feeling terribly optimistic on that policy. We really do need to learn those lessons.

**Chair:** Can I pick up on that? If you look at figure 1 on page 17, the chart is fairly self-explanatory, but if we take the second column, homes sold under the reinvigorated Right to Buy—not including the ones that you have assessed would have been sold already under the old Right to Buy—and we look at housing starts on site and acquisitions, there is a lag in the number of new homes built. You acknowledge that, yes?

**Melanie Dawes:** No, we don't, actually. We are on track at the moment to replace the additional homes that were sold following the reinvigoration of Right to Buy. There is certainly a delay in the speed at which those homes are replaced. They are not replaced instantaneously, but local authorities have a three-year time period in which to replace them, and so far we are on track.

**Q111 Chair:** Right; you are on track. But looking at the projections, paragraph 2.12 lays this out so I will not repeat it all, but the last sentence says, "This would be a five-fold increase on the 423 starts and acquisitions recorded in the second quarter of 2015-16, the most recent quarter for which figures are available." That is quite a big increase in the number of starts required. Are you confident that that is possible?

**Melanie Dawes:** Well, we have been working with local authorities for several years now. Most of the stock-holding authorities—all but two, in fact—have agreements with us to replace their Right to Buy homes and to build replacement homes. Some of them are doing that through housing

associations and some have actually given the money back to the Homes and Communities Agency or the GLA in London to do the replacements in another way, which is fine.

Of course, you are right that we do need to see an acceleration of the profile. We would expect that. This started off slowly and it is building up. It is something that we do take very seriously, though. I myself commissioned an analysis of this from the Implementation Unit last summer so that we can remain on top of it, and I said earlier that in some areas the costs are quite high and the replacement is more difficult, and that is something that we are very alive to and do take very seriously.

**Q112 Chair:** I am sorry, I am paraphrasing you, but you said something about it all being fine when money goes back to the Department. If you are Haringey Council that has put £15 million back because, in that window of three years, you could not recycle the money locally, that may be fine for the Department and—dare I say it—for somebody in Sleaford who might get a home built because the Department recycles the money through the Homes and Communities Agency to another constituency, but it is not fine for people in Haringey who are on the waiting list for a home. They cannot afford to rent in the private sector, they cannot afford to buy and there is a net loss of housing as a result of the right to buy.

I am not talking about the policy, whatever our views on the policy might be. This just doesn't seem to be value for money for taxpayers in that area, because there will be an increase in costs for the local authority, which will probably have to rehouse somewhere in the private sector that family who might have got a home, at cost to housing benefit. The circular story doesn't work for the taxpayer.

**Melanie Dawes:** Well, for a local authority to have decided already, within the three-year time period, that they want to give the money back to central Government—or, in the case of Haringey, to the GLA—rather than to replace it themselves, is in line with the policy. That is what I meant. That is the policy that the Government set out. In some places, the Homes and Communities Agency is replacing homes directly, which is proving to be an effective route in some cases.

**Q113 Chair:** Can I go to the overall global figure? Who is actually accountable for making sure that there is one-for-one replacement under the current and new policies? Would that be you, Ms Dawes, as accounting officer at the Department?

**Melanie Dawes:** Well, overall, this is part of the policy, so it is one of the things that the Government has committed to and that it wants to see. That will remain the case for the new policy.

**Q114 Chair:** How are you measuring it? We have had you here in front of us before on the land disposals programme, and I have to say that your Department does not have a great track record of counting homes built. How are you making sure—let's forget like-for-like for a moment—that there is even one-for-one replacement? How are you counting those new homes and making sure that that is actually being delivered?

**Melanie Dawes:** We have the data here—that is why the NAO were able to access it—and it is something that we monitor very regularly. We publish that data, too. In this case, of course, the

policy is explicitly about homes being built—that is an explicit objective of the policy—and we are therefore building that into our monitoring, and it is part of the outcome that we seek.

**Sir Amyas Morse:** Forgive me; I hope that I have understood Peter Schofield's explanation of how the mechanisms work. If I have this right, you take the net proceeds of the sale of a council house—just normal net proceeds—and the council keeps 30% for replacement, and the rest of it is potentially subject to levy. What is the levy? Whatever is left after those two things have been satisfied is the levy. Is that right?

**Peter Schofield:** Well—

**Sir Amyas Morse:** I am not trying to make anything nasty out of it. What I am interested in is the balance sheet effect on local government. In other words, what I am trying to understand is that, although they get some cash back, isn't it true that, in their actual net asset position, there is inevitably—particularly if these are older houses that have been held for some time—likely to be a diminution in their net asset values? Isn't that right? Even if it goes to a housing association, it is not in their financial statement, so it is actually coming out of their assets. Is that not true? It must be, really.

**Peter Schofield:** It depends a little on how they valued those assets in their accounts. I thought that David Orr was quite eloquent earlier in terms of the nature of the value uplift in some parts of the country.

**Sir Amyas Morse:** Even if there is a value uplift. I am just trying to understand the mechanics. If I sell a property, I get some deductions from the sale proceeds, and then the rest of it is paid over, or applied in some way. Therefore, it doesn't remain on the council balance sheet. Isn't that right? Let me say it like this: anything that is paid over is no longer an asset of the council. That must be right. I am saying something very basic.

**Melanie Dawes:** Yes, and this is a transfer from local government to central Government. Of course, it is in relation to assets that were funded originally from central Government.

**Peter Schofield:** Just to respond to Amyas's specific point, the valuation will often be determined by the tenancy agreement. The question, therefore, is whether the rent that is being charged on the existing asset is the same, more or less than on the replacement property. I can't tell you the answer to that, because that would be determined in different situations.

**Q115 Chair:** We are talking about cash, assets and revenue.

**Peter Schofield:** I think Amyas is asking a specific balance sheet question, and I am answering it.

**Sir Amyas Morse:** You are quite right that it is a balance sheet question, and I understand that if it is possible to remove a sitting tenant from a property, you may find that the vacant possession value of the asset is higher. If that is possible, it was always possible, wasn't it? What I am trying to get to is—I am just thinking about all of the many bits of legislation that affect councils at the moment. Given that not all councils own council house property, I take it you have had a look at whether there is any particular impact on the net asset position of particular councils that might be

substantial property owners, considering all the other pressures that there are on them. I am asking a question.

**Peter Schofield:** No, no; I am listening.

**Sir Amyas Morse:** This is not undermining the balance sheet of any councils, is it?

**Peter Schofield:** We are looking very carefully at the implications.

**Sir Amyas Morse:** You have actually looked at that—sorry, just to be clear.

**Peter Schofield:** Yes, we are looking very carefully at the implications on the local authorities.

**Sir Amyas Morse:** But potentially there are some. Yes? There must be.

**Melanie Dawes:** We will have to see. The formula has not yet been set, but we are certainly looking at individual impacts on authorities, on the housing revenue account side; and we are weighing in how that compares with the non-housing side.

**Sir Amyas Morse:** Thank you.

**Peter Schofield:** It does depend on what the rent is on the new property, compared to the old.

**Sir Amyas Morse:** I understand that argument; although, to repeat myself, if it is as easy as that to remove a tenant, they could have taken off that depressing effect on the market value of having a tenant themselves—if it is as easy as you say, and if they don't have to pay to remove the tenant.

**Q116 Chair:** That underlines some of the questions that have been asked. Can I just cover a couple of other points? One is that we heard from the witnesses earlier that there are alternative ways of delivering on the Government's stated objective of increasing home ownership. Lord Kerslake was particularly clear that there are ways that he thought you might get better value for money for the taxpayer. Ms Dawes, have you got any comments? Did you provide Ministers with options when they expressed their aim of increasing home ownership?

**Melanie Dawes:** We had extensive discussions with Ministers, as you would imagine, over the summer, about the best ways to deliver on the manifesto commitment, and in the end chose a voluntary approach, in discussion with the housing associations, on the Right to Buy. A number of people suggested the equity loan proposal that Bob outlined earlier—

**Chair:** Lord Kerslake, to make it clear for the record.

**Melanie Dawes:** Yes. That of course does not deliver the objective of the manifesto, which is to deliver a discount to tenants. As an option it is interesting, but it was not one that met the manifesto commitment.

**Q117 Chair:** Is it something that the Department is actively considering? At some point, from the figures that Ms Smyth has indicated, the current proposal before the Lords might dry up if there are not many tenants who can afford to buy their own homes, even with the discount applied.

**Melanie Dawes:** The policy that we are now following through is the voluntary approach that was set out last autumn.

**Q118 Chair:** I will take that as it is. Terrie Alafat talked about mandatory affordability assessments, and said she hoped the Department was in touch with major lenders about making sure that people were taking on affordable mortgages. Is that something that you are doing?

**Peter Schofield:** It is a key part of how the existing system works for council housing, with the local authorities taking the lead. We want to make sure that we learn from best practice, as we work closely with the housing association sector.

**Q119 Chair:** You highlight, there, my concern. You say you want to learn from best practice, because it is not all perfect at the moment. So what are you doing to learn from best practice and make sure that there are not people who are becoming very marginal home owners, who will risk losing their home from underneath them if they lose their job or their income goes down?

**Peter Schofield:** There is an income assessment—as there is, obviously, for all mortgage applications—that happens as part of this process. Local authorities take the lead in assessing eligibility.

**Q120 Chair:** And you are confident that that is working well; I am just asking. It is a simple question.

**Peter Schofield:** We are confident that it is working well, but we have been taking steps over the past five years or more to address some of the other issues that your previous witnesses described, to make it as effective as we can. The key thing is working with the housing association sector, both intensively at a national level and in terms of the pilots that we talked about earlier, to try to make sure that we can do this effectively.

**Q121 Chair:** Mr Phillips and I raised with the previous panel the issue of people, third-party companies, that come and shop around and encourage tenants to enter an informal lending arrangement with them. Is this something that is on your radar? Is it something that concerns you and, if so, what are you going to do about it for the future scheme and, indeed, existing schemes?

**Peter Schofield:** No, no, exactly—in the existing scheme as you say, Madam Chair. Local authorities are in the lead and they assess the applications, but we have been working closely with stock-holding local authorities over the past five years. One of the biggest issues of fraud tends to be around tenants claiming they are eligible for Right to Buy when they are not. That is one of the biggest issues, but work has been done to address that.

**Chair:** I am talking particularly about these companies. That is a different thing.

**Peter Schofield:** No, I know. I will get on to that.

**Q122 Stephen Phillips:** It is important to distinguish that this is not fraud, Mr Schofield.

**Chair:** This is legal.

**Stephen Phillips:** This is me going along as an investor.

**Chair:** Be careful, Mr Phillips; people will think you really are.

**Stephen Phillips:** Someone going along as an investor and essentially taking advantage of the Right to Buy discount, which is not an incentive to benefit them.

**Peter Schofield:** The sorts of things that we have been particularly concerned about have been the sale and lease-back type arrangements, where effectively you put the tenant or new purchaser in a very difficult position. We have been working closely with the FCA on that and they have been making regulatory changes, which we think have clamped down on that quite significantly. This is something that we keep under review very regularly.

**Q123 Chair:** Overall, your Department is responsible for Government housing policy. Isn't it a scandal, particularly with properties where you can't get a mortgage because of the way they are built or the height of the flat, that they are being bought by these companies and often turned into not always very good private lets at very high rates, very often let to the very people who need to have social housing, at high expense to the taxpayer through housing benefit? That is an endemic failure across several Governments—I am not making a party political point—in the whole system. What are you going to do to tackle that?

**Melanie Dawes:** There are two separate points. One is, are there people effectively abusing the system through sale and lease-back or the other sharp practices that Peter described?

**Q124 Chair:** The answer is yes.

**Melanie Dawes:** It is a concern. As your earlier witnesses were saying when you discussed this with them, the dividing line between fraud and sharp practice is a difficult one.

**Q125 Chair:** But the answer is yes, people are doing what you have just said—exploiting the system.

**Melanie Dawes:** In some cases, yes, although as Peter says, we are trying to clamp down on that. I don't think we are under any illusions that this will be something that is easily eliminated overnight. It would be naive of us to say that, and it is absolutely not what we are saying.

**Q126 Chair:** Do you have a sense of how much is leaching out of the system?

**Melanie Dawes:** The pilots are a really good opportunity for us to explore this with the housing associations. It is one of the things that is very much on our radar, to answer your specific question, yes it is.

**Q127 Stephen Phillips:** As the accounting officer, Ms Dawes, you are responsible for delivering value for the taxpayer. If you have, outside London, significant chunks of the £77,000 discount being taken advantage of by someone who is not subject to Financial Conduct Authority regulation or, in London, significant parts of the £102,500 discount being taken advantage of by someone who, again, is not subject to regulation by the FCA, it is your responsibility, as the accounting officer, to ensure that that is not happening because it is not good value for taxpayers.

**Melanie Dawes:** I am saying to you that we take those issues seriously and we have taken steps to clamp down on them. In the end, the section 151 officer in local authorities is responsible for making sure that fraud is identified and dealt with.

**Q128 Chair:** We are not talking about fraud. This is not fraudulent.

**Melanie Dawes:** I know. I was just adding that point in. There are a number of safeguards in the system. You asked me about my point of view as accounting officer. It is important, therefore, for me to say to you that that is one of the ways in which we have safeguards against fraud.

**Q129 Stephen Phillips:** Bring forward some regulations.

**Melanie Dawes:** I am just being honest with you that this is not an easy issue ever to stamp out completely. If I said to you that it was all straightforward, that simply would not be realistic.

**Q130 Stephen Phillips:** Can't you bring forward some regulations to say where the money can come from? It can come from the tenant or from a family member or some other person who is a relative, or they have to share a close connection with the tenant.

**Melanie Dawes:** We do have a number of rules like that. If the Committee has ideas on this, we will be happy to listen to them. I am saying that we do take this seriously and it is on our radar. Mr Phillips asked another question about what happens to properties when they are sold. I know that some people get very concerned if those properties are then in the private rented sector later, but that is a slightly different point. I think you were making that point earlier.

**Q131 Chair:** Sorry, Ms Dawes, but anyone once they own a property is entitled to sell it. That is the law of the land. The point is when it is sold through the initial right to buy with the company, as Mr Phillips described, that has a third-party interest, with the sole intention of turning that, flipping it very quickly, into a private rented sector property, because there are not many people who can buy without a mortgage, a property above the fourth floor with a concrete system.



There are not many people in that position, and certainly not many tenants. I do not want to use the word “complacent”, but I am worried that not enough is being done to stop that happening. We know it has been a problem for some time, and it is likely to be a bigger problem with some of these very nice modern housing association properties being sold with a very big discount.

**Melanie Dawes:** We are not at all complacent about this.

**Q132 Chair:** So what exactly are you doing?

**Melanie Dawes:** This is one of the issues that we are looking at. With the extension to housing, it is something that, as David Orr said earlier, we are looking at through the pilots. It is definitely on our radar.

**Q133 Chair:** Mr Schofield, I mentioned figure 1 on page 17 earlier, which lists how many starts on site since 2012 under the reinvigorated right to buy scheme that is currently in operation for councils. How many new homes have so far been completed?

**Peter Schofield:** Can I send you a note on that? I have the number somewhere.

**Q134 Chair:** Please send us a note. That would be helpful. I also want to touch on the one-to-one versus like-for-like. This is a very big issue around the country. Numbers is not the same as replacing homes. We could have starter homes built for purchase, and they count as affordable homes as a result of this policy, but that does not provide the housing that is being lost.

The people who are or would be in those homes cannot necessarily afford to buy. Have you done a full analysis of the likely impact on communities in relation to that loss of housing? I know you say it will be down to local decisions, but it is not quite as free as that, is it? What analysis have you done of that and will you be advising Ministers on that impact when they make their final decisions about the make-up of the scheme?

**Melanie Dawes:** Paragraph 3.23 of the NAO report sets out the groups that we have looked at, and prospective tenants, as our impact assessment for the Bill says, is another group. So we have looked at those impacts, yes.

**Q135 Chair:** I would like to invite you to come to my surgery. You would be very welcome. I seriously mean it. If you had been at my surgery on Monday, you would have seen people who have nowhere to live. They cannot afford the private rented sector, they cannot afford to buy, and they do not qualify for social housing.

Under this scheme, even if they were able to qualify for social housing, there will be fewer of those homes because they will be sold, particularly in my area. There is a real concern about where they go. They may not want to go to Sleaford, although I am sure it is lovely.

**Melanie Dawes:** We do recognise that there are particular pressures in some parts of the country, and London is one of those where housing costs are very high. I would not want you to go

away with the impression that we are not aware of that. I genuinely would be glad to come and see some of those individual stories.

**Peter Schofield:** To add to that, the key point that was considered when the original reinvigoration of right of buy was introduced in 2012 was whether to go for a scheme where all the proceeds were taken back to central Government and we did a national allocation, or did we leave the money with local authorities? We chose something in between.

The agreement gave three years for the local authority to find alternative accommodation: precisely that in order to enable local authorities to replace in their local areas where they can. In those situations where local authorities have not done that, either because the three years is up or they have chosen to pass some money back, what we are seeing is a very good track record for the Homes and Communities Agency and the GLA in London to redeploy those proceeds.

I could give you an example. If we had longer, it would be good to spend time with the NAO going through these numbers to get them audited for the benefit of the Committee. On the latest numbers we have seen, of the £15 million that has been returned to the HCA, all but £800,000 has been redeployed, and that is already delivering additional starts. We do not have such good data from the GLA, but the evidence is that they again are redeploying the money in replacement homes. So if there is the opportunity to do that—

**Q136 Chair:** The Comptroller and Auditor General can answer that direct point, and can come in on the other points as well.

**Sir Amyas Morse:** I am very pleased to come in on that. Thank you for that suggestion. We will certainly take you up on that. I seriously appreciate that. It takes me to a point that I want to put on the record now. I think it would be very valuable if we and the Committee could be having a dialogue with you about how you are going to measure performance in this policy as it is implemented.

It is quite often our experience that we go into an implementation and have an endless debate about measures and relevance—“What a pity we didn’t have this information” and so forth. As you decide on the exact shape of the policy, it would be a very good idea for there to be an active dialogue about what will be of interest from the point of view of value for money and how you might be able to obtain that. In a lot of these things, if you ask for them at the beginning it is quite feasible to deliver them, but in retrospect it is harder.

We have had this difficulty with the release of land from the public sector—the public sector land that we’ve enjoyed talking about so much. It might be a great idea to agree how we are going to measure these things, to at least some broad parameters, at the beginning. It would be good if you could take that on board.

I have a small question: presumably, when you were preparing costing notes for the Office for Budget Responsibility you must have made estimates of the number of housing associations that would be eligible and able to afford to exercise their right to buy. You must also presumably have made some estimates of the cash value of high-value council homes. I don’t see how you could have prepared the notes otherwise. Is that right?

**Melanie Dawes:** The costing note was for the pilot.

**Sir Amyas Morse:** Oh, just for the pilot.

**Melanie Dawes:** Yes.

**Sir Amyas Morse:** None the less, it would be interesting to see how you arrived at that.

**Melanie Dawes:** Well, when the NAO came to talk to us we had quite a long discussion with your colleagues about the work we had done. For understandable reasons, I think they felt that they didn't want to look at the detail of our actual work because the policy is still under development. We are very happy to share that detail with you.

**Sir Amyas Morse:** Sorry, perhaps I am missing the point. When you came to the view that the policy was fiscally neutral, you must have produced some evidence to support that. Just out of curiosity, how did you evidence that?

**Melanie Dawes:** There are a number of different parameters in play that can deliver that.

**Sir Amyas Morse:** Indeed.

**Melanie Dawes:** But the details of the policy just haven't been decided yet.

**Sir Amyas Morse:** No, I understand that, but when you were asserting to the Office for Budget Responsibility that this was a fiscally neutral policy, I assume you adduced some evidence to support that, didn't you?

**Melanie Dawes:** Well, that's the policy position of the Government and that is what was set out in the manifesto. We asked for specific—

**Sir Amyas Morse:** So you didn't evidence it, you just said it was neutral.

**Melanie Dawes:** At the time of the spending review, we were given specific funding for the pilots, so that is the one where we've done the full business case and the full analysis—on the basis of those pilots—but there are still a number of decisions to be made on the broader policy for the longer term.

**Q137 Stephen Phillips:** Is the policy fiscally neutral or not?

**Melanie Dawes:** Well, the Government's policy position is that it will be fiscally neutral, but we have to—

**Q138 Stephen Phillips:** You're the accounting officer; you are answerable to the Treasury. I am asking you, Ms Dawes: is the policy fiscally neutral or not?

**Melanie Dawes:** That is the Government's intention.

**Q139 Stephen Phillips:** Is the policy fiscally neutral or not?

**Melanie Dawes:** That's the intention, but the details of the policy have not yet been agreed.

**Q140 Chair:** So at this point you don't know. Or are you going to make sure that it will be fiscally neutral?

**Melanie Dawes:** Our Ministers have yet to make a decision on exactly what those financial flows will be.

**Q141 Stephen Phillips:** So the intention is that the policy should be fiscally neutral.

**Melanie Dawes:** That is the intention that was set out in the manifesto.

**Q142 Stephen Phillips:** I'm trying to understand. Has the OBR signed it off as fiscally neutral?

**Peter Schofield:** The OBR produce two forecasts each year: the forecast at the time of the autumn statement and another at the time of the Budget, which is on 16 March.

**Q143 Stephen Phillips:** In the OBR forecast for the autumn statement, did they assess the policy as fiscally neutral?

**Peter Schofield:** For that they did not make a provision for this.

**Q144 Stephen Phillips:** So the answer is that they did assess it as fiscally neutral at that stage.

**Peter Schofield:** They didn't make a scorecard provision for this.

**Melanie Dawes:** They made a scorecard provision for the pilots.

**Chair:** Okay. Well, we will wait to see.

**Q145 Nigel Mills:** Ms Dawes, if it turns out that it doesn't look like this will be fiscally neutral, how fiscally negative does it have to get before you start to get nervous about it? When would you ask for ministerial direction?

**Melanie Dawes:** Well, it is a matter for the Government to decide on its fiscal forecasts. It is for the Treasury, in the end, to own the scorecard and to decide what money the Government wants to allocate to what. As I said, the policy intent here is that it is fiscally neutral. We have yet to agree all of the details of the policy, so the final costings have not yet been produced. As accounting officer, my responsibility is to make sure that the policy—in fact, in this case it is two separate policies—represents value for money. That is a question of Green Book analysis. It is a question of looking at the economic costs and benefits of both policies.

The interim analysis we have done so far suggests that both policies do represent value for money, because in both cases they invest in new housing. There are benefits of the policy for a number of other reasons, such as distributional impacts and so on. The broad analysis we have done so far suggests that positive impact, which we said in the impact assessment for the Bill.

**Q146 Chair:** Have you done an analysis of whether this has a negative impact on the housing benefit bill? Have you factored that in?

**Melanie Dawes:** Housing benefit impacts are factored into those analyses in accordance with the Green Book. We are using the Green Book, as we should, as our guiding principle here.

**Chair:** Yes, you answered that question before. I just wanted to be clear.

**Q147 Karin Smyth:** I would be grateful for advice, so that I understand this fiscally neutral point. My earlier questioning was around the process and the cycle of how this happens and the potential for transactional cost or leakage. What you mean by “fiscally neutral” is fiscally neutral for the Government—is that right?

**Melanie Dawes:** Yes.

**Q148 Karin Smyth:** So the costs for local authorities that were mentioned earlier would not contribute to that total. Is that right?

**Chair:** So if there’s a cost to them, the policy still could be fiscally neutral.

**Karin Smyth:** I think we have established that there is a potential cost conferred on local authorities.

**Melanie Dawes:** Yes. This asks local government to sell their assets. In the way that Peter described earlier, they are allowed then to take into account various costs and the debt and so on, and they will then make a payment to central Government. That is in lieu, of course, of assets that were originally funded through central Government grant. It is a transfer into central Government.

**Q149 Karin Smyth:** It is a transfer from local to national; I think we have established that. That loss of balance sheet assets and the potential revenue cost for the local authority, as they are managing this process, would not contribute to the fiscally neutral position of the Government, would it?

**Melanie Dawes:** Well, we certainly look at all the detailed financial flows when we do our value for money assessments. We look at the financial impacts for different parts of Government and we then look at the broader economic costs and benefits. The Government’s policy position of it being fiscally neutral as a whole, across these two policies, is from the point of view of central Government borrowing and spending.

**Q150 Karin Smyth:** Right. So they've taken an asset from a local authority and are nationally doing things with it, and that is fiscally neutral for the Government.

**Melanie Dawes:** Yes. Of course, at the same time—

**Q151 Karin Smyth:** Can I come back on that? Our earlier questions about the impact assessment for all those groups, particularly local government, becomes really pertinent. The concern I have as a result of this hearing is that that looks hugely detrimental to local government in areas that have high value assets—Bristol may or may not be one of those. I seek advice on this: how do we make sure that that is reported or kept back in our final report?

**Melanie Dawes:** Can I add one quite important point? Provided that local authorities can deliver the one-for-one replacement, they will of course have a new asset on their balance sheet that they are able to use.

**Q152 Chair:** But they may deliver it through a housing association.

**Melanie Dawes:** They may, but they will have an asset locally, and they can choose to do that in a number of different ways.

**Karin Smyth:** They've got an asset; they had one.

**Melanie Dawes:** But the housing is replaced, and therefore that may well be on the local authority's own balance sheet.

**Q153 Chair:** It may be, but a lot of local authorities no longer have the capacity to build. Can I cover off a couple of very important points? One is where local authorities no longer have local authority housing because they did a large-scale stock transfer. Our colleague Kevin Foster is not with us today, but in Torbay that is the case. Do those areas then become a net recipient of money but not actually contribute anything, because the housing association right to buys in those areas will not be backfilled by any money from the same area? They won't have any money to give.

**Melanie Dawes:** If they don't hold any stock, they are not covered by the high value assets policy.

**Q154 Stephen Phillips:** In fact, there's a wider geographical point. Because of the discrepancy in house prices across the country, it is not just the local authorities that don't still possess housing stock. There is going to be a transfer of balance sheet assets from authorities in higher house price areas to those in lower house price areas. That is one effect of the policy, isn't it?

**Peter Schofield:** It depends on how the formula is put in place.

**Stephen Phillips:** So much seems to depend on the formula, Mr Schofield.

**Q155 Chair:** We are looking forward to seeing the formula. I have a couple of other points that I want to cover. We have been talking as though the 30%—from the asset sale, you can pay for up to 30% of the rebuild cost of a new property. Is that fixed in the new housing association Right to Buy, or are we talking about that figure because it is in the existing reinvigorated Right to Buy scheme?

**Peter Schofield:** It does not apply to— I think your context would be the sale of high value assets rather than—so, housing associations will have their own financing arrangements.

**Q156 Chair:** Sorry, can I just be clear? We are talking about the 30%. So, I am the leader of a council, I have to sell a large-value asset and I am doing a deal with the housing association—or the council is building a property of its own—and 30% of the value can be paid for. Is that set in stone under this new policy, or are we just talking about this figure because that is what has been going on up until now?

**Peter Schofield:** Sorry, I mentioned that because that is what we have for the 2012 scheme.

**Q157 Chair:** Yes, absolutely. Do you know yet the figure for how much will be contributed towards the cost? What percentage of a new build will be funded from this, or are you still determining that?

**Peter Schofield:** No, we are still determining that.

**Q158 Chair:** So it could be higher or lower.

**Peter Schofield:** Yes, one of the things that we are talking to London about in the context of delivering two for one is what that would require in terms of how much of the proceeds to retain.

**Q159 Chair:** Okay, so there is scope for discussion. That is very interesting. What about the sale of homes before they are occupied? My own borough and a number of the neighbouring boroughs are building council housing. They are, by their nature, brand-new properties—family-sized homes, because that is what is needed and they are therefore, very valuable. Will they be required to, or will it be up to them whether they sell those ones before they are occupied by a tenant?

**Peter Schofield:** That is one of many points that have been raised with us by councils as part of our engagement, so that is something that we are looking at.

**Q160 Chair:** Not determined after discussion.

**Peter Schofield:** Not determined, but the point has been well made through our engagement.

**Q161 Chair:** Okay. We have been talking a lot about the fact that the Bill is going through the Lords at the moment. Lots of things are still to be determined. Will a sunrise clause be implemented so that you won't actually start doing this until all the questions that we and others have been raising are resolved?

**Peter Schofield:** There is no sunrise clause in the Bill.

**Q162 Chair:** I didn't think there was at the moment. Was that a deliberate decision? Given that there is so much uncertainty about this important programme—*[Interruption.]* You don't think it's policy, okay. I was just thinking about value for money, if you don't know whether it is going to work yet—

**Stephen Phillips:** Nice try.

**Melanie Dawes:** In the end that is a policy question, but there is no clause in the Bill. But there will be secondary legislation on the details on—

**Q163 Chair:** As accounting officer—perhaps to put it a different way—will you be happy for this to go ahead before these questions are resolved, or will all these questions have to be resolved before the actual implementation of the policy, as enacted by the Bill?

**Melanie Dawes:** There will come a point, which we haven't yet reached, where all the details are finalised and, in particular, we need to nail the costings with the Treasury. That is the point at which any final value-for-money judgment needs to be made. The work that we have done so far has been informing us along the way. We have been making sure that Ministers have value-for-money analysis accessible as they are making decisions, but there is a moment still to come when any final decisions are made. That is the critical point.

**Q164 Chair:** Do you have any idea of the timescale? The Bill is going through and, as you say, is going to get Royal Assent, presumably fairly quickly. You then have to work out the detail and it will roll out. When do you expect that? Do you have a target date for roll-out?

**Melanie Dawes:** Well, Brandon Lewis said, I believe as the Bill was going through scrutiny in the House of Commons, that we expect to publish costings around the time of Royal Assent. Secondary legislation will then follow and there will be grant determinations for local authorities at about that time. That is likely to coincide with the period of the pilots still continuing. We are expecting—

**Chair:** The pilots finish next January, just to be clear.

**Melanie Dawes—** I believe, a full evaluation in September of the pilots. We will be getting quite a lot of information, as Peter was saying, through the summer. I haven't got that date in front of me, but I believe it is September.

**Q165 Chair:** The pilots finish in January next year, don't they?



**Melanie Dawes:** But we will get an evaluation in the early autumn.

**Q166 Stephen Phillips:** Is there a commencement date in the Bill or is it to be appointed by statutory instrument?

**Melanie Dawes:** It is still to be agreed.

**Q167 Chair:** I know that you have set your policy in train and we are doing an unusual thing here, but can we be clear? Is it likely to be implemented before the pilots are finished? Will it be some time after that? Do you have a ballpark idea of when it will be implemented?

**Melanie Dawes:** I don't think we can say anything more about that now.

**Q168 Chair:** Okay. Again, from your point of view as accounting officer, and Mr Schofield may want to comment as well, two years after it is implemented—whenever that date is—what do you think success will look like for you as a Department?

**Melanie Dawes:** We are guided by our plan as a Department. Sir Amyas's points earlier about exactly what outcomes we will monitor are very well made and I would hope that we could agree those with the NAO, but in the end they will be decisions for Ministers as to what the outcomes are that we monitor. However, proper scrutiny of our plan and of our performance against our plan requires us to be clear about what those outcomes are, and then for us to publish information so that people can judge us against them.

**Q169 Chair:** I appreciate that Ministers have got to make certain decisions but, for instance, will those outcomes include a target of the number of new homes built? Will you look at types of homes built? Will you look at whether you have managed to reach one-for-one, or will you look at like-for-like replacements? All of that is still up for grabs in terms of what the outcomes are.

**Melanie Dawes:** I don't know at this stage what targets there will be—whether there will be specific numbers—but there are two things that I think our Ministers will be particularly interested to see. The first is the number of homes that are sold under the extended Right to Buy and, secondly, that the one-for-one replacements are built, or certainly started, given that that is likely to be the relevant time frame. So those are two important parameters for these policies and they are both important for the value-for-money assessment as well.

**Q170 Chair:** On value for money, Ms Smyth touched on new burdens for local government, which we have obviously discussed with you previously in other hearings. In all your evaluation of this, will you look at the potential cost impacts for councils if it becomes harder to house people locally because of the outfall of this legislation? Is that something you are factoring in?

**Melanie Dawes:** We will certainly want to keep a close eye on those issues, yes. We have talked about two specific burdens already, but the wider impact on homelessness and other forms of housing need is definitely something that, with our wider responsibilities, is important.

**Q171 Chair:** A final question from me, and if any other colleagues want to come in please let me know. One of the issues, of course, if you are talking about the sale of high-value assets is that they are obviously more valuable for onward sale if they do not have a tenant; they are a capital asset. Is there anything to restrict local authorities selling them as tenanted properties if that is what they choose to do to meet their levy? Transferring them?

**Peter Schofield:** Obviously, in the case of the housing association sector there is an issue there about the regulatory restrictions on that. I'm not sure about the case of the local authority doing that. The issue then is how the local authority would ensure that they protect the rent level of the ongoing tenant, because although the tenancy agreement would continue the new landlord might have flexibility to raise the rent.

**Q172 Chair:** There have been stock transfers before of tenanted properties. It's not unusual.

**Peter Schofield:** No, no. Certainly under stock transfers—

**Q173 Chair:** Small-scale stock transfers; trickle transfers.

**Peter Schofield:** If it remains within the regulated sector, I can see your point.

**Q174 Chair:** There's nothing to stop that happening, or is it up for grabs?

**Q175 Karin Smyth:** You appreciate that the concern with the levy, not having the detail about it, is that in order to meet it, there are some peculiar incentives for local authorities that perhaps have not been considered.

**Peter Schofield:** Well, no, there's a clause in the Bill that prevents getting round paying the levy at all by transferring the stock out of the ownership of the local authority.

There's just one other point. You asked me about some statistics that I did not have to hand; I then realised that I actually had them here. They are about the completions of Right to Buy. As of the end of 2014-15, it is 1,104.

**Q176 Chair:** Just less than half.

**Peter Schofield:** But what I would be very keen to do, again with the NAO, is to look at the extent to which the contribution from the HCA and the GLA, with the receipts that they have had back from local authorities, adds to that, because I think it does and it would be good to have that information, to share it and to—

**Q177 Chair:** You get a sense of the appetite of the NAO to work with you on all these figures.

**Peter Schofield:** Yes. We would very much welcome that.

**Q178 Chair:** We've been at it for quite a while now. I think it's been an interesting exercise in examining policy—not the policy but the cost of a policy ahead of it being implemented. We hope that we have given you food for thought as you develop this, because we've all got an interest in watching the taxpayer's pound and there are clearly wider ramifications of this policy.

We will produce a short report about this hearing but we hope, Ms Dawes, that you will be able to come back to us again as this policy develops, so that it actually delivers new homes for the people who need them. That is the Government's professed intention and it is important to us all that it happens. So we hope that you will commit to providing us with the information as you publish it and we will watch that closely as a Committee, and we will call you back at an appropriate time, perhaps when some of the secondary legislation has gone through.

**Q179 Stephen Phillips:** And I think you're going to come back to me on a couple of points in your letter to the Committee.

**Q180 Chair:** We've got a number of points to come back to you on, which we'll write to you about.

Thank you very much indeed for coming. We will now go into private session, but I am happy for the Islington councillors to come forward and to have a quick couple of minutes about what you thought of the hearing, if you like.

