



House of Commons  
Communities and Local  
Government Committee

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# The Supply of Rented Housing

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**Eighth Report of Session 2007–08**

***Volume II***

*Oral and written evidence*

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## Communities and Local Government Committee

The Communities and Local Government Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Communities and Local Government and its associated bodies.

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Sir Paul Beresford MP (*Conservative, Mole Valley*)

Mr Clive Betts MP (*Labour, Sheffield Attercliffe*)

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Dr John Pugh MP (*Liberal Democrat, Southport*)

Emily Thornberry MP (*Labour, Islington South and Finsbury*)

The following members were also members of the Committee during this inquiry:

Lyn Brown MP (*Labour, West Ham*)

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### Committee staff

The current staff of the Committee are Huw Yardley (Clerk of the Committee), David Weir (Second Clerk), Sara Turnbull (Inquiry Manager), Clare Genis (Committee Assistant), Gabrielle Henderson (Senior Office Clerk), Kerrie Hanley (Secretary) and Laura Kibby (Select Committee Media Officer). James Cutting (Committee Specialist) also assisted in the production of this Report.

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# Oral evidence

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## Taken before the Communities and Local Government Committee

on Tuesday 12 December 2006

Members present:

Dr Phyllis Starkey, in the Chair

Sir Paul Beresford  
Mr Clive Betts  
Mr Greg Hands

Dr John Pugh  
Emily Thornberry

*Witnesses:* **Mr Adam Sampson**, Director and **Mr Mark Thomas**, Head, Policy Unit, Shelter, gave evidence.

**Q1 Chair:** May I welcome you to this first oral evidence session of our inquiry into the supply of rented housing and may I ask you to introduce yourself and your colleague before we start?

**Mr Sampson:** I apologise that there seems to have been some breakdown in communication so you did not realise there would be two of us. My name is Adam Sampson and I am the Chief Executive of Shelter. My colleague, Mark Thomas, is Head of Shelter's Policy Unit.

**Q2 Chair:** May I start by asking you about the figures which Shelter have produced to underpin their suggestion that an extra 20,000 social houses for rent need to be constructed between 2008 and 2011? In particular, you are suggesting an additional 5,330 and 4,000 for London and the South-East, which is considerably more than you are suggesting in other parts of the country. Given that there is already some concern about the way in which most spending on social housing is going into London and the South, how do you justify supporting a continuation of that trend? Might there not be a case for reducing rather than exacerbating regional disparities?

**Mr Sampson:** First of all, I am grateful to the Committee. I should like to express my gratitude to the Committee for the endorsement of our general overall ask figure of 20,000. That has been immensely valuable and we are hopeful of a positive response from the Government in the comprehensive spending review. In terms of the detailed breakdown of where those houses may go, there are various drivers which may push you in different directions. On the one hand, if you used as the major criterion for determining where investment should go, where the need for social housing is most acute, actually that would argue in favour of an increase over the numbers we have suggested in London and the South-East because it is in those areas of the country where we see the substantial majority of homeless families in temporary accommodation, for example. They exist in London and the South-East, but if you look at the most significant area of the country where there is a serious level of overcrowding—and Government have recently, and much to their credit, started signalling an understanding of the extent to which

overcrowding is a significant problem in social housing—again, it is in London in particular, but London and the South-East more generally, that that measure of social housing need is most acute; so there are actually arguments to say that we have significantly under-cooked the proportion of the funding which should go to London and the South-East. Equally, we are sensitive to two things. First, the growing problem of housing need in other areas of the country, not merely in the South West, but also in hotspots in areas in the Midlands and the North where there are substantial areas of housing need. We would not think it right to over-skew investment directed towards London and the South-East. Second, it is one of the neglected features of what one would wish to see as a long-term aim for Government, which is re-balancing economic activity and therefore the need for social housing supply in other areas of the country and we should not want to see too much investment go into London and the South-East. For those reasons, we try to steer a middle way and, indeed, all we have suggested here is that in the estimated annual output of social rented units in 2007–08 the same proportions should be assigned to the increased investment; in fact we are suggesting an increase of two-thirds on each of those regional figures, so we are just following the prevailing trend.

**Q3 Mr Betts:** Coming back to the 20,000 figure which you say the Committee has endorsed, and I signed my brick the other day to give a personal endorsement along with many other Members of Parliament, can you explain how you get to the figure? Just looking at need, it seems as though the figure may be a little less than we require. Is it a figure that you think is actually what is needed or one that is realistically achievable, given where we are at now?

**Mr Sampson:** The figure was a judgment. You are quite right that to meet need the figure should be much higher. We took a judgment that it was frankly wrong to ask for a figure which was pragmatically unachievable. We thought that 20,000 was a stretch figure but achievable given what we all anticipate to be the financial envelope available to the Chancellor in the comprehensive spending review. The 20,000 was also tied back to two significant existing

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government undertakings. The first was to deliver to the Barker report and although Government have gone some way towards delivering to Barker's recommendations on social housing, there is still a wedge to deliver; 10,000 to 13,000 which needs to be delivered there. The other element was to meet the Government's pledge on halving temporary accommodation, so the other element of the 20,000 figure relates specifically to meeting the Government's obligation under temporary accommodation. The figure we have come up with says that is what is necessary if Government merely wish to meet their currently stated objectives. If we want to go further than that, if there are changes, for example, which happen as a result of the introduction of a new standard on overcrowding, then it may well be that the figure has to be increased rather than anything else.

**Q4 Mr Betts:** Just to meet need now as opposed to simply meeting government objectives, would you actually say the figure should be higher than 20,000? Do you have a figure?

**Mr Sampson:** No, we do not have a figure because it seemed to us there was little point in coming up with a figure which might be desirable but not achievable. We have not done that work.

**Q5 Chair:** A brief answer would be helpful. May I ask you which organisations you think should have the lead responsibility for delivering this increase in social rented housing or do you not take a view?

**Mr Sampson:** We talked a lot with people such as the National Housing Federation about the achievability of the 20,000 increase and plainly we would anticipate that the vast majority of that increase would be delivered through NHF and through the Housing Corporation. We would anticipate they would be the leads but we do not, again, wish to close off any other avenues for delivery if they appear possible.

**Q6 Sir Paul Beresford:** May I take you back to your first answer? You talked about drivers and you talked about the different speeds of economies in different areas of the country. I am paraphrasing. Do you not think really that an enormous effort needs to be put into shifting the speeds in the economy? In the South-East, a very high-speed economy, high demand, supplying the houses to meet the demand will fuel the economy whereas if we could get the jobs moving north into some of the more deprived areas where there are actually houses, but no jobs, that would actually ease the demand down here in time if taken actively?

**Mr Sampson:** In theory, I absolutely agree with that; which is why it is so essential the Government press on with their investment in housing renewal pathfinder areas so that in areas of the country such as Burnley, which have an excess of housing and a dearth of employment, we try to find new ways of developing economic activity in order to make better use of the existing housing stock. Absolutely. That is a very long-term strategy and, it has to be said, one where we have not always been conspicuously

successful in the past. To a degree with this, we are guided by colleagues such as members of the CBI, with whom Shelter is in partnership through our foundation of a campaign for more and better homes, and the CBI, the employers, have been very keen to be involved in the partnership in order to ensure there are the houses close to areas of existing and planned employment. Those are principally still in London and the South-East, although, again, increasingly this is biting in terms of employers' ability to attract and retain staff in areas of the South-West and the Midlands and some areas of the North, too.

**Q7 Emily Thornberry:** I want to ask you about intermediate housing. I know that Shelter have been quite critical of the move from spending money on social rented to intermediate housing. Could you tell us what the consequences of this shift have been, in particular on the Government's capacity to tackle homelessness and overcrowding?

**Mr Sampson:** Our criticisms are both criticisms in principle and criticisms of a pragmatic nature. In principle, we cannot endorse prioritising meeting a housing aspiration over meeting a housing need. If there are people to whom government subsidy should be directed, we believe those are those individuals who are in greatest housing need rather than those who merely wish to get on the home-ownership ladder. It does not seem to me as compelling an ask as for those whose life chances are being wrecked because of their poor housing. So that is the point on principle. Pragmatically, we have two types of criticism. First of all, we are not convinced that the detail of many of the low-cost home-ownership and shared-ownership schemes gives good value for money to the Treasury. The way that many of those schemes operate does not actually produce much return on the investment for Government and the long-term effect of the way some of those schemes operate is merely to enable the individuals who benefit from them to compete more effectively on the existing housing market. They give people additional subsidy to compete on the existing market, thereby merely fuelling house price inflation. The other criticism is the poor targeting of some of the individual schemes and the fact that some of the schemes have resulted in units which should, in theory, be available for key workers; in practice, remaining empty and being sold on the open market to first comers. That seems to us a missed opportunity and, where direct government subsidy is involved, a poor use of that subsidy.

**Q8 Emily Thornberry:** Do you not agree in principle with the idea of mixed communities in areas like the one I represent in inner London, where we have people who are very rich, who can buy in Islington and we have the very poor, who can rent in Islington and we have nobody in between? I hear what you say about the principle of it, but in order to have a proper mixed community do we not need to have a greater subsidy of intermediate housing?

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**Mr Sampson:** It is hard to disagree with the principle of mixed communities. Obviously, we agree with that. We are suggesting here two things. First of all we are questioning whether direct government subsidy has to be the driver for the creation of those mixed communities when planning may deliver a significant amount for it. Secondly, this is about the detail of many of the schemes. There is a huge number of shared-ownership or shared-equity or various models. I have sat now on two government taskforces to do with low-cost home-ownership, on the Home Ownership Taskforce about three years ago and on the Advisory Panel for the Shared Equity Taskforce fairly recently. On the former occasion, it was within a matter of months of me moving into the housing sector and I sat there assuming that my complete failure to grasp the detail of many of these schemes was to do with the fact I was new into the sector. Having sat through the Shared Equity Taskforce about three years later, I realise that in fact it may not be about the depths of my ignorance, it may be that these damn things are voluminous and complex. Bluntly, if I do not understand them, it is really difficult to know how the end users of them are to understand them. Some of the schemes, insofar as I have been able to grasp, and I would not possibly claim to be an expert on this, do look like they do give good value for money in some local circumstances. Other schemes do not.

**Mr Thomas:** May I perhaps expand slightly on that, very briefly? One of the key areas is the level of affordability that these schemes actually provide. In many circumstances, in actual fact, they are only affordable for people on incomes of above £25,000 or £30,000. They are not actually delivering for the groups that one might imagine we are actually referring to when we talk about intermediate schemes.

**Q9 Chair:** May I just stop you there? My understanding of what an intermediate scheme is, is that it provides for those individuals whose income is not high enough for them to be able to buy on the market in the area they are in. In some parts of the country £25,000 just does not permit a purchase on the market and therefore they do need subsidy if they are to get into home-ownership.

**Mr Thomas:** That is absolutely true. But what concerns us is the people in the income band below, and the schemes just are not accessible for those. Many of the categories of people that these schemes were anticipated to provide for, say public service workers, are not actually being able to get onto them. On the other hand, you do have an issue of dead weight. There is evidence that some of the people who are ending up accommodated in some of these schemes could, in fact, potentially have afforded to buy on the open market without any need for subsidy themselves. Where we do actually like the schemes is where they are targeted towards people who are in existing social lettings. To do that, they do need to be carefully designed so that they are accessible to people on much lower incomes than, say, £25,000 but where you can do that, you have the

big benefit that you are then also freeing up an additional social letting for a homeless household to fill.

**Q10 Emily Thornberry:** What you are saying is really interesting. You are saying that intermediate housing should be made available for those who are already within social housing and that that may help us with tightening up the definition of who is eligible for social housing and it then frees up social housing.

**Mr Thomas:** Yes.

**Q11 Dr Pugh:** You touched on two programmes that the Government have in terms of shared equity and also in terms of key workers, and you faulted both programmes. Was it an intrinsic flaw in these schemes we are talking about here, that they are just simply not what is needed in your view, or was there something about those schemes that could have been changed or modified that would have made them successful and delivered some of the objectives that were intended?

**Mr Thomas:** I do not think that there is no room for intermediate provision because we recognise that there is. I come back to the issue of the balance of subsidy and what concerns us—

**Q12 Dr Pugh:** Are you really arguing that they are dealing with a different problem than the one Shelter fundamentally attends to, which is the problem of absolute homelessness?

**Mr Thomas:** No, we are not arguing that. What we are arguing is that those people who are not right at the very bottom end of the scale, but are slightly above, should not be prioritised at the expense of those who are right at the bottom. What we need to see is more money put into intermediate schemes, yes, and that has been happening. The concern is—

**Q13 Dr Pugh:** You can do both and it would be okay, would it not?

**Mr Sampson:** If you can do both, it is okay, but there is substantial evidence in recent times, both in terms of direct government subsidy and indirect benefit that comes out of things like section 106 agreements, that an increased level of prioritisation has been given to intermediate housing and social housing has lost out in both areas.

**Q14 Dr Pugh:** Given limited resources, you would sooner they concentrated on the very bottom of the market rather than the intermediate market.

**Mr Sampson:** Indeed.

**Q15 Dr Pugh:** That is where government money should be going?

**Mr Sampson:** Indeed. Yes, that is our principled stance.

**Q16 Mr Betts:** Coming to the management of properties and effective tenant participation, at one time we had massive local authority stocks. We have fewer of those now; we have stock transfers, ALMOs

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created. Do you have a view about the different effectiveness of participation arrangements in the different forms of social housing that now exist?

**Mr Sampson:** We would say that in many areas of the country the responsiveness of social housing management to tenants' needs has not historically been as good as it might be, and that is the general picture. It is important to say that Shelter take no stance, in principle, about the existence of ALMOs. We understand why Government have chosen to go down the stock transfer line. We understand why that is deemed to be pragmatically necessary. Some of the ALMOs have shown some pioneering work in tenant participation and tenant representation which has been very interesting and we should like to see some of that experience replicated in the housing association sector and, if possible, in the council housing sector. Whether those mechanisms compensate for the democratic deficit which results from the transferring away of stock from local democratic control is an open question but, nevertheless, we have seen some good models of tenant participation in some ALMOs; indeed, including one in your constituency.

**Q17 Mr Betts:** Do you think now that some housing associations are just so big on a national scale that they find actually dealing with local problems and local groups of tenants very difficult indeed? Their lines of communication get rather stretched.

**Mr Sampson:** There is something which is potentially difficult about the increasing size and complexity of many housing associations. They have become very remote from the local neighbourhoods where their houses are situated and there is an increasing tension between the In Business for Neighbourhoods agenda and the remoteness of the central management of housing associations from local neighbourhoods. That does throw a huge responsibility back on the housing associations to develop very good tenant participant and representation mechanics. Some housing associations need to do considerably greater work in that.

**Q18 Mr Betts:** May I just pick up one particular issue we have had in Sheffield, although the Housing Corporation now looks as though it is responding, to where the housing associations there simply have not taken their fair share of homeless families? They have been left to the ALMO. I went to the Housing Corporation and complained about this and it looks as though the Housing Corporation now may be willing to introduce a policy of targeting their grants for new development according to the satisfaction that they have with the current management arrangements of the housing associations. Do you think that link-up is a good one; that we should be looking to let the associations develop according to their current management practices?

**Mr Sampson:** Certainly that would be very helpful. We have certainly been critical in the past about the declining proportion of acceptances in some housing associations of homeless families and the fact that the Housing Corporation, through the publication

of its new homelessness strategy which, while it does not go quite as far as we might wish—nevertheless is a pretty good start—is a very useful indicator that the Housing Corporation is now in a position to take a greater pressure on housing associations to take homeless families as their primary source of tenants.

**Q19 Dr Pugh:** May I ask you about homelessness statistics? Obviously, you can count the people on the Embankment; you can list the people in the hostels, and so on; but the figure for homelessness is presumably, in your view, greater than that because it excludes people who are living in extraordinarily overcrowded conditions, either with friends or with relatives. If you were to apportion them between, say, the number of people absolutely homeless and the number of people who are effectively homeless but actually not technically homeless, what kind of proportions would you be coming out with?

**Mr Sampson:** We have been quite critical of the use of homelessness statistics by Government, both in terms of the rough sleeping figure and in terms of the number of homelessness acceptances on the part of local authorities. We have written conjointly with Crisis, Centrepoin and Homeless Link to DCLG to ask to do some work with them to come up with an agreed answer to the very question that you just articulated. I could, off the top of my head and it would largely be off the top of my head, assign proportions of people; you press me and I will do it. I am not sure how useful that is. Secondly, partly here we get into definitional questions of what we decide constitutes homelessness as opposed to acute housing need. Again, what I am comfortable about is saying we should prioritise only homelessness as we choose to define it and if individuals are in acute overcrowding that somehow they fall off the priority ladder.

**Q20 Dr Pugh:** Those sorts of people are very reluctant to render themselves homeless because they then lose all their rights. Effectively, they do not have a home of their own, though they have actually, in some cases, got a roof over their head. In my constituency, when somebody comes in dire housing need, I refer them to a social enterprise run by a religious organisation which seems to be able to field most cases that are thrown at them by virtue of buying up old property, doing it up and then getting the housing benefit to repay the mortgage. That is a kind of model which obviously works reasonably well because the social enterprise in question now owns hundreds of properties. Why do the housing associations not go down that road? What is weak about that particular model, if I might put it like that? Why is it that when I have a really truly valid case of homelessness, I refer them to this social enterprise and not to the housing association which cannot deal so reactively and quickly as this can?

**Mr Sampson:** I suspect I know the social enterprise concerned and indeed met them about three weeks ago to discuss this. I am not sufficiently familiar with the model, other than an hour's meeting with them, and I found them very impressive, but I find quite a

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lot of people very impressive, and it is not until I see the detail that I can absolutely endorse them. I have learned my lesson here. If there is a criticism here, it is that all this is doing is recycling existing stock; none of it is actually going in to create new stock, which is fine because it is meeting acute housing need of the type you describe. However, and we will come onto this when I hope we spend some time discussing the private rented sector, which is an area that we are particularly interested in, some of these properties, albeit relatively few as far as I am aware, are empty and long-term empty. We are talking about the displacement of people who might otherwise be housed in favour of those who are in most acute housing need and that is the fundamental problem. The fundamental problem in this country is a shortage of supply and though very creative ways of recycling existing stock to meet need are all very well, in the end what we need to see is an increase in supply overall.

**Q21 Dr Pugh:** So, it is not just that the housing associations react more slowly because they have bigger overheads and your bureaucracy and stuff like that.

**Mr Sampson:** That said, it would be profoundly useful for housing associations to use the sort of model we are talking about in order to extend mixed communities into areas which are mono-tenure at the moment but mono-tenure in a way we do not tend to talk about much, which is mono-tenure of rich, privately-owned estates. Along with breaking up of mono-tenure council estates by creating some home owners there, it would be quite nice to be seeing the breaking up of mono-tenure, privately-owned estates by creating some areas of social housing in there, in pursuit of the mixed communities' agenda.

**Q22 Dr Pugh:** May I take you back to housing benefit and the changes afoot? You have been fairly critical of local housing allowance and it is not entirely clear to me what your reasons are. Do you fear that people will squander money allocated to them which ought to go to landlords who will give them a safe and secure abode, as it were? Is it to do with poor financial management by people who are in the homeless category? Is it that you fear it simply will affect the market in an adverse way and just create less property for homeless people?

**Mr Thomas:** I hope we have not come across as entirely critical of local housing allowance.

**Q23 Dr Pugh:** Sort of critical.

**Mr Thomas:** Broadly speaking, we do think it is a good thing. We have some reservations but it has produced a number of benefits. First, one of simplicity and, in the context of a housing benefit system which is horrendously complex, that is a very good thing, not least because it can help to speed up the administrative side of the system which is extremely important. In addition to that, in the pathfinder area—

**Q24 Dr Pugh:** Can you just explain why you think it will speed up the administrative side, because there will be an administrative burden of some kind, will there not?

**Mr Thomas:** Because rent officers will no longer have to undertake individual determinations on properties. You will have flat rates set for particular areas, according to the category of housing it actually falls into and the number of people, so there will be less work there and the broad experience has been that there has been some speeding up. To come back to the other benefit, we have seen overall in the pathfinder areas some reduction in the level of housing benefit shortfalls that people are experiencing and that is also really important. There are some caveats though. We have done some research across a number of the pathfinder and non-pathfinder areas to look into the detailed impact of the changes and we found that there are quite significant disparities in terms of the impact, both in terms of comparing different areas of the country, the levels of reduction in benefit shortfall that have been experienced and therefore the proportion of the private rented sector that claimants are actually able to access. There are some really big disparities there.

**Q25 Chair:** May I just ask whether that research has yet been published?

**Mr Thomas:** Yes.

**Q26 Chair:** It has; so we could get a copy of it and then we shall have the detail.

**Mr Thomas:** Yes, so I shall not go into the detail. The other thing is the experience of under-25s without children. The single room rent remains under the new system and that group has not seen a nearly equivalent increase and actually still continues to face real problems. We are continuing to push really hard as the Bill progresses to get the Government to rethink on that one.

**Q27 Chair:** I am afraid that we have come up against the end of our time. I noted that you wanted to make some remarks about the private-rented sector. All I can suggest is that you might want to sit and listen to the next set of witnesses and if you want to send us another additional written response after that, then that would be very helpful.

**Mr Sampson:** I can sum up in 10 seconds.

**Q28 Chair:** Okay; 10 seconds.

**Mr Sampson:** What we wish to say about the private-rented sector is that we believe that the time is long overdue for the Government to come up with a strategy for the development of a private-rented sector. Huge changes have taken place in the sector with the growth of the buy-to-let market, and what that has created is a sector which is new, which is highly volatile, which is not professional in any sense at all. At the same time, the sector is being used to house increasingly vulnerable people who might otherwise be going down the homelessness route. Under those circumstances it is imperative, particularly given the fact that the sector is going to

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have to absorb a significant number of new people, given demographic changes, that Government think about the way that regulation and indeed the use of direct or indirect subsidy—£3 billion a year goes into that sector through housing benefit—how those

things can be fitted together in order to create or foster a more professional and expanded private rented sector. We should like to see that as a recommendation.

**Chair:** Thank you very much.

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*Witnesses:* **Lord Best OBE**, a Member of the House of Lords, Director and **Mr Andrew Barnett**, Director of Policy Development and Communications, Joseph Rowntree Foundation, gave evidence.

**Q29 Chair:** If you could introduce yourselves that would be very helpful.

**Lord Best:** I am Richard Best and I am the Director of the Joseph Rowntree Foundation and the Joseph Rowntree Housing Trust.

**Mr Barnett:** I am Andrew Barnett and I am Director of Policy Development and Communications for the Foundation.

**Q30 Chair:** You have had a very good lead-in from the previous witnesses. I wanted to ask what you thought the role of the private rented sector was in accommodating households in long-term need and maybe you could start off by taking over from the points that were made by Shelter and give us your responses to them.

**Lord Best:** You said there “in long-term need”, which is quite an important additional adjective in the middle, the long-term nature, because in essence the private rented sector is not supplying for people’s long-term needs. Only 5% of the sector is housing homeless families in temporary accommodation but they are homeless families who are being stacked there before they get permanent accommodation. The great growth within this sector, described by Adam Sampson as highly volatile, is of course the singles and the childless couples, the mobile younger people who have created this boom for the buy-to-let market. There again this is not a long-term solution to people’s housing requirements or, if it is, we are going to have a lot of disappointed people because there is still an expectation in the United Kingdom that even though you might have three years’, four years’, five years’ private renting, you do move on sooner or later to owner occupation. The hazard of this sector is that it has made it more difficult for people to move on because the buy-to-let purchasers have out-priced so often the first-time buyers who used to be buying the same flats, the same small homes, the properties at the cheaper end of the market. The “long-term” point really may be critical and few people are expecting and hoping that their long-term future lies in the private rented sector. It can do an important job on a temporary and shorter term basis.

**Q31 Chair:** May I ask you about the issue of poor standards in the private rental sector? You will know that it has a reputation for poor standards. How effective do you think the measures have been that were introduced in the Housing Act 2004 in raising standards and what more needs to be done?

**Lord Best:** We have not seen the impact of those measures yet because they are only gradually being introduced, but they are important measures. I did speak round the other end of this building to try to strengthen some of those measures and we could have gone a bit further. These are important steps in the right direction because, as you rightly say, this is the sector that still has the largest number of properties in serious disrepair. The growth, the boom bit though, just to say a few more things if I may around this great big buy-to-let boom, because all of my career I have talked about the decline of the private rented sector and all of a sudden it is the opposite, the sector has been growing really quite dramatically. It bumped down to 9% of the national stock and is now up to 12%. This is a huge difference and that extra stock is not by and large of poor quality; that is not the problem that we have with it. Most of that is in new properties, buy-to-let properties in blocks of apartments. Increasingly, as we go down the Thames Gateway, thousands of such one and, slightly less often, two bedroom apartments which are being acquired by people in preference to putting their money in their pension scheme or in other investments, that is the growth and that is not actually a growth where the quality is not an issue unless you worry, as I do, about space standards and things like lifetime homes accessibility, but broadly these are not in serious disrepair. It is the residue which still needs attention, the older stock which is still out there.

**Q32 Dr Pugh:** How general a trend is there? You have obviously studied this, you have the statistics, you have the figures to look at, but there are different types of housing markets, are there not? There is a low demand and a high demand housing market. It comes as no surprise to know that building along the Thames is a very attractive thing for people to do and renting along the Thames is also a very attractive thing for people to do. I wonder about some of the cities in the North or in Wales or wherever and I just wonder whether they have seen a similar increase. In other words, are we saying this is pan UK or are we talking about something that tends to occur in certain pockets where there is a very strong housing market in the first place?

**Lord Best:** Perhaps surprisingly, the buy-to-let market has spread itself now into a lot of places where you might not expect it and in those places, and indeed I would say down the side of the Thames as you get into the Thames Gateway and keep going east, we may be reaching a position of glut; Salford, for example. I was hearing the other day from the

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people working in Salford that over 20% and approaching 25% of the new apartments in Salford are standing empty at the moment. It may just be a matter of time for some of those and they will get filled, but there has been a boom in Salford in the production of private rented apartments. They are acquired, just like the ones down the Thames, by people for investment purposes and this is a multiplicity of landlords without necessarily particular skills in managing the property. It may be that in some of those places too, northern cities, the old conurbations, we may have run out of the yuppies or the young single people able to pay market rents; we may be running out of those people and we may need to recognise that the shortages of supply are increasingly going to be found to be in family accommodation, the traditional, if you like, families with children who do not want to be in high density apartment blocks, who want to be on the ground. Maybe this is the new suburbia.

**Q33 Dr Pugh:** Has there been an increase of landlords even in areas like the pathfinder areas where there is normally a market failure? There seems to be some evidence that even in those areas people think it is worthwhile buying a house and renting it.

**Lord Best:** Absolutely. Of course, as you say, the market is differentiated and you have those landlords who are buying on the basis of the housing benefit rent, rather than the market rent, who are often buying the older properties and giving us some of those problems around the disrepair issues that we were talking about earlier; you are not into one market. Yes, in the pathfinder areas, the thought of investment in renting, in property, which has been anathema for 70-odd years, even in those areas there is now this hunger for investment which may not be entirely helpful.

**Q34 Mr Betts:** The Barker report. Presumably you are one of the few people who have read it cover to cover or, like me, maybe you have read the summaries of it. Do you have a response at this stage to the recommendations and do you think it is actually going to enable housing associations and other social landlords who want to build more properties to get the land they need?

**Lord Best:** I hope so. Barker is addressing the overall big issue of supply. We have to have more homes. All of the other things that we talk about always run back to shortages of supply and she detects as we all do that planning is one of the barriers; not always the largest, but it is problematic in terms of delay and in terms of holding back opportunities for supply to be met. If we are talking about social housing, if we are talking about the allocation of social housing, what we are really talking about is that there is not enough to go round. When people are worrying that they are being discriminated against, worrying that immigrants, that any other groups, somebody else, are getting what they need, what we are doing is setting groups against groups, families against families because there just is not enough to go round. It is not that there is wickedness on the part of those

allocating the accommodation and unkindness and cruelty, it is that there is not enough to allocate. Barker is trying to target this fundamental issue of supply; we just need to build more homes. We keep doing these sums, Kate Barker keeps doing these sums, more households are being formed each year than homes are being built and we also have a backlog to get through. Things are going to get worse and worse and worse. If we have more households every year and we do not build as many homes for them, then gradually, incrementally, those pressures get worse year by year by year.

**Q35 Mr Betts:** For many housing associations and other providers of social housing, very often it is not that they can uniquely buy the land, but they depend on housing developers coming along and then section 106 agreements being attached so they have plenty of social housing. Is this a problem now for the social housing movement in general that they are so dependent on section 106 as a secondary activity to the prime activity of house builders building their houses for sale?

**Lord Best:** There are good things about section 106 which compensate for some of the factors of having to go on the coattails of the house builders. It is about half. It is getting on for half of the total output of social housing that is now coming through section 106 agreements with the house builders and yes, I am troubled that that means that it is the house builders that are calling the shots. The housing associations are coming in as second fiddle, they have to accept standards that they would not necessarily have built to themselves, they are not in charge of the process, but they are going to be there for years and years to come, long after the house builders have sold their properties and gone. I would much prefer the housing associations to be the front line and the house builders to be doing the housing for sale but for the housing association to be doing to master planning, managing the public realm, managing the rented property, managing the processes of mix within that. I would much rather the boot was on the other foot, but nevertheless what the whole section 106 process has achieved is social housing in good areas, in areas where by definition people are buying properties, paying good money for them. It has taken the housing associations to sites, to land that they could not get their hands on, so it has put social housing in a mixed context, into good places and it is now half of the total so it is a mixed blessing. Of course, if there is a downturn in the market, then there will be a downturn correspondingly in the amount of social housing. Even though the need to create more supply of social housing will increase, a downturn in the market when you are dependent on giving a proportion of the house builders' homes, if the house builders do less, there will be less social housing and that is going to be serious. It has been okay during this buoyant period for the housing market. What is it going to be like when things get a bit stickier?

**Q36 Mr Betts:** One thing about Barker which probably slightly worries me in terms of social

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housing is that if Barker is really arguing that we should be building on green belt land and more on green fields on the outer edges of conurbations, cities and towns, then if a percentage of social housing is going to go there from section 106 agreements, very often the people who go to those properties do not have access to their own transport. They rely on public transport and are we not going to find that people actually are not able to access this housing because of their transport difficulties and really the whole benefit of section 106 might be undermined by that process?

**Lord Best:** Sure and the whole of the link between housing and transport is a really good theme which interests you and I in other contexts, but there is a big difference between an urban extension pushing out the boundaries where you can plug into the same bus services, the same infrastructure, you are part of a town but you are just going a bit further out, and creating new settlements that are out in the middle of nowhere. That is what we used to talk about and we have backed off now for reasons of sustainability as well as because households on lower incomes do not have the transport systems. We are trying to build 550 homes in a model community on the edge of York and we have gone to that piece of York that is just on the edge of the existing town; it is the urban extension model that plugs in. We will have people being able to walk to school, cycle to the centre of town, take the bus route; we are looping the bus route round to pick you up as it comes round. An urban extension can work really well and it can be the place where you get the lower density; not low density but lower density family housing which York, like everywhere else which now has lashings of buy-to-let flats and apartments being built, one and two bed flats, does not have and that is going to creep up.

**Q37 Emily Thornberry:** I want to ask you about the definition of family housing really and what would be an appropriate size for family housing. We hear a lot about it, but what would you call it?

**Lord Best:** I would say two things about family housing. One is that it is two bedrooms and more, two bedrooms as a starting point, but also that it is on the ground. We just know we are not going to back, are we, and have tower blocks and put families in? We just know that this is a recipe for disaster. Sir Terry Farrell is always quoting this one: the London borough with the highest density is Kensington and Chelsea. It is packed with town houses. You can be on the ground and you can have family housing to very high density. K&C has the highest density of any borough in London and it does not have a lot of tower blocks, it has packed houses on the ground. We can have families on the ground without wasting a lot of land. I should say they are probably three bedrooms, but some two bedroom starter homes, and they are on the ground.

**Q38 Dr Pugh:** A couple of decades ago if we were talking about rented housing, we would have been talking fundamentally about council housing, but nobody now anticipates much of a role for the

councils in building housing any more; they are largely left to police and allocate and to come up with strategies. Is it your perception that they do not have all the levers they need to do some of the jobs they have to do or maybe you would like to give them to do or, put it another way, are there some local authorities who use the levers they have better than other local authorities? If so, which levers and which authorities?

**Lord Best:** More council housing is still retained in the ownership of local authorities than has been passed across to ALMOs and through transfers; only just, but there is still more. A lot of councils are still owners and are landlords of properties but yes, you are quite right that there are good and there are bad local authorities with their strategic role, their role of statutory duties towards homelessness and other factors. We do have an inspectorate system and the Audit Commission fussing around and awarding stars so that we can get some idea of which is supposedly better than another, but there is variability, as in all aspects of local government provision and one would accept that.

**Q39 Dr Pugh:** In terms of their strategy, I have a perception in my neck of the woods that sometimes what the local authority do is implement what the Government decide is the strategy and try to do that as well as they possibly can. Do you think there is more scope for an empowered local authority to sort out the rented sector far better than it is doing now and does it need additional legal powers to do that?

**Lord Best:** Local authorities could do more. The danger is that they lose interest in housing once they are no longer the landlords and other people are doing these jobs. I was asked by Westminster City Council to have a look at Westminster's housing and in many ways Westminster is a model. It is doing some very interesting and important things. I drew conclusions though on some of the things that they might do more of and do better which included the concept of housing advice. We used to talk—you were saying 20 years ago, I might even be talking 30—about comprehensive housing advice services because it is a very complicated world. How do you know, even if you are in an existing council tenant, what is best for you? Might it be a good idea to move? You want to get a council flat, you are homeless. At all levels people need advice and guidance and local authorities used to be the source to which you could go, the one-stop shop where you could go and get really good advice and guidance and know what new grounds there were. You work in the NHS? There is a shared-ownership home-buy scheme for you. Who knows about these things? The local authority is the strategic body and particularly if it can link—and Westminster has been pretty good about this—its housing and its planning powers together, it brings those together rather than seeing those as rival functions, housing and planning. Local authorities are powerful agents of change if they can be motivated.

**Q40 Dr Pugh:** Do you see a downside if they become providers of new build again?

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**Lord Best:** It is unrealistic to expect councils, with public expenditure constraints, to know how to spend really big sums of what would be labelled public money and get back into housing big time.

**Q41 Dr Pugh:** That is not the question I asked you. I asked whether you see a downside of it. The Chancellor sees a downside of it, we know that, but do you see a downside of it?

**Lord Best:** Most local authorities have lost the capacity for imaginative and exciting new development. This has been a 20-year process of winding down their capacity. It would take a lot to get them revved up and to employ the kind of talent that they would need to get back in the business now.

**Q42 Sir Paul Beresford:** Some of the local authorities with 1950s and 1960s blocks in particular are using their imagination to build within the estates they already have; vacant areas, empty areas, disused places. What can you do to encourage that?

**Lord Best:** Two things about that. That gives you then, instead of that bit of town being where the council tenants go and it becoming stigmatised and you are labelled because if you live there you must be a poor person, that does give you some social mix and the use of that land can be a creative way of changing it. I would go a bit further though and I would say slightly dramatically, that the local authority with their tower block should consider, after refurbishing it, selling vacant properties in that block—not to the existing occupiers—so that there is a mix of tenure and ownership within the existing old block. When you have that little plot for 26 houses that are brand new, that look completely different, we should be in there purchasing some of those for rent so that we get a real mix on that estate, otherwise you still have the old tower block but in its shadow these smart little homes for first-time buyers down below that look entirely different. We want to get both; we want to get the whole. At the Joseph Rowntree Housing Trust we have 1,000 homes in the old village of New Earswick. We do not have any right to buy because we are a housing trust, a charity, and we have a mono-tenure. We have nobody as home owners and everybody who is sent to us, homeless families in particular of course, on low incomes or on housing benefit, we have a policy of sales of alternate vacant properties; we sell alternately. If a property becomes vacant, we sell one, we rent one, we sell one, we rent and we replace every home that we sell because we now get enough from the sale of the vacant property, with the extra loans we can take on and repay out of rents, to replace every home that we have sold. What we are getting is a mix of people within that estate on different incomes all in the same place instead of having just those people who, I fear, then become residualised, stigmatised, treated by the rest of the community as losers in society instead of a place that is a healthy vibrant community, which we are restoring it to be.

**Sir Paul Beresford:** I remember doing that and trying to explain it to the district auditor.

**Q43 Emily Thornberry:** I want to hear what you have to say about Shelter's thing on intermediate housing. We have heard criticism from them about intermediate housing, about this idea that one of the ways in which you could get into intermediate housing would be to be a social housing tenant and that would be an access point.

**Lord Best:** Yes, that moves you out then of the rented apartment and frees it up for somebody else. The Rowntree research done by your adviser, Professor Wilcox, for us, extremely important research, shows that this group of people, the people who are stuck in the middle, who fall between being council housing association tenants and being able to buy, this is becoming the biggest group in some areas of the under 40s. This is the big issue. These are the people who, as I say, do not mind being private tenants for a while but they are not going to be very happy to retire in 35 years' time from their jobs, continuing to be privately rented tenants, discovering their income falls but their rent keeps rising. We have a culture, but we also have a financial arrangement in UK society that expects you to pay off a mortgage and be debt free when you retire, not facing your rent going up and up and up when your income has dropped dramatically. If we are going to change that, we had better let people know and people are not going to be very comfortable with that.

**Q44 Emily Thornberry:** But to keep to a tight definition of who should get intermediate housing, this would be one way of tightening up the definition.

**Lord Best:** Yes. The tightness of the definition is dependent on how much subsidy is going in. If we can devise the ways in which some other parties, perhaps those people who are piling in to buy to let, which may have some downsides to it, if some of those investors were putting their money into the equity loans so they have a stake in the property, they would get some of its increase in value but not become private landlords and the occupier would be the owner and hold the other part. If we get equity investment it may be we do not need all or so much public subsidy going in and if this becomes a market transaction, then we can be less precious about whom we choose and how we select and allocate. It is more a market mechanism. It is something that suits the people in the middle at the moment.

**Q45 Chair:** On that issue, do you think that real estate investment trusts would actually further fuel the market and drive prices up or would they be positive?

**Lord Best:** We do not think the real estate investment trusts are going to make very much difference in our world, mostly for technical reasons. We have not found much of an appetite for people to use that particular mechanism. It requires you to register on the Stock Exchange and be quite a substantial enterprise and we do not see that. The investment at the moment is by private individuals and there are mountains of money. We do not at the

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moment need to encourage any more: £85 billion has gone in to buy to let. It is absolutely extraordinary. It is twice as much as the housing associations have had from private investors in the last 25 years; twice as much has gone in to buy to let in the last seven

years. We do not need any more mechanisms. The mechanisms do not really suit terribly well the kind of market forces, so we are not expecting too much of REITs.

**Chair:** Thank you very much indeed.

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*Witnesses:* **Ms Terrie Alafat**, Director of Housing Strategy and Support, **Mr Andrew Wells**, Director of New Homes and Sustainable Development and **Mr John Daniels**, Policy Adviser, Private Rented Sector Housing, Department for Communities and Local Government, gave evidence.

**Q46 Chair:** May we ask you to start off by introducing yourselves and then when we do get round to questions, I am assuming you will sort it out between you which one answers which question. Given that there are three of you, we do not want all three answering the question or we shall never get through the agenda.

**Mr Wells:** We shall try. I am Andrew Wells. I am Director of New Homes and Sustainable Development in Communities and Local Government.

**Ms Alafat:** I am Terrie Alafat. I am Director of Housing Strategy and Support in Communities and Local Government.

**Mr Daniels:** I am John Daniels and I deal with private rented sector policy in support of Terrie.

**Q47 Chair:** May I just ask what the Government see as the greatest barriers to increasing the supply of high quality rented housing?

**Mr Wells:** The biggest problem we face is the one that was dealt with in Kate Barker's first report on housing supply which is just the overall level of housing supply in the country, in that the Government committed themselves to seeking to raise housing supply in England to 200,000 units by 2016; that is the whole market, private market, private rented sector, social rented sector, intermediate market. Undoubtedly, the lack of supply has been the biggest barrier. We put in place a set of policies to seek to address that.

**Q48 Chair:** The Law Commission suggests that the state of the law is one serious obstacle to getting high quality rented housing. Would you agree with that and if so, are you proposing any changes?

**Ms Alafat:** We are considering the Law Commission report and generally we have said that we appreciate their findings. We have not actually formally responded in full yet on behalf of the Government, partly because some of the proposals are quite complex but also because we are in the midst of taking a more fundamental look at social housing as part of the John Hills review. We have given a commitment to come back within two and a half years and, indeed, we have met the Law Commission to clarify our position. So we have not actually responded yet to the detail of the Commission report.

**Mr Daniels:** Ministers have said they will look at this in the context of the John Hills review but obviously tenure reform is an area where you can improve the issue of relationships between landlords and tenants

and is a further strand in comparison with the Housing Act provisions on the fitness of landlords, proper management and the health and safety of property. So it is an important further strand.

**Q49 Chair:** Is there a timetable on when the Hills review is likely to be completed?

**Ms Alafat:** Yes. John Hills is due to give his report to Ruth Kelly by the end of the year.

**Q50 Chair:** This year?

**Ms Alafat:** By the end of this year. What we have not yet said is when publication will be, but he is taking quite a fundamental look at our social housing policies more generally.

**Q51 Mr Betts:** So 200,000 is the potential target then. Is it absolutely fixed as a target, because all the evidence now shows that household formation is going to be greater than 200,000? Are we stuck with a target which actually plans us into a situation of increasing housing shortage?

**Mr Wells:** I think 200,000 is an aspiration. Obviously when we set that target, the household projections were at 189,000 a year; the latest ones are at 209,000.

**Q52 Mr Betts:** And rising steeply?

**Mr Wells:** Potentially rising. We do not know what the next set will be. They may be higher; they may not be dramatically higher. That is really a matter now to be taken forward in the mechanisms that Kate Barker recommended through the regional spatial strategies and people looking at what those projections are on a regional basis. We have recently set up a body called the National Housing and Planning Advice Unit which will actually engage in that process and give top quality advice to regional assemblies when they start that process and also to the examinations in public on them. In that process you can set the right level per region which can react to revisions in the household projections.

**Q53 Mr Betts:** Is there a timetable for pulling that together so we have new national targets?

**Mr Wells:** We do not see it in that way. Setting ourselves 200,000 was an ambitious aspiration. You remember in 2001–02 we got the lowest level of new homes we have had since 1947, of 130,000 per annum. We were maybe at 150-something. We are now at 168,000 in the latest year, 2004–05, so we are

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making very good progress towards that target but it is going to be a long and reasonably difficult haul to get there.

**Q54 Chair:** May I just ask about the balance between low cost home ownership and social rented: 49,000 social rented; 35,000 low cost home ownership in 2006–08? Are Government intending to maintain that balance or alter that balance?

**Mr Wells:** What the Government did in the last spending review was to prioritise the social rented part of that. In broad terms, the new money that we got for these programmes went into the social rented side and we set ourselves a commitment to raise, by 50%, the rate at which we were doing social housing and that brings us to about 30,000 units a year next year, 2007–08. The one thing the Government have said, the Chancellor has said, about these programmes for the new comprehensive spending review is that the Government are committed to making a further increase in social rented housing. So you can see that the priority is probably on that side, if you look at what the Chancellor has said, particularly in the response to Kate Barker's first report to be published with the Pre-Budget Report last year, 2005.

**Q55 Emily Thornberry:** The question I was going to ask has been answered, which was whether you are going to meet your target of 30,000. You have just said that you think you will.

**Mr Wells:** Yes, we believe we are. This is all the different forms of social housing and by far the biggest part of that is the Housing Corporation. The Housing Corporation has a very good record of meeting its targets. It is a stretch, it is making quite a substantial increase in the programme next year, but yes, we are reasonably confident of doing that.

**Q56 Emily Thornberry:** Do you think you are going to be in a position to more than meet that amount in future because you are hoping there will be even more investment in this in future?

**Mr Wells:** More investment yes, but also more efficiency. There is a big debate now going on about how we can reduce the unit costs. In our evidence you have the unit costs. They were going up until the last programme. In the last programme, we actually pulled the unit cost down quite a bit in the face of quite a bit of inflation in social rented build costs and we hope to do the same again, but that debate is going on with the sector. The sector have put in proposals which actually are quite stretching of keeping unit costs level in the face of a rate of inflation in build and land costs which adds up to about 6%. Obviously where we can go to will all depend on the CSR.

**Q57 Emily Thornberry:** I want to ask you what the unit costs are.

**Mr Wells:** The unit costs are in the report. Broadly speaking nationwide they are about £60,000 of subsidy to do a social rented unit; an awful lot more in London, about £100,000 in London in the last round.

**Q58 Emily Thornberry:** So £100,000 plus the price of the land.

**Mr Wells:** No, these are the subsidy costs. New social housing is funded by RSLs. They borrow the money that they can afford to borrow from the net rent after paying for management and maintenance and we give a subsidy to fill the gap; I am talking about the gap subsidy. They will then be paying for some of the cost of land and the build from private borrowing which is why using that mechanism allows you to stretch the money 40% further at the moment.

**Q59 Emily Thornberry:** You are targeting assistance on shared equity home ownership at those whose needs will not be met through private schemes. Who does this include and how are you going to do it?

**Mr Wells:** What we have done is set up a network of 23 Home Buy Agents across the country who form the gateway, providing information to potential purchasers but also checking out their finances, making sure that they are not stretching themselves beyond what they can afford and also checking that they actually need the help, so that we are not helping people who could move into the private market with their own resources. Broadly speaking, who are we helping? We are helping a number of people. We are helping people who are already social tenants who have the resources to move out into part ownership, a point Richard Best was making, so freeing up for social tenants. We have helped about 1,200 a year of people in that position. We help a specific list of key workers which has been expanded, key workers in the public sector and then we are helping other people who are prioritised by regional housing boards. We asked them in the last round to tell us who in their region we should help and they have actually given quite a variegated set of advice on who should benefit from this assistance beyond the categories I have talked about.

**Q60 Emily Thornberry:** How can you measure whether you are being successful on that and how is it being measured whether you are being successful? We have heard criticism today about some of the people who are getting assistance who it is felt really should not need it.

**Mr Wells:** There are different attacks on this process, are there not? Some people say you are helping people who could have bought on the market. On the whole, we should not be doing that although there are some categories of key workers we help who are in the market, particularly more mature teachers that you want to retain in London because otherwise they would probably move with their families outside as they cannot afford to teach in London and move into more senior teaching posts. There is a particular category there. We are certainly not trying to help people who, apart from those rare exceptions, could get onto the market by themselves and we believe that the systems we have are fairly successful for our subsidised products.

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**Q61 Chair:** How can you be sure they are not inheriting money from their parents which 30% of all new buyers are supposed to be doing, getting helped out? How can you check whether they have relatives?

**Mr Wells:** We do. Home buy agents make inquiries on those sorts of things. It is very difficult to deal with downright deceit but, apart from that, the aim is to check out what their resources are, what they are bringing to the table and help those who cannot.

**Q62 Emily Thornberry:** Is there a way of measuring how successful you have been?

**Mr Wells:** I am slightly struggling with that question. We try very hard not to help people who can get onto the market by themselves and on the whole we succeed in that. I am slightly struggling with, except for having those sorts of conditions, how we could measure. We can evaluate the programmes when they have been running for a while but the present system was only set up this year and it considerably simplified what Adam Sampson was describing as a rather complex set of products and introduced these three new brands of home buyer products. So there is a common set of processes, procedures, rules among them so we have got those three products: Open Market Home Buy, where we give people money to buy on the open market; New Build Home Buy, which is new build homes, some of them on section 106 sites, some not; then Social Home Buys to help tenants move into home ownership. When this has been running for a while, then it will be possible to evaluate it and we shall be able to say what the consequences have been. Apart from that, I am slightly struggling with exactly how we would—

**Q63 Mr Betts:** I was with a CEO earlier today who said one of the problems was the complete lack of proper consultation with people who are going to be involved in these processes before they were created and they are so bureaucratic. I understand there are actually 40 social home buy applications in so far, is that right?

**Mr Wells:** No, that is not right. I can look out figures. Social Home Buy is new this year, it is extending the idea of part ownership into getting social tenants to buy a share of their own home; it is an untried concept and we are trying it out.

**Q64 Mr Betts:** So there are more than 48?

**Mr Wells:** We have a fair number of people going through the process. We have had seven purchases so far I think, but we have a considerably larger number than that coming through; I think the number is 150 people who are going through the process.

**Q65 Chair:** May we ask for some hard and fast figures afterwards in writing? That would be extremely helpful.

**Mr Wells:** Yes, by all means.

**Q66 Mr Betts:** One of the areas in the new world of targets that you have to focus on is homelessness. Local authorities have targets to get their homeless figures down and no doubt you have targets to get the national homeless figures down which will allow the local authorities to get their figures down. There is an awful lot of pressure on at present. Is there not some evidence around that people who would have actually been accepted as homeless in the past are now being, not necessarily for proper reasons, pushed into private rented accommodation with benefits and that is deemed to meet their needs rather than being treated properly as homeless and going through that route?

**Ms Alafat:** May I explain what we have been trying to do in terms of prevention of homelessness? We are not pushing people into the private rented sector but what we have actually done in terms of homelessness—and I was interested when Richard Best was talking about comprehensive housing advice—is funded local authorities over the spending review period up to £200 million to invest in prevention. Prevention is a range of things including housing options for people, looking at issues around rent deposits, looking at issues around mediation. It is looking at a range of interventions early on to try to address the needs of homeless applicants. Those homeless applicants do not just have housing needs as we know; they have a broader range of needs. As part of that, we are looking very seriously at the private rented sector and what role it should play. So there is an issue about preventing homelessness from the private rented sector because it still accounts for about 30% of people being made homeless and that is where sometimes the work that is done with landlords in terms of mediation and rent deposits and that sort of thing can actually prevent the homelessness from taking place, which is quite important. In terms of use of the private rented sector, local authorities are currently working with applicants and in some cases it offers a better option and indeed there is a choice for the applicant—they are not forced and they cannot be forced to accept. Instead of long waits in temporary accommodation and maybe long waits of the sort where they will then get allocated housing in another part of town or of the type that is not as suitable or appropriate, they are working with applicants to ascertain whether they would like to stay in the private rented sector and helping them to do that. This is still early days and we are testing this in various ways. Indeed we have launched a scheme in London which you may have heard about called the Extra Homes pilot where we are trying to test the extent to which we can change our investment, the way the government funding is going in through the subsidy, the housing benefit system, with some upfront capital investment to see whether we can create appropriate settled accommodation in the sector. It is early days and we have gone out asking for bids and those bids will be coming in and we shall be assessing them on a range of criteria. However, one of the key things for us is that the schemes actually address the needs of the homeless household and provide settled accommodation. I am sorry, it is a long-winded

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answer, but the question is quite complicated. One of the things that we do is monitor the number of households being found intentionally homeless. In other words, one of the things we are very aware of is the gate-keeping allegation and indeed we try to work very closely with Shelter and others to investigate where we think there may be a local authority that, instead of preventing homelessness by offering real options, is actually in effect shunting people away or gate-keeping.

**Q67 Mr Betts:** What happens if you find that is happening in practice? What you are saying about prevention and advice is all very admirable but sometimes authorities may be a little bit over-enthusiastic in the pursuit of your targets, trying to get ticks in the right boxes and might actually be turning people away as homeless who ought to be properly categorised as such and given the appropriate treatment that that would merit. If you find authorities not behaving in that way what do you actually do? Have you actually directed any authority and said they are operating this incorrectly?

**Ms Alafat:** Yes, I have to say we are quite active. It is always hard when you are in central government ever to say that it is happening perfectly everywhere the way it should.

**Q68 Mr Betts:** How many authorities have you intervened on so far this year?

**Ms Alafat:** May I just explain what we do because we have a whole range of measures? The first thing is around best practice and promulgating best practice and indeed, we have had for the last three years regional champions that in effect are actually practitioners in the field that go into authorities offering free consultancy to try to provide the best service. We have advisers where we second people in from the field who work for us and go out into local authorities and keep very close track of what the authorities are doing and indeed intervene, in the sense that they go out and advise and try to ensure that the local authorities are adopting the best practice. The third thing we do is actually allocate our homelessness grants on the basis of performance, but it is not just performance against a crude target. A key thing that is sometimes forgotten about the Homelessness Act is that it was not just about target, it was actually about homelessness strategies. We are now in the process of the next round of homelessness strategies which requires local authorities to take a broader view of housing need and to come up with solutions. There can always be some examples of poor practice. What we try to do is to work with our colleagues in the sector and with local authorities, to address this.

**Q69 Chair:** We are seeking a few concrete examples. Have you intervened on any councils which appeared to be batting people away and pretending they were not homeless when they were?

**Ms Alafat:** We do have some examples but rather than starting to name and shame different councils, if you would like concrete examples of how we do that, I am perfectly happy to give you those examples.

**Chair:** If you could write to us that would be very helpful.

**Q70 Mr Betts:** If any elected member or indeed an organisation like Shelter had concerns about a particular authority and came to you, would you actually investigate and respond to them on that?

**Ms Alafat:** Yes. As a matter of fact, we have had lots of conversations about Shelter letting us know when they run into these problems so that we can either go in ourselves or indeed work with them to do that. One of the important things is that we still fund a network of independent advice provided by Shelter and the CABs across the country. It is very important that there still is that independent advice and advocacy. Yes, we do want that intelligence.

**Q71 Chair:** When you are evaluating councils' homelessness strategies do you ask the people they have either failed to house or the people they have put into the private sector whether they think it is an acceptable experience?

**Ms Alafat:** May I just clarify? What we are not planning to do with the homelessness strategies is a full-scale evaluation, but we do, I have to say, use advisers who actually go out and stay in bed and breakfast hotels and that kind of thing to talk to real users to find out what experience they are having. We do try to take into account that kind of thing.

**Q72 Mr Betts:** May I ask you to comment on the scheme in Newham called Local Space where homeless families have been put in temporary accommodation, but it is temporary accommodation which is being bought up by a housing association, rather than private landlords, with a view eventually to funding, through the housing benefits that accrue to that association the eventual purchase of those properties so they can actually be put into the social sector. Ministers have expressed an interest in that and I wondered whether you had any views on that?

**Ms Alafat:** That is exactly the type of scheme I was just talking about, which is sometimes called "temporary to settled" and it is currently tagged the Extra Homes pilot. The Local Space is one model. There is also a model in Ealing called Safe Haven. But the idea is the same. Can you actually, through the rents that are being paid through the housing benefit and subsidy, use that money to pay the debt charge of the cost of a mortgage and eventually bring the accommodation into the settled sector rather than simply rent being paid out over a period of years? Can you actually use that to pay the debt charge of the cost of a mortgage and eventually bring that into the sector? There are still some significant issues though. One of the issues for us around Local Space, for example, is the length of time for which the rents are kept at an unaffordable level. What we have done in terms of the bidding

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criteria is to say we want it to help achieve the temporary accommodation target; we do not think people should be in a temporary position for a very long time. We want to make certain that we are looking at issues around worklessness and unaffordability and we want to try, by putting some investment up front, to bring those rents into the affordable category as soon as possible rather than the longer timescale.

**Q73 Sir Paul Beresford:** Another target. Last Wednesday the Chancellor said that new brownfield sites were being designated that would raise the number of homes on so-called surplus land to 130,000. Can you clarify whether the 130,000 homes will be on surplus public sector land and whether they will be exclusively built on brownfield sites? Can you expand a little of surplus land and explain that? Down in the South-East I foresee that there will be some public sector surplus land because they are shutting the hospitals. What is effectively going to be happening is that we are going to have new homes, more people, more demands, less infrastructure because the public sector land has gone for homes.

**Mr Wells:** This was an announcement by the Chancellor and he has previously expressed an aspiration to do 100,000 homes on surplus public land; so it is public sector land. This was saying after further work that it looked as though 130,000 could be done. I cannot claim to be the great expert on this, but I believe those are brownfield sites. They are surplus public sector sites from central government and central government bodies, but some of that number may come from local authority surplus land.

**Q74 Sir Paul Beresford:** So you are just about as much in the dark as we are.

**Mr Wells:** I have given you my understanding of it.

**Q75 Sir Paul Beresford:** When you get a clearer understanding could you write to us?

**Mr Wells:** By all means let us write to you.

**Chair:** We should be very grateful if you would.

**Q76 Mr Betts:** PPS3 and the recent announcement on changes there. Is it really going to benefit us in terms of improvements in the number of affordable houses that will be created or is it simply another opportunity to slightly relax the rules about building on green space and greenfield sites which builders will take up with alacrity no doubt?

**Mr Wells:** What it does is set out a slightly less controlled and a more devolutionary approach for local authorities. It puts them more in the driving seat, both at the strategic level, regional assemblies setting regional spatial strategies, and local authorities doing their local development frameworks. I am not so sure it relaxes: it changes from a very strong government drive to say we want these particular densities and we want this amount of building on brownfield, to retain those as national aspirations and indicative targets but to say in future local authorities should make those decisions for

their areas. It also contains quite strong policies about doing housing needs analyses and then planning to meet those needs in the area, including quite a lot on family housing for example.

**Q77 Mr Betts:** That is one of the big concerns that increasingly in the national house building as a whole, we are building smaller percentages of family houses and more and more small apartments, particularly with the drive to buy to let. So local authorities are now going to have real powers are they?

**Mr Wells:** Yes, to say what they need in their area and those are slightly different in the affordable sector where they will set out very clearly what they want on individual sites and something which does not stifle the market. It does not have them saying that at this site we want exactly this mix, but does allow them to set aims for their area as a whole and to determine planning applications accordingly, particularly if the private sector is going in a different direction. There has been a previous discussion about this question of building lots of flats. That is true recently, but it is a fairly recent phenomenon and it may now be coming to an end.

**Q78 Chair:** Why do you think it is coming to an end?

**Mr Wells:** When I started this job about three and a half years ago, the complaint was much more that a lot of the permissions were being built out as executive homes and that was a form which was being built. We have seen a complete change on that which is sometimes attributed to our policies, which is false. We have seen the market pushing into city centre flatted development. There are some indications, as Richard Best was saying, that that as a very attractive form financially to build may be coming to an end and we shall perhaps see a more balanced pattern of development as we go ahead just naturally in the market.

**Q79 Mr Betts:** Visually it does not seem to be coming to an end. Just going round the City of Sheffield and Salford and the Thames Gateway; there is a lot going on still, is there not?

**Mr Wells:** A lot of it is going on but I do not think the numbers are such as to distort local housing markets. It is also an international phenomenon. You are seeing this all over the world: people are coming back into city centres and there is quite a lot of high rise building going on.

**Q80 Mr Betts:** To come back to PPS3, in terms of the brownfield land, if local authorities still want to have a very controlled policy in terms of insisting on building on the brownfield sites which are available before they are prepared to give permissions on greenfield sites, will that still be up to them to decide that or would they still be able to decide that if that were what they wanted to do?

**Mr Wells:** PPS3 allows them to set an aim and a trajectory for brownfield land. It contains some fairly careful policies to ensure that they do not use a policy like that to say you cannot build on any greenfield land until you have built on all the

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brownfield land but allows them to set a trajectory for brownfield land and then to react if that trajectory is not being met.

**Q81 Mr Betts:** Surely the problem is the policy. Are we not going back to where we were in the old days where everyone wanted to build on brownfield sites? Unless you say you cannot build on the greenfield sites until you have built on the brownfield sites you will have a projection of land available for house building for the next 15 years and lo and behold builders will suddenly find it is much easier to build on the greenfield sites first, will they not? That is what is going to happen; that is what happened before we had PPS3.

**Mr Wells:** What PPS3 says is that if they start doing that, then, when they have observed that trend, after one or two years they can start refusing the greenfield sites. What they cannot do is to start refusing the greenfield sites at the beginning without that evidence.

**Q82 Mr Betts:** So there is a fundamental change then, because under the existing PPG3 they can refuse, can they not?

**Mr Wells:** It is a change in policy which is designed to ensure, as PPS3 says, that they meet their housebuilding targets so that we do not suffer from this.

**Q83 Mr Betts:** So for one or two years we could get enormous numbers of applications put in for planning permissions to build on greenfield sites and when they have all been granted we suddenly then find we are not meeting the trajectory, we have to change, but all those applications are in the bank then, are they not?

**Mr Wells:** It is theoretically possible, but I do not think it is very likely. The whole of the PPS3 policy is for local authorities to identify rolling five years of actual developable land in consultation with local players including house builders.

**Chair:** Can we move on to the last topic which is houses in multiple occupation?

**Q84 Dr Pugh:** Just before we come onto that may I just share a lingering thought I have had all the way through this? We talked initially of intervening to help people who could not get into the housing market and I think you were criticised for not having done enough for products you had developed not coming on stream quickly enough in order to address the situation adequately. Is there not a kind of paradox which you have to live with? You have this view of the market over there and people trying to get on it and your interventions on the other side. If your interventions do not make much impact at all you are accused of not doing the job properly. If on the other hand they make an appreciable difference, you actually distort the market you are talking about in the first place, do you not? I am sounding a bit like Milton Friedman here in some respects in terms of what I am advocating but is there not a danger that you are never actually going to address the problem adequately because either you have

schemes, like stakeholders of key work schemes, which actually do not quite work out, but if they do work out, they alter the markets they are working in. Is that not the dilemma you have to live with?

**Mr Wells:** If we were doing this on a very large scale, there is perhaps a risk that government interventions give people more money to invest in the market and that could potentially be inflationary. The key to that though is the twin track of ensuring that we build more houses overall and hopefully get up to the amount where the new housebuilding is sufficient to meet the newly arising need and at the same time we are helping people who cannot get onto the market, partly because of the very high level of house prices, to access shared equity home ownership. There is a rational policy there which does not fall into that risk. Actually the level at which we are doing these things is such that there is no very great risk of having a large inflationary effect in the market.

**Q85 Dr Pugh:** Houses in multiple occupation. I was thoroughly in support of this when it was a part of the Housing Act; a very good idea to have great vigilance, more control and that kind of thing. Houses in multiple occupation are often full of people who are itinerant, who change their accommodation from time to time and who are not very good frankly at complaining on their own behalf and local authorities do not have an inbuilt vested interest to get in there and sort them out when they are inadequately maintained or not safe or secure. What kind of assessment is being made of the use of the new local authority powers? Are you satisfied with how that bit of legislation is currently working?

**Ms Alafat:** It is quite soon to tell the impact of what we have put in place in terms of the HMO licensing because it just came into force on 6 April 2006; it is quite soon to look at the impact. Having said that, we shall be carrying out a review.

**Q86 Dr Pugh:** Over what time?

**Ms Alafat:** We shall be doing that within the next three years. We shall be monitoring the impact because obviously it was designed to increase activity especially in the HMO sector where there are concerns.

**Mr Daniels:** It is a complex piece of legislation and of course we have had the Improvement and Development Agency briefing and training the local authorities up to implement this measure and we of course now have LACORS, the local authority coordinators' regulations involved and funded to coordinate between local authorities on the implementation of this legislation so you can get some sort of common standards. They will be feeding back to the three-yearly review which dates from 6 April 2006 when we started implementing the provisions on HMO licensing. It is an ongoing review.

**Q87 Dr Pugh:** What would you expect to see if it were not working as well as intended? What would be the indicators of that?

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**Mr Daniels:** Obviously it may well be that there might be landlords who escape the net, there might be high levels of prosecutions of landlords who have failed to be licensed and of course there will be issues coming through LACORS which we may have to address.

**Q88 Dr Pugh:** A high level of prosecutions would indicate to me that to some extent it was working and that local authorities were on top of the job, that problems were not being masked. What I wonder is whether, if problems are masked, the local authority would be the last person to say they are not exercising this legislation with sufficient vigilance.

**Mr Daniels:** We shall be getting information back about the number of licences local authorities have issued and obviously in quite a large number of local authorities there may only be a few HMOs to license, perhaps 10, or 11 or 12 or 20; in quite a few other local authorities there will be large numbers of HMOs, 500 or more. The picture will be patchy and so, in a sense, we shall have to see how these reviews produce that sort of information.

**Q88 Dr Pugh:** May I just press you on this final point? What will tell you that a local authority is not, as it were, using its powers under the Housing Act effectively enough? A local authority certainly will not.

**Mr Daniels:** We shall get feedback from tenants and tenants' organisations.

**Q90 Dr Pugh:** You will get feedback from tenants?

**Mr Daniels:** We shall get feedback through Shelter and other organisations like that. They are not representative organisations of tenants but we shall obviously, through the review by the Buildings Research Establishment, get some feedback on how implementation is going.

**Q91 Dr Pugh:** So you are hoping that the third sector, the voluntary sector, will whistle blow if it is going wrong?

**Mr Daniels:** Yes; there is a lot of scope there for that. Our advertising has plugged the fact that landlords who operate without a licence may lose rent.

**Q92 Mr Betts:** Have you had a single application yet from a local authority to license HMOs beyond the mandatory scheme?

**Mr Daniels:** Many local authorities with existing registration schemes will make use of the transitional arrangements so that their existing registration schemes can passport into licensing. No, we have not yet had an application for selective licensing or additional HMO licensing.

**Q93 Mr Betts:** Ministers have said on a number of occasions that they believe now there would be great merit in local authorities and/or ALMOs building new homes to rent. There are many local authorities and ALMOs who would rather like to do that and

have expressed enthusiasm as well, but there seem to be a lot of technical problems in the way. How close are we to resolving them?

**Ms Alafat:** Several ALMOs have expressed an interest and you are right to say that ministers and ourselves have said that we would be interested in proposals. I have to tell you that we have yet to have a specific definite proposal come into us but we are exploring with Hounslow and a couple of others where they are quite interested and we do want to know what the barriers are. In effect local authorities can build now, but there are some issues, as we know, that we have to think through. If the best performing authorities can come up with something which is about use of their assets and use of the staff or vacant land and there are specific barriers that we can do something about then that is obviously something that we want to look into. We have yet to have something definite come back to us. It is pretty early days in terms of the idea of building housing through the ALMOs. It is not to be seen as an alternative to the other arrangements we have, but we do think it is quite important that local authorities do look at their assets and in view of the demands we have in terms of housing supply we do not want to close the door without actually examining the implications. I have to say that it is still pretty early days in terms of getting into the detail of those.

**Q94 Mr Betts:** Do you have any idea as to when we might see the first brick on the ground?

**Ms Alafat:** I cannot guess when we might see the first brick on the ground.

**Q95 Mr Betts:** Do you not have a target in the department for that?

**Ms Alafat:** As far as I know we do not have a target for that, but it is very interesting so we are obviously going to be seeing whether it is possible.

**Q96 Mr Betts:** Presumably the six pilot authorities which have been taken out of the housing revenue account are part of that.

**Ms Alafat:** The self-financing pilots—and there are six as you said—are where there is a more definite timescale. What we have asked them to do in looking at that arrangement is to try to get us information in time to feed into the spending review discussions. We are hoping that we shall be getting something new in the New Year, something more tangible that we can make certain we do feed in and discuss with ministers. There is slightly more of a timetable for that.

**Mr Wells:** May I come back to a question you asked me earlier on Social Home Buy? We have had seven sales and we have 173 applications in the pipeline; those are all with registered social landlords. We have had two further rounds of funding beyond those RSLs which are in the pre-pilot stage and we have roughly a further 100 RSLs coming through the process.

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**Q97 Chair:** One hundred RSLs would be more than 100 units.

**Mr Wells:** No, their bids are for something of the order of 2,800 units. We have one local authority actually running the scheme, Southwark, which has 77 applications and we have about another 30-odd authorities who are actively coming in or to whom we are talking about coming in.

**Q98 Chair:** It would be useful if we could ask you nearer the end of our investigation to give us an update on the numbers. One would have hoped there would be more.

**Mr Wells:** By all means. You may well be seeing one of our ministers, but by all means we can provide the information towards the end of your investigation.

**Chair:** Thank you very much indeed.

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**Monday 15 January 2007**

Members present:

Dr Phyllis Starkey, in the Chair

John Cummings  
Mr Greg Hands

Mr Bill Oler  
Emily Thornberry

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*Witnesses:* **Mr Blasé Lambert**, CCH Treasurer, and **Mr Nic Bliss**, CCH, Chair, Confederation of Co-operative Housing; **Mr Michael Gelling**, Chair, and **Ms Cora Carter MBE**, Secretary, Tenants' and Residents' Organisations of England (TAROE); **Mr Terry Edis**, Chair, and **Mr Trevor Bell**, NFTMO Co-ordinator, National Federation of Tenant Management Organisations (NFTMO), gave evidence.

**Q99 Chair:** Can I ask the first question of the representatives of the Confederation of Co-operative Housing, which is why you believe it is becoming harder to use land and housing for the benefit of the community, and maybe you could just briefly explain how you think community land trusts help?

**Mr Bliss:** I think the key issue here is that the housing asset and so on is potentially an asset that could be used for the benefit of communities in a big way, so with something like the Preston Community Gateway that has recently been set up there is a situation where tenants and ordinary communities and so on have control over a substantial asset, so that was the framework in which we were saying that. It is difficult because I think in terms of the wider issues to do with tenant control and issues to do with tenants getting involved in decision-making, whilst there has been some advantage in terms of tenants being involved in decision-making there is still a long way to go in terms of those kinds of areas and so on. In terms of community land trusts the issue is about how we can establish land assets and so on that are run by communities, and there may be different ways of doing that and so on, but that is the principle behind community land trusts.

**Q100 Chair:** So you are not simply talking about use of the assets by the community at large; you are talking more about the involvement of all the tenants in other decisions relating to the housing, is that right?

**Mr Bliss:** I think so. The point about this, and this is what we have seen with Tenant Management Organisations and other community controlled organisations, is that if tenants are enabled to take control over community assets, it means that you create a community group with assets that gives them the power to do things in terms of decision-making in their local neighbourhoods and so on, which in our experience is usually to the benefit of that local neighbourhood.

**Q101 John Cummings:** Surrounding tenant participation, the Committee have been told that there appear to be great pressures upon social landlords to have resident and tenant participation in order to further their aims and objectives, and the Audit Commission are extremely keen on this particular co-operation and participation. How do

you believe that tenants can become more genuinely involved? Is it always the case that the involvement of tenants is always advantageous?

**Ms Carter:** Yes, and it is dependent on the landlords. Some landlords welcome tenants with open arms and some do not, but it is beneficial to us because it helps us to understand when councils have to say "no" to some of the requests we are wanting. We understand why there is not enough money and the involvement there.

**Q102 John Cummings:** Do you think that social landlords have been pressed into this acceptance of tenant and resident participation, or is it something which has been freely embraced?

**Ms Carter:** Some social landlords have willingly done it without any pressure at all because they see it as the way to go, to involve the users.

**Q103 John Cummings:** Do you think this willingness to embrace is applicable right throughout Britain, or are you referring to your particular circumstances?

**Ms Carter:** No. I am referring to my particular area.

**Q104 John Cummings:** Do you have any experience of what happens elsewhere?

**Ms Carter:** Yes.

**Q105 John Cummings:** And does that indicate a willingness to embrace?

**Ms Carter:** It is dependent on the landlord.

**John Cummings:** But the question is do you say that there is a willingness to embrace this concept or not?

**Q106 Chair:** I think Ms Carter is saying that there is for some landlords and not for others. Would the other witnesses like to comment on what it is that decides whether a landlord is going to participate or not?

**Mr Gelling:** So far as landlords are concerned, irrespective of who it is, whether it is a local authority, an ALMO, a TMO or a traditional housing association, it is down to that organisation's willingness to open the door to participate with people, and there are huge amounts of best practice within England, and we can only speak for England, about how that works. It does not happen everywhere, and there are still many, many landlords that do not participate with tenants, but you will find that where landlords do participate with tenants that actually supports the

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Mr Terry Edis and Mr Trevor Bell

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Government's community empowerment agenda, because these are the landlords that go out there and talk not just to tenants but the wider community, and initiatives include the wider community.

**Q107 Mr Olnier:** I want to turn my attention to Tenant Management Organisations but first, is there a stick and carrot for some of these organisations where the bad landlords are made to re-look at what they need to be doing for the tenants, and equally some of the tenants that do not really want to know can become encouraged to become part of your organisations? It seems a little bit weak to me if it is just left on a voluntary basis to do it.

**Mr Gelling:** I do not think there is a stick and a carrot, and I do not think there is a stick and a carrot currently whether it be the Audit Commission or the Housing Corporation that regulates housing associations, but I do think that organisations that make it happen see the benefits of making it happen; they are better landlords for allowing tenants to be empowered and be part of the decision-making right at the very beginning. This is not about the colour of your front door but about investment, procurement—about all the other activities within the landlord structure.

**Q108 Mr Olnier:** What is the other side of that, where there are those landlords that do not go down their enlightened route?

**Mr Gelling:** They do not see those benefits, and they may not have as many satisfied tenants.

**Ms Carter:** No.

**Q109 Emily Thornberry:** Do you have any ideas of how you could formalise the process? Instead of it just being down to the goodwill of landlords as to whether or not there is tenant participation, do you have any ideas how it could be formalised so that tenants actually had a right to have their voices heard? I know you have to have tenants on the boards of national organisations but in order for it really to work it has to be presumably on a more local level. How could we go about doing that?

**Mr Edis:** We have found, certainly in Walsall where I come from, the tenants have become involved through tenant management, and when Walsall decided that they wanted to go through the wholesale stock transfer the TMOs did not want to do that so they set up their own housing trust, which is WATMOS. This totally involved the board, it is a majority on the board, there are eight tenants, one representative from each and four independents, and that is total representation of the tenant movement, if you like, being involved in the areas that they are living in.

**Q110 Emily Thornberry:** That is really interesting, but there seem to be kind of different extremes, though. I wonder if there is another way of going through the middle of this?

**Mr Edis:** Absolutely. It varies across the country.

**Mr Bliss:** In terms of the work that we did come up with, the community gateway model and so on, which actually enshrines the whole principle of tenants both across the whole organisation and in local neighbourhoods as being able to get involved in decision-making, there are ways it could be done and so on and organisations like the Preston Community Gateway, which is the first which was set up, are showing the way that that can be done and are beginning to tackle those matters, but these matters could be enshrined and could be worked on to be formalised. In terms of the questions that were being asked earlier on there are some good landlords out there, some, but actually the reality is that most culturally are some way behind that, and it is a big process of cultural change that is needed in terms of changing the way that housing association and local authority staff work with tenants and so on. To a certain extent that is a painstaking process that has to be gone through, but we are a long way away from where tenants and communities are in a position across the board where they can influence decision-making about their homes and neighbourhoods, which is where we should be, and I think the evidence is that that leads to benefits.

**Q111 John Cummings:** What do you think the way forward is, then?

**Mr Bell:** I was going to refer to tenant participation compacts. When they were introduced five or six years ago the intention was that they would be formal agreements between the landlord and tenants of a city or borough as to the range of ways in which people could become involved, and they would be mechanisms, if the landlord was not involving tenants according to the contract, whereby tenants could say, "Well, look, I should have been involved in that decision or should have had the chance to set up this association". It is my informal understanding from feedback that the compacts have not really been stuck as enforceable and real. The trouble is, if you rely on rights entirely, experience in the TMO world is you need a constructive partnership, you need to have to some extent a willing landlord. My feeling is that the compact erred too much towards the partnership approach, in other words there was not enough beef in it really, but it would be worthwhile looking at the experience of tenant participation compacts and finding out if they have not worked very well, and if not, why not.

**Q112 Mr Olnier:** So, Mr Bell, you would not agree with the research carried out by the National Housing Federation through the Tenant Involvement Commission that most tenants really do not want to be involved. They are quite happy for managers to manage—did that one cast a bit of bait on the water? I am just responding to research.

**Mr Bell:** I understand that. It depends how you ask that question. If you say to people, "Do you want to go to endless meetings and knock on people's

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doors all day in order to get a decent repairs service?" then people answer one way, but if you ask people, "Do you want some influence over housing in your life"—why do people choose to buy their houses? It is about influence and a sense of control over their lives, and if you pose that question in a different way most people would say they do not want to be entirely dependent on their landlords to make all sorts of decisions that affect their housing and environment.

**Mr Lambert:** Really the key issue here is where the choice lies, but at the moment very much the choice lies with the landlord. If the landlord chooses to engage with its tenants then it can be a positive issue; if it chooses not to then the opportunity is not there, and it is to an extent balancing that choice equation up so that you allow the choice to swing towards the tenants. Mirroring what Trevor was referring to there, if the choice that is on the table is "Would you like to choose the colour of your front door?" then a lot of people would say: "Well, that does not interest me", whereas if you move that choice over to allowing tenants and communities to define where they would like to be involved and in what areas, you may get a different set of results.

**Q113 Mr Olnier:** So out of 100 people in a tenancy issue, how many would be involved?

**Mr Gelling:** That depends where you live, on what the issues are, it depends what the landlord is like, it depends what the problems are in the area. There is no answer to that question, because where are these 100 people?

**Q114 Mr Olnier:** It was not a trick question.

**Mr Gelling:** It is not a trick answer, either, it depends where you are. But coming back to the question about tenants being on boards, just because a tenant is on a board does not mean that the organisation is empowering tenants; it means that the tenant is on the board. The other point is that for local authorities, section 105 of the 1985 Act gives direction to local authorities to consult with tenants. Now, empowerment is more than consultation. It is about building on whatever legislation is already there. We are all of the same thought here; we believe there should be more enshrined to empower tenants, because we see that as the first step to actually really empowering communities.

**Q115 Emily Thornberry:** If one of the reasons why it needs to work is because you need to have a willing landlord, if the landlord is not willing to involve tenants what about allowing the landlord to own the land but allowing it to be managed by someone else, perhaps another registered social landlord who is willing to engage with tenants? Is that the sort of idea that is worth thinking about?

**Mr Bliss:** We perhaps ought not to be funding landlords of that nature. Can I point out that in terms of reading that report I do not think that the conclusion of that report is that most tenants do

not want to get involved. I think the conclusion is that all tenants want to see decent quality services, which is pretty obvious in the 21st century, but actually there are a significant number of tenants who also want to be involved in being able to shape decision-making, and that is in that research. Therefore, in terms of that report, I think it is quite important because it is the National Housing Federation, the trade body for the Housing Association sector, saying they have to do more to deal with the get-what-you-are-given culture that they have identified is the way a lot of Housing Associations are coming across at the moment, and that is also probably the case for a lot of local authorities.

**Q116 Mr Olnier:** Whatever the figure was, and I agree it is an impossible figure to mention, what are your tenants' organisations doing to educate and keep involved all of the tenants that are there? Are you doing an on-going education process saying: "Look, if we are all together on this, this is fine"? We have all been in the syndrome where it has been very easy to leave it to the shop steward if you have not educated the troops behind it.

**Ms Carter:** Where landlords and tenants have signed up to a partnership, you will find those areas are better places to live. We as tenants do not want the crime and nuisance on our estates; we do not want the shoddy workmen coming on to our estates, and where there is a partnership there it is a better place to live because the crime is down, the quality of the work done on our homes is better because tenants are there as inspectors on the estates. All these things have been going on for so many years, this tenant participation, and because some landlords took it on board others have followed because they have seen it is the best way to go to talk to the people that they are supposedly serving.

**Mr Edis:** Where tenants have had a bigger say in the running of their estates, it is creating communities. If you create a community you keep people on estates, so therefore you are not a transit estate, so it cuts down on all the things that go with transit estates like antisocial behaviour and rent arrears and everything else, so you build a community, and that is what tenant management is all about, and tenants getting involved in that way want more say in the running of estates, not less.

**Q117 Mr Olnier:** The setting up of a TMO from looking at it seems to be fairly bureaucratic and long-winded. Are there any suggestions you can think of to short-circuit that, because I agree with everything you say about tenants being part of a community, but how do we encourage that and remove the many bureaucratic walls that people have to jump over so that we can make it easier for likeminded people to form themselves into an organisation?

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**Mr Bell:** The Federation of TMOs has certainly welcomed some of the proposals in the Local Government White Paper, where the current right to manage process is extremely long-winded. It can take three, four or five years to establish a TMO compared with, say, a year to transfer the stock of a large local authority, and we are part of a CLG task group which is currently looking at how the process can be streamlined. So it is very important that community organisations going down that road get proper training and proper preparation, so as not to make it something you can do at a whim but so that it gives people a sense of achievement in a reasonable period of time, so I think we welcome that. There are areas, though, for example in the RSL sector where it is still very difficult for communities interested in tenant management.

**Mr Edis:** The sooner we get the likes of managing the RSL sector the better it will be for us, and that is giving the tenants the right for that. It happens obviously in the local authority sector, so to us there should be no reason why it cannot be transferred to the RSL sector. Trevor is right, and I would not like to see the process too watered down. When TMOs are doing their training they have to go through all sorts of training, be it finance, housing law, lettings—you name it, they have to do it. It is public money that we are spending when we become a TMO, so it is right that the TMO should have the training to do that and do it properly and wisely. If you take a local authority, for instance, they could have someone go and get a job on the Monday morning and by the Friday they are giving advice out on housing issues, so the process is from one extreme to the other, if you like. So although I think it can be cut down because of, as you said, the bureaucracy and everything else, I would not like to see it watered down too much.

**Q118 Mr Olnor:** Could you hazard a guess as to why it takes so long, 3–4 years, for you to get your system in place, and as little sometimes as 12 months if they want to opt out?

**Mr Bell:** It is not a case of hazarding a guess; it is because the current right to manage involves normally three ballots at three separate stages, and the regulated process is designed to take that long, and in some cases you will have a local authority perhaps who is not overseen on a TMO developing, and if they drag things out and do not provide information when it is needed they can double the length, and there are some TMOs that have taken six years to develop. When that happens the people involved have to be really dedicated to stick at it and to have that sense of long-term purpose. To a large extent, therefore, it has been the regulated process which has been very long-winded.

**Mr Lambert:** I wanted to comment on a question a moment ago that generally feeds into this, which is around social landlords retaining the ownership of the land and the asset, and the management being able to freely move around, which touches on

what was being said about local authorities wishing to extend the process because of their own outlook, and it is moving to a situation where you allow communities and groups of residence to have that element of power and control over who is going to provide that local service to them. If I and my neighbours are dissatisfied with the company supplying our gas to us we have the ease and availability to change supplier; if we are not happy with the company we get our mobile phone from, again, we have that ease to change supplier. Now, that ability to change supplier or to choose which management model is going to be applicable to our area, our neighbourhood, is not there unless the landlord organisation itself chooses to allow us to go down that line, and unless that is balanced there will continue to be those organisations that have an outlook that is positive towards this, that give that choice and that power to their tenants, and those that do not. To speak for a moment on the Housing Association model, when organisations have been set up, sometimes 100 years ago, with a particular paternalistic view towards doing good for the deserving poor, unless those organisations' cultures are shifted to viewing the people they are delivering services to in a different way, then you will never get that level of engagement across the board.

**Q119 Chair:** I have one question specifically about co-operative housing. What do you think are the additional advantages of co-operative housing management over other forms of tenant management, briefly, if that is not too big a question?

**Mr Bliss:** I think a lot of the advantages of housing co-operatives are similar to Tenant Management Organisations, to be honest.

**Q120 Chair:** So what is different?

**Mr Bliss:** The things that have been different are simply the ownership of the asset—

**Q121 Chair:** So what advantage does that then give over and above the other forms of tenant management?

**Mr Bliss:** I think people will have different perspectives on this but it means that you own a community asset that you are able to use and make decisions on about how you use that asset and so on, without reference to other organisations—

**Q122 Chair:** Do not worry about other people not agreeing with what you are saying; you are giving evidence from your own organisation, so just give it. What do you think is the advantage of the co-operatives owning the land?

**Mr Lambert:** I suppose I would put an alternative question which is what are the advantages and benefits that individuals get from owning their own home as opposed to renting? It is that degree of extra control that you have over your own home

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as a home owner as opposed to being somebody that rents a property that is owned by somebody else, so it is that similar situation when you feel ownership over the assets that you are living in. As an example people are much more likely to better maintain the properties and have more respect for the area they are living in than they would do if they feel they have no real ownership over it and which they did not actively choose.

**Q123 Mr Hands:** Are you saying that those in co-operative owned homes are more likely than those renting from a local authority to take pride in their own environment?

**Mr Lambert:** Most certainly.

**Mr Bell:** A number of Tenant Management Organisations are actively looking at moving from management to community ownership, and Terry's organisation did just that, and some of the organisations are executive so you are talking about giving them long-term security. Because even with a management agreement there is still the potential for the landlord to change its mind about tenant management and be a much more awkward partner, and some TMOs are saying: "Well, having put all that community investment into our organisation, why should we be vulnerable to the local authority changing tack on TMOs?" There is a grant system currently available to community organisations to investigate community ownership as a possible option.

**Mr Gelling:** Briefly I would not say that ownership actually does more for tenants than just renting. There has to be an element of choice here and we have to get rid of the stigma about being a tenant, because I am quite proud of being a tenant and many people choose to be tenants. Not everybody is on benefits and it is not everybody's housing of last resort, and there is that kind of stigma that comes to the rented sector and we have to get rid of that. I am proud of where I live and I will invest in my property even though I pay rent and it will never be mine, and I am happy to do that, and we can take you to many areas of the country where that example can be panned out. So it is not just about ownership. If you are empowered to be part of the decision-making process, that is as much ownership as many people would want.

**Mr Edis:** Quickly on the stigma point, if you watch "The Bill", all the criminals live in that one block of flats on that one council estate which is rented, and it is ridden with graffiti and everything else. And that is the stigma to it.

**Q124 Chair:** The Government is suggesting that TMOs and ALMOs could be given some additional powers from local authorities such as the ability, for example, to apply for anti-social behaviour orders. Can I have your brief response to that? Good idea? Bad idea?

**Mr Edis:** It can be a good idea but there are still a lot of Ts to be crossed and Is to be dotted before

it happens. Certainly in the London area, for instance, TMOs are experiencing great difficulties in courts accepting the TMO staff giving evidence, and that is not just on anti-social behaviour but across the board on housing, so that is a problem, and the Lord Chief Justice has just issued a Directive to all courts that they do not accept evidence only from representatives of the landlord. **Mr Gelling:** TMOs and landlords taking extra responsibilities should not be a burden on the rent payer, that is the essential part, and if housing associations are allowed to do the same, considering some of them work in 120 local authority areas, I would say that would have to be relooked at, because unless they are managed locally it will not work on that basis.

**Q125 Mr Hands:** I want to end with a very general question which is that you are probably some of the most influential tenants in the country, and I am just wondering how much real influence do you think you have on government proposals, legislation and policy? In other words, if people do not listen to you, and you are all chairs, secretaries, treasurers, et cetera, of various national bodies, what hope is there for anybody else?

**Ms Carter:** First and foremost I am a tenant.

**Q126 Mr Hands:** How much are you listened to because you are, for example, on the Tenants' and Residents' Association of England?

**Ms Carter:** You have to earn that respect as well from people.

**Mr Edis:** This is the first time that certainly we have been asked to give evidence in this and that has to be a step in the right direction. I welcome it and at this moment in time I think it has been piecemeal, whether it is tick in the boxes or whatever, and I think we need to have that voice and we need to be influencing.

**Q127 Mr Hands:** I am assuming you are included on government consultations?

**Ms Carter:** Yes.

**Q128 Mr Hands:** How often do the Government, or anybody, apart from ourselves obviously, come out proactively to seek your opinion?

**Ms Carter:** We meet the minister six monthly, and civil servants.

**Q129 Mr Hands:** What about the other organisations?

**Mr Edis:** Civil servants we meet on a regular basis. We just had a meeting with them today, actually, and the Housing Corporation.

**Mr Bliss:** It has been some time since we had much dialogue with government. We did in the past, I think. The reality is that although we and other organisations and other people involved have had a general influence over the drift of how tenant participation and so on has developed over the last few years, there is an enormous untapped potential

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of people out there who could do a lot of beneficial things in local communities that has yet to be tapped, and I think it is high time that government should be listening and should be looking at this agenda and bringing it far more to the fore.

**Ms Carter:** If I as a tenant was not working for my own estate doing the jumble sales, the kids, et cetera, they would soon tell me. They are the ones that put me here. They are the ones that vote me

on to everything and if you are not doing right in your own area then you have no right to be sat here.

**Chair:** I need to draw this to a close because we have three other sets of witnesses this afternoon, but thank you all very much, and if there are additional points that you think we ought to know about, you can always drop in a further written submission. Thank you very much.

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*Witnesses:* **Councillor Bob Copland**, Housing Portfolio Holder, **Mr Alan Davies**, Corporate Services Director, and **Mr Steve Clark**, Assistant Director—Housing, Nuneaton and Bedworth Borough Council, gave evidence.

**Q130 Mr Hands:** A very general question to start with. Do you think there is a shortage of affordable housing in Nuneaton and Bedworth? What are you doing about it? And, most particularly, are you working with other partner organisations to address the shortfall, if there is one.

**Mr Clark:** Yes, there is a shortage, without any shadow of a doubt. The waiting list is increasing; in fact, it has increased by over a 1,000 during the last 12 months, from three thousand to just over 4,000. We are trying to do something about it. The Council has recently transferred land at nil consideration to an RSL to enable them to build properties, particularly some for rent in the borough, and we are working with a number of RSL partners, have a close relationship with the housing corporation and are also talking to a number of landlords and private developers to see what we can achieve within the borough. One of our problems is that the Council owns very little land of its own, but we are looking at some brownfield sites where we have demolished garages and other areas to try and use some of those to provide affordable housing.

**Q131 John Cummings:** How many houses are standing empty at the present time?

**Mr Clark:** Of the council's own stock none at all. We do have quite a number of private sector homes in the borough that are empty and we have recently recruited specific staff to tackle the empty homes with empty dwelling management orders to try and ensure we are bringing them into use.

**Q132 Mr Hands:** Coming back to the strategy point, have you delivered anything under the strategy? You have talked about the shortage of land, working with RSLs, nil consideration—what have you delivered so far?

**Mr Davies:** We have a target in our housing strategy to deliver 258 affordable units per annum, based on the previous housing needs survey. Currently we believe we are delivering around 30–50% of that target each year, which is well below the figure we assessed when the previous needs strategy was undertaken. We feel that the

needs assessment needs to be carried out again, and we are pretty certain that that figure of 258 will rise and we will have to do more.

**Mr Hands:** You said your waiting list had grown from 3–4,000. Is this waiting list just the people under the 1986 Act who have registered an interest in being accommodated, or is it based on real need?

**Q133 Emily Thornberry:** The frivolous applicants who think they might like to live in a council house?

**Mr Clark:** Some waiting lists are discredited by research done over many years, but traditionally they are more an expression of demand than need, but the point system that the Council uses does give points based on specific needs—overcrowding, lack of bedroom spaces, poor heating, unfit homes, so most of the people on our waiting list have quite specific housing needs points as well as points merely for registering and building up time in the borough.

**Q134 Chair:** Where are they living now?

**Mr Clark:** They are living in a variety of places. Some are in private rented accommodation, which may be too expensive for them to afford or not right for their needs, in the wrong areas of the borough to travel to schools and to work. Some are at home. Some are living with friends and relatives and sleeping on people's floors and so on. With 4,000 we have a very wide spectrum of where people are currently living.

**Councillor Copland:** I am speaking about people who come to my surgery and the ones who do that, generally speaking, the vast majority, are living with mum, dad, relatives—that sort of thing. These are the sort of people coming to me, and that is where they are living.

**Q135 Emily Thornberry:** How often do you do your housing needs survey? Also, of that 4,000 how many of them have the right number of points? If you have a choice-based lettings system, on points, how many of those can actually bid for housing?

**Mr Clark:** The last full needs survey was undertaken in 2000 with an update in 2003. I have placed an advertisement for expressions of interest to undertake a new housing needs survey. I have to say there seems to be some discussion between

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the Regional Assembly and the DCLG as to whether anyone needs to undertake a needs survey any more, but our view is that looking at the planning inspections at Lichfield and Stafford recently, the planning inspector said he was not going to approve the plans without robust needs assessment, and we feel as a local authority that without some very local work undertaken it is difficult for us to get the right figures. We have not yet introduced a choice-based letting scheme. We are working with our partners up the A5 at Tamworth, Lichfield and so on to introduce a choice-based letting scheme, but at the moment we operate a points-based system, where people accumulate points based on their current accommodation and what their needs are.

**Q136 Chair:** In your answer to Mr Hands you have talked entirely about providing affordable housing from your own land, but you do not seem to be using section 106 agreements at all to provide any affordable housing. Can you explain how it is that the regional strategy apparently sets a target for 2011 that you have already exceeded, and why you do not seem to be using section 106 to provide affordable housing as well?

**Mr Davies:** We are working with private sector developers to achieve the targets. We have achieved more than the targets but the difficulty we face is—

**Q137 Chair:** Is this the target for total housing?

**Mr Davies:** Yes, and that is the difficulty really. It is not in the rented social sector that we are able to provide the dwellings that we need to provide. Just to put it in more of a context, in 1980 we had over twelve and a half thousand dwellings in the borough. That is now reduced to 6,000 of which 1,200 are sheltered units for our elderly, and our waiting list has gone up from under 1,000 in 2000 to 4,000 now, so there has been a massive increase with a reduced supply and we have not been able to provide rented social accommodation, which is what we need to provide. We are providing dwellings but not in the right areas.

**Q138 Chair:** So the social dwellings you get as part of your section 106 are all shared ownership, is that right?

**Mr Davies:** The ones we have been able to get so far have been shared ownership. Having said that, Mr Clark said last year, for example, we negotiated an agreement with an RSL to deliver social rented housing which involved land transfer at nil value. The value of that was £250,000.

**Q139 Chair:** I am still having difficulty in understanding why you, unlike some other local authorities, are not able to get some social rented housing out of your section 106 agreements with private developers?

**Councillor Copland:** That is not true. I do not have the numbers but I sit on the Planning Committee as well and I am aware that we do get rented from 106 agreements.

**Mr Davies:** But not as many as we need; that is the point.

**Q140 Chair:** That is fine. It was the none at all that I was asking about.

**Councillor Copland:** That certainly is not the case. We would have to supply you with figures.

**Emily Thornberry:** Do you have a target?

**Chair:** It would be helpful afterwards if you would tell us because certainly from your written evidence the impression was given that you were not given any social housing out of section 106s, and it would be helpful to have an indication of what social housing you have out of section 106 and what was shared ownership and what was rented.

**Q141 Mr Hands:** Referring to the very sharp decline in your stock that you mentioned, can you take us through that?

**Mr Davies:** The stock has gone down from twelve and a half thousand properties in 1980, mainly as a result of the right to buy legislation.

**Q142 Mr Hands:** What is it today?

**Mr Davies:** Just over 6,000, of which 1,200 are sheltered accommodation units.

**Q143 John Cummings:** In 2003 your tenants voted against a stock transfer proposal. Is this going to have an effect upon your ability to achieve the decent homes standard by 2010?

**Mr Davies:** No, it is not. The tenants voted to stay with the local authority by a fairly significant majority, despite the Council at that stage fully supporting the transfer to an arm's length organisation. Changes in the subsidy system almost immediately after we took the tenants' vote mean we are now comfortably able to achieve the decent homes standards by 2010, and hopefully better. We see the decent homes standards very much as a minimum standard; we want to provide our tenants with much better accommodation and are working very closely with them to do that, and are very confident we will achieve that well before 2010.

**Q144 John Cummings:** I think that answers the second question but I will certainly ask it for the record. Why do such a high proportion of your tenants wish to keep the Council as their landlord? And do not be shy!

**Mr Davies:** I think you would need to ask the tenants that question. Most of our tenants genuinely felt they were getting a good service from the Council. Our transfer proposals were very much driven by finance at the time and our inability at that time to achieve the decent homes standards. Changes in the subsidy system now mean we can do that and when we carried out our stock options appraisal immediately after the vote, I think 90% of the tenants who voted at that stage were adamant they wanted to stay with the Council.

**Q145 Mr Oler:** I know you all well, and just for the record I do represent Nuneaton in Parliament so I know a little bit about the problems such as

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the one Bob described when he was answering a question because unfortunately, like many other members, the member of Parliament is also the person responsible for making sure people are housed correctly, so I do know something about the housing problems. What I really wanted to ask, however, was what government formulas in funding are stopping Nuneaton and Bedworth borough council from building more council house properties to rent themselves? Is there any way you are being penalised? Is there any money being taken off you as an authority that you think is grievous and should not be taken off you?

**Mr Davies:** The subsidy system as it works at the moment means that Nuneaton and Bedworth would probably contribute £3.3 million to the National Exchequer next year under the present subsidy rules, so that money is taken from our housing revenue account and redistributed to other authorities. We have recently concluded a deal with an RSL to provide social rented properties. We put in 250,000 pounds worth of land to get eight social rented properties. If you scale that up to £3.3 million, then, in a very simplistic way, you could look at providing 150 social rented properties on that basis. Having said that, it is much more complex, obviously. There are issues around land, planning, working with developers—there is a whole range of issues to take into account—but if that £3.3 million we contribute to the National Exchequer, stayed in Nuneaton and Bedworth we believe we could provide a lot more social rented housing for the people who need it most.

**Q146 Mr Olnor:** I know Nuneaton, and if this £3.3 million were taken off Nuneaton and Bedworth and given to other local authorities, who might those be?

**Mr Davies:** At the moment I think the principal gainers are the London local authorities, and I think there are something like 200 local authorities who still retain their stock and are part of the subsidy system. Our understanding at the moment is that the principal gainers are London but I am sure experts could give you better advice on that than I can.

**Q147 Chair:** On the private rented sector in your area, you said that are 700 properties empty for six months or more. Why are there so many empty properties in the private sector?

**Mr Clark:** One of the problems is we do not know enough about them yet. We have just had a stock condition survey undertaken in the private sector where we have particularly looked at empty properties as well as those that are occupied. We are trying to work with landlords as well to try and make sure that people who have got empty properties bring them into use, and we are trying to work with them by means of helping them financially and to place tenants with them. But there are also quite a lot of empty properties and we are working through the Council Tax Register and other areas to try to identify who they belong to. Some are clearly people who need work doing

to them before they could bring them into use; some are parts of estates that have not been wound up and so on, and it is quite individual to find out who they are and work with the owners to bring them into use. We have now restructured our staffing so we have staff to concentrate on the empty properties in the private sector and to work with the people who own them and to see what financial and other assistance we can give them to ensure they are brought back into use.

**Q148 Emily Thornberry:** You do not have any way of penalising these people, do you, and if you do not, what sort of penalties do you think you should have?

**Mr Clark:** The main method with empty properties is using the empty dwellings management orders which is a long, drawn-out process.

**Q149 Chair:** Have you used any yet?

**Mr Clark:** It was recently introduced under the Regulatory Reform Act where the local authority can supposedly work with people who have long-term empty properties to try and bring them into use, and the aim of that piece of legislation is that the owners themselves should bring them back into use rather than us compulsorily lease them, although compulsory leasing was one of the suggestions in the 2004 Act. But the empty dwellings management order is quite lengthy and drawn out, with a lot of notices being served, people being given time to do something or another notice being served or maybe going to court, so it is about the owners themselves filling the accommodation.

**Q150 Chair:** But if they do not you can force them to?

**Mr Clark:** If they do we not can lease them at the end.

**Q151 Mr Hands:** Have you tried to take out any orders yet?

**Mr Clark:** None yet. I have not read anywhere that anyone else has either, I have to say. I am sure someone knows somewhere that they have but I have not read any press that says anyone has taken any action yet. It is quite a lengthy, drawn-out process, probably about nine months if you had to follow the whole process, so I guess no one has actually got there yet.

**Chair:** I have a property in my neck of the woods that has been empty for eight years, so even if it took nine months that would be worth it to bring it into beneficial use.

**Q152 Emily Thornberry:** On your tenant involvement strategy, how do you support tenants who want to take on some sort of management on their estate? How much power do they have, and do you think this is a way forward?

**Mr Clark:** Yes, I very much think this is a way forward, and I was interested to hear the previous discussion. We have a full-time tenant participation officer and an assistant who does research and

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supports the groups around the borough. We have a very active tenants' forum, and a number of tenant groups around the whole of the borough. They are supported by those officers specifically related to TP working, helping them to set up, with funding, training; we go out and meet with them, we help with their work on the estates; they are very much involved in the procurement process, particularly with kitchen and bathroom improvements, appointing the contractors, setting standards, monitoring our processes for empty properties and so on. We very much see it as an integral part of the work. In fact, we feel it would be difficult to offer anything like a decent housing service without involving our tenants in the way we try to do. Again, listening to the previous discussion, some tenants want to be involved quite a lot; some want to be involved very little. Some people are happy to respond to questionnaires, some like meetings and so on, so it is quite a breadth of involvement we offer.

**Q153 Chair:** From your experience, firstly, would you agree with the previous witness that where tenants are involved it increases the quality of the estate and, secondly, why is it that some tenants want to participate and others do not?

**Mr Davies:** I think the answer is yes, tenants generally do want to be involved in the right way using the right mechanisms, and not everybody wants to come to meetings; some might want to be involved through newsletters or different mechanisms. We have found that where you do involve tenants you get a better service. For example, we fully involved tenants in choosing our new partnering contract to support providing kitchens and bathrooms. In that area tenants wanted to be fully involved, they wanted to look at the choices of finishes and help us choose the right contractor, and we were able to achieve not just a better deal but also greater value for money and efficiency. So if you involve tenants in the right way using the right mechanisms on the right subjects

then you will get a better service, and that certainly in our case has been demonstrated by our satisfaction survey results where we have seen an improvement in the tenant satisfaction levels in the recent survey, where we even had high satisfaction levels previously.

**Councillor Copland:** It is always going to be the case, some people will be involved and some will not. It happens at election time, for instance. It is so important, but how many turn out? It is just human nature, but it certainly is better for the tenants when they are involved. We are here to serve them.

**Q154 Mr Oler:** If you have a shopping list that you wanted to alert the national government to give you, particularly on ASBOs on estates and so on, which would be your top two priorities?

**Mr Davies:** I am not sure I would go to that level of detail. To me this issue has to be raised on the agenda both nationally and locally, and to give you a specific example we have negotiated a local area agreement in Warwickshire, as all local authorities have been doing over the last few years; I am not aware of one mandatory target around housing within that local area agreement. As we move to multi area agreements I think that has to be addressed. I think this issue has got to be raised on the national agenda.

**Q155 Chair:** When you say a target on housing, do you mean numbers?

**Mr Davies:** I think there has to be a target that people have to have affordable housing targets in their strategies. The second issue is down to resources. There have to be more resources put in through the Government Spending Review if at all possible. In terms of rented social housing that can be matched by other organisations, but there is a resource issue there at the end of the day if we are going to get more socially rented housing in this country.

**Chair:** Thank you, and we will look forward to receiving the additional information we asked for.

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*Witnesses:* **Councillor Angela Harvey**, Cabinet Member for Housing, and **Ms Rosemary Westbrook**, Director of Housing, Westminster City Council, gave evidence.

**Q156 Mr Hands:** Kicking off, one of the fundamental issues in your report is that Westminster is simply too expensive for those on low incomes and those on medium incomes to be able to afford to live with even quite large subsidies. Realistically, what do you think the Council can do to house people on low incomes? Do you think it is a realistic goal in Westminster?

**Councillor Harvey:** Yes, it is a realistic goal. We want a community that is cohesive, that is mixed; we are in real danger at the moment of only the very poor and the very rich being able to move into properties here. Although sitting in this part of Westminster we look pretty rich, we do have wards, Church Street, for example, which is one of the most deprived wards in the country, yet we manage to have a city council ALMO with rising tenant

satisfaction there. The importance is we have a very diverse community already and we do not want to have a situation where, because of the direction of funds outside London generally into the growth areas, people who want to stay with their families within Westminster and other London boroughs should be excluded from doing so. It will lead to a less cohesive community and certainly a breakdown in community relations.

**Q157 Mr Hands:** You mention the very poor and rich being able to live in Westminster. What about the low/medium kind of income person, say, somebody who is in a job but earning, let's say, between 12–20,000 a year? What options are there?

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**Councillor Harvey:** If they are vulnerable in need, and we have about 5,000 families falling into that category waiting at the moment, they will eventually be housed. Many of those are housed outside Westminster, about half of our people in temporary accommodation are outside Westminster, the rest within, so we are meeting those demands, but to move them into permanent accommodation is a real problem for us at the moment, as funds have been directed out of all of the London boroughs to the growth areas.

**Ms Westbrook:** On the intermediate point particularly, working households between 12,000 and 45,000 who still could not afford to buy outright in Westminster, we recently had an independent housing commission working with us looking at the evidence and giving advice, and a couple of things came out of that. First, in terms of that intermediate group, who should we be housing, and there is some evidence that key worker policies are not really appropriate in somewhere like Westminster and central London and that we should be looking at income levels, and in terms of maintaining communities, looking at children of existing residents, or tenants and people living in the borough already, giving them opportunities to remain near to families. In terms of how we can make that happen I think we do need to look at the range of intermediate housing options and make them much more customer-focused rather than delivering products and then saying: "Well, this is it, will it suit or not?" Because there are some evidence right across London that a lot of shared equity and shared ownership options directed at simply key workers and the public sector have not been popular, have taken a long time to sell, and have ended up being sold not to those priority groups but we know that there is a large group of people in work, but in low paid work who need to access those options.

**Q158 Chair:** On that point, why exactly are those key worker houses not attractive to key workers, given there are lots of key workers who work in London and cannot afford to buy?

**Ms Westbrook:** Anecdotally the evidence is around quality location, basically.

**Q159 Chair:** In which case they would not be attractive to other workers, either.

**Ms Westbrook:** Well, it widens the range of people who might be interested, and they might be people who already live in those areas—not specifically in Westminster. The other issue is about cost, and certainly in Westminster it is extremely difficult to make shared equity work at a level which anybody with those intermediate incomes can afford, so you are constantly pushed up towards the top end of those incomes, and we do need to look at products which move that back down allowing people to take much lower equity shares to start with and to get started. Also, when you look at the size of properties, again because of cost issues that have been produced in terms of shared ownership, they are all one or two bed-roomed flats, so absolutely

nothing for somebody who might be a public sector worker or might be in that intermediate sector, in the private sector but on a low income and need to live in central London near to work, but if they have children the options for them are very limited indeed.

**Q160 Mr Hands:** You mentioned looking instead at income levels. How can you look specifically at income levels and design housing, if that is indeed the intention, accordingly to fit that particular income level?

**Ms Westbrook:** It is the other way around. I think you need to design the housing in terms of getting a range of housing, including family housing, for a range of different household sizes. The design in terms of the income levels needs to be the package that would work at lower income levels, so for people in work who perhaps in other parts of the country could afford to buy outright, but looking at the package and making that work differently for people more flexibly, starting with lower equity shares, all of those things, turning it around and doing a lot more consumer research about what is it you need to make those products work.

**Q161 Mr Hands:** Is there any point in the 3% equity shares which some councils are looking at at the moment; the 5% or—

**Ms Westbrook:** 10% certainly.

**Councillor Harvey:** Certainly the research of the Westminster Housing Commission found that the lowest density housing in the borough was on social housing estates. They were concerned that perhaps land could be better used for the benefit of the community which is already there. What is the point of an empty space if it attracts anti-social behaviour rather than something more beneficial? Certainly, what we would be hoping for in terms of flexibilities is that rather than develop those lands with an RSL partner is to look at whether the councils' ALMO would be able to have access to finance. Our experience where we have had infill before is that with different management in one space there tends to be much more tension and blame-passing, whereas if the ALMO was able to have that financial freedom to be able to develop, some shared ownership on there and perhaps somehow excel, with other moves that the whole estate is improved, also giving people who are currently council tenants the opportunity to move on to that ladder of opportunity, perhaps coming out as a tenant and buying shared ownership on their own estate where they know people, they are close to their work, close to their families and then move through that cycle, we think would be beneficial for the community as a whole. Of course that would free-up the tenanted properties to other people on our waiting list.

**Q162 Emily Thornberry:** There are so many questions I want to ask you, but I will try and keep it short. Is not the problem with shared equity schemes in Central London that given essentially the average small flat is ten times the wage of your

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average Londoner, in order for people to buy an equitable share and then rent out the rest, the level is so high that people cannot afford to do it? It is quite often put forward as a suggestion to allow people to get on to home-ownership but when we have properties that high, would you be able to get a substantial number of people to have shared equity when the equitable share is 10% and then they rent the other 90%?

**Councillor Harvey:** I think it is about whether people can aspire, and they know they cannot aspire to 25 or 50 today, therefore, do they want to work more, do other members of their family want to work, because they believe they can move up? Even if it is in fairly small incremental steps it gives them a foothold on the property ladder.

**Q163 Emily Thornberry:** From the evidence we got from Shelter they were suggesting why do you not keep the ability to access shared equity schemes to those who are already in social housing in the borough? Instead of looking to who is a key worker, who is not a key worker, who is on what income, simply to move people out of social rented into part-ownership would give you the movement within your housing system.

**Ms Westbrook:** Certainly in terms of the approach, it would be very much one of focusing on existing residents and giving that offer to people to make it a flexibility between tenants which is not there at the moment, so that option to local families and their children. If they are in work they may not need the full subsidy of rented housing but they cannot live anywhere near their parents and afford then to buy. I think very much we take that view about local residents and local tenants' children being able to access those opportunities.

**Councillor Harvey:** In Westminster 35% of our housing market is in the private-rented sector and a number of those are certainly affordable rents as well. I do not think we would wish to limit it to people who are in social housing, ie council or RSL tenants, but people who are in the lower income category who are living in Westminster. There are rented properties at a low rental in Westminster.

**Q164 Emily Thornberry:** Surely at a market rent?

**Councillor Harvey:** It is a market rent but there are different markets within Westminster, as I explained; it is a mix of rich and poor.

**Q165 Emily Thornberry:** What is the effect on Westminster going to be if the GLA Bill goes through with the 50% limit?

**Councillor Harvey:** We already have 50% affordable housing within our UDP.

**Ms Westbrook:** Apart from the central activity zone, which effectively is the West End, which has 30% affordable housing as the requirement.

**Q166 Emily Thornberry:** How long have you had that?

**Councillor Harvey:** About a year.

**Q167 Emily Thornberry:** Is it about 50%? It is all very well having it as a policy but is it actually delivering as well?

**Ms Westbrook:** It will. In fact, our policy up until that point was 30% but Westminster very clearly delivered that 30%. It was not a target, it was an expectation. In terms of looking back at performance, 30% of all residential developments coming forward were expected to be affordable, of which 25% was affordable rented housing and 5% shared ownership. If you track back through that, Westminster delivered completely on those targets. The new policy, which only came in last year so it will take a bit of time to have effect, is 30% in the central activity zone and the Paddington Basin area effectively and the rest of the borough is 50%.

**Q168 Emily Thornberry:** Of which affordable rented is what?

**Ms Westbrook:** 50% of the total is affordable housing in-line with the Mayor's proposals. At the moment, it is 70% rented, 30% shared ownership or low cost home-ownership.

**Q169 Chair:** Can I clarify that? The information we have is the London plan requires half of all new houses to be affordable, 35% social rented and 15% shared ownership, so you are in accordance with doing that anyway?

**Ms Westbrook:** Yes.

**Q170 Emily Thornberry:** And on the size of units?

**Ms Westbrook:** Yes. There are planning policies about size of units in terms of maintaining a supply of family units, and that is right across both social housing and private sector housing. We do set targets—I cannot remember them exactly—for a number of three-bed and three-bed plus units on every site.

**Q171 Emily Thornberry:** Is it not something like 30% or something ought to be three-bed plus?

**Ms Westbrook:** Yes, it is that sort of figure.

**Q172 Mr Olnier:** Can I ask, because I know both of you were in the room when the previous witnesses were giving their evidence, seeing as Westminster is a beneficiary of the HRA subsidy scheme whereas Nuneaton and Bedworth lose out very, very badly, do Westminster think the system is fair?

**Ms Westbrook:** No, we do not because we are not beneficiaries. Subsidy is moving to the north of the country away from London and the South East.

**Q173 Mr Olnier:** When I asked the question certain colleagues said, "Yes, it is all going to London".

**Ms Westbrook:** No, definitely not. In fact, between now and 2012 over £2 billion of the management and maintenance money is going out of London.

**Mr Olnier:** If you are not receiving any—

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**Q174 Chair:** They are receiving some.

**Ms Westbrook:** The position is worsening for all London authorities.

**Mr Olnier:** Yes, but we have reached our rainy day of £3.3 million we have to give you, you have had part of it. All I am saying is do you think the whole scheme should be looked at?

**Q175 Emily Thornberry:** You can have 10,000 off my housing waiting list, Bill!

**Ms Westbrook:** There are some very strong views, particularly amongst local authorities who have got an ALMO in place, looking at how the HRA works and trying to move away from that approach of year-by-year subsidies which do not relate the account to what is being paid by tenants. Effectively, what tenants are paying does not relate to the services which can be afforded and given to them. I think there is a real disconnect. Some of the pilots that are being taken through at the moment—there are six pilots, I understand three with ALMOs and three with local authorities that directly manage their stock—are looking at whether there is any possibility of disconnecting HRAs from the subsidy system. I do not know whether that will be the case, but I think it is still worth exploring to give all authorities with ALMOs much more certainty and the ability to connect the quality of service to the amount tenants are paying more effectively because there is a huge disconnect at the moment.

**Q176 Mr Olnier:** One of the things you are advocating is the fact that Government should modify the legislation so that authorities like yourselves can discharge your duties on homelessness to the private sector. Why would you want to do that when obviously the tenancies are insecure and the costs to these residents are very expensive?

**Ms Westbrook:** Starting back a bit, I think there is a series of arguments we are making. One is in terms of London funding, funding is now made on a regional basis. We have already had sub-regional funding in place for a number of years. In the north sub-region, within which Westminster sits, because there are lower costs and greater opportunities in the north of the north sub-region, far more funding has gone in that direction. The regional strategy for London in terms of growth areas, with funding going to the Thames Gateway, funding going outside London to Ashford and Milton Keynes, will mean a real shift in where resources go. In a sense, there is a disparity between that and if you are a Londoner who happens to be in housing need in Westminster or Camden or Islington, which will not have so much funding in future for very good regional, national reasons, you will have a huge disbenefit because you will effectively wait longer because we will have less housing supply and less funding to provide new supply. It is in the context of that wider argument about our responsibilities particularly in homelessness, for example that if you apply to Westminster we finally have the duty to provide permanent housing in the way the

statutory responsibilities are lined up. Effectively we have to provide that within our borough, but the housing opportunities which come forward in Westminster, for all the reasons we have talked about in terms of cost, are smaller than many of the other boroughs and will continue to reduce when funding is going to the east of London and to outside London. There is a real disparity between where national funding is going and the responsibilities of local authorities.

**Councillor Harvey:** Five years ago we built over 500 units for social housing in Westminster under the old arrangements; this year we are going to build less than 100. Our population is rising, demand is rising, and we need to house those people somewhere. Therefore, if they have fallen out of a private sector tenancy in one place and we can quickly re-house them within Westminster in a similar arrangement because of the relationships we are building up with landlords who can become accredited, then it is much better for that family to be in that place rather than to put them into temporary accommodation perhaps some miles from the children's school and their family. It is not to worsen the position of someone, it is someone who presents themselves with a need right now that we might be able to help them. We supply deposits so they can get the rental and we have certain guarantees with those private sector landlords and they will often continue. We ought to explain this in the context that the population of Westminster turns over 25% every year and therefore we have a lot of people coming in and a lot of people going out, so, for some to be in the private rented sector may be quite appropriate for them.

**Q177 Mr Olnier:** Again, that leads them into a trap possibly as well because if you are encouraging them to go into the private sector, thus they start to have to heavily rely on housing benefits, it does not give you an opportunity to look at the vulnerability of those people when you seem to be encouraging them to go into the private sector. It is, "There you are, you go to the private sector, get your housing benefit, goodbye, we do not want to know you anymore, you are okay".

**Councillor Harvey:** We will continue to support vulnerable people, we certainly will, but if the funds have been switched out of places like Westminster so where we used to build 500 we are now building less than 100, we have got that gap which we must fill.

**Q178 Mr Hands:** What is the geography of destination of these people?

**Councillor Harvey:** Who, the 25% who are leaving?

**Q179 Mr Hands:** Who Westminster accepts a duty to but houses elsewhere outside of Westminster? Are we talking of other London boroughs?

**Councillor Harvey:** Yes.

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**Ms Westbrook:** In terms of temporary accommodation, we have got 3,000 households living in temporary accommodation who the borough council has accepted as being homeless. Of those, 60% are housed in temporary accommodation in Westminster.

**Q180 Chair:** In the private sector?

**Ms Westbrook:** In private sector tenancies.

**Councillor Harvey:** Often RSL tenancies.

**Ms Westbrook:** They are essentially private sector rents paid for largely through housing benefit and then 40% are outside Westminster. In terms of who we prioritise for living in Westminster, it is essentially those households and families who have got children in a school.

**Q181 Chair:** That was not the question. Maybe you could provide it to us in writing afterwards? Where are the 40% going?

**Ms Westbrook:** To a number of east London boroughs by and large. Perhaps we can put that in writing.

**Q182 Chair:** I know we are over-running but can we move on to the private rented sector, since you have such an enormous amount of it, and ask whether you think you have got enough powers to control the quality of the private rented sector in your borough? I know some of it is very high quality and very high rent, but obviously not all of it.

**Councillor Harvey:** I would say our community protection department, which covers environmental health, introduced a licensing scheme, for example, for HMOs some years well in advance of the Act which came in last year, and they are very, very keen indeed.

**Ms Westbrook:** We have taken up a number of schemes to improve the quality, not simply through enforcement action but also through grant activity,

particularly around energy efficiency, grants to landlords to improve the quality of homes and grants to improve up to decent home standards inline with the Government policy around vulnerable tenants living within the private sector. The other area of activity the borough has really taken on is around empty homes where we have always had a very proactive strategy and have undertaken Compulsory Purchase Orders to take back against owners who have not used their properties. We have undertaken empty property Compulsory Purchase Orders unlike the majority of local authorities.

**Q183 Chair:** Have you already used the new—

**Ms Westbrook:** We decided that we are not planning to use the Management Order powers because we do not think they work very effectively. We think they put the authority at risk because my understanding is, and I am not expert in this area, if you take out the Management Order you then are responsible for returning a rental income to the landlord, so you become liable to take on the management and then supply the landlord or the owner with a rental income. We have decided we are not going to take that kind of action. The action we will still take, where we have particularly recalcitrant owners who absolutely refuse to bring their properties back into use where they are derelict and are impacting on neighbours, is to take out Compulsory Purchase Orders.

**Councillor Harvey:** We have not used many of them but the knowledge that we do has certainly been helpful so that in all cases we do not proceed to a CPO, but we certainly have done.

**Chair:** I think we are running out of time. I am very conscious of the fact that as well as your submission there is the Westminster Housing Commission Report and we may, if it is okay with you, write to you subsequently with some questions arising from that Commission Report since it is such a mine of useful information. Thank you very much indeed.

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*Witnesses:* **Mr Bernard Gallagher**, CEO of Regenda Housing Group, and **Ms Deborah McLaughlin**, Director of Housing at Manchester CC, gave evidence.

**Q184 Chair:** Can I thank you for waiting in the back and apologies for over-running so you are being called a bit late. Can I start by taking up the concept of “marginal owner-occupiers” which is mentioned in your submission. What factors do you think are those which drive these “marginal owner-occupiers” to move into social rented accommodation? How significant do you think the risk is that there might be some more of them if interest rates continue to increase?

**Mr Gallagher:** We represent a forum, and the example cited was from a colleague in Oldham. For us, marginal owner occupation is around people who may be eligible for shared ownership, low cost of ownership initiatives. We are very concerned that there seems to be too much pressure applied to people to see that as a tenure of choice as opposed to the normal social rented tenure, so we are slightly concerned about that.

**Q185 Chair:** Do you believe the numbers in that group will increase significantly if interest rates continue to increase?

**Ms McLaughlin:** Yes, that is one concern, but more fundamental our concern was if the shortage of supply of social rented continues, by encouraging people into shared ownership and low cost home-ownership they may well be getting themselves into a position of greater debt than they would otherwise. They can just about afford it at this stage but an increase in interest rates would be detrimental to their position. The concern was if the choice of social rented was limited and we encouraged people to go into low cost ownership they could not cope with it in the longer term. Sometimes people do not always take into account the maintenance costs and the ongoing costs associated with home-ownership.

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**Q186 John Cummings:** Would you tell the Committee to what extent do HomeBuy schemes have a role to play in housing provision?

**Mr Gallagher:** I think they had a significant role to play. We think there needs to be as much choice extended as possible. Across the North West region we have done quite a lot of work in trying to understand market conditions better. In the Regional Housing Statement we identify three sorts of different markets in operation: dysfunctional markets, as they were crudely described, which have been addressed in some part through the Housing Market Renewal Pathfinder exercise; unbalanced markets; and thriving markets. What we are trying to do is link very closely, as we have tried in our arguments that we proffered in the Regional Housing Statement, and see housing as an integral part of the economic growth of the region. We think this is a very important aspect. I would add that at the moment Government is looking at extending something of the order of 100,000 units through the Low Cost Home-Ownership Scheme over the next five years. It has gone from 13% in 1988 to 30% and the view is it is going to be 40-plus. We feel that is too prescriptive coming down from Government, and what we would like to see is more local decision-making around low cost home-ownership initiatives where clearly there is a case for further choice.

**Q187 John Cummings:** Do you agree with the criticism that the monies used to support shared ownership is going towards existing stock rather than new stock and that is having a consequential effect on increasing demand and prices?

**Mr Gallagher:** I can only speak for NWHF, but I do not agree with that. In my experience, shared ownership has been very much towards new provision and has not been towards existing stock. If you are looking at initiatives to try and entice people who are in the social housing sector at the moment, I think we are short of one or two initiatives. One proposal is returning to the DIYSO approach, "do it yourself shared ownership". No, I do not agree with that.

**Q188 John Cummings:** To whom should these products be targeted?

**Mr Gallagher:** I think it should be open to most. One of the issues we have found when looking at key workers, graduates, indeed people from BME communities, is something like 16% have taken up shared ownership in our part of the world compared with 5% which is the norm in owner-occupation across the country. It should be another tool and an opportunity for people to look at some alternative to social rented.

**Ms McLaughlin:** Can I add a point on that issue about the huge economic regeneration which has been successful in some of the big cities in the northern region. A HomeBuy option for the next generation of people who are benefiting from economic growth will be a really good option for some people to enable them to stay in the same area, so there is a local connection as well; for

people who might want to stay in the locality, who have got aspirations, and are more economically active than perhaps the previous generations. To be able to generate some HomeBuy schemes within areas that are predominantly social rented would be a very positive choice for some people.

**Q189 Chair:** One of the suggestions which has been made for the Housing Corporation to think about communities rather than just providing housing is that it should invest in other services such as neighbourhood management, childcare provision, work around financial inclusion, other than just straight providing social housing. Given that you are arguing there is a shortage of funding for social rented housing, do you think investment in non-housing services can be justified in those circumstances and, if so, how?

**Mr Gallagher:** I think it is a classic competing priority for a lot of housing associations just to consider where you have got pressure on looking at replacement properties, which is what we are talking about primarily in the North West, rather than just adding to the existing stock because some of the stock is inappropriate. I think there are lots of good examples, and the National Federation did some work on this which has shown that a lot of work that associations have done in community initiative type areas, which you describe, has had a very, very strong effect on retaining and sustaining communities and also has been very useful in terms of not being a drain on the public purse. The real argument is whether tenants should be paying for some of this initiative or the taxpayer, and that is a real dilemma for us when associations are being expected also to contribute, sweat their assets I think is the common term which is now being used, to regenerate and provide new provision. It is a real dilemma and is one we have got to consider very seriously.

**Q190 Chair:** Can I pick up on something you said? You said in the North West you are largely in the business of replacing properties which are inappropriate. In what way are they inappropriate?

**Ms McLaughlin:** A lot of the properties, particularly in the Market Renewal of Pathfinders, the pre-1919, two-up, two-down, pavement terraces, are in poor quality and most in the private sector had very, very little intervention or repairs over time and are economically expensive to run because of energy efficiency problems, so a lot of those properties are obsolete. It is not that there is no demand for stock but it is demand for quality stock which is affordable to live in which has been one of the challenges for the Pathfinders in the North.

**Q191 Chair:** Is it your experience that the Market Renewal Pathfinder Programme has been successful, very successful or partly successful?

**Mr Gallagher:** Quite frankly, I think it is too early to say. They have done some very, very useful work. We have taken a lot of time and effort in looking at master-planning and addressing some of

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the issues which Deborah just referred to. These are ten to 15 year programmes and it is going to take time to turn things around when you intervene in a market situation where you have had collapse. I think some very good examples of master-planning and resident involvement, to mention two, have been extremely useful in building a platform for successful markets in the future.

**Q192 Chair:** Can you point to one or two particularly successful Pathfinders in your region?

**Ms McLaughlin:** I work at Manchester and I would argue that the Manchester/Salford Pathfinder has been very successful. When we originally started work on Pathfinder the market had absolutely been depleted in lots of areas in both Salford and in the Manchester City Council area. We have had a lot of work, a lot of investment has gone into the area, and the market has picked up. There are particular schemes which are well worth looking at that have really brought people into areas who perhaps would not have wanted to live in those areas before and have helped the economic regeneration of the area as well. What has happened is the economic regeneration has been so successful that the housing market does not yet match everywhere, the properties are not there for people to want to move into, so both the economic regeneration, as well as restructuring the housing market to match the new demands, have been successful. Again, as Bernard said, it is early years but there is evidence on the ground to see.

**Q193 Chair:** Would you support social housing providers being allowed to invest in private sector accommodation if that would help to develop mixed communities and help regeneration?

**Ms McLaughlin:** I think what is important is the outcome and developing mixed communities, and we should look at all possible options to be able to give us the outcomes that we require. If we just restrict ourselves to one tenure type, as we have made the mistakes in the past, that is not helpful for an area. We have got a number of schemes using PFI monies as well as housing market renewal monies which have resulted in mixed communities and have been successful on the ground. I think we should look at all options to produce the right outcomes, provided they do offer value for money, and perhaps some of the value-added things which Bernard referred to that the social rented sector offer in the communities, so

neighbourhood management and picking up early signs in the community, which act as preventative measures, which save public money later on down the line. For example, early intervention with neighbourhood youth, anti-social behaviour and those sorts of things help to sustain areas.

**Q194 Emily Thornberry:** Would you understand why people from the London area find it difficult to understand how it can be justified that northern England is going to get a larger share of resources for housing, particularly when you are spending the money pulling down what would seem to be perfectly good housing and building more when we simply do not have enough at all?

**Ms McLaughlin:** As you would probably appreciate, that is an oversimplification of the housing market in the North. If you think of Cumbria, we do have rural affordable housing issues there, and equally Cheshire has got the same. The Pathfinders are a very small part of the North. One of the issues we as a Forum have to contend with is the diversity of the housing market. We have got hotspots of affordability, and we have had hotspots of lower demand which are now shifting. What I think is really important is that the economic growth of the northern region is not slowed down by the lack of housing choice and the right housing choice. We have done so well in economic regeneration that if we can get a housing market which complements that, that would be very beneficial to the North. There is a lot to do with such a diversity: it is doing the right thing in the right place and recognising the diversity, and having the right intelligence so that we know what is happening in the housing market to make sure that we put the investment in the right place, because it is so different. It is a challenge to the Regional Housing Board. On the one hand, one priority is affordability and, on the other hand, it is low demand, and it is getting those priorities right. Yes, from perception from the outside it perhaps looks strange but the reality, I think, is different on the ground.

**Q195 Emily Thornberry:** We could fit three Islington families into a two-up two-down if we were just given a few!

**Ms McLaughlin:** We do have issues of homelessness, and our recent affordability issues in the northern region have focused our priorities on looking at homelessness and how we deal with it.

**Chair:** Can I thank you very much indeed.

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**Monday 22 January 2007**

Members present:

Dr Phyllis Starkey, in the Chair

Sir Paul Beresford  
Mr Clive Betts  
Mr Greg Hands  
Martin Horwood

Mr Bill Olnier  
Emily Thornberry  
David Wright

*Witnesses:* **Mr Karl Tupling**, Director of Housing, Sheffield City Council, and **Mr Peter Morton**, CEO of Sheffield Homes, gave evidence.

**Q196 Chair:** Could I welcome the first two witnesses this afternoon and ask you, if you would not mind, to introduce yourselves and say which organisation you represent. Then when we get into questions, given that we have got quite a lot of issues we want to explore with you and the time is not infinitely expandable, please do not feel obliged for each of you to answer every question unless you are going to say something different from the other.

**Mr Morton:** I am Peter Morton, the Chief Executive of Sheffield Homes.

**Mr Tupling:** Good afternoon. I am Karl Tupling, Director of Housing, Sheffield City Council.

**Q197 Chair:** Thank you very much. Could I start by asking you about your commitment to reaching your Decent Homes target. Are you on course to beat the target by 2010? How do you monitor progress and how do you inform your tenants about the progress towards that target?

**Mr Morton:** Presently we are on target. Our Decent Homes programme presently is just up to 20,000 homes improved against the target which is just over 19,000, so we are around about 1,000 properties ahead of the programme. We have improved around about 10,000 and we already had 20% of the stock decent before we started. We monitor on a monthly basis; we have targets we agree with the DCLG and with the Council; we keep a regular track on the performance of our contractors, and that is done in conjunction with the local boards and the main board. In Sheffield we have got six local boards and they monitor progress at a local level, both their contractors and the progress of the work on the estates.

**Q198 Chair:** Sorry, did you say in there how you inform the tenants of progress?

**Mr Morton:** We have regular newsletters to individual tenants. Before the work starts we tell them when it is; we consult them on what they are looking for; they have choices of kitchen and bathroom fittings and so forth, but on the local boards—there are five tenants out of 11 on the board—and we report progress to them and they, in turn, cascade it to the Area Investment Working Groups where we have got tenants' reps and local members. There are levels of monitoring through the

system there and we also report progress to the Council and they monitor the work as we go through.

**Q199 Chair:** As you know, the Government is suggesting extending the 2010 deadline. What would be the repercussions for you of re-profiling your spending?

**Mr Morton:** We made commitments to tenants to complete by December 2010. We have a programme agreed with tenants and contractors to achieve that and we are actually confident we can deliver that. We have spoken to the DCLG about the question of re-profiling and we have argued strongly that we should maintain the December 2010 deadline, largely to maintain those commitments to tenants because the programme has been hugely successful and for the promises to be broken would undermine confidence in the programme, the city council and the ALMO. Also, if we were to re-profile beyond 2010 it would cost more because the programme that we have got with the seven partners is to squeeze as much value between now and December 2010. If we go over, then there will be inflation and greater costs, so it would be counter-productive for Government, ourselves and the tenants to go over 2010.

**Q200 Emily Thornberry:** I would like to know about your bidding process. With a huge, great contract like this, how do you go about getting certain contractors? Is it called "preferred contractors" or "preferred bidders"? Do you have a system of that or not?

**Mr Morton:** Yes, we advertised the contracts through the OJUC (Official Journal of the European Council), and we got a lot of interest. We then had a selection process which involved tenants working with us to assess quality and the value for money of all the tenders. That involved a professional evaluation but also going round to visit other places where they were working and showed quality. Out of that, we originally got five preferred partners and because of the scale of the programme in Sheffield, we just brought on another two and they have gone through a similar process of tenant evaluation as well, so we have now got a partnership of seven contractors.

**Q201 Emily Thornberry:** As the work comes up, you give the work to one of those seven?

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*Mr Morton:* Yes, based on performance.

**Q202 Emily Thornberry:** It is a standard price for a new kitchen or a new bathroom, is it?

*Mr Morton:* It depends on the contractor, because they bid in terms of price and quality, so the price for each of the seven is slightly different.

**Q203 Emily Thornberry:** How do you know when you are getting value for money? Could you help me a bit more with that?

*Mr Morton:* We tested that through the original contractual process and the ratio between quality and price. For the first five it was a 70% quality and 30% price ratio. For the recent procurement of the 6th and 7th partners it was 50% quality and 50% price ratio because we wanted to make sure we did not just get a low price, that the quality came through as well, and out of that we are confident that we have got value for money, but also a product of the right quality and standard.

**Q204 Sir Paul Beresford:** Does the Government peer over your shoulder while all this is going on or do they leave you alone to get on with it?

*Mr Morton:* We are accountable to Government, the City Council and tenants. There is a whole raft of agencies and customers looking over our shoulder making sure we are delivering quality and value for money.

**Q205 Sir Paul Beresford:** So the bureaucracy is phenomenal?

*Mr Morton:* It is significant, but when you consider that we are spending about £498 million of government money, plus council money to a total of £669 million, then it is reasonable, I think, to be accountable for that and to be accountable to central government and local government for that.

**Q206 Sir Paul Beresford:** Could it be thinned?

*Mr Morton:* It could, yes. We had a meeting this morning with Professor Cave, who has been commissioned by the DCLG to look at the regulation of the whole housing sector, housing associations and ALMOs.

**Q207 Martin Horwood:** You said it is part of the bidding process that quality is important. Is tenant feedback or tenant evaluation of contractors part of that, explicitly?

*Mr Morton:* Yes, before the contracts were let the tenants explored the quality of work by visiting other places—really their method was checking out the quality—but also, as the programme has been running on and in answer to the previous question, we move the work around dependent on performance.

**Q208 Martin Horwood:** Just to be clear, performance explicitly includes tenants' own perception of how well the work is being done?

*Mr Morton:* Yes, we have got Area Investment Working Groups which involve tenants; they monitor the work on the ground; they feed back to us; and if the quality is not as it should be, then that contractor will get less work.

**Emily Thornberry:** Is the question though not this: that leaseholders, therefore, do not get a choice in which of your contractors are going to get the work and they cannot have an input into how much the work is going to be on Decent Homes?

**Q209 Chair:** How many leaseholders have you got in Sheffield?

*Mr Tupling:* Can I clarify that we do consult with leaseholders before contractors are appointed or before contracts are let and when we benchmarked costs we have looked across the country, benchmarking across the UK, looked at what costs leaseholders are experiencing in other places. I think one change that has been quite fundamental is the extent to which Sheffield Homes has involved leaseholders through consultation and given an opportunity for investment to be carried out in their homes, where previously they would not have had that opportunity.

**Chair:** Roughly, what proportion of leaseholders would you have amongst the properties? If you do not know, perhaps you could let us know, just to give us an idea of the scope of the issue.

**Q210 Mr Oler:** Mr Morton, you talked in your answer to a colleague of mine about the future. What do you think the future is for ALMOs when 2010 comes along and the Decent Homes programme has been completed?

*Mr Morton:* Essentially, there are three things that ALMOs do: excellent housing management services; neighbourhood management; and we manage the fabric. The first two of those are ongoing: the excellent housing management and neighbourhood management. With the management of the fabric that too will go beyond 2010. Elements of things like heating systems will need replacing. I think one of the pieces of the work that we are doing with DCLG is around the self-financing housing revenue account and the idea there is to make sure that after 2011 the stock does not deteriorate and we have got the resources to maintain the standards that we have achieved.

**Q211 Mr Oler:** What sort of money would you be looking for to do that after 2010? Would you expect the new investment to come down substantially or would you want the same investment to ensure that the neighbourhoods stay all right?

*Mr Morton:* We are doing a piece of work now with DCLG to work out the business needs of the stock from 2011 through the following 30 years. I would like to give you that evidence later, I have not got that to hand. We have done a modelling exercise to establish the needs of the stock beyond 2011.

**Q212 Mr Oler:** Is there any sort of filtering down through the ALMO, any worries about the uncertainty of the future funding after 2010?

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**Mr Morton:** There is a real fear that we will go back to pre-ALMO spending. In Sheffield we were spending around £50 million a year capital investment prior to ALMO, it is presently around £125 million. If we go back to the £50 million level then the quality of stock will deteriorate quite rapidly.

**Q213 Mr Olnier:** What limitations are there on ALMOs that restrict their ability to trade? Do you think those restrictions should be lifted? I am thinking about new build.

**Mr Morton:** There are restrictions around the management agreement. In Sheffield we have a management agreement that is 10 years; that is insufficient to raise capital to build new properties and you will have seen from our evidence that there is a huge demand for council houses in Sheffield. We are not able to borrow because of the 10-year management agreement and because of our status. Also, we have not got assets to borrow against—the properties are owned by the council—and we cannot borrow on the assets. What we are looking to do, through the self-financing housing revenue account piece of work, is to borrow on the revenue stream.

**Q214 Mr Olnier:** Finally, on this point, I have not got any first-hand knowledge of the working of an ALMO—we have not got any in my authority—but is there any tension between the city council and the ALMO? Is there any at all or are you all best bosom buddies?

**Mr Tupling:** I think it would be fair to say that there are some healthy tensions there and, bearing in mind that the ALMO was established after extensive consultation and extensive support by tenants for change, whatever change happens there are bound to be some issues around which there will be differences of opinion. What I have to say is that two years or more on, the debate that is now taking place between Sheffield Homes and the city council is fundamentally around the sustainability of the housing stock; and we are both engaging tenants in that debate and in that process. If you asked tenants what was the most important thing to them, they would not tell you that it was management staying with the ALMO or moving back to the local authority, they would tell you—and we know this through consultation—that they are interested in their homes being repaired, investment being sustained and investment being put back into housing and estate services, so that is where our focus has been.

**Q215 Mr Olnier:** Can you fill the last little gap in for me. Who manages the lettings and who determines the rent levels?

**Mr Tupling:** The lettings process is undertaken by Sheffield Homes to a policy set by the council and managed at rents, you could say, determined by the city council, but in reality determined by the Government's rent restructuring policy, so actually there is very little determination by the local authority in terms of the rent set.

**Chair:** David, I forgot in the private session to ask you to declare your interest, so could you do that first?

**Q216 David Wright:** I think the Committee have got a copy of my registered declaration. I think I ought to also say I am a member of the Chartered Institute of Housing, given the scope of the inquiry, but I pay them rather than them pay me to be a member, so perhaps I am getting it wrong somewhere. I wanted to focus on this housing revenue account element and you talked about rent restructuring and affordability. How would you see that potential model changing what you do? I think you are one of six looking at this at the moment. Do you think that will potentially allow you to step outside of rent restructuring and give you more independence? What kind of other services do you think you would be scoping out as part of this separate independent structure? Do you think it might draw the ALMO back more closely to the strategic role of the local authority or do you think it will float off completely?

**Mr Tupling:** To be frank, it is early days yet.

**Q217 David Wright:** You do not know, which is understandable.

**Mr Tupling:** We will try and give you the answers once we finish the exemplifications around a number of case studies. Bear in mind this has to be something that works for authorities that are being asked to take on more debt and work for authorities like ourselves that have a huge level of debt, so we would be looking to redeem that. It is about a business plan that, looking forward 30 years, can at the very least sustain the stock at the level achieved through the Decent Homes investment. We are looking forward to testing out a number of policy options that would allow them the value in that stock, the value of the rental stream to be used to develop a range of different services, a range of different permutations around enhancing the model of provision within council housing, as well as potentially looking at building new housing.

**Q218 David Wright:** How will tenants be able to evaluate whether they want those services or not because, clearly, some tenants will want a very baseline level of service, others will want a series of add-ons, regeneration and social add-ons as part of the structure? How are you going to get the balance right?

**Mr Tupling:** I think there are a couple of points. First of all, there is a round maintaining a basic level of service and investment which is required to keep the stock sustainable over a long period of time. The second round is providing a rental, and eventually a service charge system which is flexible enough to allow individuals to make individual informed choices. A couple of examples might be in an estate where perhaps people want a high level of CCTV or a higher level of concierge service, or perhaps in another part of the world where people would want some sort of garden service. At the moment the system is not flexible enough to allow those differences.

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**Q219 David Wright:** Just to press this momentarily. For tenants who live on perhaps more difficult estates with more challenging problems of anti-social behaviour or whatever, they may well want an additional service, but you are not expecting them to pay for that because they have problems on their estate, are you? There has to be some sharing of cost across the housing organisation.

**Mr Tupling:** There does and, importantly, it is worth noting that there is no such thing as a council estate anymore.

**David Wright:** Indeed.

**Q220 Mr Olnor:** Excuse me, there is in some areas.

**Mr Tupling:** There is hardly an estate where someone has not exercised the right to buy. The point I am making is that we need a system which is flexible enough to be able to respond to the needs of the community regardless of tenure, and a system for charging for that service in a fair and equitable way. This may give some way towards that flexibility for tenants, but we need to broaden that out so that for leaseholders and owner-occupiers there is a way of buying in and being able to be confident that the services they are buying are good value for money.

**Q221 Mr Betts:** From the evidence you gave about building new homes, you came to the view that the ALMO should be involved in that process, we should not just leave it to RSLs and it should not be the council that does the building, in this case it should be ALMOs. Can you say briefly why you came to that view? It could have been the local authority that built instead. Are you getting proper support, encouragement and assistance from DCLG officials, because there are a lot of technical barriers that you have listed which need getting out of the way to be successful?

**Mr Tupling:** I think it is right to say, currently, councils could build, although the subsidy system would work against that. Genuinely, the City Council is interested in a model that would, perhaps through ALMOs building, get more out of the existing system. We have looked to ALMOs being able to access social housing grants, for example, and perhaps if you look at the efficiencies that ALMOs are able to deliver through housing management over a 30-year period, they are able to derive long-term savings and long-term efficiencies through ALMOs building. So, yes, we are very interested in testing that out, but at the moment the system would work against councils building houses.

**Q222 Chair:** Have you explored the leasehold systems that some of the London boroughs seem to be organising, where they lease the homes back and forth between the council and the ALMO, so the

ALMO then does have a capital asset? Would that work in somewhere like Sheffield or is it only going to work somewhere with very high land values?

**Mr Tupling:** I think it is probably worth pointing out that a number of models vary in what happens to the existing stock and this is a look at how we can increase the numbers of affordable homes in the city. So, no, we have not looked at that, but what we have looked at is leasing properties in from the private sector, but this is a very different model indeed.

**Mr Morton:** Chair, could I come in on the last point about assistance from officials and the Housing Corporation. Tomorrow, we have got a workshop with the Housing Corporation and civil servants to explore the obstacles to ALMO investment—and some of those are set out in our evidence—but more to the point, to work out some solutions. So we are working with the Government and the Housing Corporation and there may be an opportunity after that workshop to give you further evidence outcomes from that meeting.

**Chair:** That would be very helpful.

**Q223 Emily Thornberry:** I really wanted to ask a question about—I suppose it is coming back to the fundamentals—ALMOs being arm's length management organisations have property that is owned by the local authority, so if you are going to be building homes against your revenue stream, borrowing against your revenue stream, who is going to own that? Will it be the local authority or will it be you? Does that not change your role completely?

**Mr Morton:** Yes, our ambition is for Sheffield Homes to own the new-build properties and that would change the status of the homes; they would be outside the housing revenue count, the present right-to-buy arrangements would not apply, home buy might apply, so the issue around recycling receipts would be different. If we did sell the property, we would be able to get the investment back and the ALMO would start to build its own asset base, albeit very modest, and we would be outside the subsidy system as well.

**Q224 Chair:** Could I finish by asking, in your evidence you say you are losing 3,000 homes a year, I think it was, to housing associations. Why are tenants transferring to housing associations?

**Mr Tupling:** Perhaps I could clarify. It is not a question of losing homes. At the outset, tenants across Sheffield exercised choice in terms of pursuing an ALMO route or a stock transfer and 7,500 tenants opted for a stock transfer. That is against around 550 tenants who, year on year, currently are exercising the right to buy.

**Q225 Chair:** Thank you very much for clarifying that. Thank you for your evidence and if we have got any further questions we might write to you for more clarification.

**Mr Tupling:** Thank you.

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*Witnesses:* **Mr Peter Walls**, Group Chief Executive, and **Mr John Craggs**, Deputy Chief Executive, Sunderland Housing Group, **Mr Chris Langstaff**, Managing Director, and **Ms Catherine Park**, Director of Finance, Hounslow Homes, gave evidence.

**Q226 Chair:** Could I ask you, if you would not mind, to introduce yourselves and say who you are.

**Mr Craggs:** John Craggs from the Sunderland Housing Group.

**Mr Walls:** Peter Walls, Chief Executive, Sunderland Housing Group.

**Mr Langstaff:** Chris Langstaff from Hounslow Homes.

**Ms Park:** Catherine Park, Director of Finance from Hounslow Homes.

**Q227 Martin Horwood:** How urgent do you think it is to resolve the future of ALMOs after 2010?

**Mr Langstaff:** Perhaps I will take that as these guys are LSVTs. I think it is quite important to do that now. Hounslow has been an ALMO since 2002; we have finished our Decent Homes programme, we have got our three stars with excellent prospects; we are now starting to work on three new initiatives; we have got some new build programmes and planning permission for one of the schemes and we are working on the Government's self-financing pilot. We are also looking at what we now call "Decent Estates", which is the next step that we think needs to take place from Decent Homes, but we have only got five years left on our contract, so for us it is very important that we are trying to sort out the long-term future. I think really—to follow on the point from Sheffield—this is about what is the best for our tenants and how best can we take forward affordable housing into the future in a west London borough where house prices are pretty difficult and where we do need to keep moving forward and making improvements; so for us it is very important.

**Q228 Martin Horwood:** In terms of the range of services that you would like to be able to offer—I have certainly been lobbied by my local ALMO that it could be greater and there are restrictions that could be lifted—how do you think the structure of the ALMO environment should change after 2010 or how would you like it to change?

**Mr Langstaff:** I think it is interesting. We are following the new-build proposals now which we think we could do within the existing structures, and because we are wholly-owned by the council, borrowing can be done through the London Public Works Loan Board; so that could be still achieved, but a longer-term process to that would be much better and ultimately, of course, the housing subsidy system is working against us in London. As you probably know, rents are going to go up by 5% which should bring in £2.5 million worth of extra income, but the subsidy system is taking £1.5 million away from us.

**Q229 Mr Oler:** I wonder where all of this money is going.

**Mr Langstaff:** If we could get outside of that system—and the whole point of working with the DCLG at the moment is to try and get outside of

that system—we can capture that rental stream to the benefit of local services and to help us support new house building.

**Q230 Martin Horwood:** What are some of the kinds of services that you would expand into doing? Do you want to tell us a bit more about this Decent Estates concept?

**Mr Langstaff:** I would not exactly say they are new services. The new-build is something that we have not done since the early 1980s and is something which we could start again. The Decent Estates is actually all about dealing with the communal areas and the external environment on estates. We have got many blocks of flats which are now 40, 50 or 60 years old, where the drying areas, the refuse collection arrangements, the car parking areas, the estate roads and the boundary fences have just not been touched. We need to do that work and we need to invest to improve quality of life for our tenants.

**Q231 Martin Horwood:** Would you be offering to take over the management of some public assets in the vicinity of your housing, is that the idea?

**Mr Langstaff:** Yes, that is a real potential. Something we are looking at on one of the schemes is to do that.

**Q232 Martin Horwood:** If you were given this sort of freer financial environment, would that extend, for instance, to what other businesses might look at, which is mergers and re-arrangements of the geographical aspect of ALMOs?

**Mr Langstaff:** I think the huge value of an ALMO is the strength of its local tenants and having a local board that makes decisions about local things. I do not think mergers, for us, are the right way forward. What I would see is collaboration between ALMOs where we have joint services but not a merger.

**Q233 Mr Oler:** Could I ask whether you have experienced any particular problems in delivering such large Decent Home programmes?

**Mr Walls:** We hit the Decent Homes programme about a year ago in December and that was only part way through our spending programme anyway. It was going to go between five and 10 years but we accelerated the programme in the early years after transfer and hit the programme about a year ago in December.

**Q234 Mr Oler:** Were there any risks in achieving that?

**Mr Walls:** I think, initially when we transferred the stock, one of our concerns was about the potential inflation on the obviously large amount of work we had to do in terms of delivering it. As it has worked out we have managed to virtually maintain the programme with almost nil inflation across certainly the first five years which has produced a saving to the business plan of around £17 million in real costs. All that can be translated, if the main building inflation indices apply, to about £28 million. We have been

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very fortunate in the way that we have procured the work, kept the contractors on board delivering very high customer standards—about 98% satisfaction—with all of that and kept the costs down. If that goes wrong it is a major ingredient in your business plan, that is a problem.

**Mr Olnier:** I take it for granted that the tenants had an involvement in the design and the delivery of the decent homes improvement?

**Chair:** Can we just get confirmation that was the case, please.

**Q235 Mr Olnier:** In both cases.

**Mr Walls:** We had an annual and robust ideal homes standard before we introduced the decent homes standard and the tenants came every year and reviewed the content of it, the work plans. They were told, probably two years into the transfer, the exact year and quarter in which the work to their home was going to be done, which was a massive advantage for people to prepare and not to have to disrupt their home unnecessarily. They were very involved in a city-wide basis because the whole city was invited to that over a number of days. Then we obviously individually consult locally and have quite a robust feedback mechanism from which we get better returns on performance than we used to do, so that is quite good.

**Q236 Mr Olnier:** Before I ask Mr Langstaff the same sort of questions on Hounslow, I take it you have got a fairly robust tenant satisfaction barometer or register, call it what you want?

**Mr Walls:** Yes, it is individually scored by each person who experiences the work to their home and it is separated into different bits around the standard of workmanship, the quality of the products, the behaviour of the workmen and a whole range of other things. We measure each component rather than a big, lumpy, satisfaction score; we measure each component and then review them. They are part of our organisational targets to continue to improve those standards even from where they are, which is quite high, so that works all right.

**Mr Craggs:** We also, if I may add, let the tenants loose directly on the contractors themselves and that tends to keep their performance quite high.

**Mr Langstaff:** I think by the sound of it they are very similar arrangements and our tenants were involved right at the outset helping to draw up the specification. We ran some pilots again where the tenants were involved in those which iron out all sorts of those silly things: do you put coving around the ceiling? We had one tenant who had flocked wallpaper in her kitchen; do you replace that with like for like? It was all those types of arrangements. Working closely with tenants to draft what the standard would be and what the expectation would be, they were also involved in the selection of the contractors. We do not draw up any programme of works unless it has been through and discussed with the tenants, so our five year programme is a rolling programme published every year and agreed with tenants. I would say, in terms of delivering the programme, we have got £100 million Decent

Homes funding, we put another £68 million of our own funds in and against that £168 million we made Gershon savings of about £27 million, which is about 16%. We engaged cost consultants to work with us during that process and not only were we measuring the quality of work but we were using cost consultants to keep driving down the price. Our view was that prices should not go up at all during the four year period; we were expecting prices to go down, and they did, and they went down in real terms. We entered into arrangements for the purchase of bathrooms and kitchens ourselves because we have got a DLO who were one of the contractors as well, so we did work in terms of the supply chain management as well.

**Q237 Mr Olnier:** Can I ask how you have managed to re-arrange your business since you accelerated it and finished it? What are you doing now?

**Mr Walls:** I think at the point of having the whole programme mapped out there were certain bits of Sunderland which, to be honest, we have had a go before at improving, and it has not been terribly successful. I am sure that is not unique to Sunderland. We have got a thing called a neighbourhood assessment matrix which reviews the estate not simply from its bricks and mortar, but looks at a whole load of other indices on deprivation, and we got that validated by a university. There were certain of our neighbourhoods where we believed the simple modernisation and improvement would not rescue some of our more entrenched neighbourhoods which we have had for a number of years. We went back and consulted people and came out with some feedback that we should go for a more radical solution of renewal. How do we do that work? We had to go back to the lending institutions and say: “We have not got enough money to do that, how about some more money”; and we moved the capacity we were able to spend from about £350 million planned to nearly £600 million which allowed us to go into renewing certain estates and providing more holistic solutions than improving their internal circumstances. We are on the way to doing that, as challenging as that is, because, like everywhere else in the country, there are a number of owner-occupiers who live on some of the estates and it is a very difficult journey; but nonetheless, we are pressing on. At the same time we then arranged with the housing corporation, which was not possible either, that we should build homes for sale. We now generally ourselves build mixed neighbours of rent and sale. At the moment because of the demand in the city, 70% of the homes are for rent and 30% of the homes roughly are for sale.

**Q238 Chair:** Is that compared with the open market or shared equity?

**Mr Walls:** Open market. We can do equity share; We are doing some on renewal estates to help people with value problems. Then we take the money we make in surplus from the house sales and we cross subsidise to fund the rental properties. The upshot of all of that in the city is that against a regional average

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grant—which is going on in our region of about, say £50,000 per property. If you take all of our assets that we put in we work it out to be about £21,000 per property grant rate, and the properties are identical to the owner-occupied ones. They have the same white goods, the same facilities and have en-suite bathrooms—which are higher than the corporation's SDS standards. That is where we started and now we are looking to how we expand that opportunity. If we can make public funding stretch a little bit further by this model, then we are anxious to have a look at that.

**Q239 Mr Hands:** Can I come back to Mr Langstaff's point on Hounslow about the £68 million put in by the council. Is that PWL borrowing that has been put in there? I am assuming it is.

**Mr Langstaff:** It would be a mixture of supported borrowing. The Government approves supported borrowing, together with major repair allowance funding that comes through as part of the housing revenue account subsidy system.

**Q240 Mr Hands:** Can I ask as a follow-up on the question of supported borrowing? How much do you think the council is aware of some of the risks involved with the supported borrowing if the interest rate that ends up being ultimately paid on that debt turns out to be in excess of the Government guidelines?

**Ms Park:** At the moment we are still within the housing revenue account subsidy system. The interest rate matches the interest rate you pay, so that risk is completely covered. If we were to go self-financing and come outside of the housing revenue account subsidy system then that is one of the risks that we would have to manage within our self-financing business plan, so at the moment there is not a risk.

**Q241 Emily Thornberry:** I was interested to hear what you had to say about the involvement of tenants before this work is done. I would like to ask, first of all, if you have any leaseholders and, if you have any leaseholders, do you have framework contracts, preferred bidders, and, if you do, do your leaseholders get a choice on whether or not they are getting value for money, a choice of contractors, when the work is to start?

**Mr Langstaff:** There are 2,500 leaseholders and we have 14,000 tenants, so it is about 15%, and once you have entered into the main framework contract, they then do not have a choice in terms of which of those framework contractors is going to do the work, but they have, of course, been involved in that tendering process; they get served their section 20 notices in exactly the same way. What we try and do is engage them though, as we do with the tenants, in what components should be in the scheme and what the end result should look like. Because they are not paying for all of the Decent Homes work, they do not get the internals basically. So, it really comes down to paying for windows, roofs and, if they are on a district heating system, a new heating system. Where the choice can really come along is on

external works, because on two of our estates we have done some estate regeneration and that is where, for the leaseholders, there is greatest concern.

**Q242 Emily Thornberry:** Yes, it is most unpredictable, is it not?

**Mr Langstaff:** It is most unpredictable and on those we have got a process now where we engage at a much earlier stage with the leaseholders to say, "What do you even want in the scheme in the first place?" We do not even start with saying, "This is the scheme". We are asking them what they want in the scheme because some of it does benefit them and some of it they do want. So, it is quite a process; but on those two estates some of the bills were in excess of £15,000 per leaseholder.

**Q243 Sir Paul Beresford:** What is the situation if a leaseholder is on an estate where the programme is some years away and they decide to do their own improvements, double glazing, et cetera? How much freedom have they got under the restrictions?

**Mr Langstaff:** For something like window replacement, they should be asking us anyway, whether they can do it or not. What you want to try and achieve is something that is going to last into the future and is going to be easy to maintain. So, by and large we want to try and do it as a package and if you do it as a package they can get them much, much cheaper.

**Q244 Sir Paul Beresford:** Say they have to wait five or 10 years for the package and they want to move now and they have got your agreement, Do they have to contribute that share when it comes around in the full package later even though they have met your standards?

**Mr Langstaff:** If they were not having new windows put in, they would not have to pay again because they would have already put their windows in.

**Q245 Mr Olnor:** I think my question revolves around that as well because I have a little bit of experience. How transparent are the standards and how transparent is the tendering process? Most local authorities are big, easy targets for contractors whereas as an individual leaseholder you perhaps get a different take on it.

**Mr Langstaff:** We work standards out with the tenant and we work those out on each individual estate and what we do is a show flat where we will try out different windows and let tenants and leaseholders come in and see those different window styles. I know one estate where we changed those styles three times and delayed the programme by something like six months until we ended up with a window style that both tenants and leaseholders were happy with. I think it is better to do that.

**Q246 David Wright:** I am interested, Peter; you were talking about that you were looking at estates and transforming estates and regeneration and I know that you have been carrying out a review of your structures in terms of looking at your regeneration role and property development role. What do you

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think the barriers are for that diversification and expansion of your role? I am interested in how you operate in terms of the strategic functions of the local authority and where you are delivering on some of those strategic functions in terms of regeneration.

**Mr Walls:** There are a couple of issues. We take the overall principle that we are not a local authority, we do not have a strategic role—we meet as another stakeholder with the local authority under LSP—so we do both sit together separately at that and, of course, we operate jointly on certain issues. There was an announcement this morning about a Respect pilot area in Sunderland. It is both of us. We have certain stuff we do and the council has another bit that they do, so we work very well on that. We found that since we got started bricks and mortar are rather obvious targets for an LSVT, it is its *raison d'être*—why it was created—to improve these homes. To make those neighbourhoods sustainable we have started to get involved much more in the schools, so we have a construction challenge. Young kids out of school on our estates are doing real construction work as a preamble to apprenticeships. We have 100 apprenticeships in the city—which we did not have anywhere—and when we started 2,000 people turned up one morning to try and get those jobs. We have got an adult challenge and we have some entrepreneurial money, which we got off the Phoenix Trust to try to get people to start young and new businesses.

**Q247 David Wright:** Is there anything stopping you doing more? If you had a chance to say to this Committee: “We would like you to recommend three changes or one change”, what would it be?

**Mr Walls:** I think there is much made of the restrictions on RSLs and Corporation control and we have not found that in our time. We do not want to replicate stuff that other people do, that is an absolute waste of money; but we seek to use the resources we generate to enhance our operations. We are supporting the Council in their academy process as a result of other things we have done because that is right in the heart of one of our renewal estates and it is a bit odd if we do not do something.

**Q248 David Wright:** How do existing tenants feel they fit into this? Do they feel that this is good stuff, that it is legitimate? Do they think that you are over-reaching yourself?

**Mr Walls:** No, I think many of them benefit. Take, for example, the Phoenix Trust money that we got. In a city that is not famed for its innovation and business enterprise—and if it is it would not last three months—in the first six months I think 18 businesses were set up, 14 of them were tenants of the group setting up some kind of business. They were not BP by any means, but they were there having a go at being independent and doing things on their own. Those things feed through; futures for their kids feed through; so I think they take that very positively. We have a whole spectrum of tenant groups involving up to about 3,500 people from all

over the city who we run everything past and they contribute by coming to that and it is very lively. The bricks and mortar argument in a place like Sunderland is only a part of the story and we need to get much more of the rest right.

**Q249 Mr Betts:** Coming back to Hounslow and pioneering the building of new homes by ALMOs, I think it is probably the only one in the country so far that has got bricks on the ground. How supportive have the Government been in your quest to do that and while, I suppose, high house prices in London were not always thought of as being an advantage, given the amount of subsidy you can generate from rented houses by building houses for sale, then selling them on and using the proceeds, is the way you are going about it probably something that is particular to London and more difficult to replicate elsewhere?

**Mr Langstaff:** Yes, I am sure being in London is a great advantage and we are just using the values of the land to support the building of affordable homes and, as a rough guide, we can build two new homes, sell one on the open market and we can keep one and we have no need to do that with any other grant other than the free land that is on our estates. That land, by and large, is land that has been pretty badly abused anyway, old garage areas, or it has been dumped on or it is a gathering point for youths and the like, so in that sense it has been most valuable. To correct one point: we have not got a brick on the ground yet, unfortunately, but we have taken it to the stage of getting planning approval for our first project. The DCLG have been heavily involved and actually very supportive, I think they would like to see this work because this can be done in London without subsidy and can help as a partner and we have only done it as a part of estate regeneration. We are not into the kind of volume build type of business, but if we do this across Hounslow, just on housing estates in Hounslow, we can build about 1,000 new affordable homes just on that redundant land which is sitting there waiting to be dumped on really.

**Q250 Chair:** Can I ask you on that, do the existing tenants mind the spaces being built on?

**Mr Langstaff:** It is an extremely good point and one we have had to work a lot on with the tenants, and they are not going to agree to this unless they are really seeing something that they will benefit from, so it has to be part of an estate regeneration package where they are going to get something out of it as well.

**Q251 Chair:** Do you think it is a sort of blackmail: “We will regenerate your estate but only if you let us build on your open spaces”?

**Mr Langstaff:** No, we can do a second regeneration without new-build. The first estate we are working on is predominantly one- and two-bedroom properties and we have a huge shortage of three bedroom properties in the borough anyway. The affordable homes we will build will all be three-bedroom houses and what we have said is we will

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ring-fence those to transfers within the estate. It is going to be built on two old garage blocks that, if you can imagine it, are two-storey, concrete garage blocks that have been closed off because they have been so heavily vandalised, and tenants are more than happy to get rid of those in the first place, so double advantage for tenants, I think.

**Q252 Emily Thornberry:** How big is the waiting list?

**Mr Langstaff:** Roughly speaking, there are 13 people chasing every property, so we have got about 13,000 on our waiting list.

**Q253 Emily Thornberry:** Do you want to ring-fence an estate and transfer within an estate?

**Mr Langstaff:** The huge pressure at the moment is on existing tenants in terms of transfer. When you look at the proportion, only 5% of our tenants will now get a transfer during the course of the next 12 months and that is because with the homeless pressure there is a bit of an imbalance now.

**Q254 Mr Hands:** There has recently been a change of political control in Hounslow. Is the new administration being as supportive as the previous administration or is it the policy of the new administration to do this?

**Mr Langstaff:** You are quite right, there has been a change, and as you would expect with any administration they have come in to take stock, but now their executive—equivalent to a Cabinet—has approved the first scheme which was the original pilot, so that can now go ahead. It has approved a second scheme which will include some demolition and is another 200 homes. They have agreed that in principle, subject to us going back with the detailed work around the tenant involvement, around price and quality.

**Q255 Martin Horwood:** I notice that you say turnover within the group's affordable rented stock has reduced from 13½% five years ago to just 8.7% recently. Can you tell us a little more about the reasons behind that?

**Mr Craggs:** Yes, I think there are probably three main reasons for that. First of all, 36% of all new tenancies used to fail in the first 12 months and quite often that was young people setting up home for the first time and not realising some of the implications of doing so. We have appointed tenancy support workers to help people before they get a tenancy and to help them through the early stages of that with benefits, furniture and such like, to try and make it sustainable. Each time a tenancy failed, or was terminated, it cost us £1,200, in lost rent and/or repair costs; so there was a good business sense in doing that anyway. I think the second thing is: because we are modernising the homes to such a high standard people are realising that they are getting a much better deal now; so they are getting a fully

modernised, if not a new, home and are paying somewhere in the region of £60 a week for that. In comparison to anything else on the market, that is a good deal. I think the third main area for the reduction is because, before the stock transfer, but not because of it, the majority of people who terminated a tenancy were going to buy property in the private sector. Virtually nobody terminates a tenancy to go and buy somewhere because property values have gone up so much in the five years since transfer. In the last couple of years the North-East has had the highest percentage property increase in the country, it has become unaffordable to go and buy somewhere for the vast majority of our tenants, so they are staying put. In terms of community sustainability it is a good story. Tenancies are lasting much longer. If you have got a home, it is a good time to have one, if you have not got one there probably has never been a worse time because before the transfer we had about 15,000 properties in no demand and now, five years on, we have on average 73 applicants chasing every vacancy that we have for rent.

**Q256 Martin Horwood:** I am sure the first two of those do sound like good news. The third one, the house prices, sounds as though they have got no alternative, so I am not sure that is so positive. What is the failure rate now amongst tenancies? You said it was 36% originally, what has that fallen to now?

**Mr Craggs:** We have got about nine staff delivering that service and we have more than half the failure rate of first-time tenancies, so that is a good news story.

**Q257 Martin Horwood:** Do you think other registered social landlords are seeing similar decreases?

**Mr Craggs:** In the North-East, yes, it is quite commonplace, particularly for that affordability issue, that tenancies are being terminated for people to go and buy somewhere, so there is not that legacy of leaving a tenancy for someone else to come and say: "I will take it on".

**Q258 Martin Horwood:** That is quite possibly more due to the market situation across the region.

**Mr Craggs:** We have sold 22,000 properties through the right to buy in Sunderland so it is a very high proportion; the vast majority of those are on estates that are very sustainable but, nevertheless, even an ex-council house going back on the market now has seen a huge percentage increase in property valuation and it has become unaffordable for people.

**Q259 Mr Olnier:** A very quick one and perhaps you could write to the Committee because I do not think there is a quick answer. I think you ought to tell us how you want to see housing revenue accounts and funds for social housing more equitably distributed throughout the country. You perhaps need to write to us on that.

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**Mr Walls:** I am happy to do that if you wish me to.  
**Mr Langstaff:** I think it needs a more fundamental change rather than a more equitable distribution.

**Q260 Mr Olnier:** But you think it needs a change?

**Mr Langstaff:** Yes, you are right.

**Mr Walls:** I think I would get shot if I went home having been down here if I did not say that I think there are far too many sound bites about the surplus in the North and the horrendous problems in the South. If anything, it is paranoia about kids and where are they going to live because they are getting marginalised out of both solutions. They cannot afford to buy; they cannot access rent; and if you

look at the numerics of it, what we are doing in the North, certainly in our area, it is nowhere near addressing that. We do need to look at the distribution of population versus the distribution of the allocation and at the moment it does not quite seem to stack up in terms of North and South.

**Mr Olnier:** It is good to have that on the record.

**Q261 Chair:** Would you agree with that, Mr Langstaff?

**Mr Langstaff:** The trouble is we can argue against each other on redistribution and I do not want to do that. I think the system needs a radical overhaul and that is where I come from.

**Chair:** Thank you very much indeed.

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*Witnesses:* **Mr Dennis Rees**, NFA Chair and Chair of Derby Homes, **Mr Mike Owen**, NFA Steering Group Co-ordinator and Executive Director, Carrick Housing, and **Ms Gwyneth Taylor**, NFA Policy Officer, National Federation of ALMOs, gave evidence.

**Q262 Chair:** Can I welcome you and ask you to say who you are and your role within your organisation.

**Mr Owen:** I am Mike Owen, the Executive Director of Carrick Housing, which is based in Cornwall.

**Mr Rees:** My name is Dennis Rees. I am the Chair of Derby Homes, which is a 3-star ALMO. I am also Chair of the National Federation of ALMOs, which represents all the ALMOs and the aspiring local authorities with ALMOs.

**Ms Taylor:** I am Gwyneth Taylor. I am the Policy Officer for the National Federation of ALMOs.

**Q263 Chair:** Okay. Could I ask you whether you think that the ALMO model has intrinsic merits over the alternatives of direct management or stock transfer? That is a leading question.

**Mr Rees:** I have always said the ALMO is the best thing for tenants since sliced bread. At last tenants are making decisions for the tenants.

**Q264 Chair:** So why do all tenants not go for ALMOs then?

**Mr Rees:** I can only say from my point of view. We were in the round one ALMOs and we went out and canvassed our tenants because we thought it was a good thing. I wanted to stay a council tenant but the only way we could access the funding was by going down the ALMO route.

**Mr Owen:** I would just add that the later rounds of ALMOs—rounds four, five and six—have had increasing numbers of local authority tenants choosing the ALMO option because of the values they have seen that have come out of rounds one and two where services have been improved, standards of housing have been improved, the investment has been delivered on time and as promised, and tenants have recognised the merits of that and have chosen that option where previously they might have chosen to remain with their local authority. They do still remain as tenants of the local authority.

**Q265 Mr Olnier:** Is that because the local authorities have been denied funding?

**Mr Owen:** I do not think they have been denied it. The options that the government had available were there for each local authority to choose. Our tenants chose overwhelmingly to go down the ALMO route when they did the option appraisal. They had a look at stock transfer, at PFI, at ALMOs, and staying with the local authority with no additional investment and they chose the ALMO route.

**Q266 Mr Hands:** One of the things that strikes me since ALMOs started about five years ago is, everyone who has chosen to go with an ALMO seems to be satisfied with it, but equally, those who chose not to go with an ALMO also seem to be satisfied in most cases. Do we have any examples of local authorities that went for the ALMO option who have since decided they have regretted it?

**Ms Taylor:** We have certainly got no examples of any tenants opting to go back to the local authority. The ALMO movement is still a very young movement so it is perhaps a little bit too early to say that will never, ever happen. The big issue about the ALMO movement is that the service delivery improvement has to be delivered before the additional Decent Homes funding.

**Chair:** We are going to get on to that in a minute.

**Q267 Mr Hands:** You say that no group has opted to go back yet, and I think you are right, but there has not been an opportunity for any group that has gone for an ALMO to have a further ballot. What kinds of mechanisms are in place with ALMOs if, let us say, a group of tenants were to decide that they did not want the ALMO?

**Mr Rees:** It was set up for an initial period of 10 years with a five-year interval and we have just renegotiated for our next five years.

**Mr Owen:** The recent guidance was that tenants would have the same consultation going in or going out, so the tenants could theoretically ask for a ballot. We had a ballot to set up an ALMO. If the tenants decided that they wanted a different form of management there would be a ballot to end it and go back to the local authority.

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**Q268 Mr Hands:** But to date there has been no call for such a ballot anywhere?

**Ms Taylor:** No, but remember that even the oldest ALMO is less than five years old. Tenants do have that option still available to them whereas with the stock transfer they would not.

**Q269 Emily Thornberry:** One of the attractions of ALMOs is tenant participation. At what level would you say that it is ideal for tenants to participate? How big are the ALMOs that you are involved in? Are we talking about estate-based or borough areas?

**Mr Rees:** In the ALMO I am involved in we have got 14,000 properties. We have got tenant groups all over the city; tenants are involved in all aspects. We have two local boards where tenants are in the majority so they can make the decisions.

**Mr Owen:** Carrick Housing is very small; we have got 3,600 properties spread in rural areas throughout Cornwall. We have got tenants' associations and tenants' federations. At the moment all of our neighbourhoods, which is from estates down to 25 houses, are working on little neighbourhood plans about how they want to look at their estates over the next five or 10 years: the services; the land use in their area; what sorts of things they want; and how the kids will be involved. It is really engaging the tenants and they are really, really up for this. They are putting together plans for their own areas.

**Q270 Mr Olnier:** That all sounds very good but when you look at the group of 25 properties, 25 on their own are never going to be able to finance the improvements they want, so how does that correlate with some of the bigger groups who will have to fund these smaller ones?

**Mr Owen:** At Carrick it is just the standard housing revenue account pool. All the tenants pay into the rent account and the repairs are done and the properties are improved, it is just that the estates are smaller. They are not ring-fenced budgets, they are part of an overall pool of income.

**Q271 Mr Betts:** Clearly there has been enthusiasm for the ALMO movement and the idea that there was going to be some certainty about funding streams to ensure that the Decent Homes standard was met by 2010, but recently it appears the Department has got cold feet a bit maybe on how much funding they can provide and are looking to ALMOs to re-profile their spending. What has been the reaction to that?

**Ms Taylor:** The reaction of the NFA is that, whereas we welcome the potential for re-profiling for those ALMOs in the latest round that are either not yet up or have not yet got to their 2-star—and that is a sensible response—we are very concerned about the potential impact on those ALMOs that are in contract at the moment and have made commitments to tenants, are getting on with the programme and have the capacity to deal with the programme, and to meet the promises that were

made in good faith at the time on the basis of the Government's deadline. We are very concerned about that.

**Q272 Mr Betts:** Why do you think the Government has done it then?

**Ms Taylor:** I think to a certain extent the ALMO movement has become a victim of its own success in that the numbers of ALMOs who have applied to go in the later rounds, particularly in round six, are significantly more than what was originally anticipated in the last spending round. There is simply an issue of how much money is available in the pot, particularly when there are other high priority Government objectives, such as building new homes.

**Q273 Mr Betts:** So basically, the Government had a sum of money for ALMOs and unfortunately for that sum of money too many tenants have voted to go with the ALMO movement and, therefore, the demand on that sum of money has been too great, is that right?

**Ms Taylor:** I think they made estimates on the basis of what appeared to be reasonable at the time. Round one consisted of eight local authorities whereas, as from today, we now have our 64th ALMO that has gone live in 59 local authorities, managing 950,000 properties. That is an incredible expansion of the sector in just over four years and to a certain extent it has taken the Government by surprise.

**Q274 Chair:** But the Government gave a commitment to Decent Homes by 2010 regardless of whether they were in an ALMO or a local authority, so there are not any more homes, they are just in ALMOs instead of local authorities.

**Ms Taylor:** The difference is the way it is funding that through the Decent Homes additional funding mechanism.

**Q275 Chair:** Does it suggest it is more expensive doing it through ALMOs than through councils then?

**Ms Taylor:** The difference is that when the Government asked local authorities to assess how they were going to achieve the Decent Homes standard, the amount of stock condition information that was available when that process first started to happen indicated that perhaps a higher proportion of local authorities would be able to achieve decent homes with their current level of resources. As that whole programme has developed and as local authorities have carried out the assessment of the stock condition needs within their areas, that price has increased.

**Q276 Chair:** So it is still nothing to do with the number of ALMOs; it is to do with the fact that councils may have under-estimated the numbers of non-decent houses?

**Ms Taylor:** The alternative option for authorities could have been stock transfer or PFI.

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**Q277 Mr Betts:** Stock transfer and PFI do not count against public funding in the way that ALMOs do.

**Ms Taylor:** That is right.

**Q278 David Wright:** You probably heard some of the earlier evidence about linked regeneration schemes. Do you think there are any issues about ALMOs in terms of them not being able to deliver connected regeneration programmes in local areas or not being able to do things that perhaps some other structures have got in terms of flexibility?

**Mr Rees:** I do not think so. I think we can do anything that the council wants to do working in partnership with the council. That is what it is all about; we are owned by the council and we want to work in partnership with the council.

**Mr Owen:** I think in some areas it is more difficult where, because of the restraints of the housing revenue account finance mechanism we work under, we do not have enough flexibility to do things like new-build, and there are some other constraints around leasing properties from RSLs. On some estates, particularly for us in Cornwall, it is really important that you have local landlords managing those estates rather than someone based 300 or 400 miles away. The current regime does not really allow for that; it tends to result in RSLs being a long way away or, in some of the city areas, multiple landlords managing estates which does not create the sort of cohesive communities that we want.

**Q279 Mr Betts:** Can I follow up about ALMOs as managers in the wider neighbourhood and this point about how you resource that. It is easy with a council estate or if ALMOs own all the properties on an estate because you can collect rents and pay for services, but when a fair percentage of tenants have now become owner-occupiers, and therefore do not pay rents, how do you get equitable funding arrangements for general services which are beneficial to owner-occupiers as well as tenants in an area?

**Mr Owen:** One of the things that has come out of the work we are doing on neighbourhood plans is the diverse tenure on estates. Our work with the communities has given them a much stronger voice to negotiate with the council and the county council about the services that they want and desire on their estates. Previously, they had been very under-resourced, under-developed communities that had never really had their share of resources, but now, through the plan, their skills and experience have built up and through the work they have done with the ALMOs—with many tenants having joined residents' associations on the board—they are negotiating with the council now for other services that they never previously had.

**Q280 Mr Betts:** If ALMOs are going to provide services there is a sense in which ALMOs may well become the manager of the public realm, for example, rather than just narrow managers of housing and the public realm has those wider benefits. Is there a general debate going on in the ALMO movement about the funding of that?

**Mr Owen:** Yes. For us, we believe there should be some contribution from the general fund. We provide all the playgrounds on all the council estates which obviously every child can use irrespective of their tenure, but it is only paid for out of rents, and those continue to be tensions within the housing revenue account. They are discussions that are always ongoing with the general fund.

**Q281 David Wright:** Are there any authorities that have performed that more effective split?

**Mr Owen:** I am sorry?

**Q282 David Wright:** I am trying to determine whether anybody has secured resources from the general fund or whether the profile is different in different ALMOs.

**Mr Owen:** Yes. Other ALMOs do get general fund resources, I know.

**Mr Rees:** Bolton is an example.

**Ms Taylor:** ALMOs carry out a diversity of functions according to their local authority needs. In some cases they will carry out general fund functions and, therefore, be paid through the general fund; it really depends on the local scenario. The other potential opportunity would be to charge for services, potentially carry out functions on behalf of—

**Q283 David Wright:** What I am driving at is there is no national formula on this, it is very much down to local negotiation?

**Ms Taylor:** Local negotiation, yes.

**Mr Olnier:** So what is the local accountability?

**Chair:** Can we ask you whether, afterwards, you can drop us a note listing a few examples of ALMOs around the country which are doing some of this wider work and if any of them are managing to get their funding contribution from non-tenants. That would be very helpful.

**Q284 Mr Olnier:** It concerns me somewhat because I worry about the local accountability if you are taking on all of these other things. Obviously the only people who voted in favour of the ALMO were the tenants and not the leaseholders, yet you are taking over duties that affect the leaseholders. I wonder where the democratic input is for the whole of the community.

**Mr Owen:** The leaseholders voted in our ballot at Carrick and they can stand for the board. Many tenants and residents' associations have leaseholder chairmen, members active in the community.

**Mr Rees:** Our leaseholders voted for the ALMO and we have got the Chairman of the leaseholders on the Derby Homes Board.

**Chair:** I think the greater problem would be owner-occupiers, which is completely different.

**Q285 Mr Olnier:** Sorry, it was the owner-occupiers. Sorry, Chair, you are right.

**Ms Taylor:** If ALMOs offered services to owner-occupiers as opposed to leaseholders?

**Mr Olnier:** To communities.

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**Q286 Chair:** In which there are a load of owner-occupiers.

**Mr Owen:** Obviously they have their democratic accountability through local members which still own the ALMO.

**Mr Olnier:** How can they have that if you are doing it? Where is the accountability if you are doing it?

**Q287 Chair:** If you are doing it and not charging them, they are not going to be complaining, are they?

**Mr Owen:** I was just about to say it is usually the subsidy the other way.

**Chair:** It probably is, yes.

**Q288 Mr Olnier:** I do not think that is the case.

**Ms Taylor:** I think you have got to distinguish between where you are delivering services that would be local authority services that the local

authority would otherwise deliver, which may well be funded through the general fund, or if you are talking about offering individual services to owner-occupiers, which potentially ALMOs could do, and then charge them, for example, if you were able to offer to owner-occupiers the ability to carry out Decent Homes work at a cost rate. There are different potential mechanisms.

**Mr Owen:** I will give you an example of something that was run on one of our estates last half-term, which was a football scheme for children and young people to keep them off the street, and had a massive reduction in anti-social behaviour on that estate. It was paid for out of the housing revenue account with us and Plymouth Argyle running it. There were huge benefits for owner-occupiers.

**Chair:** Thank you very much indeed.

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*Witness:* **Mr Mark Davies**, Chief Executive, Connaught plc, gave evidence.

**Chair:** Mr Davies, welcome. I am sorry that you have had to wait longer than you expected but I hope you found the previous session interesting. Clive.

**Q289 Mr Betts:** Can you give us a flavour of the sort of relationship you have in undertaking Decent Homes work. Is it very different from that which you have experienced before in just contracting for local authorities? Do you find much difference in the way things work between councils, ALMOs and housing associations?

**Mr Davies:** We have over 100 partnership contracts across a range of different housing and estate maintenance repair services and have been in the social housing market for about 25 years. I suppose the major difference with the Decent Homes initiative is really the scale of some of the programmes that in certain situations are significantly larger than the typical projects that would have been awarded historically. I think there are a lot of benefits that come out of that, particularly in terms of driving efficiency and planning the programme ahead. In terms of the procurement process, it has been very rigorous, very thorough and very professional and not particularly different from what we have been experiencing, probably since the introduction of best value procurement as opposed to CCT six or seven years ago. I think the other aspect that has been enormously beneficial from the Decent Homes programme is the way in which the whole partnering ethos has really established itself in social housing and partnering between, not just the owner or manager of the stock, be it local authority, ALMO or housing association, with the contractors, but with the tenants at large, supply chain partners and a lot of the people in the local communities in which the work is being carried out.

**Q290 Mr Betts:** The difference between councils, ALMOs and RSLs, is there any difference from your perspective?

**Mr Davies:** From our perspective in terms of the programmes of work not particularly, although, because of the way the whole Decent Homes programme has been structured, you tend to find larger programmes in ALMOs than you would typically in local authorities because, obviously, local authorities have to sell finance. If they can do that generally it means they have got less of a decent homes issue than those that would be looking at alternative funding routes. The ALMO programmes tend to be larger in scale but, having said that, some of the housing association programmes are pretty large as well where stock has been transferred into a housing association. The only material difference I would say, would be in terms of scale between local authority programmes and ALMO and housing association programmes.

**Q291 Mr Betts:** So, if I went to one of my constituents in Sheffield telling them they would have the Decent Homes programme on their home, would they see you as a partner or just another contractor with the same sort of problems they have always had?

**Mr Davies:** That is a good question. I think the team from Sheffield mentioned earlier that on all the programmes tenant satisfaction is measured very carefully. On any programme of this nature there will be issues, but most of the programmes are pretty well run, the tenants are heavily involved in the whole development of the programme itself, in the timetable of the programme and in choices that they are able to make on kitchens, bathrooms and the like. Tenant liaison and tenant liaison officers are a fundamental part of most of these programmes and those tenant liaison officers are responsible for working with the local communities and tenants to ensure there is minimum disruption during the programme itself. Largely speaking, the programmes have been fairly successful in that respect.

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**Q292 Chair:** When you said at the beginning that the Decent Homes programme was beneficial, did you mean beneficial to tenants or to contractors?

**Mr Davies:** I would say it has certainly been beneficial to tenants because obviously a lot of the properties have suffered from two or three decades of relative neglect in terms of investment, so bringing those properties up to what is called the decent standard has been a tremendously good initiative. There are wider benefits to the communities as a whole in terms of creating jobs in local communities, helping local businesses develop their activities and grow, and we have seen quite a few examples of that in all the areas where these programmes have been initiated. As far as contractors are concerned, there are clearly some large programmes of work available and contractors have benefited from that, no question.

**Q293 David Wright:** You mentioned local labour initiatives. Do you go out and sell best practice to organisations you are working with or do you just respond to what they want? How do you increase the number of local people employed in carrying out contracts or estates or in communities? How do you do it?

**Mr Davies:** I think there are various models. There is the traditional subcontractor model, which is quite heavily used on a programme of this nature which is essentially capital refurbishment type work as opposed to ongoing day-to-day maintenance activity. Some of the contractors in the market are looking to do more self-delivery than subcontract. That happens to be our model. Where you self-deliver you have more control over the labour than when you are subcontracting and you are able to build apprenticeship schemes into the programme, training and development programmes to get long-term unemployed back into the workforce, and so on. There are a number of opportunities of that nature. In terms of sharing best practice, I think you will find that most of the contracted partners who are working either on a pan-regional basis or a national basis, and therefore working on a number of different schemes, will bring a number of best practices into pretty much every programme they are working on. It is a key theme that our client partners expect us to bring to the programme.

**Q294 Mr Betts:** Can I ask how far you try and target the recruitment of apprentices and other people in the industry at the very particular local area where you are working, bearing in mind that the estates that are being worked on for Decent Homes are often some of the poorer areas, probably areas where levels of unemployment are higher, there are less skills than there might be in other areas. Do you try and target that level to leave behind a legacy for those particular areas in terms of skills and training and future employment?

**Mr Davies:** We do our utmost. What we tend to do is run a recruitment fair at the start of the programme and advertise in local newspapers and on local radio, on the backs of buses and so on. Depending upon the size of the programme we will

get 300 or 400 people attending those recruitment fairs and we will try to recruit from that pool of people to start with and in parallel with that use subcontracting partners and as the programme develops look to try and employ more people from the very specific local areas in which we are working, but initially the pool of people we tend to work with are those people who will respond to those recruitment fairs.

**Q295 Mr Betts:** Can you give us any specific examples of where you have gone out and recruited people from local areas for training, for apprenticeships, that has made a difference in terms of a lasting legacy?

**Mr Davies:** There are quite a number of examples of that. We have 200 apprentices on our books at the moment and that number is rising. They all go through our academy programme. They tend to work alongside an experienced electrician, heating and plumbing engineer or tradesman, as well as doing non-workplace training as well. Those apprentices will quite often be from the estates in which we are working. In terms of leaving a lasting legacy, that is something where, hopefully, we are building a lasting legacy through that process. The other area is working with local supply chain partners. I think there were some examples the Sunderland team mentioned. Those are quite common in this sort of programme. Often the scale of these programmes is quite large and also of a reasonable timescale with typically five-year, sometimes seven-year timescales, so you can make those sorts of investments and plan quite a long way in advance with the scale of the programme. It does give you opportunities to employ local people and take a slightly longer-term view than perhaps a more traditional contract by contract tender approach to doing that sort of work.

**Q296 Emily Thornberry:** The Decent Homes programme is, I suppose, as you have already said, a massive investment in social housing in Britain and a huge glut of work for your industry. What I would really like to know is how you are going to manage that because presumably it has a knock-on effect in terms of price and getting the resources that you need, partly employing the right people, partly getting the right things. What are you going to do after all this work is finished?

**Mr Davies:** One of the advantages of the Decent Homes programme is that it has brought a different approach to maintaining and refurbishing social housing stock. Some of the efficiencies that have been brought to the party is by having fewer contracting partners compared with, perhaps a more traditional approach, where we have a number of clients who historically might have had 200, 300, 400 different supply chain partners providing a whole range of different services; the Decent Homes programme has acted as a bit of a catalyst in consolidating that supply base and, therefore, delivering quite significant efficiencies. Our clients are challenging us and the other partners working on these programmes consistently, right the way

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through the life of the programme, to continue to deliver further efficiencies. That has been a catalyst to deliver Gershon and beyond in many ways in efficiency benefits. In terms of supply chain and labour, one of the other advantages is because the programmes are of a reasonably long and predictable timescale you can recruit people and offer them a job where they are going to be working in a locality for a fairly long period of time and a lot of the people who come into this industry do not realise how itinerant the construction and building industry can be: you might have a six-month project here on one side of the city and it takes you an hour and a half to get there, and the next job is the other side of the city and it takes you an hour and a half to get to your next job. To actually have a five-year programme of work where you are working within a fairly defined area is quite an attractive proposition for people and it is often more secure employment than they might otherwise get which enables them to plan their finances, and so on. It has benefited in that respect. In terms of it being a peak, the Decent Homes programme, no question, is a significant investment but if you look at the number of social housing units in the UK, the statistics vary, by five million, plus or minus, in the UK as a whole; those properties need to be maintained on an ongoing basis in terms of ongoing reactive repairs, managing the void programme, managing and maintaining the estates, cleaning the estates and doing the grounds maintenance, as well as the ongoing capital refurbishment work. Decent Homes has accelerated into a 10-year period effectively of probably two decades of work, but those properties still have to have, on a cyclical basis, their kitchens, bathrooms, windows, doors and roofs replaced; so that work will carry on. Of the five million social housing units in the UK, I think the number is between 35% and 40% did not meet the Decent Homes standard; so 55–60% or so are still in that normal cyclical refurbishment cycle. The social housing market is not going to drop off a cliff in 2010 when Decent Homes come to an end; there will be a number of major programmes that will come to an end but it is still a significant market.

**Q297 Mr Hands:** Does Connaught only provide services within the social housing sector or have you just chosen to specialise in social housing? If so, why?

**Mr Davies:** 85% of our business is social housing and the other 15% is a gas servicing business that services primarily private businesses, SMEs and larger private businesses. Connaught has worked for local authorities and in the social housing space for many years and has just found its niche, really. We are sticking to this niche because we believe that is the right thing to do for Connaught.

**Q298 Mr Hands:** It sounds like it is a very diverse and unconsolidated market. I think I was reading that you account for less than 5% of the total market providing these kinds of services in the social housing sector. Do you foresee a lot of consolidation in the market or do you think it is part of the services that are delivered that will be inevitably delivered by local companies?

**Mr Davies:** I think there is quite an interesting dynamic in the market in that, of the total market, we estimate about a quarter of the total repair services are provided by DLOs—direct labour organisations—and of the remaining three-quarters of the market as a whole, the largest proportion is local companies. I think there will continue to be what I would call a natural consolidation of the market as local authorities, ALMOs and housing associations look at ways of delivering further efficiencies. It is not necessarily a particularly efficient method of managing your property maintenance programme if you are dealing with a very large number of subcontractors but consolidating that into larger-bundled service partnerships can deliver significant efficiencies. I think that is a trend that will continue. The other trend is that there are 2,000 housing associations and you will see housing associations beginning to merge and create some quite large groupings, managing quite large numbers of stock and they will be using that as a catalyst, again, to look at more efficient ways of procuring.

**Chair:** Thank you very much indeed, Mr Davies.

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**Monday 5 February 2007**

Members present:

Dr Phyllis Starkey, in the Chair

Sir Paul Beresford  
Mr Clive Betts  
Mr Greg Hands  
Martin Horwood

Anne Main  
Mr Bill Olnier  
Emily Thornberry  
David Wright

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*Witnesses:* **Professor Michael Ball**, author of “*Buy to Let: the Revolution*” and **Mr Adrian Turner**, Chief Executive, Association of Residential Letting Agents (ARLA), and **Mr Mike Stimpson**, a private sector landlord, gave evidence.

**Q299 Chair:** Can I welcome you to the beginning of this afternoon’s session. Can I ask if the witnesses could say who they are and who they are representing and, when we come to questions, given that there are two of you from the Association of Residential Letting Agents, I hope you can avoid duplicating each other?

**Mr Turner:** My name is Adrian Turner. I am the Chief Executive of ARLA, the Association of Residential Letting Agents. We are a voluntary, self-regulating body for residential letting agents. We have just over 2,000 members’ offices throughout the country.

**Professor Ball:** I am Professor Michael Ball. I am Professor of Urban Property Economics at the University of Reading. I wrote a report for ARLA last year, and so they asked me to come along. The report was on buying to let after 10 years.

**Mr Stimpson:** I am Mark Stimpson. I am the Chair of the National Federation of Residential Landlords, which represents landlord associations, and also Chair of the Southern Private Landlords Association, which has 500 members, and a landlord for 50 years.

**Q300 Chair:** The acoustics in this room are not brilliant. Mr Stimpson, could you possibly move over so you will be in front of a microphone. It will probably pick up your voice better. Can I start by asking some questions in relation to security of tenure in the private rented sector and ask whether you support calls for reform of the types of tenancies your members offer to tenants and, in particular, your views on either the two contract tenancy agreements favoured by the Law Commission or the sorts of tenancies that they have in the Republic of Ireland under the Residential Tenancies Act 2004?

**Mr Turner:** I think, in broad terms, the Association has greeted the Law Commission’s report with favour—simplification of landlord and tenant law is long overdue. The opportunity for landlords to let on longer-term tenancies is a good idea, as long as there are suitable safeguards in place for them to be able to regain position when it is appropriate for them to regain possession. At the moment most landlords let on short-holds. The average length of the tenancy is over 15 months, even though the minimum under the regime is six months.

**Q301 Chair:** Mr Stimpson, do you have any comments?

**Mr Stimpson:** Yes. I agree with Adrian. The situation that deters landlords from letting for longer periods than the minimum, even though the tenancy may extend well beyond it, is because the means of possession are difficult, especially some of section eight—that is the default grounds—and if there were proper changes for rent arrears (tribunals, as in Australia), then landlords would know they can regain possession quickly if, in fact, the tenant defaults on the rent, and then would be encouraged to grant longer tenancies, such as seven years or even longer. I should add that the average length of tenancy in my properties, and I let to the economically poor, is seven years.

**Q302 Mr Olnier:** Could I follow that briefly. While Shelter talks about greater security of tenure, would you think that that was linked by the fact that smaller landlords, who are predominantly in the private rented sector, have a particularly bad record in maintaining their property to high standards, and, if they are, how can their management standards be improved?

**Mr Stimpson:** There are two main factors that have increased standards. One was the 1988 Housing Act, granting short tenancies, which reversed the downward spiral of letting and, secondly, the buy-to-let phenomena. The vast majority of buy-to-let landlords buy new-build flats. These are not trashed property, old properties, and a good number are normally let through agents and they are normally in very good condition.

**Q303 Mr Olnier:** Can I ask what the percentage is on that? I have got a conception in my mind that the majority of houses that are bought to let were not purposely built let.

**Mr Stimpson:** Most of the properties bought on the buy-to-let are purpose built flats. That is the vast majority?

**Professor Ball:** In fact, there is quite a wide range of housing in the buy-to-let market. Buy-to-let tends to cover properties which are roughly the broad range of properties that you see throughout the UK, except they do not cover the top range. So what you will see is lots of terraced houses, lots of refurbished houses and conversions and, as was

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pointed out, most of the purchases in recent years have been of properties that have either been refurbished or are flats. In fact, the majority of the buy-to-let accommodation is suburban housing and is not inner city flat accommodation, although in certain areas like Brighton there are an awful lot of flats as well.

**Q304 Mr Olnier:** So you would refute the claim that the great majority of properties in the private buy-to-let sector are of poor quality?

**Mr Stimpson:** Yes, I would. I let to the economically poor, the people who struggle to find a deposit, in fact, most times cannot do so. We still let properties to them in the same condition as we would let to anybody else and we do our best to let reasonable quality properties. We would accept that our properties are older properties, often built before 1900, and do not have some of the benefits that cavity wall properties and the later properties have, but I would not like to think that we do not keep our properties up to a good standard, and, in fact, where I come from, there are the registration schemes now, the Housing Act and the local authority ensure that the properties meet good safety standards and are of a reasonable condition.

**Q305 Mr Olnier:** It is irrefutable that the stock in the private rented sector is of poorer quality than owner/occupier or social/rented, which is different from buy-to-let. What we are asking is what more can be done to improve the poor quality within the private rented sector, Professor Ball?

**Professor Ball:** The issue here is one of averages. I think there is a terrible danger in simply taking averages. What has been happening in the private rented sector is, because it deals a lot with the mid-range of the market, in the UK a lot of properties are bound to be older within that type of range and, therefore, you will see a lot of the property is older and, therefore, some of it will be in particularly poor condition. Surveys by governments, the English House Condition Survey and so on, do show, overall, that there are some problems of repair in the private rented sector, but they do not show that the average private rental dwelling is worse than is the case in other areas. I think there is a section of the private rented sector which is undoubtedly like that, but not the majority, and since the growth of buy-to-let the quality has increased very substantially; so I think there is a real danger in how one uses this word "average" when looking at this issue. To say it means that if you buy a rented property by definition you will have worse accommodation is not factually true.

**Mr Olnier:** I do not think anybody was suggesting that.

**Q306 Emily Thornberry:** There has always been a balancing act between ensuring that the tenants get rights and ensuring that there is sufficient property out there for the private sector so that tenants, in the end, get properties and get somewhere to rent,

but given that we have got this boom in the buy-to-let market, is not now the time, in fact, for us to put a bit of steel in our backbone and start regulating more of the private sector?

**Professor Ball:** No, quite the opposite. The reason why there has been a boom in the private buy-to-let market is twofold. One is the demand for houses rising very, very substantially, and that underlies investor interest and also owner/occupier interest in the housing market, and that is a core factor. The other reason why there has been a great deal of interest is that regulation has actually been much softer over the last 20 years than it was in the past, and we have seen the benefits of that. Whereas previously the private rented sector was declining, it has been increasing quite substantially; and so my fear is that if you introduce regulation, you will simply raise the costs of investors and also scare a lot of them off. If you introduce it at the peak of a boom when you think that the boom may be tailing off, it is precisely not the time to interfere in the market. You will worsen the situation, not make it better.

**Q307 Emily Thornberry:** Is not the growth of the buy-to-let sector one of the things which is fuelling the boom in house prices and that, if we were to do something that might have the effect of pricking the bubble and might make people think twice about buying to let, perhaps that is better for all of us anyway?

**Professor Ball:** Again, for that model to work you have to have a very high vacancy rate amongst the buy-to-let sector, and there is no evidence of a high vacancy rate within the private rented sector. Rather, the private rented sector is providing supply for a very high demand for housing. So, in fact, what you see is it is the demand driving the investor interest and it is the demand driving house prices in a situation of generally short supply, and it is actually very difficult to say it is the landlord that is doing that.

**Q308 Chair:** Can I pick you up on that, because the oral evidence that we had from Lord Best of the Joseph Rowntree Foundation expressed his concern about the number of new homes purchased by investors being left vacant, and it is a point that has also been raised with us by Barking and Dagenham District Council and English Partnerships. They would suggest that buy-to-let investment clubs, at least, are buying up properties and leaving them vacant.

**Professor Ball:** Vacancy rates in the English House Condition Survey do not point out this phenomenon.

**Q309 Chair:** Mr Turner?

**Mr Turner:** I have spoken to Lord Best a number of times on this, and his particular concern over this aspect is more to do with the unsavoury element: the criminals, the crooks, the cowboys buying up large chunks of very cheap properties in

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areas where they can then either leave them empty and wait for the council to put compulsory purchase orders on them—

**Q310 Chair:** I am sorry, can I stop you there. That may be what was said to you, but the DCLG have said, “Buy-to-let investors are more likely to purchase new-build”, and DCLG has highlighted a number of empty units in newly built blocks that are apparently owned by investment clubs. We have had repeated evidence.

**Mr Turner:** In any market there is an element of speculative buying, whether that is in stocks and shares or in property, and I think it is fair that we would not generally class these types of speculative investment where the intention is purely to benefit from capital growth. They are buying properties off plan; they are not even coming into the market place. That is not buy-to-let as we call it, that is speculation. That is using the market to make money, which is what people do, is it not?

**Q311 Chair:** Which you would not think is a good idea?

**Mr Turner:** No, that is not buy-to-let. They very rarely come into the private rented sector.

**Q312 Chair:** If there were some mechanisms, fiscal or otherwise, which discouraged people from buying properties and leaving them empty, it would not bother you and your members?

**Mr Turner:** No.

**Q313 Sir Paul Beresford:** But you still think that new built buy-to-let left vacant is an insignificant proportion, I gather?

**Professor Ball:** I would certainly believe that. There is a bit of concern at introducing taxes. They were introduced in Ireland in the early 2000s to discourage investors. They introduced higher taxes. All they found was that it scared an awful lot of investors away, rents went up and it did not actually make much new supply available because of the strength of demand within the Irish situation. I would suggest that that might well happen in the UK, if such measures were introduced, as well. That was as a result of the second Barker Report.

**Q314 Mr Betts:** On this issue of standards, I presume it is quite a good idea that people should have a home that meets decent standards. I think most people would accept that. By 2010, even if it slipped a little bit, by 2011, 2012, all houses owned by housing associations, local authorities, ALMOs are going to meet decent standards in this country. Therefore, the only properties that will not in the rented sector are those in the private rented sector. What would you suggest we do about that?

**Mr Stimpson:** That is not exactly correct. There will be a lot of properties that do not meet decent home standards in the private ownership sector. This year

we are introducing energy efficiency for all private rented sector properties, and I think that is the biggest area where improvements can be made, and I support improvements in energy efficiency in properties.

**Q315 Mr Betts:** I am sure we all do, but that is only one issue, is it not? I will rephrase that. The only properties owned by landlords in this country which will not meet decent home standards will be in the private rented sector. What are we going to do about it?

**Professor Ball:** One factor that is going on within the social housing sector, of course, is the level of subsidy that is given. There was a suggestion that subsidies should be extended, that that would clearly raise the level of standards, but I am personally not wholly convinced, and I have written about this before, that one should necessarily want to raise everything to a high standard. Along with a high standard goes a high rent.

**Q316 Mr Betts:** So some people should be living in properties that do not meet the decent homes standard?

**Professor Ball:** I would not be entirely convinced that all the criteria within the decent standards set-up are necessarily suitable for all households. If you are denying people cheaper accommodation by insisting on it all being, you are removing supply.

**Q317 Mr Betts:** So, if some people are too poor, they should have to accept standards below a decent standard. Is that what you are saying?

**Professor Ball:** It is not a question of poverty. You are putting the words into my mouth. There could be groups of households that maybe want to live in a place for a few months, as often happens in the private rented sector; there may be particular groups that do not want a particular facility and they are not allowed to express their desire for it because it is banned. It is like the hotel trade: there are different levels of accommodation. We all know.

**Q318 David Wright:** Is that not a problem for the wide regeneration of areas, because one of the difficulties when you are trying to get people to invest in property in a particular neighbourhood is that they will invest if they see landlords around them investing and lifting the value of a neighbourhood? Do you not think what you have just said is a problem? We have had this issue with landlords in relation to things like student accommodation, have we not, where whole areas get designated *de facto* as student accommodation areas? I am not saying that all student accommodation is bad; I am just saying that sometimes it is. I think that there is a whole issue about regenerating areas that is a problem in terms of standards.

**Mr Stimpson:** I come from an area that has a very, very high demand in all areas of accommodation. There have to be minimum standards, I agree with

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that entirely, but I do not believe that those standards should be at a maximum for all properties. I agree with Professor Ball entirely. Let me give you examples. We deal with people who are on £150 a week. If the properties had to be brought up to an extremely high standard, we would be charging two-thirds of a person's wage in rent. We give our tenants a choice. Many of our tenants live in non self-contained accommodation with shared facilities. I do not think that should be a standard; I think it should be abolished; but it is not. We try to move them to self-contained accommodation. Many will not move because they prefer the choice of cheaper accommodation as compared with self-contained accommodation. I think those choices have to be available to people. In Brighton and Hove the planning policy does not allow the de-conversion of non self-contained accommodation, you cannot convert it into self-contained flats, for the very reason they want cheap accommodation for those people who need accommodation and cannot afford expensive accommodation, and I think that is very important indeed.

**Professor Ball:** As a general comment on regeneration, the amount of investment that has been put in by buy-to-let landlords over the last decade constitutes a very substantial amount of investment in what is essentially regeneration. Most of the location of those properties is in inner and suburban areas, as I mentioned, at the lower level of the housing market, below the top, and those were precisely the areas that have been identified for a long time as being in decline, and so that level of investment has been an enormous boost to regeneration. I think if one worked out the numbers, it is actually larger than the private sector investment.

**Q319 Anne Main:** We did explore a lot of the concerns over homes in multiple occupancy. How have private landlords been affected by the new licensing regime for HMOs?

**Mr Stimpson:** They now have to licence their properties. No properties normally meet the initial standards that are set by local authorities. We have no arguments whatsoever with the properties of three storeys and five being licensed, we have no arguments about safety.

**Q320 Anne Main:** Would you have an argument if it was a smaller sized property than that?

**Mr Stimpson:** We think it is unnecessary.

**Q321 Anne Main:** Okay. So you have got no problems with the standards, it is now that you would not like to see it for a smaller unit?

**Mr Stimpson:** We do not think it is necessary. What we are seeing now is a lot of local authorities have got massive numbers of applications for licensing and they are not issuing licences.

**Q322 Anne Main:** Why is that?

**Mr Stimpson:** They cannot get round to it. They have not got sufficient staff. They were not well enough organised when the Act came in. What we are seeing is that the same people are being licensed that were registered before. All the good landlords are declaring and they are getting licensed, and what we are going to see, just the same as before, is the bad ones who will never ever be looked at because local authorities just do not get round to it. By the time the licensing period is up, they will be doing new licences for the same landlords who have come forward.

**Q323 Anne Main:** Is this a government failure to give enough lead time for training up or being prepared? Have you got anything to say about that? Hopefully that is not an intractable problem you have just described.

**Mr Stimpson:** I think there has been a real mess, to be absolutely honest. I believe that when licensing was brought in it should have done away with all previous schemes. It should not have allowed local authorities to continue with existing schemes, such as registration schemes, because it has confused landlords. Landlords do not know whether their property is due to be licensed or not, and I can tell you, many local authorities, even on the three storeys and five tenants, are doing totally different things. In Worthing they are doing totally differently to Brighton. If you are a landlord in Worthing it is very likely an HMO will not be licensed, but it is licensed in Brighton, simply because they do not understand the Act. The Act is not that clear. To give an example, if a property does not have all non self-contained accommodation (i.e. shared facilities), it is partly studios, some local authorities are saying that is not licensable, whereas if it has got all shared facilities it is; and so you have got different local authorities and landlords owning properties in these different local authorities going to one local authority and saying, "That is not licensed", going to the next one and the same property is. So there is a lot of confusion. It will get sorted out because LACORS are doing a lot of work in doing best practice, et cetera, but it has not come yet. What I would like to see is local authorities tackling the very organisation, the very properties and landlords that you would like to see them tackle. We are not seeing it.

**Q324 Chair:** There is no reason why local authorities should not have started with the worst properties?

**Mr Stimpson:** You are absolutely right, that is exactly what we expected to see, but it is not happening. It is the good landlords who come forward, and we want them to go after the bad ones.

**Q325 Chair:** Would you contradict that?

**Mr Turner:** No, I would not. You asked whether it was a government failure, I would make the point that, during the consultation period for the

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Housing Act 2004, we and others lobbied for consistency as being absolutely fundamental to the new Housing Act, consistency and prescription, where it was required, for local authorities.

**Q326 Anne Main:** And guidance to start with the bad ones first, or anything like that?

**Mr Turner:** That would have been nice, and that is what we did not get. I go round the country, I meet a lot of local authority representatives. They think it is as much of a mess as we do, and they would have liked there to have been prescription so that they knew what they were doing.

**Q327 Anne Main:** So it is pointless suggesting introducing any other categories because you cannot deal the ones you have got?

**Mr Turner:** Indeed. There are many local authorities, as Mike says, who have not yet got round to dealing with the backlog of applications from the very people that Mike talks about who are prepared to put their hand up and say, "I own an HMO, I want to be licensed." Local authorities are only just now, 12 months on, beginning to get round to looking at how on earth they are going to identify the people who will not put their hands up.

**Q328 Anne Main:** Is there any simple step you could suggest that would make the regime be improved or reformed? I know you wanted guidance, and all the rest—you have not got them, you were not listened to—but simple steps now to move us forward?

**Mr Stimpson:** What I would like to see is local authorities being required to, first of all, introduce, and get working properly, mandatory licensing and not start introducing selective licensing before they have got mandatory licensing properly established. Secondly, I would like to see converted flat licensing, which is additional licensing in the main (the secondary legislation has not gone through), left also until the mandatory licensing is well in place with local authorities. There is no doubt that it is the three and five (three storeys and five properties) that are the ones that need the attention first, and they need to be done properly. I should

perhaps add, in my city we have pointed out to the local authority houses that have been empty for 20 years and are derelict. Nothing is being done.

**Q329 Anne Main:** Yes or no: would you agree with those proposals?

**Professor Ball:** Yes.

**Mr Turner:** Yes and no.

**Q330 Mr Betts:** Local housing allowance: The proposal from the pilot scheme is to roll it out across the country. I suppose it fits in with the agenda of tenants having a degree of choice. Do you generally support the concept? Do you think it is going to lead to any problems in terms of landlords not being willing to let properties to people who are on benefits?

**Mr Stimpson:** First of all, I am a landlord who accepts housing benefit tenants. The housing allowance was introduced in Brighton quite a while ago and, as far as I am concerned, it is absolutely first-class, but I would give credit to the local authority, because the local authority is reasonable when it comes to challenging tenants. In other words, we have got tenants who perhaps would not pay the rent. If they do not pay the rent for two or three weeks, the local authority will, with the consent of the tenant, revert the payment to landlords. The worry of landlords, where it has not been introduced, is the non-payment to the landlord but to the tenant. I think, as long as local authorities are reasonable in their interpretation of vulnerability, then landlords will find that this is a good way forward and, as far as I am concerned, in the Pathfinders that have already been introduced it has been a great success.

**Professor Ball:** My feeling would be that the administration has to be good. The problem with housing benefit in the past has been very low administration. In Pathfinder experiments administration tends to be good by definition because they are being looked at, and so it is important in the future that those local allowances are put in place very quickly, otherwise vulnerable people will be left in very difficult situations.

**Chair:** Thank you very much indeed.

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*Witnesses:* **Mr Rupert Dickinson**, Chief Executive, Grainger Trust Plc, and **Mr Andy Leahy**, Managing Director, Bespoke Property Group, British Property Federation, gave evidence.

**Q331 Chair:** Can I announce to all and sundry, in case they were expecting to see Mr Bailey joining the two witnesses we have got from the British Property Federation, that he has had to send his apologies because he is unwell, but we are grateful that the British Property Federation is in good health. Would you introduce yourselves and then we will start with the questions?

**Mr Dickinson:** My name is Rupert Dickinson. I run a company called Grainger Trust as a private sector landlord quoted on the Stock Exchange and I am also Chairman of the Residential Committee at the British Property Federation.

**Mr Leahy:** My name is Andy Leahy, I am the Managing Director of the Bespoke Property Group, which is an affordable housing consultancy. We are advisers to the Housing Corporation and joint author of their Housing Viability Tool. I am also Deputy Group Chair of A2 Housing Group, which is an RSL.

**Q332 David Wright:** In the written evidence that you have submitted you said, "BPF members, with far less support from government, could be expanding the intermediate market through investment in shared equity products and

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expansion of the immediate market for rent.” I suppose that is the Holy Grail, is it not, in terms of building new accommodation using little or no public subsidy? Could you flesh out how we could achieve more shared equity schemes with little or no public support?

**Mr Leahy:** The first thing to say is that the viability of all schemes is the key, and that is what the Housing Corporation tool is there to do, to judge the viability of a scheme. The Property Federation has put forward a suggestion with regard to intermediate market renting and shared ownership. The key issue is, through the lifetime of these investments, what happens to any receipts from staircasing. In effect, PPS3, and the companion that goes with it, has unfortunately brought about some ambiguity on this subject, and the main issue is that, within the guidance notes that go with it, there is discussion about the use of public subsidy and then there is discussion about recycling subsidy. The reason it is ambiguous is because, on the one hand, it talks about public grant provided by a housing corporation and, on the other hand, it generalises the term “subsidy” and returning that to local authorities should staircasing take place. There is a huge appetite in the investment market place for investments in housing and, in particular, intermediate stock, the reason being that they kick off with relatively low yields but, through staircasing and assumptions one makes about house price inflation over the years, the investors will see a decent return; but if at the outset one is tied in to handing back (and this an interpretation issue by local authorities through the 106 arrangements) everything that is effectively deemed subsidy, then you are in a position where the returns to investors will not be sufficient to encourage them in. My point is that there should be clarity, or a letter written to local authorities explaining to them that the subsidy, the grant, mentioned in PPS3, to be recycled is the public subsidy only, it is the grant provided by the Housing Corporation. Then, if the staircasing receipts exceed that (and one has to accept the fact that you are trying to encourage investors at risk into this market place), that gets returned to investors as part of their yield profile over the period. It is possible to do it without grant, as long as you are in areas where the open market sale prices on the site will subsidise (using a generic term) across enough to make the whole thing work, but there has to be some flexibility given by local authorities as to the mix of tenures that you have on site to create that value.

**Q333 David Wright:** It would be interesting if you could provide what you think would be specifically needed in those terms so that we could run that past the department in terms of their approach?

**Mr Leahy:** Yes.

**Q334 David Wright:** Presumably though, you still require some tax incentive, you still require some front end support, in order to deliver this model?

**Mr Leahy:** At the end of the day, for example, if you had a situation where local authorities prioritised this market place, because it is quite huge (it is within the evidence which you have received), then you could have a situation where the REIT legislation could be made more flexible, i.e. longer than a year to get from the development phase into the investment phase. You could have a situation where the Stamp Duty, as is suggested in the note, is taken at a level where it is dealt with on the average basis of the unit cost rather than the outlook basis of the portfolio, and that is a key differential between the buy-to-let situation and encouraging investors into this particular market, the build-to-let, because buy-to-let investors buy individual properties and get charged stamp duty on the individual property, not on the aggregate sum of the portfolio.

**Q335 David Wright:** So it is wider than looking at PPS3?

**Mr Leahy:** It is, yes. Along with my comments on PPS3 there are clearly a number of issues that have been raised within the written submission.

**Q336 Chair:** Maybe I am missing the point here, but the point of shared equity as administered through housing associations is that they make sure that the people who buy into them are people who need to buy into them.

**Mr Leahy:** Indeed.

**Q337 Chair:** The difficulty, as we have been previously discovering on all the buy-to-let stuff and my experience in my constituency with a private developer who built so-called affordable housing, was that it was not people who needed it who bought it, it was another investor who bought it at a knock-down price and made a killing. What mechanism are you proposing to ensure that if you build shared equity the people who benefit from it are the people on incomes who cannot afford market properties and not another developer who just comes in and buys it?

**Mr Leahy:** I fully understand. The issue here is the section 106 agreement itself. Local authorities spend far too long trying to govern the capital value of the product and not enough time looking at what the product is going to be used for, ie who is the tenant and what is their housing need? In my view, and this is the advice we have given to the Housing Corporation, it is that end that should be looked at within section 106. The capping of capital values is not an issue; that is a private matter between the funders, the RSL and the developer. What is key to making this work, and to ensure that the situation that you have described does not arise, is that the section 106 should contain restrictions with regard to the first letting, that they should be nominated through the local authority, and subsequent lettings on a cascade mechanism, and then the people who have moved into them, if their financial circumstances improve, will then be in a position to take advantage of staircasing, buying more property without having to move, but

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the message has to be sent to local authorities that they should concentrate on the tenant and the rent and the affordability.

**Q338 Mr Betts:** Staying with the regulation and tenancy arrangements in the private rented sector, I think generally you have been supportive of a change of arrangements, probably along the Law Commission's suggested lines, and have said words to the effect that you think that tenants need to be protected from unscrupulous landlords, and you probably think that most are the smaller landlords with a few properties rather than the large institutions which you probably tend to have more sympathy with. Can you give us a flavour as to what your thinking is on this?

**Mr Dickinson:** I have been working in the private rented sector for nearly 20 years since the 1989 Act came in and assured shorthold tenancies came in, and they were the big change, as the previous witnesses have said. Working in the sector for a large company and working in a sector where we are trying to encourage institutional ownership back into the sector (and we have got to remember that the private rented sector in the 1950/1960s was owned by institutions or industrial companies who were housing their workforce) since then it seems that the private rented sector was diminished by regulation and by rent control, and then it was opened up by the assured shorthold tenancy and since then, rather than encouraging good landlords and large landlords and trying to create a framework in which they could provide a sufficient supply of good accommodation at various rent levels, it has been a carrot and stick situation, and there are lots of sticks with lots of regulations, new Acts trying to get at the worst landlords, rather than actually saying, "We can improve this by creating a good supply of institutional stock", so that the tenants, at whichever wage level, have choice and then they can choose against the bad landlords; but all of the regulations that are coming in are just more disincentive to a good institutional landlord entering the sector.

**Q339 Mr Betts:** Basically what are the key issues coming in that you think have to be addressed to release this outlet for landlords that currently they are not putting into practice?

**Mr Dickinson:** There are certain things that are coming in. The REIT legislation may help, but I think it will help for the next 20 or 30 years rather than the next five or 10 years. The Law Commission's proposals regarding tenancies are sensible, but the assured shorthold tenancy and the shorter tenancy in the private sector I think are probably sufficient at the moment. It is things like the disaggregation of Stamp Duty for portfolios; it is things like the VAT that private sector landlords are paying on repairs and maintenance. There are a whole number of aspects that I think can encourage greater institutional investment into the sector, but what really turns the institutions off is new regulations coming in the whole time, such as the HMO regulations. The previous witnesses were

talking about this. The HMO regulations are being dealt with by local authorities. If you are a large landlord and you are dealing in a number of local authorities, you have to register in each of those local authorities and, for instance, the fees for registering in local authorities can vary from, for instance, £100 in Wigan and £1,750 in Dartford. This makes it very confusing and difficult for large landlords to get involved in the market.

**Q340 Mr Betts:** I am still not quite sure what this great change is that is going to unlock all this private investment. Surely the HMO legislation is not going to stop most large institutions from investing in private property, and it is probably not that sort of property that many of them will invest in anyway. Really what you are talking about is tax changes. You actually want a bit of government subsidy by taking VAT off. Are these the sorts of issues? I am not sure what are the regulations are that you are so worried about.

**Mr Dickinson:** I think that the large institutional landlords were driven out of the system in the sixties and seventies and it is going to take a very, very long time to get them back in, in the sort of scale that we need, to increase the supply of housing in the private rented sector.

**Q341 Mr Betts:** What will do it? If you could say two things now to get them back in, what would do it?

**Mr Leahy:** You need to encourage, and by saying that I think you need to give, yes, those breaks with regard to Stamp Duty and VAT, you need to look at the REIT legislation and look at whether there should be a longer period for the developer phase to go into investment. That is quite crucial. Most of the big schemes, if you are looking at East London, Thames Gateway, two or 3,000 unit schemes, will take up to 10 years to evolve. If you were trying to base a REIT around those types of schemes, then you are going to be stuck until such time as the investment has come to total fruition. The taxation element needs to take account of the development process, is what I would say.

**Q342 Sir Paul Beresford:** You heard the previous discussion about new-build and properties being bought and then left vacant.

**Mr Leahy:** Yes.

**Q343 Mr Betts:** The Government perceive that as a problem, and, being a government, particularly this Government, they are prone to regulate tax. Firstly, do you see it as a problem, is it for real, or do you support the point made by our previous witnesses? If there is something that the Government could or should do, what would you suggest?

**Mr Leahy:** I personally do not see it as a huge problem. I believe it is anecdotal that there are properties being left around the country. At the end of the day, you have to look at motives that are driving the people who buy these properties and leave them empty. The majority of them are

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speculators, as was characterised earlier. At the end of the day, they are hoping that house price inflation will outstrip their cost of ownership or holding and they are not that interested in putting a tenant in, because it just brings another factor into the equation.

**Q344 Mr Betts:** Let us come on to another thing, which is slightly related. If the capital growth is diminishing, which it appears to be, and if the return from private rental is low, what do you think can be done to encourage investors into private renting?

**Mr Leahy:** It all comes down to the initial yields. If those investors are going to sit there with absolutely no initial yield and work on house price inflation as their driver, the majority of the institutional market will not, and at the moment one would see initial yields from pure rent at somewhere around 4, 4½%. With the increase in base rates of late—

**Q345 Mr Betts:** You mean building societies?

**Mr Leahy:** Yes.—that is going to discourage the position in terms of the buy-to-let market, I would suggest.

**Q346 Mr Betts:** You have set the problem; what is the solution?

**Mr Leahy:** I come back to it: institutional investors are there willing to invest in an intermediate market because they know there is a huge demand. If you look at the paper, 47% of people who rent fit into that category. I think what they need is the ability to do deals with developers at what we call the build-to-let end of the spectrum before it ever becomes a buy-to-let. That will support the developers in underpinning their developments. It should be allowed to be done on a large-scale, and to do that and to make sure that the yield profile improves tax breaks is going to be helpful.

**Q347 Emily Thornberry:** Would you support introducing a tax on vacant dwellings?

**Mr Dickinson:** No.

**Q348 Emily Thornberry:** Why not?

**Mr Dickinson:** I understand that there are some, but I think it is a very small proportion and I think, as Andy said, it is anecdotal rather than statistically relevant (the number of vacant dwellings in the buy-to-let sector) and I do not think that it would encourage investment or letting particularly.

**Q349 Martin Horwood:** I find that reply very difficult to understand. I cannot see how it cannot encourage letting if you have a charge on it when it is vacant. If it is such a significant part of the market, it surely would not hurt your members to have that tax, would it?

**Mr Dickinson:** If you are a large institutional investor and you are wanting to build a portfolio in the private rented sector and you have your HMO licensing coming in one day, you have changes to housing benefit payments the next day, the next day you have a tax on your vacant properties of which you know you are going to have 3 or 4% vacant a year anyway, then it is a further disincentives to the sort of landlords that we want to attract to the sector in order to really increase the supply of good private rented sector accommodation.

**Q350 Martin Horwood:** Would you support the introduction of a tax on vacant dwellings after a certain period of time?

**Mr Dickinson:** There is already that through council tax, is there not?

**Martin Horwood:** You would not support a further charge?

**Q351 Chair:** Can I just ask Mr Dickinson, because you keep talking about the HMOs. Has your own company, Grainger, got any HMOs?

**Mr Dickinson:** We have some property. We do not specialise in houses in multiple occupation, we do not specialise in properties with shared services, but some of the properties that we let and some of the properties we let in the short tenancy market are classified as HMOs because they have young professional sharers in them and they are in buildings of over three storeys. It is very complicated, because you can have a building where you have flats which are owned by owner/occupiers and are not HMOs, then one of the owner/occupiers starts letting out their flat and they let out to professional sharers and then the whole building is an HMO.

**Chair:** That is a useful clarification. One final question.

**Q352 Anne Main:** On 106 agreements, I would like to take you back. You did say that maybe some of the problems could be sorted by greater or better use of 106, targeting who lives in the properties?

**Mr Leahy:** Yes.

**Anne Main:** Could you give me any feelings about the proposals to scale back or even abolish 106 agreements and move towards a Planning Gain Supplement?

**Chair:** No, that is not part of this inquiry, Anne.

**Anne Main:** Do you think 106 agreements could be beneficial or otherwise?

**Chair:** That is also not part of this inquiry.

**Anne Main:** They did express a view on the way 106 could be made to do that, and I am just asking how they feel it can be done.

**Chair:** I understand that, but I think it is outwith this inquiry.

**Anne Main:** I am sorry, you are not allowed to answer that.

**Chair:** Thank you very much indeed.

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*Witnesses:* **Mr Matthew Gardiner**, Board Member, National Housing Federation and Chief Executive, Trafford Housing Trust, **Mr Gavin Smart**, Assistant Director of Research and Futures and **Ms Teresa Butchers**, Chief Executive, Devon and Cornwall Housing Association, National Housing Federation, and **Mr David Cowans**, Chief Executive, and **Mr Richard Bayley**, Group Head of Research, Planning and Performance, Places for People, gave evidence.

**Q353 Chair:** Would you mind saying who you are and, since we have such a very large number of witnesses, and, as you will have noticed, we have got incredibly behind already, on this series of questions I will try to get the members of the Committee to focus the questions, but could you focus your answers as well?

**Ms Butchers:** Teresa Butchers, I am the Chief Executive of Devon and Cornwall Housing Group. The group has 13,000 properties in management and two associations, Devon and Cornwall Housing Association, which is a traditional association and Penwith Housing Association based in Penzance which is an LSVT.

**Mr Gardiner:** I am Matthew Gardiner. I am a Director of the National Housing Federation, the trade body that represents 1,400 housing associations in England; I am also Chief Executive of Trafford Housing Trust, which is a 10,000 home stock transfer in Trafford that is two years old.

**Mr Cowans:** My name is David Cowans. I am the Chief Executive of the Places for People Group and we have made a separate submission. I will not bore you with the details because they are in the papers.

**Mr Bayley:** My name is Richard Bayley. I am the Group Head of Planning, Policy and Performance at Places for People.

**Mr Smart:** I am Gavin Smart. I am an Assistant Director for Research and Futures at the National Housing Federation.

**Q354 Mr Betts:** Housing associations have been around for some time now. They have got track records of varying degrees of quality. ALMOs are very new, yet from the Audit Commission's inspection reports ALMOs do rather better, do they not?

**Mr Smart:** It is true to say that ALMOs have done very well and provide a very good service, and I do not think we have a problem with that. I would draw your attention to the fact that the ALMO inspection regime is relatively simple in comparison with the inspection regime that housing associations have to conform to, and also it is not only the inspection regime that housing associations have to meet. I think part of the explanation is in trying to hit a wider range of targets, but that is not critical of the ALMO sector, who have done a very good job.

**Mr Cowans:** My view is that there is more than enough work for everybody in this business and, if people are doing well, then that is great, there is work for everyone else to follow. So, long may it continue.

**Q355 Mr Betts:** That is one way of glossing over the subject, I suppose. I look at the Audit Commission's inspection scores and I see the excellent rating of ALMOs, about 25%. On the chart that I have got for housing associations, you

can hardly see it, they are down to a couple of per cent. That is an awfully big difference, is it not? Fine, ALMOs are doing well. Why are not housing associations doing well as well?

**Mr Gardiner:** If I can offer one possible explanation for that, which is that the focus for the ALMO is both smaller in terms of its organisation, and its focus on its achievements and star ratings for its financial future makes the organisation that much more committed to delivering the stars that the Audit Commission requires. I think housing associations have taken a broader view of their role within communities than ALMOs are able to do. I think that the inbusiness for neighbourhoods agenda that many housing associations follow is not the same as the star rating agenda that the Audit Commission expects ALMOs and housing associations to follow.

**Q356 Mr Betts:** I find it difficult, when I certainly know an ALMO which is very much involved in managing open space in the widest sense and employing local community wardens, that ALMOs are not addressing the issue. Many of them are. I want to pick up on one thing you said there about ALMOs being able to focus on their particular area. Is it the fact that some housing associations have got so big and are such grand national bodies that they have lost touch with the direct day-to-day management of issues in the community?

**Mr Gardiner:** We have very large housing association able to manage issues, but my view on that would be, no, that the mechanisms exist for housing associations to co-operate and collaborate with each other at the neighbourhood level irrespective of where their head office might be located.

**Mr Cowans:** I think it is true that there is a different management task from someone running a lot of property very close together than those who, like my own organisation, run properties across a broad range of geographies. However, that concentration of property of itself might make some efficiencies but it also reduces people's choice, I would argue. I also think it is very difficult to deal with specifics in the generality of the average. I would hate to sound like the academic who was here before me, but there is this real difficulty about dealing with vast averages, because in particular geographies in particular places different organisations do particular things very, very well and others do not, and I think in the overall mix of housing services and regeneration of services and, in my own case, supporting housing for sale and all the other things we do, there is a lot of added value that the Audit Commission themselves would accept does not get picked up in the inspections. I would echo my colleague's view that there is a view about the inspection process. The other interesting thing is if you look at the key lines of inquiry approach which

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the Audit Commission adopt, they are growing all the time on their understanding of this broader role for housing providers. I think there is also a role for traditional Housing Associations in broadening that range of activity. I would be the first to say we always need to get better. I was not trying to gloss over it at all, I was simply making the point that if people are doing well we all ought to follow them.

**Ms Butchers:** With Carrick ALMO being a near neighbour of my association, I think there are a lot of things we can learn from ALMOs as traditional associations, but I also think there is a lot of work we can do together. Certainly in my area the tenants of both the ALMO and the associations do a lot of work together and learn from each other. As other people have said, I think there is space for both.

**Q357 Emily Thornberry:** What kind of incentives would help to improve the overall performance of Housing Associations? At what level should they be able to kick in? Should they be at an RSL level or should they be set at a estate?

**Mr Bayley:** I think the main incentive is around the regulation of the housing sector going forward, and that is to have a less bureaucratic regulation, more customer-focused regulation, and a long-term framework with a long-term framework and a long-term funding framework, to support that. If you have that kind of mix of regulation and framework, what it injects is customer focus into how we, as companies, provide our products and services and it allows us to create some efficiencies which we can then feed back into the communities we work with.

**Q358 Emily Thornberry:** We would all agree that the services should be customer-focused, but how would you do that? What are you talking about?

**Mr Bayley:** What I am talking about there is to have a good set of regulations which are outcome-focused around customer products and services, customer deliverables, so that we would be judged on what the customers think of our service.

**Ms Butchers:** I think there is already a set of incentives building up in the way the Corporation is now managing a much more risk-based regulation so that there is an incentive for there to be, as it were, less risk, to perform better, in order to have less regulations. It is following that move a bit further along the line that would be helpful so that one of the rewards and incentives for good performance is less regulation, and that can be both in terms of visits, in terms of returns submitted, and so forth, there is a whole stream of things that could help.

**Q359 Emily Thornberry:** When things go wrong at RSL level the Housing Corporation can simply shift all the property to another RSL, can they not? Do you think that it should be possible to be able to do anything like that at a estate?

**Ms Butchers:** I think the idea of giving tenants some choice as to who their landlord should be is a very interesting one which would start to bring

in elements of choice. You have to look at the economies of scale, so you could not go down in some rural villages where you have got half a dozen houses and so forth, it might be quite difficult, but it is a very interesting avenue to explore, yes.

**Mr Cowans:** Just to broaden it out a bit. If the supply of rented housing is the focus, then the interesting issue for me is not just about the traditional services, it is how we can create real choice for people. In our submission we talk about, and have developed this year, our own mortgage product to allow people to acquire a property at a range of discounts and at a range of different proportions of equity, and what we are prepared to do on our balance sheet is shift them up and down the tenure chain as suits their particular situation. That starts to create a whole new market for what we talk about because people do want the opportunity to move tenure as suits their circumstances. Moving grant and other subsidies to suit the individual rather than the property or the producer might be another incentive so that we create a real market for the individual to have a discussion with the housing provider about what circumstances they are in, what the market looks like, what is the best fit, and what is the set of financial products which then helps them in that situation. I know this is radical, I do not suggest we do it next week, but it is a direction of travel I think we should be engaged in modelling.

**Q360 Emily Thornberry:** Going back to the regulation of Housing Associations per se. If there was to be a range of financial incentives for Housing Associations which perform well, are we in danger of restricting the market and, therefore, ending up with fewer homes if we simply give financial incentives to the most successful?

**Mr Smart:** I do not think providing incentives to perform well should restrict their aspiration to housing, if anything that should encourage more successfully run Housing Associations. It should be an efficient business in all sorts of ways and that would include the ability to deliver and generate more new housing. I think you see the most efficient Housing Associations able to do more of that because if they are running a financially-sound ship they are not wasting money and they are reinvesting the surpluses that they make in service delivery but also in new supply, so it should be of benefit.

**Q361 Martin Horwood:** A couple of questions for most of the people really. You are pretty powerful advocates of using the private rental sector, market rent sector, to access funds, both for social housing and possibly for community projects, and I think you have got some nearly 5,000 market rent properties yourselves. Do you think there is any limit to RSLs getting involved in the market rent sector which is already pretty competitive, has lots of interest and is not really your core business, is it?

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**Mr Cowans:** I think our core business is to provide housing choice for people, so I would disagree with that. If there are people who want—God forbid, their economic circumstances might improve—to move their position and their tenure, we should be in the business of helping them. We are very keen to provide a range of housing tenure, preferably all in the same place because I think there are real disadvantages in concentrating deprivation. There is a lot of research internationally now that if you concentrate poverty, you not only add to people's difficulties, you multiply them, and you restrict their routes out of it, and I think that is morally wrong, frankly. If we exist as a business to create something, it is to create a place that you and I would want to live in, that we would have an opportunity to trade up and down tenures as befits our circumstance, and has a really good environment, and I think that is a good thing to be involved in. I do not think we are in the business of just providing for particular disadvantaged parts of the community because I do not think they want that, frankly.

**Q362 Martin Horwood:** Can you clarify that? Are you talking about properties as well as tenants moving from social rented to market rents?

**Mr Cowans:** We have got examples of how it is entirely possible to do exactly that.

**Q363 Martin Horwood:** Is there not a risk then that you are going to lose social housing?

**Mr Cowans:** No, because the way we try and do it is we keep the affordable in all its guises, right from rented right through to shared ownership and all the gradations of low cost home ownership in the same development as the for sale properties and we cross-subsidise from one to the other. We are very clear that we do not want those properties to go on the market. The big advantage of an organisation like ours doing the lot is that is not going to happen. I think there is a real issue about people trading in the market and keeping properties vacant because they are trading for capital uplift. Of course they will, it is a commodity, and people in markets do that, whereas we do not do that. We act as the investor but we let them, we do not keep them for ages.

**Q364 David Wright:** Is there not a problem with scale here though because quite clearly you are very able to do that?

**Mr Cowans:** Yes, there is a problem with scale.

**Q365 David Wright:** Clearly there will be many people who would say, "I would like a bit of that in my neighbourhood", but they may have 20 or 30 RSLs operating with smaller unit numbers. Do we not need some kind of model there to pool assets, pool resources? The only other alternative is increasing merger.

**Mr Cowans:** There is an issue of scale, and I do not have any easy answers about how you resolve that. It is possible for smaller organisations to do some

of this and to grow strength as a consequence, but I am still driven by this idea that places should be mixed income, viable places, that you and I would want to live in. I do not think anybody would argue with that, the tough bit is doing it. You are dead right, the issue is about scale.

**Q366 David Wright:** We do not want to drive out the small BME community.

**Mr Cowans:** Not at all.

**Mr Bayley:** We are not saying that.

**Mr Cowans:** We would not want to do that. The reality is that a mixed community often drives all sorts of other providers. I do not think there is a problem with that at all.

**Mr Bayley:** And you are going to find those specialists being very focused on a particular market niche and that would work.

**Q367 Martin Horwood:** Are you supporting any smaller RSLs in your area?

**Mr Cowans:** Yes, we have got our own black minority ethnic organisation in the group, Kush which operates in Hackney and, also, we provide agency services for several others. I think it is a good thing. The other thing we are very keen to do is we will happily, where they are good, allow local authorities, ALMOs, or anybody else who is good, to manage stock because I think that is the other issue which can be addressed.

**Q368 Martin Horwood:** Can I ask you about the gap funding model which you talk about? Do you want to explain that and talk about why you think it is a good idea?

**Mr Cowans:** We have been trying to come up with ideas simply to contribute to the debate in a creative way about what could we all do to increase the amount of housing generally and affordable housing specifically. We have looked at it and there are lots of advantages. There is the current grant regime, I am not necessarily attacking it, but it does not generate the numbers we want and it needs to be more efficient. The obvious way to become more efficient is to reduce the grant per property. How would you do that? One of the ways is to capture cross-subsidy from sales properties. The problem is, it is back to the scale problem, you have got to do both, not everybody can, but there are issues there. The cross-subsidy system works on that basis. You do the whole scheme, you take a proportion of the sales proceeds and you put it over into the affordable, both to improve standards and to reduce the grant level. We have modelled it, and it is only a contribution to the debate, nobody is saying we have got any sort of monopoly on wisdom, there will be lots of other views about it, there will be problems about doing it, but it struck us as a legitimate thing to put forward as part of the debate, could we not do that? Yes, if you have got scale, how you build the scale will then become an interesting issue. The other issue for us is the introduction of some form of equity finance, especially if the scale argument leads people like us,

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indeed, to land bank. If you are up against the private sector, private sector land bankers, like house builders, will have significant slugs of equity. If you are up against them, purely debt financed, you have got an immediate problem because you have got to pay the carrying costs of the site for the three, four years you have got to keep it to build up the planning case to get it into production, they have equity financiers who are prepared to be patient. They expect a bit more at the end, sure, but they are prepared. You pay them out when you have got the return from the land. There are lots of issues around this which we need to address. They are not immediate solutions, they are things we need to think about for the future, but we need to find ways of building the capacity of providing affordable housing, increasing housing, and these are just some ideas which we think are worthy of debate.

**Q369 Martin Horwood:** Just for the record, did you say then that you think private sector land banking is a problem?

**Mr Cowans:** No, it is not a problem, it is a problem for people like us to compete with other people who are after those sites. If you want the cross-subsidy model to work then, by definition, it helps to have the land in the first place, because you have to capture as much value as you can from the sales in order to put into the cross-subsidy in order to reduce the grant level in order to produce more rented affordable housing.

**Ms Butchers:** I just want to make a brief point that this kind of thing, particularly around the gap funding, can be done on a smaller scale because my association, in fact in partnership with a private developer, is working on the kind of sites, Places for People can do on their own, so that you can scale this down. Certainly, both the Corporation and English Partnerships within the region have been very helpful in enabling an association of my size to work with the private developer on some of these big mixed tenure schemes of the kind that David has just described.

**Q370 Martin Horwood:** Are there real barriers to doing it at the moment, or is it possible within current legislation?

**Mr Cowans:** Personally speaking, it is possible to do it now; it is just not part of the mindset and it is not very common. There are lots of examples, and I think Teresa is dead right, there are lots of people doing this. What we need to do is get to the point where more people do it and I believe that will play its part—there is not one simple answer to any of these issues—in increasing the production of rented housing.

**Mr Bayley:** The opportunity exists now with Communities England for that to be taken forward.

**Chair:** I think we have might have exhausted the topics, unless any of you did not get much of a look-in or think there is something else you wanted to comment on which has gone before? No, great. Thank you all very much.

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*Witnesses:* **Mr John Walker**, Chief Executive, English Partnerships, **Mr Peter Dixon**, Chairman, and **Mr Richard Hill**, Director of Investment, Programmes and Procurement, Housing Corporation, gave evidence.

**Q371 Chair:** Apologies for keeping you waiting but, as you see, we had some interesting topics coming up which we wanted to explore. Again, can you introduce yourselves starting from the right?

**Mr Hill:** My name is Richard Hill. I am the Director of Investment and Programmes at the Housing Corporation.

**Mr Dixon:** My name is Peter Dixon. I have been Chairman of the Housing Corporation for the last three and a half years.

**Mr Walker:** My name is John Walker. I am the Chief Executive of English Partnerships.

**Q372 David Wright:** It is quite an opportune time for you to appear before us, is it not, following the announcement on 17 January by the Secretary of State about the future structure of your teams in Communities England? It would be helpful if you could, perhaps, begin by outlining what you see are the major benefits of Communities England in terms of structure and what positive synergy will be drawn from a merger?

**Mr Walker:** I think this is a welcome opportunity. For a number of years now English Partnerships

and the Housing Corporation have been working together jointly on a number of projects and, also, we have been working very closely with the Department with a number of their initiatives, Decent Homes, Pathfinder areas, and I think the opportunity we have now is to create a new organisation, and I stress new organisation, we do not want to end up with just a merger. English Partnerships, you may well know. We are two legal entities, Commission for New Towns and Urban Regeneration Agency, which creates problems in itself; which power do we wear when going on to a site, and two sets of accounts might be good for accountants but not good for many other people. Therefore, we welcome the opportunity to have a new entity which will require primary legislation which will be down to you people, in a sense, as to how much we can deal with and where we can go. I also think it creates a great opportunity in relation to working with local authorities. For instance, from English Partnerships' point of view we have a lot of good working relationships with local authorities and I think we then present a one-stop-shop for local authorities. I also think it gives a good message to some of the big house builders how we take it forward and with the RSL market.

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**Mr Dixon:** I am a naturally cautious individual so I think what I would say is do not hold your breath in terms of seeing huge benefits very rapidly.

**Q373 David Wright:** It is not going to be very rapid because 2009 is the closing date.

**Mr Dixon:** It takes a while to get the legislation through and to get the organisation up and running and then it takes a while, in my experience, to get the best out of new organisations anyway, so I do not think one should see this as an instant solution. I agree entirely with John, there are a number of areas where we already work together, we can cut out some of the duplication, we can make things work I think more effectively, but do not hold your breath would be my immediate reaction because there is an awful lot of hard work that has to go into this to get an organisation that is effective. Structures do not do things, it is relationships and people. We have got to create a new organisation that has the right attitudes, the right people and does sensible things, and that does not happen over night. Do not get expectations that we cannot deliver for you.

**Mr Walker:** If I can add to that. Peter is absolutely right about the timescale. A lot of the timescale is about the parliamentary process, but one of the things that we can do is take advantage of that timescale and start planning now. What we have already put in place is a transitional team with representatives from English Partnerships, the Housing Corporation and CLG to work together so that we can be up and running and ready as much as we can be. One of the things that we are very conscious of is not to take our eye off the current ball and continue to deliver our programmes and meet our outputs in the meantime.

**Q374 David Wright:** So am I. I represent a former new town and clearly there is significant involvement from EP and the Housing Corporation in that town. What I think we all do not want to see is a situation where effectively we have a two-year period where organisations are trying to structure themselves and not delivering them and there is a real concern. How are you going to be able to maintain staff morale? How are you going to be able to maintain an effective approach? Are you going to be able to regulate the sector in terms of the Housing Corporation doing its ongoing job in terms of regulation? How is that going to operate?

**Mr Dixon:** We are very clear that the day job does not stop and, in fact, we have got a number of new ideas and new approaches that we are intending to roll out. We want to keep going at maximum speed, frankly in order to keep our staff excited about what we do, keep the sector enthused with ideas that are going to work and make sure that we do not drop the ball on the way through and that is fundamental to us. Obviously we have done the basic things like retention packages for staff, we do work together very closely already. Frankly, it will be business as usual for the next 18 months to two

years but, if anything, I think it will be business even more than usual, if you like, because we have got a whole raft of things that we need to roll out in order to make sure that we remain effective whether it is in regulation or in investment. We have already modernised some of our investment processes, we have got a whole string of things that we want to do on the regulatory front. Coming out of the review that we instituted 18 months ago, the Elton Review, we are implementing that as rapidly as we can basically to make our regulation more effective and to improve the lives of the two million tenancies where we have a remit to make sure that Housing Associations behave themselves and do what they should do, so no letting up.

**Q375 David Wright:** The Housing Corporation are pretty well-known across the UK for delivering in most areas, EP are not the same really, known largely because of its focus in former new towns and certain key regeneration sites. How are you going to change your profile so that people understand how you can knit together land provision and funding? How are you going to pick up some of the ideas we have heard this afternoon because clearly some development work has got to be done because we have got private sector organisations coming along and saying they can fund housing, they can fund shared equity with a minimal level of public subsidy? We have had organisations coming along saying that they can deliver big regeneration schemes through gap funding. It is a big agenda, how are we going to keep pace?

**Mr Walker:** First of all, I will pick one thing you said, as far as staff morale is concerned, I am very concerned about that. In fact, right across the whole of the organisation in each office we have had presentation seminars taking things forward and the staff are upbeat, they are looking forward to the new agenda and in getting there. As far as raising the profile and involvement of English Partnerships, we operate across all of England and one of the things that Communities England will bring, for the first time, is a more rural agenda because obviously we are the Urban Regeneration Agency, we have operated in urban areas and we have been operating on a number of programmes throughout the time. We are involved with our URCs, the Coalfield Programme which formed a big part of the work of English Partnerships, we are very much involved in the growth areas. One of the things that we have got quite a good track record on is working with the private sector. We have a number of private sector joint ventures here from priority sites which delivers industrial floor space, it is a joint venture with the Royal Bank of Scotland set up to deliver a million square feet, this year we will hit three million square feet. Network Space, which has delivered managed work space within the former coalfield areas, said that they could do 740,000 without any further investment from us. English Cities formed a joint venture between ourselves, AMEC and Legal & General to look at area wide regeneration. We have a very

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good track record of working with the private sector. In addition to that, there is an initiative from David Miliband. We have talked to a number of local authorities about utilising their assets, sweating their assets better through a local asset backed vehicle assisted by an urban finance initiative which is people who, within English Partnerships, have corporate finance background, who are talking to the institutions, and we have quite a good dialogue with a lot of the institutions. There is a huge appetite from the institutions for investment. At the moment for every pound of investment there is £5 chasing it, so what they are looking for is the right mechanism, the right project, and I think we, in English Partnerships, have already started to do that in a lot of areas and that is an even bigger area and opportunity for Communities England.

**Mr Hill:** Can I pick up on the shared equity point specifically. We think that is quite an interesting area where EP and the Housing Corporation with CLG have been working quite intensively over the last six months and particularly on the shared equity taskforce report that came out in December that recognised the contribution that the private sector might play. I think that is an exciting area where EP, the Department and the Corporation will be working together where there is a really good potential opportunity with Communities England to have a better aligned delivery mechanism to help deliver some of those changes. I think it goes to the staff morale point, in that that is an area where there is quite a lot of policy excitement but whereas delivering it might be difficult in three separate agencies, Communities England gives us an opportunity to do better over the next six to 12 months.

**Q376 Anne Main:** I would like to take you on to the size of the units that have been created. There have been concerns expressed to the Committee about the size of them being small and not being suitable perhaps for families. How have you addressed these concerns and how do you see your process developing in terms of your programme size?

**Mr Dixon:** We have done two things. I think I agree with you, there have been too many smaller homes built, whether it is in the private sector or in the social rented sector. Our most recent programme recognised that particularly in London, and we have insisted that 34% of our programme is three bedrooms and above, much higher than previously.

**Q377 Anne Main:** How does that work with the density levels that have since gone through the Government's guidelines? Have you managed to get it all in?

**Mr Dixon:** It is within the currently recognised and accepted density levels. If you start looking at the costs of a socially rented home per individual rather than per home you will find that it is actually quite cost-effective producing three and four bedroomed homes because the cost per person becomes that

much lower. On that measure one and two bedroomed homes are less cost-effective because you are not housing as many people. I think we recognised that we were getting it wrong a few years ago, we have changed that.

**Q378 Anne Main:** More family homes.

**Mr Dixon:** It needs to go further. We have not moved as far as that outside London. I think there has been a little bit of an obsession with the numbers of homes rather than the numbers of people. I think we prefer, if possible, to move towards the number of people who are given a home rather than just the number of homes that are built.

**Q379 Anne Main:** That is interesting. In which case, do you think the regulation of housing benefits makes it difficult to meet the needs of families in overcrowded households? Is there anything that could be done there, possibly if the Housing Corporation enabled existing stock, perhaps larger homes, to be repurchased and brought into the fold so to speak?

**Mr Dixon:** Housing Benefit is important to something like 65% of social tenants. There is a trade-off, if you like, between the level of Housing Benefit and the level of grant that goes into a new home. If Housing Benefit were able to meet slightly higher rents, you would need that much less subsidy so there is a flexibility there. It is a question of whether one is subsidising the bricks and mortar to start with or the families and there is a judgment call as to where the best balance is. I think there are problems around Housing Benefit when you are looking at very high market rents and you will see Housing Benefit meeting rents of £250 or £300 a week in London and that has got nothing to do with the social rent. That is using Housing Benefit to pay a market rent, which is a totally different kettle of fish obviously. Our concern is at the lower end where the levels of benefit are not a problem.

**Q380 Mr Betts:** On the distribution of support from the Housing Corporation for affordable housing, there is no doubt at all that probably 10 years ago, rightly so, the perceived pressures would be in London and the South East, but since then there are considerable pressures developing in parts of the North, yet the Housing Corporation seems, at the very time that is happening, to have shifted more resources to the South. Certainly we had evidence earlier that the three northern regions have nearly 30% of the population but get only just over 10% of the Housing Corporation's funds. Is that something that you think is right and that you might want to correct in the future?

**Mr Dixon:** It is not something which I control which is probably the easy cop-out. Our money comes out of the single housing pot which is allocated on a regional basis by CLG and the mainstream pot is made up according to their priorities. We then get a slug of money depending upon that split. My own personal view is that it is quite difficult to shift away from the present

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London and South East bias because when you do start disaggregating the various aspects of need, whatever you come up with anywhere else London can usually match it. That is the reality check for me. I would like to see more money across the country but I do not think this is something that we can greatly influence.

**Mr Hill:** If I might add to that. The current formula is based on need indicators, as Peter said, in terms of temporary accommodation and overcrowding. We have had a concern about deliverability in terms of it is important to understand where housing needs are but it is also important that we can deliver housing and generate supply. The Corporation is currently running a competition in the North, the Northern Housing Challenge, across those three regions partly in recognition of the fact that housing issues and problems are different in the North and trying to find an effective way to respond to those.

**Q381 Mr Betts:** I am a bit concerned about your comments about something you cannot influence. I accept that you cannot probably determine in the end how money is going to be allocated in the regions but, surely, all the information you have as an organisation and the experience and expertise ought to at least allow you to influence in some way the thinking inside the Department about how money is allocated.

**Mr Dixon:** I would like to think it did but I am not always sure that it does. Certainly we would like to see more money for housing everywhere. As Richard said, we accept that there are different challenges and different approaches in the North and we have run into some problems with some of the schemes in the North being very expensive and surprisingly expensive. One of our problems in terms of deliverability is that we probably do not have enough good deliverers of affordable housing in some parts of the North. Expanding the market is something we can do, then we can spend our money more effectively. Yes, we can influence it, but I am cautious, as ever.

**Q382 Mr Betts:** I cannot think of a single scheme in my constituency where there is any Housing Corporation money going in at present despite the fact that property prices in many parts have gone up three times in the last seven years. Of course, there is the Northern Housing Challenge Scheme which we are in for at present—

**Mr Dixon:** We are looking forward to the evaluation.

**Q383 Chair:** Finally, can I ask about Community Land Trust and Regeneration Trusts. Do you think they have got a potential to improve development?

**Mr Walker:** Yes. We are assisting in a pilot scheme at the minute in Gloucester and we are in the final processes of assessing how it moves forward. I think this is an opportunity for the future in taking it forward and we are quite interested. I do not think there is a one-model-fits-all circumstance, we are looking at one which is on an old hospital site

that we have taken from the NHS to develop. I am a bit hesitant because we are in the middle of assessing the process and how we go forward, but I think for the future this is something that we can certainly build on. Also we are supporting the one in Salford where we have one of our members of staff who is sitting on the Community Land Trust to try and take that forward and develop it. I do think that this is an opportunity for the future.

**Mr Dixon:** We would agree, we think it is well worthwhile exploring. The slight danger is that if one is not careful, they become very inward looking and it is important that they do not turn into vehicles which support the generation of gated communities. There is a risk that is the way they could go and we need to make sure that they remain outward looking and engaged, not inward looking and defensive.

**Q384 Mr Betts:** I will just pick up the point that Peter Dixon made about looking for other agents or organisations who may get into the business of development where there is a shortage. I understand so far that not a single ALMO has been successful in getting Housing Corporation funding for the building of new homes, though quite a few of them are interested and one or two of them have made an application. Is that an area which you think is worthy of exploring and why has it not taken off so far?

**Mr Hill:** That is right; we are not funding any ALMOs at the moment, we have the power as you know in the 2004 Housing Act in the same way that we funded private developers for the first time in 2006. We have had some bids from ALMOs to the Northern Housing Challenge Programme that I mentioned before and certainly we will be taking some of those through to the second stage. We are very keen in terms of our next bid round in 2008 to encourage competition and certainly I think the best performing ALMOs should feature in that.

**Mr Dixon:** We would love to see them. To the extent that they probably have access to land which they can put in relatively cheaply I would expect it to be possible for ALMOs to put in some very competitive bids.

**Q385 Mr Betts:** Are you talking to the various ALMOs now about how they can approach that in a way that will lead to positive results?

**Mr Hill:** Yes, we have had a number of meetings with ALMOs across the country, including ALMOs in the North.

**Q386 Chair:** Excellent. We will await good news. Thank you very much indeed.

**Mr Dixon:** Could I finish by saying that we obviously welcome this inquiry but could I ask you to beware of the snake oil salesman. There are an awful lot of people telling us this is all very easy and that you can do it terribly simply. We think it is done by doing an awful lot of small things better and concentrating on the detail, there is not a big single solution in our judgment.

**Chair:** Thank you very much.

**Monday 19 March 2007**

Members present:

Dr Phyllis Starkey, in the Chair

Sir Paul Beresford  
Mr Clive Betts  
John Cummings  
Mr Greg Hands

Martin Horwood  
Anne Main  
Emily Thornberry  
David Wright

*Witness: Professor John Hills*, Director of the ESRC Research Centre for Analysis of Social Exclusion (CASE), London School of Economics and author of the report, *Ends and Means: The future roles of social housing in England*.

**Q387 Chair:** Professor Hills, can I welcome you to the Committee; we are looking forward to exploring with you many of the points made in your excellent report. Can I start off by asking you a question relating to whether the priority for government should be retaining higher earners within social housing so that we get a better social mix, or freeing up social lettings for the people who really need them?

**Professor Hills:** As with many of these questions, there are, of course, trade-offs. I think part of the context of this, though, is the change in the composition of social tenants as a group over the last 25 years. When one looks at who are likely to be social tenants today and at the income distribution of social tenants, there are very few people in the top half of the income distribution who are social tenants. Now, that might not matter in a policy sense if we were content for social housing to have, as its overwhelming focus, the housing of people on lower incomes and those in greatest need, but because we provided so much social housing in the particular form we did and because so much is built on estates, the income mix matters a great deal. Certainly where one is looking at social housing which is in estates, and two thirds of social housing is still located within areas originally built as council estates, retaining people on higher incomes and with more prospects and with more labour market connections would seem to me to be rather a helpful move, and measures that would encourage people to leave when they would not do otherwise in the name of freeing up a tenancy for somebody else would seem to me to be unhelpful, because of the degree to which those areas have now polarised, and we are dealing with a situation where nearly half of all social housing is located in the 20% deprived neighbourhoods in the country. There may be some different issues in other parts of the country where social housing is not as polarised as that, but predominantly I would see it as being something of a mark of a success of the way we were running social housing if we were able to retain more of the people on higher incomes than we have done.

**Q388 Chair:** Can I ask you about allocation policies, because it is surely a consequence of the excess demand on social housing and the allocation policies which are leading to precisely the conditions you describe, so it would suggest that since it is not

possible to vastly increase the supply the practical way forward, if one followed your line, would be to alter allocation policies, and if so in what way.

**Professor Hills:** We are in some ways in an unenviable situation, as it is now. We have a stock which is predominantly located but not entirely on estates; the population has become more predominantly lower income than it was 25 years ago; and one of the things my report draws attention to is the way in which the pressures on the sector have increased greatly in the last six years. The report draws attention to the rapid decline in the number of existing properties available to re-let to new tenants, and I think that is a striking new phenomenon over the last few years.

**Q389 Chair:** Can we move to what you think needs to be done, and specifically do you think the allocations policies need to be altered?

**Professor Hills:** I was suggesting in the report that allocations policies need to be reviewed; that as part of a drive to improve the mix within the existing stock and existing areas, one of the things we could do, at least to start with, is to ensure the allocations policies are not exacerbating the polarisation we have. The point I was trying to make was that I do not think one can solve the problem through allocations policies alone because the pressure on the sector is so great, but we can at least make sure that we are not running things in a way that all the people in greatest need and lowest incomes are put in particular areas. I do think there are some positive lessons from the experience of choice-based lettings in the last few years which might have led to increased polarisation, but the evidence suggests they did not.

**Q390 Mr Betts:** I have a couple of issues, one of which is perhaps to remove some fairly inaccurate reporting that occurred which clearly caused a great deal of concern to many existing tenants in social rented housing, in that you were recommending that they all lost the security of tenure to their home. Presumably you are not recommending that. Are you suggesting any changes to the security of tenure of any future tenants when they are allocating property?

**Professor Hills:** Thank you for the opportunity to make that clear. There was a wildly inaccurate report in one of the national newspapers the day

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before my report was published, and I think the headline was “Three million tenants to lose their security of tenure”. If you have had a chance to look at the report you will see on page 155 that I go through in detail a number of arguments as to why security of tenure is potentially rather helpful in one of what seem to me to be the key aims of social housing which is to help support people getting on in their lives and to give them security and strong incentives to be able to do that, and so I make no such recommendation. There clearly are people in the housing world who faced with the pressures of trying to meet the demands on them would like to find some way in which we can encourage people to move on, but I think it would be extremely unhelpful if one is thinking about supporting people and building their livelihoods if people had hanging over them a threat that if their circumstances improved they would somehow lose their home. That, however, is a different issue from the issue as to whether we should be simply offering both the existing tenants but in particular the new inflow of people in housing need just one choice, which is a route to queue through to a social tenancy. There may be other forms of support we can offer to some people which would be more appropriate to them. For example, in the report one is looking at young people and it may well be more appropriate to be offering them some kind of support that combines accommodation and support with getting employment, and training in the way that foyers do rather than assuming the solution is to put somebody in a queue for a social tenancy, but I do not make any other recommendations about reviewing security of tenure for the inflow. What I do suggest, and you will have seen this in the report in its summary, is a number of ways in which we can open up a number of options to both the inflow and to existing tenants.

**Q391 Mr Betts:** Can I follow through on the allocations policy issue as well? Just looking at the experience of my own city in Sheffield, probably going back to the 1980s it is probably true that half the lettings that the housing department did and the city council were probably to existing tenants who transferred to a different property, and there was a fair flow around of people trying to improve their circumstances but also get a home that more adequately met their particular requirements at the time. Then they moved on to a much more so-called needs-based allocations system where if you had a particular need, homelessness or massive overcrowding, you went straight to the top of the queue and the property that became vacant was allocated to you. Certainly there is a lot of evidence then that people, say, who wanted to move to be nearer to family or grandparents, so that both members of the household could go out to work because childcare was taken care of in an affordable way, were then denied that opportunity and once they were stuck in a council property they lost the choice to move nearer to the grandparents because that house that was going empty next to the

grandparents went to a homeless family. Is that the sort of issue you are trying to get to the bottom of and, if so, how can it be addressed effectively?

**Professor Hills:** It certainly is one of the issues highlighted by the evidence I reviewed. I think it is striking the extent to which, and you will see this in the summary of the report you have, if one tries to analyse why social tenants are dissatisfied with their accommodation, and more dissatisfied with their accommodation than people in private rented housing or an occupation, it is predominantly amongst the group of people aged 45 and younger that you see the high levels of dissatisfaction. Another piece of evidence that goes along with that is that if you look at people with similar levels of space per person, so similar degrees of crowding, the social tenants will be more likely to say they are dissatisfied than the private tenants or the owners, and I think that reflects two different things. One is that the social tenants will have had much less choice in making some kind of trade-off between size of accommodation and its location in the way people in the other tenures may have done, but the second is that people’s prospects of moving on are that much smaller once you are in social housing because transfers are becoming so much more difficult, so people see themselves as becoming stuck for longer and longer, and one of the consequences of the rapid drop in re-lets in the last six years combined with, although there has been a recent fall, a fairly constant level of statutory homelessness allocations is there has been much less property available for non-statutory homeless entrants to the sector. Those entrants are, as far as I can see, increasingly coming in on the basis of a second level of needs-based criteria, the reasonable preference criteria, and it appears that those kinds of needs-based criteria are being applied to transfers within existing stock as well, so the example you gave of wanting to move nearer to somebody who might provide child care would not be enough in many areas to give somebody priority to move even though the effect of them moving is to create a vacancy behind them, and it may be that that kind of issue around transfer is a rather large one.

**Q392 Sir Paul Beresford:** It is an old argument and discussion but should we be moving towards, if we come back to the original question, subsidising people rather than bricks and mortar, to some degree at least?

**Professor Hills:** Of course we do both, and the question is the balance between the two. In the last twenty years or so we have moved much more to subsidising people through either housing benefit or through the still relatively favourable treatment of owner/occupiers, so that bricks and mortar subsidy plays a smaller role but is still there and I run through in the report the policy dilemma that that creates. On the one hand a system which subsidises bricks and mortar can have these effects that tie people to a particular place and make it hard for people to move and create all the pressures within a rationing system that you will be familiar with, and I am sure your constituents report to you. On the

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other hand, given the level of cost within the private sector, if we were to rely entirely on a system of personal subsidy run through the housing benefit, we would create far worse benefit traps than we have at the moment. In fact, we have moved towards more reliance on housing benefit than historically. One of the big advantages of the social housing is the potential poverty trap effects with the level of social rents as they are much lower than those for people who are paying private rents. At the most radical end one can imagine some kind of system where somebody had a transferable voucher that they could take with them, and I talk about those kinds of proposals in one section of the report. I think they carry with them some of the same problems as we have at the moment; if that is a very valuable voucher that people can carry around with them then people will queue and will have to go through all the same hurdles to prove need that they do in order to get to social housing at the moment, so as you said it is an old policy dilemma and it is not one to which this report produces any magical solution I am afraid, but I certainly do not end up in a situation where I think that we should throw out the baby with the bathwater. I think there still is a strong case for provision of social housing at submarket rents, but that case relies on a number of potential advantages of doing that and I suggest in the report that the evidence shows that we are not meeting the full potential advantages that we could get from social housing.

**Q393 Sir Paul Beresford:** The homeless strategies at the moment mean that many people are in the private rented sector but are trapped. The buy-to-let market is, to some degree, booming but the policy of moving them into the private rented sector seems to exacerbate the problem of getting them into work. You have touched on the trap. Would that be right? And have you got any solutions or suggestions?

**Professor Hills:** The evidence I have seen and the analysis I have been able to do suggests that in many ways actually being within the private rented sector, despite the greater poverty trap effects of higher rents and housing benefit problems, means that you see easier moves into work than within the social rented sector. Now, there are a whole series of reasons why that might happen. Some of that is to do with the effects of exactly where social housing is located, and given the polarised nature of the neighbourhoods in which much social housing is located at the moment that creates difficulties in contact with labour markets and makes it harder for people to find work, but there is a particular issue I think around the difficulties of moving within the sector, and I highlight what did seem to me to be very striking evidence of how few moves happen within social housing once people are there for job-related reasons. If you look at all moves across the country, where people move house either within the same area or between areas, about one in eight of those moves is for job-related reasons.

**Q394 Chair:** Given that a very large proportion of people in social housing are in receipt of

various incapacity type benefits, would you not expect that those not in work are never going to be in work?

**Professor Hills:** Of course one would expect a high level of worklessness given the characteristics of people living within social housing but one would not necessarily expect quite such a high level. Given the category of need or personal characteristics the level of worklessness within social housing is still high. That may be because people with the greatest problems are screened into social housing and out of the private sector, so that is part of the explanation. It is hard to explain only by that.

**Q395 Emily Thornberry:** I am very interested in what you have to say about transfers because certainly in a constituency like mine we have huge numbers of people on the waiting list but at least we might be able to do is transfer people into areas they want to be as opposed to areas that are inappropriate, but the mechanisms available for people to do transfers seem to me to be so supine. Move UK deals with hardly anything like the traffic one would expect; there is not enough emphasis put on mutual exchange in my view, and there is not sufficient funding available to help people out of social housing and on to the housing ladder if they want to move out of the area and possibly move to being near relatives where the property prices might be cheaper. Do you agree with any of that?

**Professor Hills:** I think I would agree with most of that. The national mobility schemes are incredibly limited. The number of people moving is miniscule by comparison with the nearly four million social tenancies that we are talking about. My suggestion in the report as to the potential way forward is to try and build on what choice-based lettings have achieved. Within a very tight group of people who get access to social housing there have been some positive improvements as a result of choice-based lettings. I think there are things we can do to widen the pool, the area over which they operate, both within a region but also to some extent nationally.

**Q396 Anne Main:** I would like to take you back because I am getting a rehearsing of the issues but not a lot of suggested solutions. We saw in Manchester on our very valuable visit that the minute you start making areas more attractive to live in and be in, the house prices go up and make houses less affordable and also the rents go up. How would you, then, if you are trying to get areas not to be large mono tenure areas of worklessness, solve that dilemma of making it a more attractive area to live in with more opportunities for people and yet still keep the rents so low that people can afford to live there?

**Professor Hills:** Certainly to start with, as you know from what I was asked to do in this report, the aim was to start a debate rather than to produce a blueprint and a whole series of recommendations. What I do do at the end of the report in its summary is to point to a number of directions where I think we could do better than we are doing at the moment. We do need to remember that we do have a very big asset

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within social housing stock worth at least £400 billion, so we are not starting from nothing; we do have that property there at the moment but we use it in a very inflexible way. I am not sure quite how much this helps you but one of the developments which I have found really quite interesting in thinking how we cope with the fact that we start with property that is located in estates but we would like to diversify it was the success of a scheme called “Selling alternate vacants on estates” run by the Joseph Rowntree Housing Trust in York, in New Earswick, where they found that their very attractive cottage estate had become residualised as a result of allocations over a long period. They then set on a policy of, when two vacancies come up they will let one and sell one and use the proceeds of selling one to replace it not with somewhere in the middle of York but somewhere in a more mixed area, and therefore diversify the stock in that way. Now initially when they did that to start with they made a loss and it did have the effect that house prices went up but of course from that point of view it is an advantage—

**Q397 Anne Main:** Do you think that is more advantageous than trying to encourage owners paying higher rent to be in social rented properties?

**Professor Hills:** As I said at the beginning, given how few relatively higher earners we have in social housing, if we are dealing with areas that have become residualised, there is a lot to be said for trying to do things that will encourage people at least to stay in the same place—not necessarily social tenants but to offer people options that will hold them there and also to run property and the area in a way so that they do want to stay.

**Q398 Martin Horwood:** My question is almost the mirror image of Anne’s. You talk a lot about the need to break down the polarisation and to create more mixed communities both ways. It is clear to me why someone who is currently a social tenant would want to move to one of the areas Anne describes which is becoming more attractive, but the mirror image is why would anybody who has a choice, who is able to buy, choose to buy in one of the old estates? It is possible that it is cheap but if it is simply on the basis of them being absolutely dirt cheap to buy, how then do you stop private buy-to-let landlords scooping them all up and letting them back to social tenants again because they are going to be the more reliable sources of income for a landlord?

**Professor Hills:** Price will obviously be part of this and we know from experience that people do buy at a particular price within these areas, and the experience of things like the Rowntree SAVE scheme shows that people do buy in areas that have become stigmatised, and that helps break down the stigma. We also know that people do pay market rents to move into some of these estates through what is illegal sub-letting, so there is a market for people to move into some of these areas but we do not harness that.

**Q399 Martin Horwood:** You say that removes the stigma but I cannot quite see how, actually. If these are at rock bottom market rates how does that remove the stigma?

**Professor Hills:** We know that the opposite process happened. We know that areas that were not stigmatised became stigmatised as a result of lettings flow over a 20 year period.

**Q400 Martin Horwood:** But that does not solve the problem of the estates where the housing stock is overwhelmingly poor and, as you say, has stigma.

**Professor Hills:** This is a very big long-term problem but ensuring that allocations policies are not that the poorest and greatest need people go into the worst areas the whole time; using the potential of market renting and of like-for-like sales where we can; using infill developments of a different kind where we can, which is happening across different parts of the country, this is obviously possible in parts of London but also in parts of Sheffield and Leeds, but at the base one of the points that the report makes is that, if you are trying to mix the incomes in an area it is thinking through what do we do to support the incomes of existing tenants that is important. I am not so pessimistic as to assume that all people who are without work at the moment within social housing, even if they are disabled, are going to be permanently unable to work, I would be more optimistic than that, and I think there are lessons to be learned from things like the Department of Work and Pensions *Pathways to Work* pilots where the kind of personalised support people can be offered does help people get into work, and it is through that that we will fundamentally change some of these areas. So it is a mix of all these things. We are starting from a very large problem so I do not have any miracle changes overnight but there are a whole series of different things we can start to do to put things in the right direction.

**Q401 Martin Horwood:** You mentioned like-for-like sales and the Rowntree approach of running at a loss originally to buy up properties in more desirable areas. Is that compatible with the responsibility on councils or ALMOs if they were to try and pursue this kind of policy trying to achieve best value from public subsidy? Is that going to be acceptable?

**Professor Hills:** As I understand the subsidy rules, which is probably in not enough depth, a council would find it difficult to do that. It would be easier for a housing association to make that kind of transfer, but I cannot give you chapter and verse

**Q402 Mr Betts:** If the aim is to try and get more balanced communities, just looking at the right to buy, it might be very sensible to encourage more right to buy in a big estate where perhaps only 5% of the houses have been sold, for obvious reasons, but do you have any recommendations for estates where the majority of houses have already been sold but presumably where the right to buy in those circumstances creates a less varied and less mixed tenure estate?

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**Professor Hills:** As you have all been referring to, and it is hardly news to you, the effect of the right to buy can cut both ways. In some areas it can have a stabilising effect in that people can remain within an area where they otherwise would have moved; it would meet some people's aspirations in a way that remaining a social tenant would not. In other places the effect of the right to buy is that somebody has sold up, whoever is running the property then lets it, does not look after it very well and lets it to people who may have been evicted from social housing in the same area and it can be very negative. I do not have a solution as to how you screen between those. I do think one has to look rather carefully at the level of discount that is available within the right to buy and at the use of the proceeds from right to buy. There is a level of right to buy discount where in overall economic terms the state is not making a loss, and if the money was put aside it could re-provide in the 15 years' time that a property would be likely to come up on average, and you will note Professor Steve Wilcox's work on this as to what would be a cost neutral discount. I think I would rather operate on getting the level of discount right than trying to think of a blanket way of saying that there are certain areas that are no-go for right to buy and other areas where we would give hugely preferential treatment.

**Q403 Mr Betts:** You mentioned the point about houses being sold on and let in ways that may not be terribly desirable, but I am not quite getting this. I am getting it in areas of quite attractive social rented housing where, because they are very attractive over the years, maybe 60, 70 or even more per cent of those properties have been sold so we are creating a mixed tenure community in an area where perhaps most of the houses round about were in the private sector to begin with, but is not the reverse, therefore, that if we were carrying on offering public subsidies in the form of discounts to encourage more people among existing tenants to buy their properties we would actually change the tenure mix for the worse? Is that not something you might have recommended we do something about?

**Professor Hills:** Well, the report recommends that in the more radical end of thinking through the options available to people we might review it might be sensible to review the right to buy as a whole and its relationship to the kind of rights available to other tenants, and one might do that as part of that, but there are two sides to this. One is the effect on an area of people either moving on or staying put, and the other is the effect on the individual life as in people having opportunities to build up assets and to get on in their own lives, and I think to rule out the right to buy entirely in particular areas and to say: "Well, we would much rather you stay paying a sub-market rent for ever" than to exercise an option which might have lower net cost to the public sector in the future, would seem to me to be slightly odd.

**Q404 Mr Betts:** Or move with a discount to another area where there are fewer right to buys and release

that property for someone to come and rent? Would that not be a more logical approach, to try to get mixed tenures which you seem to be getting at?

**Professor Hills:** I am not quite sure how that would work and I would be interested to see how somebody would have a right to a discount because they had been a tenant but that discount was only usable in a different area. I have not I have not come across that kind of proposal before so I do not know how it might work.

**Q405 Sir Paul Beresford:** You touched on the use of capital receipts. In the early days of right to buy many local authorities used capital receipts to turn them back into estates from whence they came, or to adjacent estates. This had the effect of people who wished to rent getting improvements to their properties and those that purchased on the right to buy staying because the standard of living around them by virtue of their own capital receipts improved. Have you thought of a mixed or a change of use of capital receipts?

**Professor Hills:** I have not looked at how capital receipts would work, no.

**Q406 Mr Hands:** On infill, and its mirror image policy, which would be partial demolition, if I describe two estates in my constituency, in fact my old council ward, which are absolutely fascinating, Fulham Court is one side of Fulham Road in Fulham and has had 396 flats of which only three have had right to buy done on them. It is incredibly dense 1930s housing which is basically a big problem estate. PCSOs refuse to patrol there, it has a culture of gangs—all the problems you might expect in an inner city estate. On the other side of the road you have Lancaster Court, which has a huge green open space and is very popular, with 30–40% right to buy, and over the years the Council has tried in different guises to do something about each of them. On the Fulham Court side it proposed demolishing a couple of the blocks but was met with such fierce opposition from the tenants, and political opposition because it was seen to be potentially removing social housing, yet on the other side of the road a proposal a few years ago to build some infill for housing association properties on the estate also met with opposition. What in your experience do you see is a way of overcoming this kind of popular opposition, because it is going to be key if you are going to do infill, or indeed the reverse policy, to get local support?

**Professor Hills:** Popular opposition has its roots in two very important features. One is the value of open space to existing communities, and obviously one has to manage that very carefully, and the other is the huge disruption to existing communities when any option involves demolition, and that makes this very difficult. However, having said that, there are examples in different parts of the country where people are succeeding in mixing areas through selective infill. There are areas where people have had no alternative but to go for big demolition options, but those have both imposed quite large financial costs but also costs to existing communities

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of disruption while the demolition happens, so I think what you are reflecting are genuine advantages of where people start and genuine costs of trying to move to something different. That is I guess the business of local politics.

**Q407 Mr Hands:** Can you name one part of the country which, in your view, has very good practice on this?

**Professor Hills:** I think I would have to have notice of that.

**Chair:** Well, we saw Manchester last week where two of the estates that we saw had exactly gone for wholesale demolition with agreement. Indeed they were pushed into it.

**Q408 Mr Hands:** Is that your experience as well, Professor Hills? Is Manchester a model for this?

**Professor Hills:** I do not have enough experience of visiting parts of the country.

**Martin Horwood:** I can offer two contrary examples in my own constituency in Cheltenham, both poor areas of town, one where demolition took place which was welcomed by tenants because it was seen as an escape route from what were fairly dire post-war tower blocks, and the other a much more settled area where there was enormous opposition because people felt that had investment been made in the housing stock itself it would have been good enough to transform the housing, so these things can work in very different ways. The residents in St Paul's, which is the second example, did have a bit of a case in that if the same kind of investment and attention had gone into improving the area and the basic quality of the housing stock and maintaining it that could have been part of the solution without resorting to market mechanism.

**Chair:** Can we move on to explore the issues about mobility and work business. Clive?

**Q409 Mr Betts:** One of the things you had a look at was the housing benefit system and the problem people have when they get a job in that they suddenly lose their housing benefit and the question whether, even with all the changes to tax credit, it was worth the people going out to work, and you were suggesting some sort of continuation in housing benefit for people going into employment to allow that transition to occur. Can you say a bit more about your proposals in that regard?

**Professor Hills:** One is that the clearest piece of research evidence is that people have a very low level of knowledge about what their housing benefit position would be if they got into work and, in fact, possibly for some social tenants quite a low level of understanding of what their rent is. If people are having their rent effectively paid for them directly they may not even know what their rent is and therefore may have fears about what their position would be if they got a job which are unjustified, so there is certainly potential for making sure people have access to better information about what their situation would be in work even within the current rules of the system. As far as social tenants are concerned, where they are renting below market

levels, the kind of calculations you can do as to whether they are better off in work or the extent to which they would be better off in work would be that much more favourable than the calculation would be for private tenants. Having said that, there is ignorance about whether you get housing benefit at all in work but people also have, as far as I can see from the evidence, fears of how long it would take to get housing benefit sorted out if their lives changed—and of course lives can change in more than one direction. They can get a job and then possibly lose it, and there are certainly fears about getting back in on the system. The main suggestion I make there is to point to the way in which we run housing benefit at the moment, which is on the basis that as your circumstances change it is not exactly minute by minute your housing benefit should be adjusted but it should adjust very rapidly to any change in circumstances, and that has two effects. One is that it does mean that people cannot rely on that income for necessarily a very long period because it might change and the second is it is very hard to administer that system, and I think those two feed into one another in that people's fear of disruption and how difficult it would be to get the right level of benefit established ties in with the local authorities' administering housing benefit and having to cope with frequent changes of circumstances. So my recommendation there is not necessarily about specific run-ons of benefit as people move into work, although I think there is evidence that that is done, partly in some cases for lone parents, for instance, but more that the overall structure of the system could perhaps adjust less rapidly as anybody's circumstances change, and therefore give them a bit more certainty and make the system easier to run and therefore more efficient.

**Q410 Mr Betts:** Do you think the Government should move to a housing allowance system?

**Professor Hills:** We have moved to a housing allowance system where the amount you are paid does not depend on your rent, or we are moving further in that direction, within the private rented sector, and I talk about some of the evidence from the extensive analysis which have been done on *Pathfinders* which is, generally speaking, rather positive, and we are not currently planning to move in that direction for social rented housing. I do suggest that we should look at the advantages that appear to have come from more of the money being paid to private tenants rather than going to the landlord within the private sector and see whether that could be extended within the social sector in terms of financial inclusion, in terms of giving people more feel of control over their lives but actually more knowledge of things like what the rent is. Moving towards a fixed housing allowance within the social rented sector would be quite difficult given the current structure of social rents, and that does raise some quite big issues starting from where we are at the moment. I can see a kind of distant green upland horizons world in which for some parts of the country, even within social housing, there could be

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more of a system run on the basis of fixed allowances, but I think we are quite a long way from being able to get there at the moment.

**Q411 Mr Betts:** Did you have a look, in terms of disincentives to work, at the very interesting pamphlet the LGIU did a few months ago which compared the threshold at which a low income family with children getting into the work place started to pay council tax, in other words the level where council tax benefit could be withdrawn, compared with the point at which they started to pay income tax, which is quite a bit higher in terms of income levels, and the fact that you introduce disincentives to work for those poorer families if you equate the threshold at which they start to pay council tax compared with the threshold for income tax? Have you looked at that?

**Professor Hills:** No. I have not looked at that.

**Q412 John Cummings:** Do you endorse David Freud's recommendation that Jobcentre Plus Officers should administer housing benefit and, if you do, what benefit do you believe could be derived from a particular move?

**Professor Hills:** I have not looked in detail at who should carry out administration of housing benefit so I have not looked at whether that should be done by job centres or by local authorities or by anybody else. What is very striking from some of the research evidence is that even within the local housing allowance Pathfinders where reforms were being carried out that should have made it easier for Jobcentre Plus staff to give clear advice to people on what their housing benefit situation would be if they got a job, the Jobcentre Plus staff were not necessarily aware of that, and I think that was one example I raised in the report of the lack of connection between support we give people for their housing needs and the support we give people for their employment needs. So in a way I think it is for others to judge who is best to carry these jobs out. The point I was trying to make is that often we have different agencies dealing with people in the same situation but without knowing what the other one is doing.

**Chair:** Can we move on to models and financing of social landlords, Clive?

**Q413 Mr Betts:** In terms of the various managers of social housing, and I suppose councils have increasingly less amounts of housing stock but ALMOs are now increasingly gaining housing stock and housing associations as well, did you do any analysis of the relative merits of the different organisations as far as their management capabilities were concerned?

**Professor Hills:** No, I did not.

**Q414 Mr Betts:** In terms of the realities of future house building, housing associations have ways of adding to their stock but very obviously councils and ALMOs are not in the building business at present and there appears to be some perversity in terms of the way the housing revenue account works in

providing disincentives to building new properties. Did you have a look at the pilots which the Department currently is doing with six authorities and their ALMOs about taking those authorities out of the housing revenue account to see if it brings about a more favourable regime to encourage development in the future?

**Professor Hills:** I did have some aspects of those pilots explained to me. Obviously they are still on paper and at the time I was writing the report they were still at the beginning stages of seeing what the results would be, so I have not seen those. One of the advantages of the way policy has moved in the last 15–20 years has been a gradual move towards running social housing as an asset rather than running it as a kind of day-to-day cashbook basis. There are definitely advantages in the structure of housing association finances which encourage them to think long-term about how they reinvest in major repairs and about provision for the depreciation of the stock and about the long-run husbandry of that stock, and that is very difficult within traditional housing revenue accounts where you are operating on a day-to-day, year-to-year basis. As I understand the paper exercise about looking at what would happen if there was a change in that for ALMOs, it is partly trying to achieve that long-term focus and that would seem to me the important outcome that might then produce better outcomes, but I have not seen evidence beyond that.

**Q415 Mr Betts:** Following on a related point in terms of housing associations they have that capacity because they are effectively independent organisations and if they want to go borrow money against their asset base in the financial markets they are free to do so, but we have this slightly perverse situation in this country compared with the Europeans that even an arm's length organisation like an ALMO, if it had not had the asset base transferred to it it still could not borrow against it without being caught against central Government borrowing requirements, and therefore it would be in a different position and not as able to think about its own long-term future independently as a housing association is going to be. Have you given any thought to that?

**Professor Hills:** I did not look at that as part of this report. Whether it is going to count as public borrowing or not would depend on who is bearing the risk if something goes wrong with the organisation, and it would be different if it was something within the public sector from something that was outside the public sector.

**Q416 Mr Betts:** Except the housing association would pick up the risk effectively if the housing association went bankrupt?

**Professor Hills:** Well, you should pursue, I think, with officials from the Treasury as to how these lines are drawn!

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**Q417 Mr Betts:** We will do that with your approval?

**Professor Hills:** Looking at the most effective ways of ensuring that we make best use of both the existing stock and new investment seems to me to be paramount.

**Q418 Anne Main:** On best use of existing stock, do you think there has been any assessment made of the actual land where the stock is? In my constituency, for example, there are lots of derelict garage blocks and huge long gardens that people are not utilising in a very derelict state. Has there been any assessment made by councils?

**Professor Hills:** I think whether one is talking about councils or housing associations, and this goes back to an earlier part of the discussion, we have a long history of not thinking of them as asset managers. We have tended to assume that what happens is that a social landlord builds a new house and puts a tenant in it and the tenant stays there and the house remains in the ownership of the landlord in perpetuity, along with other things like possibly derelict garages or whatever, without necessarily much thought being given to whether this is the best way of using those assets. One of my suggestions is that maybe we should think a bit more about encouraging landlords to think of themselves as asset managers in the way that any other organisation that had assets would think about what we most need at the moment, given the current level of demands on us. So that would be one aspect of that. I cannot say how many local authorities actually go through that kind of exercise but obviously it would be valuable if they did.

**Q419 Chair:** Can I ask you a question that arose out of some of the Merseyside housing associations last week, and ask about the way rents at the moment are benchmarked against market rents and whether it would not be better if they were benchmarked against costs of providing and managing homes?

**Professor Hills:** Well, my understanding of the rent restructuring formula which drives this for both housing associations and local authorities is that it does partly relate to cost of managing and maintaining property in different areas. A lot of the formula relates to local incomes and not very much of the formula relates to the respective merits of particular properties, so it is a rather flat formula. Now, you could argue for a situation where those rents varied rather more between larger and smaller property, and property in more or less desirable areas, but that was not the decision that was taken a few years ago when the rent restructuring formula was set up, the effect of which is to bring together rents of housing association and local authority property if it is similar, but not to leave very big differentials between different kinds of property.

**Q420 Chair:** Do you have a view whether that was the sensible way forward, or whether it might have been more sensible to go the other way?

**Professor Hills:** I think in the long-term, particularly if one sees potential in some parts of the country to move towards a system where we are closer to giving

people some kind of allowance from which they choose their housing, it would be better if there was more variation in rents. If one is thinking of some of the problems around how do we cope with under-occupation, at the moment there is rather little gain. Sometimes some local authorities offer a small cash incentive for people to move but really there is rather little gain from somebody moving to smaller accommodation if all the children have left home, whereas for an owner/occupier there would be a rather large gain from doing that. Part of that mix that would give a stronger incentive could be if there were greater differentials in rent.

**Q421 David Wright:** Did you give any consideration in terms of scale to RSLs? Clearly you are talking this afternoon about asset management, portfolio management basically, whether it be homes or other assets in terms of organisations. Is there not a big issue here about scale? We took some evidence recently from RSLs suggesting they could provide an enormously comprehensive service of a range of social businesses alongside their housing business, and clearly smaller RSLs are not in a position to do that. Did you do any work on scale?

**Professor Hills:** No, I did not, and in the work I have seen on this in the past—and I suggest you might want to try, if you can catch him in the country, to talk to somebody like Professor Duncan MacLennan who has done work on this—I have not seen convincing evidence of economies in scale in management once one has an organisation beyond 5,000 or 10,000 units. There are different issues about capital market structure and the cost of borrowing and things like that, but these do not necessarily have to go together and I am sure some of the larger associations would argue that through their group structures they simultaneously get the best of both worlds of a decentralised local management system on a small scale and a large financial institution able to borrow at low cost. I have not seen evidence that tells us whether those propositions are correct or wrong.

**Q422 Chair:** Can I pick you up on a point you made about asset management and ask you whether you have looked at models in other countries, and, if so, whether you think there are some there that provide good examples of asset management?

**Professor Hills:** I hope you will appreciate that I had a really rather restricted time to do this review and there were a lot of things I was not able to do. While it would have been very nice to have looked at a lot of other countries, I was not able to do that.

**Q423 Martin Horwood:** You talk about tenant satisfaction quite a lot in your report but since it has been published there seems to have been quite a lot of commentary which suggests that the picture on tenant satisfaction is quite complicated; that it relates, for instance, to people's wider circumstances, that people might regard a landlord who was efficient at collecting rents as one that they

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were unsatisfied with. Do you think there is a straight relationship between supply and demand, social housing and tenant satisfaction?

**Professor Hills:** No, I do not think it is a straight relationship; it is rather a complicated relationship, and the body of the report tries to bear out some of the ways in which that relationship is complicated. I am aware of one piece of commentary which I think was based on a slight misreading of the summary of what I found on satisfaction in the report. If you look in detail at what has been happening to tenant dissatisfaction, which are the numbers I present in the report, different aspects of that have moved in different directions over time, but what is in common between different aspects of dissatisfaction, whether it is with the landlord or the accommodation or the standard of repairs and maintenance, is that those levels of dissatisfaction are now higher within social housing than within the private rented sector. The suggestion in the report is that that is a rather disappointing result if, for many people, the whole point of having social housing is to provide a better level, a better quality of housing than one would get from particularly the bottom end of the private rented market, but if you look in detail you find that those differences particularly apply to younger households. For instance, taking dissatisfaction with accommodation, it is households under the age of 45 where you get a striking higher level of dissatisfaction amongst social tenants than amongst private, and I think that relates to some of the issues around the difficulty of people moving that we were talking about earlier. If people within the private rented sector and, indeed, within owner/occupation have some prospect of being able to move on over time, the squeeze on the ability of people to transfer, the squeeze on re-lets in the last ten years, has made people more depressed about feeling that they are stuck with what they have, and that is part of what drives what we see.

**Q424 David Wright:** Is that not a symptom of us continually telling people for twenty years that social housing is for a particular segment of the market and is a tenure of last resort that you must escape from in terms of social mobility and extension of housing benefit regimes, et cetera? Do you think that is the case?

**Professor Hills:** I do not think that is the whole picture at all. Part of the stigmatisation of the sector may be part of the people having overall dissatisfaction with being a social tenant, but I do not think that explains why people are dissatisfied with the repairs they receive and why, when you look at people living in the same size of accommodation, having the same space per person, you see higher levels of dissatisfaction for social tenants than you do for private tenants, let alone owner/occupiers, and I think that is to do with two factors. One is to do with whether you have chosen a trade-off between space and location, which you may well not have done with social housing, and the other is this feature of feeling you are going to be there for a long time.

**Q425 Martin Horwood:** But could not the differences you are talking about between younger and older households be also just a symptom of generational attitudes, so that people who are now coming into the housing market regard it as more of a stigma than older generations did? I am playing devil's advocate here slightly because I think that tenant satisfaction is very important and important to measure, but it is also important to try and measure it in some kind of objective way. Are you satisfied that the data you have seen on tenant satisfaction is sufficiently objective and is not just reflecting changes in social attitudes and changes in people's perceptions of their general circumstances?

**Professor Hills:** I do not want to express any dissatisfaction with the satisfaction data but I do think it would be helpful if somebody did more work on what is driving it because I think it is more a complex factor. What was very interesting right at the end of the work I was doing was to try and break down some of these numbers by ethnicity, and one of the well-known facts about dissatisfaction is that tenants from ethnic minorities are more likely to report dissatisfaction than other tenants. But when you look at it by age and ethnicity, and it is only really possible to do this with large enough numbers from the surveys in London, those differences tend to disappear, so there is something that is driving it that is not what you might see on the surface, which is that minority ethnic groups are getting a particularly raw deal from social housing. What you are seeing is a reflection of age structure and the general problems that families in particular are facing within social housing at the moment.

**Q426 Chair:** On this issue about the analysis of your data, the striking fact that we have all become aware of going around the place is that it is extremely difficult to generalise from one region to another, or even within a given region. You can have an area, as we saw in Manchester, that you could argue nobody would want to live in unless they had to right next door to one where people are paying through the nose to live. How far can that sort of micro variation by geography be detected within an approach such as yours which, because it is statistical, seems to rely on large numbers?

**Professor Hills:** If one is trying to show broad trends about the sector as a whole one is inevitably going to look at large numbers and use survey data, but I would not argue for a moment that that is a substitute for social landlords with detailed knowledge of an area having their fingers on the pulse of what is going wrong in those areas at a micro level, and one of the very obvious conclusions from the report is the primacy of getting that landlord function right and the people on the ground doing as good a job as possible. That is something that you cannot do from Whitehall, and it is not something where somebody like me can pinpoint which particular street is going wrong, if you like. It is where the advantage of having quite large numbers of housing providers comes in, that they have that local knowledge.

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**Q427 Emily Thornberry:** Just going back to the question about satisfaction of tenants and mobility, given the statement that you made, which I agree with, was it based on any evidence that you received or is it just a presumption on your part?

**Professor Hills:** Which statement?

**Q428 Emily Thornberry:** That one of the reasons why tenants are not satisfied is that they feel stuck and are unable to transfer once they have been given a tenancy.

**Professor Hills:** It is a supposition drawn from the combination of seeing this particularly high rate of dissatisfaction amongst younger tenants in combination with what appear to be the greater difficulties of existing tenants moving, which was also reported to me in many of the consultation meetings that I had that this was an increasing problem. As I said, I think this is something that bears much more detailed examination if somebody were to have the time to do that.

**Q429 Emily Thornberry:** And one way in which the Government could release some of the pressure on the social housing sector would be to invest more time and effort into finding alternative solutions and increasing the mobility for social rented tenants?

**Professor Hills:** I think part of what we see is a reflection of policies which historically have given people very little choice in terms of either where they live or the way in which housing is provided, and that then means that people are less likely, even within the limited resources we have, to be put in the place that would give them the best option for them. The very language we have always used of housing allocations betrays precisely the way we have done this in the past, and that does feed into some of these feelings.

**Q430 Anne Main:** Regarding this dissatisfaction you have touched on regarding mobility and in the younger age group, what came out quite startlingly clear on the visits we have been on is that if you are overcrowded and you would like to slightly ease that overcrowding by going up to the next level, you are not allowed to do so because you are still going to an overcrowded estate, so if you need a three or four-bedroomed house and you are in a one-bedroomed flat you are not going to be allowed to go into a two-bedroomed, and so the dissatisfaction is that you are constantly missing out because the dearth of housing is more than the choice. So eventually, if you can stick it long enough and your family grows up or whatever you can stay put and then you are not as dissatisfied as you were, and some people are caught in the trap of never moving out of their one or two-bedroomed unit because they cannot ever make the transition to the bigger house they need on their

family needs assessment. So is it partly to do with what we are providing as much as lack of mobility? The lack of mobility is not because of the sheer numbers but we are providing units that do not fit with lifestyle and families.

**Professor Hills:** Well, you are writing the report on the supply of rented housing—

**Q431 Anne Main:** Yes!

**Professor Hills:** The main focus of my report was not on need numbers. My remit was not to second-guess anything that had been done by Kate Barker or to come up with prescriptions as to how many thousands of new social units we needed each year. It was to take a rather more abstract look at why we were doing this, where it was appropriate and how well it was working. I think the kind of things one sees in terms of the pressures on social housing, which I include in the report, show the ways in which all of those things are becoming more difficult and have become more difficult in recent years as the tenant population has become less old than it was and therefore there are fewer re-lets coming up as a result of people dying; the cost of alternatives has increased so it is harder for people to move out into owner occupation where real house prices have doubled, and all those pressures impact back into the system, including the ability of people to move on. Clearly those pressures would be relieved to some extent if there was a greater supply available—

**Q432 Anne Main:** I meant more diverse.

**Professor Hills:**—but obviously the difficult issue is how long is a piece of string in terms of how much can you relieve that pressure.

**Anne Main:** No. It was the diversity of supply I was referring to, but thank you.

**Q433 Chair:** Professor, can I thank you very much. You said at the beginning that you were not into providing solutions but can I tempt you? If there was one thing that the Government could do, what is it you would want them to do?

**Professor Hills:** I think there are many things it would be helpful for Government to do. One of the most helpful things that could happen over the next six months is for it to encourage housing providers and local authorities as housing enablers to come forward with specific examples of the kinds of things I am talking about in the report that have worked and that could be spread as best practice elsewhere, and to come forward with examples of where current rules and restrictions stop them doing those things. So to encourage the provision of more examples of barriers and opportunities that would then move particularly in the four directions I identify at the end of the report.

**Chair:** Thank you very much indeed.

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## Monday 16 April 2007

Members present:

Dr Phyllis Starkey, in the Chair

Sir Paul Beresford  
Mr Clive Betts  
John Cummings  
Mr Greg Hands

Anne Main  
Mr Bill Olnor  
David Wright

*Witnesses:* **Mr Bob Young**, Chief Executive Officer, and **Mr Ashley Horsey**, Commercial Director, Local Space Limited, gave evidence.

**Q434 Chair:** Can I welcome you both to this afternoon's session? As you know, we were expecting to have the Minister after you and we do know that Mr Young has another appointment which is the reason why we have started 10 minutes early. We would like to use this session to tease out from you how your model works and how directly applicable it may be elsewhere. Can I start in particular by asking why you created Local Space in Newham, whether you think there are specific circumstances in Newham which make your model particularly appropriate and whether you think your model can be applied elsewhere in London?

**Mr Young:** It was part of a raft of housing and regeneration policies which underpinned a 10 year housing strategy in Newham back in the 2000–01 period. It was meant to provide for a stable, long term supply of temporary accommodation. The view in the Borough at that time was that the developments in housing policy were leading to a situation where there would be a long term need to rely upon a substantial portfolio of temporary accommodation in the Borough and possibly elsewhere in London. As to whether it was only a Newham phenomenon and why particularly Newham, Newham at the time had the largest dependency on temporary accommodation for homeless people. That is the reason Newham would have felt was the imperative in this particular approach. Also, the Borough was moved to consider that, if there was to be a long term dependency on high cost temporary accommodation, this meant that there would be a long term income stream. If that could be harnessed to provide social housing which in the long term could be affordable, that was preferable to the short term provision secured simply by achieving three to five year leasing from private landlords who would themselves get the benefit of both the cash and the equity appreciation in the property. In Newham at the time it was felt it was better that the council should secure that for the public sector.

**Q435 Chair:** My understanding—maybe I have this wrong—was that 450 properties that you started with were in the council's ownership.

**Mr Young:** That is true.

**Q436 Chair:** Those properties were being used for what? For permanent or temporary accommodation?

**Mr Horsey:** They have been used as temporary accommodation, non-secure tenancies. The London Borough of Newham along with a number of authorities has been resorting to using their permanent HRA council stock for many years as an additional form of temporary accommodation. Predominantly, these were one bed properties and they had not necessarily benefited from particular stock investment over many years. The council perceived that they were going to continue using those units of accommodation—maybe not those exact properties but that sort of quantum—for many years into the future. Being able to put that into a body such as Local Space or a new vehicle which could be used to lever in a significant amount of private sector funding to deliver a much wider programme was felt to be something that was very preferable to the council at that time.

**Q437 Chair:** Are there other London boroughs that would be in the same sort of situation as Newham?

**Mr Young:** There are many of them. There are about 14 or 15 that have a dependency of more than 1,000 units of temporary accommodation. We did explore with London boroughs in the north, six boroughs in the north and seven boroughs in west London, opportunities for procuring temporary accommodation in this way. That has informed much of their thinking that has led to the recent bidding round that the Government initiated with the GLA to look for some demonstration projects.

**Q438 John Cummings:** Would you tell the Committee to what extent is the viability of your temporary to permanent initiative dependent upon the favourable borrowing rates which public sector support enables?

**Mr Young:** The viability of the scheme is very much relying upon high rents and a continuing, committed, guaranteed rental stream. That is the biggest necessity to make the scheme viable.

**Q439 John Cummings:** High rents in relation to what? What is your yardstick?

**Mr Young:** The rents are high because the renting arrangements for securing temporary accommodation for homeless people are even higher than market rents. The housing benefit cap puts a premium on local authorities being able to get accommodation out of the private rented sector in order to provide for this priority category, so the

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rents are high. It is largely the use of high rents over a 10 to 15 year period that drives this model. As to interest rates, clearly preferential interest rates were achieved in our case for three reasons. One is that we have RSL status. Another is that the local authority put in £50 million of equity. The third is that the Housing Corporation, in order to mitigate the impact on the affordability of the council, itself committed £25 million of social housing grant to the first 1,000 properties.

**Q440 John Cummings:** How expensive is your private funding and how does it compare to the average rental rates of return in the private sector?

**Mr Horsey:** The borrowing rates that we have achieved, as my colleague said, are very favourable. They are attractive rates which are helped by our RSL status. In terms of the rental returns that we get compared to private sector landlords, the issue for Local Space is we are a housing association. We are looking to maximise the number of permanent homes that are generated at the end of this scheme in 10 or 15 years' time. We are looking at the much longer term of the guaranteed rental stream that we are able to service the debt with so that at the end of the day we can go out and buy 1,000 properties. Our business plan suggests that we may need to sell a percentage of those—maybe 20 or 25%—and deliver the rest as affordable housing at the end. However, if we are able to out-perform our business plan—certainly year one results are very positive—we may be able to get to a situation where we are having to sell none, maximising 100% of the accommodation that we buy today as permanent, affordable housing into the future, which at the end of the day is really what this model has been set up to do.

**Q441 John Cummings:** How does it compare to the average rental rates in the private sector?

**Mr Horsey:** Sorry; I misunderstood the question. In terms of the rent that we are being paid by the London Borough of Newham in this case or any other borough if we were to replicate this, it would be directly comparable to the levels of rent that they would be paying through private landlords to secure exactly the same service. The simple issue behind Local Space is we offer local government the opportunity to buy the same service that they have been buying for the last 10 or 15 years from private landlords: access to immediate accommodation for homeless households today, at the same rent levels that they are paying those private landlords. However, as opposed to just going to create private profit into the future, it is being used to pay off a private borrowing by a housing association which then creates permanent, affordable, social housing assets at the end of the day. We are charging the same rent levels as are being paid by local government for purchase of the same supplied temporary accommodation.

**Q442 John Cummings:** Which is the most valuable in your opinion in terms of access to private finance? Rental income or potential capital gain?

**Mr Young:** Rental income without a doubt. It is the strength of the rental stream over a sustained period which is the credit on which our borrowing is constructed. Further down the track, once we have assembled our portfolio, it may be possible then to diversify the funding arrangements, in which case it is possible that the increasing capital values could give us an extra boost in capital availability, but at this stage it is very much dependent on the rental stream.

**Q443 Chair:** Does that mean there is a huge risk if the Government were to change its policy on the cap on housing benefit?

**Mr Horsey:** We do not perceive there to be a huge risk because of the way that we have constructed our model. We have constructed our model from the bottom up, cost up, so the rent levels being charged by Local Space are currently well below the capped levels. Obviously we could have done it the other way and said, "How much could we get? Let us hang everything off that." We decided not to do that for the simple reason that we cannot always guarantee what is going to happen in the future. We hope that the strength of the model that we have put forward and the successes that we have achieved this year and what we can therefore demonstrate going forward will encourage government—DWP in particular—not to throw the baby out with the bath water.

**Q444 Anne Main:** I would like to take you back to the high rent model that you say is absolutely crucial to delivering this. Does that mean that there is no scope within your model to offer affordable rents more quickly? You will not be prepared to alter your model at all?

**Mr Young:** The model itself generates surpluses, depending on the performance of the housing market and indeed our own performance. That gives us the opportunity of making available affordable housing earlier in the period. It has to be said that the earlier those benefits are secured the lower the ultimate quantum of social rented housing that is affordable at the end of the period. It is possible to balance early benefits in terms of affordable accommodation against a later, larger portfolio of accommodation.

**Q445 Anne Main:** Many of us have concerns that these levels are quite unaffordable. How often would you track the market to alter the level of affordability or the level of the rent that you would be charging?

**Mr Young:** There are two things. First, all we are doing is at the margin providing a new opportunity to procure accommodation using exactly the same public money that is being spent on these high rents currently with private landlords to achieve in London some 40,000-odd units of accommodation. We are talking about the same issue, whether we are doing it or it is simply being used for normal, short term, private sector leasing with no possibility of a long term social asset. It is a social asset and it is being achieved because we are harnessing these high rents. For sure, these rents are not affordable. Even

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the market rents that are being charged are not affordable to many of the people who find their way into our accommodation. However, the arrangements we have with the London Borough of Newham make provision for the use of surpluses for a variety of alternative policy aims. One of those is to mitigate the impact of high rent for homeless households who are actively seeking training or job opportunities. That is built into our model.

**Q446 Anne Main:** Are you pepper-potting this housing model or do you have large concentrations of these units so therefore your model is not typical of where maybe the private rented landlord might be?

**Mr Young:** Our accommodation is sourced across a wide area. What we are doing is buying, by and large, settled accommodation in normal neighbourhoods, anonymous properties where people can build a new life for themselves having gone through the trauma of homelessness. That is what we sought to achieve. We are not sourcing accommodation in big estates. We are not looking for that kind of development opportunity.

**Q447 Sir Paul Beresford:** You say you buy across a wide area. Presumably, Newham is what is close?

**Mr Horsey:** And the four adjacent east London boroughs.

**Q448 Sir Paul Beresford:** What is the reaction of the local, neighbouring boroughs to the prospect of Newham's homeless families moving in? Secondly, you are a fairly big buyer in a fairly small market and in a fairly small geographic area so presumably that has an effect on house prices, supply and demand. Therefore, it will have an effect on presumably the rents. What happens when you have built your portfolio and you stop?

**Mr Horsey:** In terms of the relationship with the other boroughs, that was clearly a key concern of ours, of Newham's and indeed the Housing Corporation's and the Department's as we were setting the scheme up. All four other east London boroughs where we are buying property have given their approval and agreement via Newham to the Housing Corporation to allow us to buy in their area. Indeed, in certain conversations that I have had with representatives of those boroughs, they are very happy to see Local Space going in effectively replacing the short term three/five year leased accommodation that already exists in their area.

**Q449 Sir Paul Beresford:** It is not for their people.

**Mr Horsey:** Because of the input of the social housing grant from the Housing Corporation into our model, the eventual permanent affordable homes that are going to be delivered are going to be shared on a sub-regional basis. The rather complex equation which I have to admit is probably beyond my calculations, but some very skilled people have put it together, is that there is benefit to the boroughs if they are hosting the accommodation. At the end of the day they will get a bigger slice of the cake that comes out. Most of the boroughs I have talked to

appreciate the more settled nature of the accommodation. This is owned by a housing association on day one. It is subject to Housing Corporation regulation and oversight from day one. There is no inbuilt churn requiring that property to be handed back to a private landlord in two, three or five years' time that in many parts of east London in particular but in other parts of the capital and elsewhere across the country has created highly unstable communities, where you have a high degree of private renting, a high turnover or private sector leasing with this very high turnover and constant churn of homeless families with very little incentive on their part to engage in society or to become members of the local communities.

**Mr Young:** Could I pick up on the supply and demand issue that you raise? Right from the very beginning we were very concerned about what the impact might be. We got advice from an outfit called King Sturge which is a fairly well known surveying firm who provide this kind of detailed assessment. They looked at 17 postcode areas in which we proposed to acquire and they posited the view that, as long as the impact that we made on the market was less than 10%, there would be little likelihood of a blowback in terms of values because of the type of accommodation, where we were buying, the band, the size, the type and the price band. We have had that situation monitored subsequently. We have never bought above 7.5% of the turnover in the market. We were assessed every quarter by Savills to check on this and other issues to do with probity, value for money and other issues and the value of our accumulating asset base. Now we are having monthly assessment by Savills. In a rising market we have been concerned to check whether we are in fact shooting ourselves in the foot. So far I am happy to say—though we have to keep our finger on the situation—we have had no negative feedback at all. We are not making those kinds of difficulties for ourselves or for other people.

**Q450 Chair:** Is that the case even in Newham? On the figures we have you were up to 20% of the property purchases in Newham in November 2006. I have 19.3 here as a computation.

**Mr Young:** No.

**Q451 Chair:** We had better let you see the figures we have in our briefing and invite you to comment on them afterwards.

**Mr Young:** We are very happy to make available the figures that we have had provided to us by Savills which of course are checked by our bankers as well. If there are those kinds of views being expressed, we would very much like to know how that information was gathered.

**Q452 Mr Betts:** There is a certain dichotomy in the position you are in. You are indicating that what you are providing is a much more "secure" and stable environment in which people can live. On the other hand, effectively your whole financial model relies on the accommodation being designated as

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temporary because otherwise you will not get the housing benefit levels to sustain the finances. Is that not a fundamental dilemma?

**Mr Horsey:** It could be considered as such. We do not believe it is. The other side of this that we also need to bear in mind is the view of the private sector. We have secured £200 million of new investment in social housing, not attached to a refinancing deal which, to my understanding, is one of the larger pieces of private sector finance coming into new social housing for some time. Part of the requirement of the bank is, as with most mortgage lenders, the ability to step in should we default at some stage into the future. The temporary nature of the accommodation, the non-secure tenancy certainly assists with that side of it, giving some degree of comfort to the bank should the model fail, should we fail as an organisation, that they have some step-in powers. It is also enabling us to tap into the higher rent levels that have been discussed earlier. The housing benefit cap gives everyone a degree of comfort. It is there in black and white. This is the figure. As long as you do not go above that, DWP will honour that. DWP are making some changes in that or are reviewing that and we will need to work with that into the future. That is where our view is that the simple definitions of temporary accommodation as opposed to settled accommodation fail ourselves and I think perhaps fail the wider society. We are providing settled accommodation. People when they move in on day one have the ability to stay there for 10 or 15 years, to benefit from the ownership of a benign, registered social landlord. We are not requiring them to move out in three years' time when a private landlord wants to have that property back.

**Q453 Mr Betts:** What sort of guarantee do people really have? They do not have legal security, do they? Do they have anything from you which says, "As long as you behave yourself and abide by the tenancy conditions, you are still likely to be here in 10 years' time if you want to be"?

**Mr Young:** We need to be clear that what we are doing is supplying the accommodation on lease to the London Borough of Newham and that the tenancy is between the London Borough of Newham and the individual. The London Borough of Newham is concerned to ensure, we understand, that the conditions in which those people find themselves are settled and secure. The local authority, albeit through a non-secured tenancy, is giving that guarantee to the individual. Behind the local authority they have the assurance from us that there is the opportunity to use that accommodation for that purpose for 15 years.

**Q454 Mr Betts:** You are saying really that the difference here is not that the rents will be any different to what a private landlord would charge but that ultimately the value of the property will come back to the public sector and be usable eventually as secured tenancies in the public sector. There is an interim problem though. While people are in the properties as temporary accommodation,

they are going to be required to pay these very high rents or housing benefit is going to be required to pay them. Does there still remain therefore a fundamental disincentive to get work, which is what we have already found in the private rented sector in these circumstances? Does not that problem still remain?

**Mr Young:** Of course it does. We have been led to believe on research that the Department has done that some 15% of people in temporary accommodation would be able to access training and employment if it were not for these very high rents which are prohibitive. That is why earlier in response to a question I said that we have made provision in our model for dealing with the mitigation of that rent impact, where those circumstances came about. We are able to make sure that tenants in our accommodation, through the partnering arrangements we have with the local authority, are able to have that rent impact mitigated.

**Q455 Chair:** Can you explain exactly how?

**Mr Young:** *Exactly* how? I cannot. Let me explain from our side how it works. We have a model which is built upon a master agreement for 15 to 18 years with the London Borough of Newham. Within that model it is accepted that there will be surpluses generated if the model is managed effectively and satisfactorily. Those surpluses that are generated may then be used, by agreement between the parties, and this is a sequential test, for a hierarchy of purposes: more temporary accommodation for homeless people, more affordable accommodation now for people who need it, paying down of debt, or contributing to schemes which ameliorate issues of welfare and issues which might be able to support homeless households getting into training and employment.

**Q456 Chair:** Are there any such projects in operation at the moment?

**Mr Young:** As you are probably aware, there is a scheme, not that we are involved in but that the London Borough of Newham is involved in, called the Working Futures Scheme, which is a pilot project, I understand, supported by the Department of Work and Pensions. We are suggesting something more particular and specific to people who live in the properties that we have provided because it is relating to steps and policy objectives that were locked into our master agreement with the London Borough of Newham.

**Q457 Chair:** Just to be absolutely clear, none of the people living in your properties at the moment is getting additional help to offset the disincentive on them going back to work of the fact that they are paying enormous rents on housing benefit and therefore could not afford to work?

**Mr Young:** No, they are not.

**Q458 Anne Main:** Are you saying that housing benefit will effectively generate a profit that will go into a pot for a diversity of uses to then subsidise

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other things such as training or any disincentives to get out of the temporary housing? Is that the best use of our housing benefit to do it through that model?

**Mr Young:** I could not answer the wider question about the best use of housing benefit but I can certainly say that one might adopt the same view about the £25 million of social housing grant that is being put into the scheme; or indeed the other contributions in kind made by the London Borough of Newham: £50 million-worth of equity. We felt that this was an appropriate use of surpluses generated by a sophisticated model, competently managed. It remains our view. I think there is a wider debate. I am not sure that we can add much to it, but I do take the point that there is a sense in which the surpluses which are generated, as a result of happenstance which is very much to do with the operation of the housing market, and if the housing market benefits the scheme in terms of appreciating values, an opportunity which then means that the resources which have been sunk can be recovered for other social purposes. You cannot do that with private sector leasing with private landlords.

**Q459 Anne Main:** You did say “competently managed”. Do you have any sense that the model, since we do not have one working anywhere, could not be competently managed? What would happen if it failed?

**Mr Young:** We have put in place a series of checks and balances, not least because of the fact that we required Secretary of State approval at the outset in order to for Newham to transfer the equity stock to us. We required detailed assessments of our operations from KPMG in order that the Housing Corporation was satisfied that they should invest social housing grant. I believe that all the checks, balances and risk assessments have been put in place. Indeed, my audit committee and the board are appraised on a regular basis through external, independent assessment that this operation is being competently and successfully managed.

**Mr Olnor:** It sounds a very good operation. When you mentioned the money that Newham was able to put in, I wondered whether other housing authorities apart from London housing authorities are able to take advantage of the same type of scheme. We have heard during this inquiry that is not exactly fair. Some of the housing authorities from areas other than London have to contribute to London’s problems.

**Q460 Sir Paul Beresford:** One of the things that concerns me is you are at the moment a pilot scheme effectively and very limited. You are talking perhaps of 50,000 additional homes across London. One of the concerns must be, as a central taxpayer as we all are, that Newham is getting a special benefit—not just London but Newham—along the lines we are talking about that is not available elsewhere. If it was available elsewhere, the drain on the central taxpayer would be just enormous.

**Mr Young:** I think I need to ask you to reflect on the four year development period that it has taken to get Local Space up and running. During that period the London Borough of Newham sunk over £2.5 million of council tax payers’ resources into the development of this scheme. Her Majesty’s Government put in over £350,000 of development finance.

**Q461 Sir Paul Beresford:** Council tax is the business rate that central government gets.

**Mr Young:** Local resources were applied in huge quantity to this so that other boroughs could benefit. There is an issue here about the fact that Local Space when it was set up enjoyed the title of being one of what was then ODPM’s strategic partnering task force pathfinders. It was a mouthful but it was meant to be part of rolling out the Gershon agenda so that many boroughs could benefit from procuring temporary accommodation through Local Space. It is the case that the London Borough of Newham took it on the chin, pushed that forward and used its own resources in order to create a facility for all London boroughs to utilise. That is what we are. We were established on the basis that we would be a strategic partnering instrument. We are not a pilot project; we are a business and a successful one.

**Q462 Sir Paul Beresford:** You said earlier on that people obtaining this property were homeless people in Newham or from Newham or linked to Newham, so how are the other boroughs benefiting?

**Mr Horsey:** Newham has entered into a supply contract with us at this moment in time. We are providing them with a supply of temporary accommodation to meet their current and future demands. There is nothing stopping any other borough. We are proactively and constantly in discussion with other London boroughs to start them buying into the same service. The specific circumstances of Newham meant that Newham had 450 properties that they felt able to put into this model and of course additional assets and equity will make any model work better. The input of capital assets is not a fundamental requirement of the temporary to permanent Local Space model. The income stream that my colleague referred to earlier is at the heart of this. If any local authority has capital or equity or any assets, or the Government or the Housing Corporation wishes to put money in, of course the model will generate even more or it will generate an outcome quicker or at a lower cost. That is the specific set of circumstances that exist in Newham.

**Q463 Sir Paul Beresford:** Your 50,000 additional within London is dependent upon all those things you have ticked off.

**Mr Horsey:** The 50,000 is a calculation we have done based on the potential private sector borrowing that can be serviced by the current housing benefit outflow from local government to the pockets of private landlords for the current level of private sector leasing that exists across London. It is about

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capturing that housing benefit outflow, not just for the supply of a temporary accommodation service now, but for the long term supply of social housing into the future.

**Q464 Mr Betts:** That model does not depend on any extra public sector resources for housing benefit?

*Mr Horsey:* Absolutely not.

**Sir Paul Beresford:** The other possibility is that you are taking the housing benefit money from potentially the private sector landlords which will mean an effect on the rents of the properties that the private sector landlords own or will own in the future. They will go up.

**Q465 Chair:** Or down.

*Mr Horsey:* There are plainly different views around the table.

**Q466 Chair:** Has there been any evidence within Newham? Obviously there are private landlords within Newham who are being paid housing benefit presumably by Newham Council for temporary accommodation? Is there any evidence on rent levels locally?

*Mr Young:* Over the last three years my understanding is that the London Borough of Newham has been procuring lower and lower rent levels from private landlords but that is in the nature of developing a relationship with them and driving down prices on the basis of renewals.

**Q467 Chair:** Have your rents gone down commensurately, because yours are supposed to be market rents, are they not?

*Mr Young:* Our rents commenced at a particular level. Bearing in mind that we have one, two and three bed properties, the average was £240 a week and the rent lift per annum in our 15 year agreement is 1% per annum nominal. That is locked in for the whole of the term.

**Q468 Chair:** Could you, either now or subsequently, provide us with any information on how your rents have gone up and what has been happening to private sector rents for comparable properties in Newham?

*Mr Young:* We could but I do not believe there is any kind of cause and effect linkage that we could draw out from this.

**Q469 Sir Paul Beresford:** You have had no influence on the ability of Newham to drive the private landlord rents down?

*Mr Young:* In the situation in which we are operating and over the last 12 months in which we have bought over 550 properties, we have seen a huge increase in property prices and pressure on rents. I think this is more to do with the Olympics and the Channel Tunnel Rail Link than it is to do with Local Space.

**Q470 David Wright:** Could I focus on the documentation we have seen in the briefing note which is about how you finalise the deal at the very

end of the process. There is a statement in the documents that there may be a need to sell off a number of properties. It strikes me that that is the variable, is it not, that you use to balance the whole project out at the end of the process. How do you think that is going to pan out at the moment? Presumably, if the project does not finance itself, does not wash its face, the more stock you have to sell. What is your view at this point about where you are with that?

*Mr Young:* The numbers we are working with at the moment are that we acquire 1,000 units over two years. We are well on with that. Of course we have the 450 properties that we were provided as equity stock, which means without any further growth in the portfolio that at the exit point there are 1,450 properties. Our forecast is that we will be left with 1,150. In other words, 300 will be sold. That is what the model predicted. As Ashley said a few minutes ago, the way in which the model is performing suggests we will not have to sell any properties.

**Q471 Mr Betts:** Clearly you believe that the whole strategy is based on the belief that this is a model which can be replicated in other London boroughs for a London-wide strategy. Are there any lessons that can be learned? Can this be applied outside London, given the big difference in rents which exists and probably in house prices?

*Mr Young:* For sure. I failed to respond to an earlier question that went into this area. We have already been invited to support the Housing Corporation in the south west and have spent some time working with boroughs and RSLs in the south west, where I understand that Bournemouth and Poole are beginning to develop this kind of initiative. We have had approaches from the West Midlands and from the north east, from Yorkshire and elsewhere, and there is a certain interest there. Beyond homelessness, we also feel that the harnessing of housing benefit, particularly to long term provision models especially in the housing market renewal areas, is something that has real possibilities.

**Q472 Mr Betts:** Could you develop that? You are saying beyond homelessness but it will not change the scheme significantly, will it?

*Mr Young:* What I think we have become aware of—and this is not an area in which we have developed any particular model yet—is that for instance, whereas in London some 50% of people who present as homeless are accepted as homeless, outside London in other parts of the country it is a much lower percentage. That is partly because people are able to make much better provision for prevention work and for finding people accommodation in the private rented sector. What we know is that the private rented sector outside London has large numbers of long term benefit dependent people within it. This has become a social malaise particularly in the market renewal pathfinder areas. For that reason we think it is possible to develop models which harness that long term income stream in order to replace that private rented

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accommodation, which is of a low standard and in most cases does not meet the decency standard, with RSL provision of the kind that we offer.

**Q473 Chair:** Can I ask whether you are buying any new build from developers off plan?

**Mr Young:** Off plan and in other ways with intelligent procurement, yes, we are.

**Q474 Chair:** Are the developers coming to you and deliberately offering them to you first before they put them on the market?

**Mr Horsey:** It is difficult to answer that categorically. We are becoming known as a buyer of property across our buying area. Your average private developer, if they are coming to the end of a scheme or just trying to get a scheme started, will look to maximise potential sales. We are having them knock on our door now which is obviously very pleasing, which means we are able to make sure we get the best deals we possibly can. What we are not looking to do is just to buy whole estates, whole blocks coming off. It is about pepper potting the households but also mixing up our portfolio. We are looking at this into the long term. Effectively, this is going back to some of the growth of housing associations in the late '60s/early '70s which was just buying up the street properties that become available and that is what we are trying to do.

**Mr Young:** I need to add that the model includes 250 new build in the 1,000. It always has from the very beginning.

**Q475 Anne Main:** You mentioned 450 houses that you were given by Newham and, as a result, that has pump primed your model. If other boroughs are to benefit, are you expecting them to put in similar quantities or proportions of their own social housing?

**Mr Young:** Not at all. The way in which the model works, without equity stock and without social housing grant, is to deliver after 15 years 70% of the initial portfolio as long term, affordable, social, rented housing. In other words, 30% has to be sold in a situation where there is no equity stock and there is no social housing grant. Clearly social housing grant and equity stock make it a more efficient model. Equally, higher rents will compensate.

**Q476 Anne Main:** I wonder why Newham would want to give away 450 houses and the other boroughs do not.

**Mr Young:** The latest PIE figures indicate that there are in London about 7,500 local authority flats in the main that are occupied by homeless households on a non-secure basis at varying rents from housing revenue account policy rents up to £250 or £300 a week. Half of those or thereabouts we suspect are possibly properties which are being used temporarily for temporary accommodation because they are in blocks that are being demolished or awaiting major refurbishment. All we did in Newham was we looked at 900 units which were being used. These were hard-to-let, largely one bedroom units that were being used by the Borough for homeless households and had been for a number of years. There is a number of boroughs that have more than 1,000 units still in temporary accommodation for homeless households. We have said it is possible to take a number of those properties and to use their value in order to augment existing provision. That is all we did. It was already being used for homeless households.

**Q477 Chair:** Can I ask you about the attitude of Government to your scheme? Is it enthusiastic? Is it looking to roll it out elsewhere or what?

**Mr Horsey:** We have been very fortunate to have received support from the Government in the past, the direct development funding that helped to set Local Space up in the first place, encouragement with the Housing Corporation and the social housing grant. I think it is fair to say that we have a healthy debate and discussion with the Department about their definition of temporary accommodation, the 2010 temporary accommodation target which is referred to in the evidence that you will have seen before you, but I hope that that is always a positive and robust discussion between the two of us. We continue hopefully to enjoy the support of government by demonstrating that we are doing what we said we were going to do. This time last year we had not bought a single property. We are now halfway through our buying programme. We have every confidence that we are going to achieve our original buying programme, deliver the take-up of grant from the Housing Corporation and ultimately, in 10 or 15 years' time, the proof of the pudding will be in how many permanent homes we are able to deliver. It is our intention to maximise that number. We are in this for the long term as a housing association.

**Chair:** Thank you very much indeed.

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Thursday 19 April 2007

Members present:

Dr Phyllis Starkey, in the Chair

Mr Clive Betts  
Mr Greg Hands  
Martin Horwood  
Mr Bill Olnér

Dr John Pugh  
Emily Thornberry  
David Wright

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*Witnesses:* **Yvette Cooper MP**, Minister for Housing and Planning, **Ms Terrie Alafat**, Director of Housing Strategy and Support and **Mr Peter Ruback**, Deputy Director, Affordable Housing Division, Department for Communities and Local Government, gave evidence.

**Q478 Chair:** Minister, can I welcome you to this session. As you know, this is the final evidence session in our inquiry on rented housing and we are proposing to start off with some questions on the private rented sector, then move on to a short number of questions about shared ownership and finally move to the social rented sector. Can I start off on the private rental sector to ask for an indication, briefly, from you of the Government's latest thinking on the importance, or otherwise, of the private rented sector and, given it has increased, whether the Government thinks there are further reforms required to enable further investment?

**Yvette Cooper:** Thank you, Chair. May I say briefly that we strongly welcome the Committee's inquiry into this issue, given we have said that social housing has got to be a priority for the Spending Review, and we obviously have the work on the Hills Review as well underway at the moment; so we are very pleased with the timing of your inquiry. Specifically on the private rented sector, the private rented sector has grown from 9% of households to 12% of households over the last 15 to 20 years and we do, clearly, see the private sector as extremely important for not simply providing much needed housing but also facilitating a flexible labour market, for helping people to move rapidly and easily from one part of the country to another for work. The private rented sector is particularly important for younger people, for those under 30, and often for students as well in terms of providing accommodation. You will be aware, obviously, of the reforms that we introduced as part of the Housing Act around the HMOs, around selective licensing, but also, more recently, the Tenancy Deposit Scheme being introduced, and our current programme of work really is around the implementation of those reforms to the private rented sector, as opposed to seeing an additional new substantial phase of reforms around the private rented sector. We do also, obviously, have the REITs and other kinds of investment vehicles being developed as well. So, this is an area we are monitoring, but at the moment, in terms of the work around the Spending Review and the work in response to the Hills Review, we are concentrating particularly around social housing and shared ownership housing rather than on a major programme of further reforms to the private rented sector.

**Q479 Chair:** Before bringing in Mr Hands, can I ask a specific question. There seems to be something coming through from some of the evidence given to us that some buy-to-let investors are buying properties and leaving them vacant. This obviously affects house prices but it does not actually add to the housing stock. Does the Department have clear evidence of this occurring, other than anecdotal evidence, and, if so, can we have it, either now or subsequently in documentary evidence?

**Yvette Cooper:** Like you, we also, obviously, are aware of anecdotes and people raising concerns about this, and I have to say I am very concerned about the idea of buy-to-leave. Buy-to-let, a lot of people will be investing in the property market and providing much needed rented accommodation, but buy-to-leave, where properties are simply invested in on a speculative basis and then left empty, seems to be a cause of quite considerable concern. We have been doing some further investigation into it and there is some work that has been done by the GLA, which I think that we can forward to you, which found very little evidence that properties were being left empty. Certainly there was a high level of new build properties that were being bought for the private rented sector but no evidence of the new build homes being left vacant. However, we also have some evidence about Leeds, the construction and development of the flats in the city centre, currently how city centre apartments have an overall vacancy rate of 30% compared with the city average of 4.3%, and that causes us some considerable concern. There is obviously further investigation needed to be clear precisely why that is happening, whether that is simply a cyclical issue or a timing issue, whether it is to do with over-supply of particular kinds of properties or whether there are deliberate decisions being made by investors. There is also some concern about property investment clubs in Leeds as well. We are looking into this issue further. We are very happy to give you the evidence that we have, but you will be aware, of course, also that local authorities do have new powers to address long-term empty dwellings as well, and we would certainly urge local authorities to make sure that they are taking seriously empty dwellings in their area left empty for a long term when we have such pressures on housing demand.

**Chair:** It would be very helpful if we could have that. Mr Hands.

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**Q480 Mr Hands:** Thank you. You mentioned various changes coming up. A very quick question about the assessment. What sort of impact are you assessing there is going to be on introducing energy performance certificates on the private rented sector and what cost that might give to landlords and tenants. What sort of early estimate have you attached to that?

**Yvette Cooper:** Obviously we can send you assessments that we have around the impact of the energy performance certificates. We also need to always do regulatory impact assessments around introducing new measures like that. We think that the energy performance certificates for the private rented sector are particularly important, and the private rented sector raises some additional challenges when it comes to energy efficiency measures because for home owners they have an incentive to make improvements to the energy efficiency of their homes because they can cut their fuel bills and the home owner themselves is the same person who has the reason to invest in the loft insulation but will also benefit from the reduced fuel bill as a result. In the private rented sector, of course, often it is the tenant who will benefit from the reduced fuel bill but it is the landlord who needs to invest in the additional lagging to the loft, or the additional cavity wall insulation, or whatsoever it might be. So, I think this does raise some particular challenges in terms of improving the energy efficiency of stock across the board, and it is an area we have been looking at as part of the work across government around improving energy efficiency of homes and we would see the role of energy performance certificates as an important part of that process. I think the important thing to recognise about energy performance certificates and energy improvements to homes is that they can substantially cut people's fuel bills; so they can make a difference, they are beneficial to residents and so can have a worthwhile impact financially as well as in terms of cutting carbon emissions.

**Q481 Mr Hands:** You have to balance that against the costs of carrying out a study and get the certificate in the first place. If you can send me a copy of those estimates, I would be very grateful.

**Yvette Cooper:** We can certainly send the Committee the information we have available at the moment.

**Chair:** It will doubtless be relevant to our future inquiry on energy efficiency of existing housing. Dr Pugh.

**Q482 Dr Pugh:** Minister, you spoke a few minutes ago about monitoring the buy-to-let sector in what is, generally speaking, the rental market. I was not entirely clear what your take on it was. There is one view that a lot of the increase in buy-to-let is coming from institutional investors, there is another view that it is capital-rich baby boomers worried about the viability of the pension industry, and so on, and putting their money into property. Does such analysis as you have done, even if it is only of a preliminary kind, reveal disproportionately individuals or institutions? Basically, what is the

breakdown, in your view, between individual investors and institutional investors in the buy-to-let market?

**Yvette Cooper:** I do not think I have that breakdown here, but we can certainly send it to you. We have done some analysis around the changes in the private rented sector and, from recollection, I think it showed that there had not been substantial changes in the nature of the private rented sector over the last few years, but I will ask the officials with me, either Peter Ruback or Terrie Alafat, whether they have any further information on that.

**Ms Alafat:** The other further information I have, which is because of the research the GLA undertook in London, which is an interesting piece of work—

**Q483 Dr Pugh:** But London may be quite atypical?

**Ms Alafat:** It may, so I do not want to give the impression it is across the piece, but at least it is a detailed piece of work on this particular issue. Approximately two-thirds of the new build properties in London in 2005 were purchased by investors and a third by, what you would say, individuals. That is what their research showed in London.

**Q484 Mr Hands:** I am sorry, individual investors or institutional investors?

**Ms Alafat:** What they have said is purchased by investors versus purchased by owner/occupiers, so it could be individual investors or it could be institutional. That is the information we have got from that particular piece of research.

**Q485 Chair:** Is that research published or could we have a copy of it?

**Ms Alafat:** Yes, it has been produced. It was published in January 2007.

**Yvette Cooper:** London Development Research published it, commissioned by the GLA.

**Dr Pugh:** I would point out that the owner/occupiers are not essentially buy-to-let people, are they?

**Mr Hands:** Quite the opposite.

**Q486 Dr Pugh:** We are a bit unclear about what the picture is in the sense of who is entering the market. Are we clear about what they are actually doing within the market? There is one view that they are squeezing out owner/occupiers, people would not buy these houses if they were not bought to let, but there is another view, obviously, that it is simply providing extra capacity in the rental market and people who choose that will be delighted to see that capacity there. Which of those two views is probably correct?

**Yvette Cooper:** I think if you look at the overall figures and you look at the overall size of the private rented sector, there is not evidence at this stage that the overall size of the private rented sector is increasing substantially at the expense of owner occupation. So, I think if you look at the national picture and the overall size of the private rented sector, that is not the picture that you see. If you look at such local housing markets, and in particular if you look at new build, you start to see a slightly

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different picture. I think the idea that two-thirds of new build properties in London in 2005 were purchased by investors rather than home owners is quite an interesting and quite a significant figure. There is also, I think, evidence that with new build properties you are getting higher levels of investment for the private rented sector as opposed to investment in existing stock. One of the issues that I also am concerned that we do more to monitor is what impact this also might have on the kinds of properties that are built in particular areas and what the market demand is, effectively, for the kinds of new properties that are created. You could envisage a situation in which demand by investors for private rented sector flats to rent—because those are the easiest flats to rent—ends up creating demand in terms of the kinds of properties that developers put in planning applications for, and that, therefore, potentially crowds out family accommodation in a particular area. So, this is one of the reasons why we put much stronger guidance in the new planning policy statement, in PPS3, around the need for family homes, the need for mixed communities that are not simply about mixed tenure but also look more widely at mixed communities. I think this is a developing area that we are monitoring and I think the evidence of an overall national picture, the one you describe, the private rented sector crowding out owner occupation, is not there, but I think there are more complex pictures developing, in particular more local housing markets that we would expect local councils and the planning authorities to monitor and that we are monitoring as well.

**Q487 Dr Pugh:** You say there is no evidence, but the latest survey of English housing apparently indicated the number and proportion of owner/occupiers had decreased even though the total number of households had increased, which *prima facie* looks as though there is a growth in the rental sector as opposed to growth in the owner/occupier sector. But, if that were the case and we moved to a situation where there was just simply renting in England rather than owner/occupiers, maybe to a more continental pattern, or whatever, from the Government's point of view is there anything wrong in that, in policy terms?

**Yvette Cooper:** I think people probably want different things at different stages in their lives. I think what people want when they are in their early twenties and moving from one area to another, or from one job to another, and deciding what to do with their lives may be very different from what they want when they are in their mid forties and have children and want to be in a settled location for settled schools and things like that. I think it is important to recognise the sort of life cycle here.

**Q488 Dr Pugh:** Have life cycles changed appreciably from what they were in the '70s?

**Yvette Cooper:** There is some evidence, is there not, that people are having children later and that they also, therefore, are entering home occupation later, partly because of affordability pressures but also because of life cycle changes as well. I think that

home ownership is an important aspiration for people in Britain and that people should be able to own housing assets if they are able to. We are concerned about the impact of long-term increases in house prices on affordability for first-time buyers, which very much reflects the fact, I think, that we have not been building enough houses for a generation and we need to build more homes in order to be able to address long-term affordability pressures. There is some research which suggests that 90% of people want to be able to own their own home at some point in their lives, and I think that we should be making sure that people do have the opportunity. They may not be able to buy a full home, but may be able to buy a share in their home and be able to build up assets in that way.

**Q489 Emily Thornberry:** If it is right that there is a growth in the private rented sector—and we always have to balance, do we not, the right of tenants as tenants and the importance of encouraging landlords to go into business and to rent out—is now perhaps the time to address the balance in terms of tenants' rights?

**Yvette Cooper:** I think we have already, obviously, had with the Housing Act a series of improvements to protection for tenants, to support for tenants, with the measures around licensing for HMOs, with the measures around Tenancy Deposit Schemes, and so on. There is obviously further work that the Law Commission has done around single tenancy issues that we are interested in and, obviously, are continuing to look at, and there may be other issues that are raised along the way, but I think in terms of our priorities in programmes of work around the Spending Review and programmes of work at the moment, we see the private rented sector as an area where the priority is to implement the main changes that were introduced in the Housing Act but that there is also a big need to focus on social housing and shared ownership housing and expanding supply, and that needs to be effectively the priority for the Spending Review work and for the Department at the moment.

**Q490 Mr Oller:** You mentioned earlier, Minister, the supply of housing. I just wondered whether your Department was putting more emphasis on factory produced homes that could be built very, very quickly but to good standards on small areas of land. What are you actually doing to increase the amount of properties that could cover because (a) they would be affordable and (b) they would be able to be done very quickly?

**Yvette Cooper:** There is a range of things we are doing to increase the housing supply, some of which involves bringing forward more land through the planning system, but the Design to Manufacture Competition, which was launched by the Deputy Prime Minister a couple of years ago, was all about using modern methods of construction to try and reduce the construction costs, rapidly improve the speed of construction, but also make sure that you are building in high design standards as well, and I think the quality of design was critical to that. The

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Housing Corporation has also been pushing quite strongly a lot of those modern methods of construction in its procurement process for both shared ownership and social housing as well. I think we have done quite a lot to try to shift the balance towards some of those modern methods of construction that can speed up the process but with that important qualifying point about quality design.

**Q491 Mr Olnier:** But have we done enough? Is there more we can do?

**Yvette Cooper:** There may well be. I think this is now likely to be taken forward as part of the work to deliver zero carbon homes: because we have now set the timetable that all new homes have to be zero carbon within a decade with big improvements in terms of the Building Regulations in three years' time and then again in six years' time. I think that will drive a lot of the work around modern methods of construction, and so what is happening at the moment is that the house building industry, both in the private sector and the social sector, is looking quite intensively at different ways of building homes in order to reach those higher environmental standards.

**Q492 Mr Betts:** Can I look at the issue of temporary accommodation in the private sector. Some of us went on a visit to a property in Westminster, a one-bedroom flat in a tower block, sold under the right to buy, then bought by a private investor, effectively then managed by a housing association and leased back to the local authority to buy temporary accommodation for a homeless person at £450 a week. I think many of us were absolutely staggered by this and thought it a complete waste of public resources, the whole process that had gone on. Have you any comments on that?

**Yvette Cooper:** Yes. I think we are concerned about the high cost of temporary accommodation. Some of this, obviously, is about the long-term need to build more social housing, so we are clear about that, but, in addition, there will also be people who need supported accommodation now and cannot wait simply until a new social housing unit becomes available for them. So, we have to provide temporary accommodation, and the private rented sector is often the best way in which to do that. We are concerned, however, about the costs of it, partly because of the impact that that can have on work incentives as well. It is one of the reasons why we have begun the temporary-to-settled programme. I do not know if the Committee have seen, but we put out details of the local councils who had got funding for the temporary-to-settled pilots yesterday,<sup>1</sup> and we can certainly provide further details if you have not had those. This is the idea that you effectively set up a programme where, over a long term, you bring those properties into the social rented sector through different ways of financing it. It is modelled on the

Local Space scheme that I think you are aware of in Newham, but actually goes further to improve value for money and also to bring the rents down to more affordable levels more quickly and to bring the properties into the social rented sector more quickly than the Newham model.

**Q493 Mr Betts:** We obviously had evidence from Local Space on Monday, and I think many of us could see that it was better spending public money to get a public asset at the end of the day, rather than simply adding to the profits of investors who contributed nothing, and to get the homes brought up to a decent standard as well, but we are concerned that the very high rents that are involved effectively lock people into unemployment as well as providing them with housing.

**Yvette Cooper:** There is a separate issue about what more you can do to help people who are in expensive temporary accommodation in terms of working centres that the Working Future pilot is looking at that we are very interested in, but putting that aside, we do agree that there is a need to try and bring the rents down to more affordable levels and that is something we built into in this round of temporary-to-settled pilots. The new Local Space programme was developed by Newham, it was very much a pioneering programme, but we have learnt some lessons from that as part of the new temporary-to-settled programme that we published yesterday. I do not know if Terrie can add anything about what it means for rents for the ones that we announced yesterday.

**Ms Alafat:** The Committee might be interested, we have got a range of schemes with slightly different financing arrangement, which was partly the idea of the pilot, but within those and with both the resource we put in, and in a number of cases the local authorities themselves putting resources in, they are looking at slightly different lengths of time to convert to social rent. The first thing to say is that the rents that they are charging, although high, are still cheaper than temporary accommodation. They are not social housing rents, but they are cheaper than what temporary accommodation would be costing, so it is somewhere in between. For example, Brent is hoping to bring them into affordable rents in nine years' time, but Westminster, interestingly, are hoping to bring their new accommodation into affordable rents within four to five years' time. So, you see, the pilot that we have launched is quite interesting and, as Yvette has said to you already, what we have tried to do is to encourage getting people into settled accommodation at affordable rents as soon as possible, and that is what we are trying to test with this scheme.

**Q494 Mr Betts:** What happens, even in the five years, to people who are still paying rent which probably cannot be affordable if they work and do not get housing benefit, can it?

**Ms Alafat:** This is still an outstanding issue, as Yvette has said. What we have discussed with each of the pilots, and one of the criteria for the pilots was to say, as well as trying to achieve settled

<sup>1</sup> *Note by witness:* announcement of the successful Settled Homes Initiative schemes was delayed and the press release went out on Thursday 19 April instead of 18 April as planned.

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accommodation at affordable rents as soon as possible, can you also look at issues to do with worklessness and work incentives. Some of the schemes are looking at a situation where they might put some of their rents on to a social rent level sooner rather than later if people get on to work. So, what they are trying to do is to marry up the provision of accommodation with training and support to get into work. So it is quite a mixed picture. In the meanwhile, just to give you some idea, temporary accommodation is averaging about £355 a week. Local Space and the pilots are averaging a rent of about £250, and that is obviously not at the level of social housing rents.

**Q495 Chair:** Are these all figures for London?

**Ms Alafat:** Yes, these are the London—

**Yvette Cooper:** The temporary-to-settlement scheme is only in London.

**Q496 Mr Betts:** It may be obvious, but would not a way round it, given the fact all these schemes depend on public subsidy through the housing benefit, be simply to give the public subsidy in another way and leave rents at affordable levels?

**Yvette Cooper:** That is one of the things that the culmination of the temporary-to-settled programme and the Working Future pilot are trying to look at. If you wanted to do something on a much bigger scale, you obviously need some evidence around some of these pilots to look at different ways of doing it—what the different incentives are, what the impacts are, what the financial consequences are—because sometimes things that theoretically look like they are going to be savings actually turn out not to be so in practice. One of the reasons for having these kinds of pilots is to look at whether there is a wider and a different approach that we ought to take in order to improve work incentives across the board.

**Q497 Mr Betts:** Is there a timescale for this?

**Yvette Cooper:** We need to look at the impact from the pilots, and we are obviously doing further work, both as part of the Spending Review but also in response to John Hill's Review around worklessness, social housing and housing costs as well. It is ongoing work really.

**Q498 Martin Horwood:** There is a particular dimension that Mr Betts has just touched on of the use of private market rent flats for temporary accommodation, which is that actually somebody in that situation could not afford to come off housing benefit because the market rent was so astronomical. In the case we saw, even an adjustment has instantly put the lady into arrears, through no fault of her own, and if she had been asked to pay any significant proportion of the full rent she would have had to lose her home basically.

**Yvette Cooper:** But probably if she went into work she would get housing benefit. On a rent of that level, if she went into work, she would still be getting housing benefit. Housing benefit is paid to people who are in work. Part of the problem that we have with housing benefit is that a lot of people do not

realise that they can get housing benefit when they are in work, and that contributes to some of the issues around work incentives. What the Working Future pilot is doing is effectively paying the subsidy in a different way so that from the point of view of the tenant, they feel as though they are paying social rent and then the rest of the money is paid directly through other routes. So the experience from the point of view of the tenant who goes into work is that you are paying a social rent rather than a full market rent or a full temporary accommodation priced rent. The Working Future pilot is looking at that kind of issue, but it is important to recognise that you will still get housing benefit if you are in work. It is just that the incentives are less.

**Q499 Mr Betts:** We have had some significant reforms to the private rented sector with licensing private accommodation in certain circumstances and HMO licensing as well. Is there any evidence that that may have started to restrict the supply of private rented accommodation in some areas?

**Yvette Cooper:** I am not aware of any such evidence at all.

**Q500 Mr Betts:** Has the Government got any monitoring systems in place to look both at whether there is any impact on supply and also any impact on the quality of housing, which is presumably what the reforms are meant to address?

**Yvette Cooper:** Yes. We are doing quite extensive monitoring and obviously there are different aspects to the programme: there is selective licensing, there is the HMO licensing and other programmes as well. We are doing the monitoring, but you will be aware, obviously many of these measures are just coming in now and are only just being implemented. Some of them were implemented in the summer of last year. The Tenancy Deposit Scheme, for example, is coming in this spring, and so there are different measures being implemented at different timescales. It will obviously take time to be able to monitor the impact of all of these things, but we are doing monitoring. Do you want to add anything, Terrie?

**Ms Alafat:** Just to let the Committee know that we are working with the Building Research Establishment. They have conducted a baseline survey for us, so we have some idea where we are starting from, and then they will produce another report on impact, probably 2008, in the summer. So, that is quite helpful, because we should have a "before and after" to answer some of these questions. The other thing is that the organisation LACORS is providing advice to local authorities on application of best practice, that kind of thing, but, as part of that, they are going out and taking informal looks at what is going on in the sector so they can build that back into their work with local authorities. I think that is quite important, because what we need to know is the extent to which local authorities are applying licensing, where there might be problems with that and what steps we might need to address to make certain that it is rolled out appropriately.

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**Q501 Chair:** When is that likely to be brought in?

**Yvette Cooper:** The baseline report should be available May/June time of this year, so that is not too far in the future. Then, as I say, 2008, probably the summer, we will have an impact analysis.

**Chair:** Can we move on then to a few questions about shared ownership. Bill.

**Q502 Mr Olnier:** Could I ask, probably the first one on this, Minister. The Homebuy schemes were supposed to be simple, uncomplicated and attractive. They appear now to be neither of those and are putting a lot of pressure on the social rented sector. Do we need to revisit that and look at it again?

**Yvette Cooper:** No, I think the shared ownership programmes are playing an extremely important role. I think nearly 80,000 families have been helped into publicly subsidised shared ownership schemes since 1997. What we are trying to do with the shared ownership schemes—because obviously the shared ownership schemes require investment often, just in the same way that social housing does, although it is a reduced level of investment—is to look at ways in which we can lever in additional private finance to support shared ownership schemes, particularly for those people who are not far outside the housing market, who are not able to buy, to get a mortgage for 100% of the home but actually might be able to afford 75%, or might, if they got a bit more help with the deposit, or whatever.

**Q503 Mr Olnier:** Is this a target that is never achievable given the increase in house prices that is constantly and determinedly going up all the while? The people who can afford are forever slipping down the chain.

**Yvette Cooper:** I think that there are groups of people who can maintain regular mortgage repayments. They have got steady incomes, secure jobs, and so on. They can maintain regular mortgage repayments, but they cannot manage to get onto the property ladder right now given what has happened with house prices, and I think it is fair to try and give that group of people a bit of a helping hand to get onto the ladder. What we would like to be able to do is have more private sector support for those who actually only need a little bit of help to get into the market, and then to be able to concentrate more on government investment, or public sector investment to those who are on lower incomes, maybe for them to be able to get a share in assets and for them to be able to get additional support to get a share in their own home. Getting the private sector to do more on shared ownership is a gradual process. We are trying to create a market that has not really existed in any extensive form in the past, so that is why, I think, the extended open market Homebuy programme that was introduced in October, the partnerships with the lenders, is important, because it is about trying to get lenders to start doing equity loans. It does not fit with their business model, because they are a traditional business model. They are used to lending to individuals rather than investing in property, effectively, or investing in equity, so it has required

them to change their approach. Equally, for organisations and businesses that traditionally invest in equity or invest in property, they are not used to doing loans to individuals. This is a kind of different market that we are trying to create. However, it is a market that, frankly, ought to exist. There are a group of people, there is huge demand from them to get onto the property ladder, they cannot quite afford to do it and it ought to be an area where the private sector should invest. That is why I think this is a gradual and complex process, because you are trying to create a private sector market that does not fully exist at the moment.

**Q504 Mr Olnier:** But the British Property Federation say that there will be more private sector money levered in for affordable shared ownership schemes if the Government guaranteed the investors would have future staircasing payments?

**Yvette Cooper:** Yes, I am not sure if I properly understood the point that the BPF were making. I think this is the issue about if you deliver affordable housing through a planning agreement, through a section 106 agreement, we do say that it is not really enough to just have a kind of one-off affordable housing provision that then rapidly disappears. In other words, if you have an investor who provides some 75% shares in this first wave of a new development, a whole load of first-time buyers buy 75% shares, they then staircase up later on and buy the remaining 25%, the investor pockets that 25% and takes it off somewhere else. That is not really affordable housing for that area for the long term. We have introduced conditions (and we have made that clear) as part of the planning process, and I think that is the right thing to do. I know that there are some developers and investors who would like us not to do that, but we think it is the right thing to do. Otherwise you are only providing short-term help for affordability; you are not providing the level of affordable housing needed for the longer term.

**Q505 Mr Olnier:** I was one of those people who was very lucky early on in life and had a 100% mortgage given to me by my local authority. What role is there for local authorities to play in affordable housing?

**Yvette Cooper:** I think there is a very big role for local authorities to play, and I would like to see an increasing role from local authorities on both shared ownership and new social housing as well. While we are on the subject of the shared ownership, we think that it should be possible for local authorities to do more with public sector land, with their own local authority land, and look at ways of having, effectively, shared ownership where the equity contribution from the public sector comes from that local authority land and for local authorities to be developing their own kinds of shared ownership using their land to do so. There are some obstacles to doing that, and we are looking at what those obstacles are and whether there are other ways in which we can overcome them and other ways in which we can encourage local authorities to do that. Some local authorities are already doing that in partnership with housing associations. We think

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they should be able to do it both in partnership with housing associations and potentially on their own or with private developers as well. I can say more about the local authority's role in social housing if you like.

**Chair:** Can we pick up on that later on.

**Q506 Mr Hands:** A quick question about shared ownership and the impact of rising interest rates at the moment. Has any thought been given to looking at Australian-style schemes where the percentage of equity held by the person in shared ownership might actually decline as interest rates rise in return for keeping a much lower level of interest being paid? I am slightly worried with some of these shared ownership schemes that as interest rates rise, which undoubtedly they are and look set to do so, people may get into trouble with some of their mortgage repayments, and the sensible thing might be, at least temporarily during a period of interest rate rises, for the level of equity to fall slightly.

**Yvette Cooper:** There are often provisions for people to be able to staircase down if they have financial pressures and need to be able to do that. I am not aware of the Australian scheme. I do not know, Peter, if you are aware of it.

**Mr Ruback:** No.

**Yvette Cooper:** But we would happily look at it.

**Q507 Chair:** The GLA, again, who seem to be the only body that does enough research on this (so we are better informed about the London market than anybody else) have done research which suggests that those who are able to afford intermediate schemes are exactly the people who could anyway have afforded to rent, presumably without any public subsidy, in the private sector. I am somewhat concerned about the fact that we seem to be creating three separate tenures; that people who buy shared equity are actually only ever able to buy again within shared equity and not actually able to accumulate enough to be able to move into the market ownership sector. Do you have any evidence on that? Is it a matter of concern or not?

**Yvette Cooper:** There are different groups. There are some people who need shared ownership to get started but, because of either their career pattern or because they move to cheaper areas at a later stage in their lives, can staircase up effectively, can afford full home ownership at a later stage in their lives but might not be able to do so early on. A lot of key workers will be in that position, and so for them it is right to have approaches which allow people to buy increasing shares in their own homes; but there may be other people who will always only own a smaller share of their own home, and I think it is probably a good thing to introduce that as a new option rather than have a polarised approach in which people either own the entire home or can own nothing at all and do not have any assets that they are building up. I think we would see it as a positive thing to be able to have growing shared ownership. What I think we have to make sure we do, however, is have enough of a range of shared ownership properties so that, as people have bigger families, for example, they may start off in a shared ownership flat and not be able to

staircase up but, as their families grow, may need a family home and may, therefore, be looking for shared ownership family properties as well. You made a previous point as well though, did you not?

**Chair:** No, I think that has mostly dealt with it. Martin.

**Q508 Martin Horwood:** Shelter raised in their evidence another issue of the shared ownership scheme, which is that, because they track market prices, in some high cost areas they are inevitably going to become more and more unaffordable, even to key workers, and they said that you had introduced a cascade mechanism to broaden the availability out to a wider group of people. Quite rightly they point out, that is great for the people that are involved, but is that the right use of a public subsidy: because, in effect, you are taking it beyond its original remit and providing a new cheap housing sector for a bunch of people who probably, as we have said, might have been able to afford to get on the ladder anyway?

**Yvette Cooper:** I think you are trying to support different groups of people in different kinds of circumstances: some are those who might be key workers, whether in a particular public service, and for economic reasons you might want to be able to help them in order to be able to keep them in a particular location; some are those who, as I said, are not that far off being able to afford to get onto the housing ladder but they just need that bit of extra help. For that group we would like to be able to encourage more private sector support for them rather than needing to use public subsidy, or to be able to reduce the level of public subsidy to help them but to ensure that they can get support, because I do think it is fair that they should be able to get a chance. They should not be denied the chance to get on the housing ladder because of the generation, effectively, they were born into. Then there are other groups, those on lower incomes, who will always find it difficult to be able to afford a full home but who ought to be able to have a chance to accumulate assets and to share in that way. I think it is right to look at different ways to help all of those groups, but it will be different kinds of help that you will be providing for all of them.

**Q509 Martin Horwood:** I accept that argument, but the specific technical point was about the price, even of this sector, inflating with the market more and, therefore, more and more people beginning to drop out of the bottom of even being able to afford this?

**Yvette Cooper:** That gets you back to the wider problem that we have, which is long-term increases in house prices due to us needing to build more homes. Our starting point with all of this is: we need to build more housing across the board, that is more market housing, more shared ownership housing and more social housing. You start from that position, but it is not enough to simply build more houses; in the interim we also need to help those who cannot get on the housing ladder while we are building the additional homes we need.

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**Martin Horwood:** I would refer you back to our Report last year, which suggested there were rather more policies on offer than just building more houses.

**Chair:** Yes, but the Report did also say that we thought the Government should be building 200,000 more and, indeed, doubted whether it was necessarily enough.

**Q510 Mr Hands:** It sounds like your position is that there should be different degrees of percentage ownership in shared housing to suit those who are entering for the first time, perhaps at a much lower percentage than 50 or a third. I have heard people talking about 10%. Is there a certain point at which you cannot go any further down because at some point it becomes almost meaningless, the degree of home ownership they have, and where is that point?

**Yvette Cooper:** At the moment the social Homebuy pilots have a minimum share of, I think, 25%. We are interested in looking at what would happen if you offered 10% shares. There are, obviously, a whole range of issues that you need to look at: whether people might be better in, for example, a savings scheme rather than a 10% share; what obligations people take on in terms of the maintenance of their properties, because clearly it does not look as fair for them to take on maintenance obligations if they are only owning a 10% share of their home compared to if they are owning a 75% share of their home. There is a series of different issues. There is also the question of making sure that people are not taking on burdens that they cannot afford or taking on unacceptable risks if they are on a low income as well. We are very interested in exploring smaller shares as a way of giving people assets for the future, but we also want to look at all of the issues that surround that to make sure that we are doing so in a responsible way.

**Chair:** I would like now to move on to the social housing sector.

**Q511 David Wright:** Minister, you have talked today about wanting to promote a mix of housing choices for people, and clearly social housing is extremely important within that. Could you tell us a little bit more about your projections on household growth? You said in, I think, Westminster Hall towards the end of March that there had been some revised projections on household growth. I presume this would potentially have an impact on your social housing targets, but your published social housing targets have not changed, I do not think, since 2005. Can you tell us what your thinking is on that at the moment and whether those targets need to be revised, whether you need to build more social housing on the back of those projections?

**Yvette Cooper:** The social housing building target we have set simply runs up until 2007–08, so next year, by which time we want to be providing over 30,000 new social housing units. We have not set additional targets that go beyond that, because obviously that is a matter for the Spending Review, so we are looking at what additional level of social housing would be needed as part of the Spending Review. It

is clearly the case, however, that increases in household projections will have an impact on every sector, on market housing, social housing and shared ownership demand as well. We obviously have a lot of analysis going on at the moment around the need for social housing in the future. I think probably our view is that the best available analysis around newly arising need is probably Alan Holman's work, which I think you are aware of, that Shelter has also been involved in. That early assessment of newly arising need, I think, did not take account of the most recent projections around household numbers, but we have been looking at that further as part of the Spending Review. There are also different views about how you address, in addition to the newly arising need, the numbers of people in temporary accommodation who also need housing and what proportion of them might benefit from shared ownership and from social housing, and so on, as well. So there are different assumptions that we are also looking at. We will say more about what our assessment is as part of the Spending Review. The final piece of work we are doing as part of this is to look as well, not just at the macro level and at theoretical analysis, but also to look at some particular locations to see what the number looks like, to do the reality checks, almost, on the analysis as well. So, that work is underway.

**Q512 David Wright:** Are you able to say where that sub-market analysis will be, what locations those will be in?

**Yvette Cooper:** We cannot. We have just looked at a whole load of individual local authority areas. If we can provide you with additional information on that at this stage, then, certainly, we will, but obviously a lot of this is still work in progress and we will say a bit more about this as part of the Spending Review.

**Q513 David Wright:** What is your view about how much of the total national housing stock should be social housing in 10 years' time? What level should we be at at that particular point?

**Yvette Cooper:** I do not think we have set a particular figure or a particular proportion. There are different views taken by local authorities in their planning process, and we obviously take a view on that as part of looking at the regional spatial strategies and things like that, about the level of social housing that is needed in particular areas, because it will vary from one area to another. It does partly depend on the nature of house prices in the area, the levels of income in the area as well, so you probably have to look at this far more on a sub-regional housing market basis rather than a blanket national prescription.

**Q514 Emily Thornberry:** I have a question which I am sure you knew in advance I was going to ask. Is there going to be a London-specific housing policy? Given that we have such a housing crisis in London, will the Spending Review be specifically addressing that crisis?

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**Yvette Cooper:** We already have regional allocations and then regional housing boards draw up specific strategies for those regions. What we think is the right thing for London is for the Mayor to draw up the London housing strategy, and that is part of the GLA Bill; so that is very clearly about having specific measures to address London. The temporary-to-settled pilot programme that we announced yesterday is, again, specifically about London, and we also have the £20 million overcrowding programme, which, again, is specifically about London. We do recognise that London has additional and different challenges and higher pressures in a lot of ways than other areas, so we do already try to build that into both the policy approaches around things like temporary-to-settled but also into the funding arrangements as well, and I think a lot of the funding allocations have reflected that over the last few years; but you will be as aware as I am that the challenges in London are so considerable that there are not quick fixes that solve some of the pressures that we face.

**Q515 Chair:** Minister, I think some of the other members of the Committee are slightly concerned about what other parts of the country might be covered. I do not want you to point them out now, but you mentioned that you were looking at data from a variety of local authorities. I think it would be helpful if we could have a list afterwards of those local authorities?

**Yvette Cooper:** Yes. We very much did that because we did not want to simply make judgments on a London basis; so we did say we needed a whole range for the North East or the South West and all that kind of thing as well.

**Chair:** I think the list would reassure us.

**Q516 Dr Pugh:** Can I go back to the social housing target. There is obviously a social housing target and there is actually quite a laudable target in support of just having more housing generally, because in economic terms an increase supply would bring down the price, but there is a certain interplay between the two in some areas. I have had builders come to me and say sometimes the specification by the local authority for a high level of social housing makes the development of relatively small plots uneconomical and quite difficult. Do you recognise this problem, and what advice would you give to a local authority that was failing to produce the right number of affordable housing even though builders were building elsewhere, maybe in neighbouring authorities?

**Yvette Cooper:** Always there are local judgments that need to be made about the level of affordable housing that is viable within planning agreements, within section 106 agreements. Areas which have higher land values, obviously, can sustain higher section 106 agreements, particularly where there have been land value increases as a result of planning decisions being taken, but it will vary across different parts of the country. The judgment the local authorities have to make is about how much they think is viable, how much is, “Developers would say

that, would they not?”, and how much is, “No, there are genuine economic pressures on them”, and it is always a judgment and it will be for individual areas to do so. We do provide guidance as part of the planning policy statement on housing and around section 106 agreements, and so on, as well, so we can certainly forward to the Committee any of that guidance.

**Q517 Dr Pugh:** Does the local authority, when it makes those judgments, have the benefit of fairly robust advice from the Department when clearly it is missing its targets in every respect, both in overall supply terms and in terms of social rented housing?

**Yvette Cooper:** If they are failing to deliver the additional homes that are needed, then the Government Office, in particular, may work with them around what the issues are. The new planning policy statement does put greater obligation and greater responsibility on local authorities to ensure that those additional homes are being met, and obviously there are implications for the appeal system if they are not ensuring that enough homes are coming through and enough land is coming through for that housing. The additional point I would make on this, because I think it is interesting, is that there are very substantial variations in different regions on the level of section 106 contributions and, therefore, the level of affordable housing that is required. A part of that is what you would expect, because you would expect London, where there are much higher values and also where there is higher demand for affordable housing, to be sustaining higher levels of affordable housing through some of those planning deals, but we do take the view that, particularly across the northern regions but also in quite a few rural areas, more could be done to get more affordable housing through section 106 agreements. I have to send to the Committee some very interesting tables from the Housing Corporation about the average cost of new social housing, or the average level of grant for new social housing and new shared ownership by region, which is a bit counter-intuitive: because although in London you would expect there to be a higher level of grant per unit because of the high construction costs, high land value costs, the North West I think is higher than the East Midlands and higher than the South West in terms of the level of grant that is required for an individual unit, and part of that is probably because they are not getting as much section 106 contributions for that additional social housing or for that shared ownership housing in those regions. That is why we do think there is more that could be done through section 106 in particular areas.

**Q518 Chair:** Can I draw your attention to the fact that when we were in Manchester we were told that they had been very surprised in their Pathfinder area how quickly the land values had altered. So, whereas previously section 106 would have been out of the question because there was not any value to capture, there now was. I suggest to you that maybe the Department should be looking at that issue and

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making sure that local authorities that have previously not been able to use section 106 because there was no value do now have the relevant expertise to be able to do it when there is value there to be exploited.

**Yvette Cooper:** We are doing work on that, which is one of the reasons I wanted to raise it.

**Q519 Martin Horwood:** Returning to the issue of the overall balance between social and private sector housing, in your memorandum you bravely, but quite rightly, point out that the right to buy has been a major factor in this. You talk about since 1981, but it is true, even under this Government, since 1997, 1998 that the number of housing units lost under the right to buy has outdistanced the number of new build and the number of new units bought by something like two to one. Do you think that is a desirable trend or do you think that ultimately that risks the ghetto-isation of the remaining social housing stock being just for those people who absolutely cannot afford it and are the poorest of the poor?

**Yvette Cooper:** I think the right to buy has played an important role in terms of giving people a chance to get onto the property ladder, to get access to assets. It has also in many areas contributed to mixed communities. There are some areas, particularly on some estates, where some of that property has, as you were describing earlier, gone back into the private rented sector and into temporary accommodation, and so that has mitigated against mixed communities, and I think John Hills points that out in his work as well; but there are a lot of other areas where the right to buy has contributed to mixed communities, it has kept people in the area who might otherwise have moved out as their incomes rose. I think the issue really for us is how we make sure a lot of those receipts are invested back into increased housing provision, new housing associations and so on, and that is why we have said, as part of the social Homebuy scheme, that the receipts from that should be predominantly recycled back into new social housing so that you can ensure that you are expanding overall supply at the same time.

**Q520 Martin Horwood:** Would you ultimately want those two to balance or the new supply to balance the lot?

**Yvette Cooper:** We do already put more into housing, including social housing, than we get from right to buy receipts.

**Q521 Martin Horwood:** I meant in numerical terms, not in financial terms.

**Yvette Cooper:** I think the issue you need to take account of is: what is the overall level of need as opposed to simply saying you need to have precisely the current level of social housing stock that you currently have regardless of trends in income, house prices and everything else. You decide the additional level of new social housing according to what the

overall need is, which obviously takes account of issues like the right to buy, and so on, but needs to look at the broader level of need for the future.

**Q522 Chair:** Can I raise an issue about how much of the additional money that the Government has been providing for social housing has been absorbed by an increase in land prices, particularly in the South East and London where land prices are so high?

**Yvette Cooper:** This is obviously an important constraint in terms of the level of new social housing you are able to build. Compared to 1996–97 we have doubled in cash terms the level of investment going into new social housing and over a 50% increase in real terms in new social housing for this current year compared to 1996–97 and a 70% increase overall in real terms in investment in affordable housing, so if you include low cost home ownership as well as social housing.<sup>2</sup> However, that is over a period in which land prices have gone up and construction costs have gone up, so inevitably that creates pressures. We have managed over the last few years to increase the level of outputs significantly as part of the current Spending Review alongside putting in the additional investment. We have done a lot to try and reduce costs through a series of different programmes of work as part of the Housing Corporation improving the efficiency and procurement. Peter may be able to add just a bit more detail about that.

**Q523 Chair:** Minister, I am trying to concentrate on the land costs. The construction costs are clearly important but it is land values and how much of public funding is being absorbed by that and in particular where housing associations may be competing one with another and driving up the level of money that is then required from the public sector.

**Yvette Cooper:** I do not have here any figures on precisely what proportion would be taken up with land costs but we can certainly send them to the Committee.

**Mr Ruback:** We have got figures on the overall grant levels that we have to pay over time by region and those are staying fairly stable and falling on average, even whilst land values are clearly going up.

**Q524 Chair:** That would suggest that that is because construction costs are going down, which is welcome, but presumably we could get even better value if there was not competition between housing associations driving up land value.

**Yvette Cooper:** Well, land values have been driven up by housing associations having to compete with private developers as well. The overall impact of what is happening with land values is obviously driven by a much wider series of issues and also by the approach to the planning system and what has been happening in the housing market over time. There is a limit to what you are able to do to address

<sup>2</sup> *Note by witness:* Between 1996–97 and 2007–08 the real terms increase in social housing investment is 49.3% and 71.6% for affordable housing (social plus low cost home ownership).

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that. We obviously want to bring in more public sector land where we can because that helps as part of the process, but what we have been trying to do is effectively use both section 106 agreements and reductions in construction costs to try and counteract what has been a long-term increase in land values.

**Q525 Mr Hands:** A couple of quick questions about the submission that you gave to us on the White Paper. In the summary, paragraph 11, it says: "Investment in new social rented housing will have increased by almost £1 billion between 1997 and 2008". Can we get the actual figures for that?

*Yvette Cooper:* Yes.

**Q526 Mr Hands:** Secondly, later on you talked about the actual outcome, the number of new homes, and there you chose two figures, one from 2007–08 to compare it with 2004–05 as an increase of 50%. I am wondering why we cannot have those two aspects of this phenomenon over the same timescale, so over those 10 years. What is the increase in homes planned in 2007–08 compared to 1997–98 or 1996–97? I guess what I am getting to is your earlier answer about the increase in real terms spending since 1996–97 has not led to an increase in social housing units that deliver and in the last 10 years there have been fewer units delivered than I believe in the previous 10 years. There are all kinds of reasons for that and a variety of factors, rising house prices and so on, but I am wondering whether you think it is in any way a source of regret that there has not been more social housing for rent built in the last 10 years?

*Yvette Cooper:* We can certainly send the Committee the information in terms of the numbers that you want. I have got some of that information here but—

**Q527 Chair:** I think it would be easier if we got it subsequently.

*Yvette Cooper:* As I say, we have got a 50% increase taking place in the level of new social housing being built over this three year period. We are clear that increased land values have obviously been a factor and it was clearly much easier to build social housing at a time when there was a housing market crash in the early 1990s, so when land values fell through the floor and the housing market fell through the floor that had an impact on construction costs and clearly that is not a scenario we want to return to. I do not think the scenarios of the previous 10 years are necessarily desirable whether it is social housing provision or any kind of housing provision. The second point I would make is clearly it would also have been possible to go further on social housing new build if we had not simultaneously had to address the massive backlog of repairs and maintenance in existing social housing, into which we needed to put billions of pounds. Over a 10 year period we will have to put in effectively £40 billion in repairing and improving existing social homes so that they do not become unliveable or leave people just not living in decent accommodation. There are all kinds of pressures around housing budgets and

obviously we would have loved it if we had not had to do a lot of that investment in the decent housing and had been able to put more investment into new social housing as well.

**Q528 Mr Hands:** But most of the investment is in the years to come rather than the last 10 years.

*Yvette Cooper:* An awful lot of it has happened already. We have already cut the number of non-decent homes by over a million, so that has halved by 1997. That is quite substantial. From memory I was going to say it is £16 billion public sector resources and an additional £9 billion levered in through housing associations but I think those are out of date figures now, it is probably more than that. It is £8.1 billion private sector but we are not sure what the comparable public sector figure is. It is substantial, it is billions of pounds.

**Q529 Mr Hands:** It sounds like you are not entirely satisfied with the rate of delivery over the last 10 years but you think there have been a number of other factors involved. Do you think the Government could have done more in the last 10 years to deliver more?

*Yvette Cooper:* I think we are doing more. We are increasing the level of new social housing at the same time as improving the quality of stock of social housing, improving the quality of life for social tenants and addressing some of the housing market renewal areas, the areas where you had whole communities completely devastated and left behind and ignored where there is also a need for capital investment in housing to improve those areas and that has been an important part of the programme as well. We have had a series of demands where capital investment has been needed. I think it is right that we try and address all of those problems rather than simply ignoring particular communities or particular groups.

**Q530 Mr Betts:** I want to look at how you are trying to expand capacity to build more social housing, which I think we all want to try and achieve, and to look at how we utilise existing stock. I know we have had discussions in the past and we have had evidence to the Committee about a desire by ALMOs and local authorities to get back into the business of building homes and they believe they could offer good value for money, but certain technical restrictions of the housing revenue account prevented them in the pilot scheme of the six authorities. I have had evidence from my own authority, Sheffield, where the ALMO is three stars and performing extremely well and the local authority is a top performing council and they all want to get into the business of building homes but we are still waiting for the go-ahead. When is it likely to happen?

*Yvette Cooper:* We do need to see councils building more homes and believe that councils should be able to build quite substantial numbers of additional homes. It is clear that we think housing associations will be increasing the number of homes that they will be building because they have the ability to lever in

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additional private sector borrowing that local authorities are not able to do. We will always need to recognise that. In addition to that, we would like to remove some of the other barriers that face local councils in terms of building more homes, which include the operation of the housing revenue account. The housing revenue account is important because it redistributes between different areas, it takes account of the fact that the historic funding decisions that affected different areas will leave some with considerable resources and others with no resources but substantial need and so on. The housing revenue account plays an important redistributive role, however it does make it less viable for councils to do their own new build, even when they have got additional land or other assets that they can put into the process. There are two ways that we are trying to address that. The first is around the self-financing pilots that you talked about that Sheffield is part of. Those pilots are very complex because what you do not want to do is disrupt the housing revenue account in a way that those who benefit opt out of the housing revenue account but those who would not benefit stay within the housing revenue account and you end up with an unfairness between it is in everybody's interest if they are going to benefit to opt out but those who stay in then have greater problems as a result. There is a fairness issue as well as the complexity around the way the process works. We are continuing to look at those pilots and we are very interested in whether you can have a process of local authorities, both with and without ALMOs, being able to effectively take their housing stock out of the housing revenue account in order to have greater flexibility to plan for the long term, to keep rents from new homes that they build to repay debt or to plough them back in for future investment. The other approach that we are looking at is a change that we have made as part of the prospectus published by the Housing Corporation a few weeks ago which is about encouraging ALMOs and local authorities who set up special venture companies to be able to do new build homes which are effectively kept outside the housing revenue account. So you do not take all of the housing outside the housing revenue account but for additional new build housing it operates outside the housing revenue account and that allows you to recycle the rents from those properties back into paying for the borrowing that put those homes up, it is that kind of approach. I hope I have got the technicalities of that right.

**Mr Ruback:** Pre-prospectus.

**Yvette Cooper:** Pre-prospectus, sorry.

**Q531 Mr Betts:** So what is the timescale for this?

**Yvette Cooper:** That is the pre-prospectus for the next phase of Housing Corporation funding.

**Q532 Mr Betts:** Right.

**Yvette Cooper:** So that is from 2008—

**Mr Ruback:** The launch of the competition this summer.

**Yvette Cooper:** That is the launch of the competition this summer. That is for the next round. That will make it easier for ALMOs and some local authorities who can set up special venture vehicles directly without waiting for the self-financing pilots to be able to build homes.

**Q533 Mr Betts:** What is the timetable on the self-financing pilots?

**Yvette Cooper:** That is ongoing work. If there is any further information I can give you about progress then I will but I do not have that with me.

**Q534 Mr Betts:** There is not going to be a requirement, is there, because there is a concern around that local authorities are going to be forced to divest themselves of the ownership of ALMO properties in order to get the right to build?

**Yvette Cooper:** No. There are ways in which you could have ALMOs going to become tenant management organisations.

**Q535 Mr Betts:** But it is not going to be an insistence?

**Yvette Cooper:** No. The two approaches that I have described, the one that was set out as part of the pre-prospectus on special venture vehicles and self-financing pilots are not about using the ownership of the ALMO stock at all but very specifically looking at the local authorities with and without ALMOs for some of these as well.

**Q536 Mr Betts:** To come on to the issue of housing associations, clearly there are some associations which are constantly bidding for Housing Corporation support to look to develop new homes and there are others who seem rather content just to sit there and manage their existing stock but are often sitting on large amounts of capital assets which are not doing much to improve the numbers of social houses that are available. Have you got any ideas what could be done to unlock some of those resources?

**Yvette Cooper:** We have been doing some work with the Housing Corporation to look at what the existing assets are of housing associations, because some obviously engage in far greater levels of borrowing against their stock than others do, and to look at whether there are untapped assets. We would like to see housing associations increasingly working in partnership perhaps. You might have a housing association which does not want to build itself but have assets that could be used in partnership with another housing association, for example, to be able to draw on those assets to lever in additional borrowing that could then add further resources for new social housing. We are very keen for housing associations to look much more closely at this and how much better we could use the assets that they have. We are looking into it ourselves through the Housing Corporation because it has impacts for the level of grant that you need to give through the Housing Corporation as well.

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**Q537 Mr Betts:** Have we any idea how much money might actually be locked up in housing associations that currently they are not using?

**Yvette Cooper:** There are different estimates that have been done on this. I do not have a specific figure off the top of my head that has been estimated but I can certainly look and see what further figures we can provide.

**Q538 Martin Horwood:** I return to my suggestion that you are slightly obsessed with building new houses when there are other ways to expand social housing stock. Some of the more interesting evidence we have received has been about some of the more imaginative and, frankly, larger, housing associations being able to buy social housing stock. That is not an option that is available to all social landlords but it seems like an exciting one that does improve the mix of communities as well. Is that something that you want to see encouraged and would you think about extending that ability to social landlords and local authorities?

**Yvette Cooper:** There are two points. Firstly, the temporary-to-settled initiative is actually an example of that. It is an example of effectively buying back social housing. In addition to that, John Hills raised some interesting questions as part of his review about how you can do more as part of mixed communities, effectively pepper-potting, buying individual properties here and there. We are looking further at a mixed communities approach as part of the response to his report.

**Q539 Martin Horwood:** And beyond housing associations?

**Yvette Cooper:** Sorry?

**Q540 Martin Horwood:** One of the problems is that local authorities do not have the ability to do that at the moment.

**Yvette Cooper:** I suppose you probably would come up against the same issues around the nature of housing associations' ability to borrow compared to local authorities' public sector borrowing. It might also have implications for some of the self-financing pilots, although I have not really thought that through.

**Martin Horwood:** It would be a good thing.

**Q541 Emily Thornberry:** When there were questions being asked about housing associations and their stock, I was thinking that there is increasing alarm, is there not, that some housing associations, again particularly in inner London where there is so little land, seem to be selling off their properties, seem to be selling off some of their land, indeed as are local authorities selling off housing that they simply cannot afford to do up so they sell that on and are selling off land too. As housing is so limited is there any way in which that can be restricted or regulated?

**Yvette Cooper:** There are restrictions and regulations around what properties can be sold off and the Housing Corporation has a role to play in this. We did some analysis of what kinds of homes were being sold off by housing associations and

some of them were properties that might have been built by housing associations as a part of mixed communities, so it was always intended that these particular properties would be sold off on a full market basis. Some were also properties that had been built particularly for students, for example, where there was always the intention to pass it on to a university. There were some specific examples like that which seemed completely legitimate. Where it raises concern is where you have street properties particularly, the properties that are genuinely a part of mixed communities, that end up being sold off because they are more expensive to manage than those on estates, but they might also be more important properties in terms of maintaining mixed communities. We have asked the Housing Corporation to keep a close eye on this. There will be times when there are financial decisions that housing associations need to make to keep their overall programme viable, nevertheless you want to avoid decisions that end up undermining mixed communities where they are not necessary.

**Q542 Mr Oler:** Minister, can I say that over the last couple or three years I have noticed that more and more people, particularly young people, are having a great deal of difficulty in getting onto the housing list at all. In my authority the housing list has grown bigger and bigger. What incentives can we immediately offer local authorities to start to address that by building more council properties? I mentioned earlier about the small amount of build you could do with factory produced housing and whatnot. I think most housing authorities need that sharp injection to get the top of the housing waiting list out of the way.

**Yvette Cooper:** What they should certainly be doing is looking at the wider level of housing that is needed in the area, so what is needed in terms of market housing share, shared housing and social housing, making sure the planning system is supporting that. Secondly, they should be working with housing associations on what additional social housing is needed. Because of the ability of housing associations to lever in additional private sector borrowing that is clearly often the most effective way to deliver additional housing. In addition, I would urge them to look at the pre-prospectus recently published by the Housing Corporation that looked at other ways in which councils might be able to directly build themselves if they have got their own assets that they could put into the process as well. Part of this is about additional funding, which is what we have been putting in over the last few years as part of the Spending Review and we have said it is a priority for the next Spending Review. Your local authority, probably like mine, is one where they could probably do with some more of this, to look at further contributions from section 106 where they may not have been doing as much as they could have been in the past because that might also help them with the provision of social housing.

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**Q543 Mr Olnor:** I think they have squeezed a fair bit out of that. It is this initial incentive to be able to build blocks of ten, 20, 30 houses or whatever. It has been a long while since I have been on the housing authority but it seems to me that there is not the specific grant of money there available for them to do it. I wondered whether you could lever some money into first and new build.

**Yvette Cooper:** The pre-prospectus is part of doing that.

**Q544 Chair:** Minister, can you expand on that as to how you can help local authorities where they are providing new housing to diversify the size of unit that they build.

**Yvette Cooper:** You mean by that more family homes, do you?

**Q545 Chair:** Yes.

**Yvette Cooper:** This is a particular pressure obviously in London but it does raise issues in other parts of the country now as well.

**Q546 Chair:** Because of the right to buy having largely got rid of all the family housing.

**Yvette Cooper:** The Regional Housing Board in London and the Mayor now have specifically looked at increasing the proportion of family housing as part of the way in which the social housing budget is spent. Other regional housing boards would probably be wise to look at the same issue.

**Q547 Mr Hands:** We have got a little bit of time to look at the Hills report and the creation of mixed-income neighbourhoods, which we have already alluded to. How much of a role can social housing play in meeting the wider objective without reducing the overall supply of social rented homes? Hills makes a strong case for landlords to diversify stock through selective sales, offset by spatially diverse purchasing. Do you support this approach? I guess tied to that, going back to London again, I am afraid, when you get an approach where the Mayor of London sets in stone that all boroughs should build 50% social housing on all new projects, does it make sense to have the same rules for, say, the London Borough of Bromley as for the London Borough of Tower Hamlets, one which has a very low proportion of social housing and one which already has a very high level of social housing? Would it not be more appropriate to have some greater flexibility there for individual councils within their area rather than this fixed centrally driven 50% target?

**Yvette Cooper:** Well, the Mayor does not set a 50% target for social housing, it is a 50% target for affordable housing, which includes both social and shared ownership housing. What there is then the scope for is to have at individual borough level a debate as part of the individual plan as to how that borough should contribute to the city-wide strategy of a 50% affordable housing target. There is scope within the planning process to have that debate and to have that debate both with the Mayor but also through the examination in public as to what an

individual borough's contribution should be towards that overall 50% target because it might vary from one area to another, but that is a matter to be looked at probably through the planning system, through discussions both with the Mayor and also examination in public of the individual borough's plan.

**Q548 Mr Hands:** You are doing the opposite, without going back to our GLA Bill discussion, by concentrating the entire power with the Mayor who will set a policy across London. That is really doing the opposite. Would you be supportive, say, of councils which have an existing very high percentage of social rented housing not building any more on the basis of the Hills report to get mixed communities?

**Yvette Cooper:** I do not think London boroughs can operate in isolation from what is happening elsewhere in the rest of the capital. That is why we have said it is the Mayor's role to draw up the regional housing strategy for London. What happens in one borough has a very big impact on what happens in a neighbouring borough. A lot of people move between different parts of London at different stages in their lives and I think it is wrong to see it as individual borough-based housing markets when that is clearly not the way in which London works.

**Q549 Mr Hands:** That is not social housing. Social housing has very, very little mobility between boroughs.

**Yvette Cooper:** That may be part of the problem. We think that they should be considering far more mobility. It has been a disappointment that some of the boroughs have resisted some of the cross-borough working around social housing and around choice-based lettings across borough boundaries. We think all boroughs should be contributing to delivering additional social housing and affordable housing that the city needs. Clearly it is important to do that as part of mixed communities and it is important for an individual borough's circumstances to be taken into account as part of their planning process, but they all do need to contribute and it would be better if some of the boroughs did a bit more to work across boundaries than they are currently doing.

**Q550 Chair:** Minister, have you got any detailed information about how those schemes are or are not operating because it is an issue which has been raised with us in evidence and it would be useful to have the most up-to-date information?

**Yvette Cooper:** Yes.

**Q551 Chair:** Can I also ask you, you did not answer the first bit of Mr Hands' question which was about the Hills proposal on essentially selling off where you have estates, selling off some of the properties into the private market in order to achieve the tenant mix and then presumably using that money to provide some more social rented housing elsewhere. Does the Government support that approach or not?

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**Yvette Cooper:** We think this is a very interesting approach. There was a JRF development where they did this but, of course, they had more flexibility to do it on that particular development, according to my recollection, because the social housing in the area had quite high property values, the nature of the development, so it meant that it was easier than it would be in some areas to be able to sell off properties in a social housing area and then put the money into replacing the social housing in another area by buying back or whatever. Some areas will be easier to do that in than others. You have to take very seriously the need not to reduce social housing supply in areas where it is badly needed. Those are the constraints that you operate under. However, as an approach it is certainly a very interesting one if it would allow you to do more of that kind of mixed community. Where you have a new estate being built next to an existing social housing estate, for example, there are things that you might be able to explore in that area where you might be able to sell off some of the existing social housing but use the funds to pay for new social housing on the additional higher levels of social housing on the new estate being built so you can better mix both communities rather than end up having a polarisation between them. The economics matter and that is why we are still at an early stage of looking at this.

**Q552 Mr Betts:** Can I just follow up that issue and then another one about Hills as well. It follows from the question Martin Horwood asked earlier. You answered about selling off and had the caveat about not reducing the supply of social housing in areas where there is a shortage, but is there not still an issue around the right to buy in some areas? In some areas right to buy is still making more mixed communities because the vast majority of housing in those areas is socially rented but in other areas where perhaps a very small proportion of the housing stock is socially rented the right to buy reduces the mix of the communities by simply making owner-occupation more and more the predominant form of tenure in that area. When we went to Holland to take some evidence about social housing there, they have something similar to the right to buy but in the end the social landlord, which is normally some sort of housing association in the area, can actually decide, according to the housing market in that area and the shortages of social housing, whether to sell. They look at the circumstances and if they have got a surplus of housing or a predominance of social housing they can sell but otherwise they can decide not to. Have we not got to move to something similar to that system if we are going to protect mixed communities in areas where there are very, very few social housing units?

**Yvette Cooper:** As you will be aware, we did introduce different restrictions on the right to buy in particular areas, reductions and discounts in particular areas a few years ago as part of the previous Housing Bill. At this stage we are not looking at further restrictions or proposals to change that, partly because we think right to buy does play an important role. Right to buy for a lot

of people at the moment is not affordable because of what has happened with overall house prices as well, so the impact that it has on different areas is very mixed. It is something that has played such an important role in giving people the opportunity to buy their own homes that what we are looking at instead at the moment is different ways of being able to provide additional social housing in an area or different ways of being able to have a social home buy approach to get the kind of mixed tenure rather than right to buy restrictions.

**Q553 Mr Betts:** Would you be prepared to look at extending the restrictions that you have already brought in to more areas because currently they only apply to some areas, do they not?

**Yvette Cooper:** I do not think we have been at the moment but I do not know whether we have had any approaches from any areas to do so.

**Q554 Mr Betts:** But you would listen to approaches if they were made?

**Yvette Cooper:** We always listen to local authorities if they ask us things but it is not something that we have been looking at ourselves.

**Q555 Martin Horwood:** In your opening comments you linked worklessness and housing tenure and Hills makes the same connection and makes quite a radical argument that one of the purposes of social housing actually is to improve the employment and the income of tenants. I would like to ask do you agree with that vision and would you agree with some of the ideas that he has to reduce the separation between local authorities and Jobcentres? In my experience even the employment aspect of Jobcentres is becoming more remote even from local Jobcentres let alone local authorities or social housing providers. Do you think that might be one example of a policy tool or are there others that might fulfil that vision of Hills on work and social housing?

**Yvette Cooper:** We are very interested in this aspect of the Hills review and have a programme of work looking at this in the Department at the moment as to what more could be done—working with DWP as well around what more could be done—to help people in social housing into work. Obviously part of what is happening is that social housing inevitably is also more likely to include people who will struggle to work, so people who have got serious problems with incapacity or invalidity are also more likely to end up in social housing, so the figures are quite complex in terms of what they show. However, we would like to see more being done to help people in social housing into employment. Some of that might involve closer working with Jobcentres. There are some interesting programmes that some housing associations do run about job advice or very localised employment advice and help. I think the Notting Hill Trust do quite a bit of work around helping tenants into training or employment. Interestingly, some have set up as part of the Decent Homes schemes, both local authorities and ALMOs and some stock transfer programmes, quite

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substantial training schemes as part of the repair and refurbishment work for local residents and tenants as well.

**Q556 Martin Horwood:** Hills was quite complimentary about some of the initiatives of housing associations and the Housing Corporation in terms of added value, but can we narrow it down on to that Jobcentre and local authority issue, that you are in favour of a closer relationship between the employment function of Jobcentres and local authorities?

**Yvette Cooper:** I think we are keen to look at it. What we do not want to do is to try and simply replicate what Jobcentres do by housing associations because it is not the housing associations' core purpose, so there is no point in getting that duplication, but we are looking quite extensively at exactly that relationship between local authorities, Jobcentres and—

**Q557 Martin Horwood:** He was not talking about duplication, he was talking about bringing the functions back together again because they have become too distant.

**Yvette Cooper:** We are looking at John's proposals and the important thing is to make sure that we do not end up duplicating or changing the function of either housing associations or Jobcentres but can look at much closer working between them.

**Q558 Mr Betts:** Can I just come back to another recommendation of Hills, and this is the use of assets by social landlords, particularly the fact that many of them are locked into very blinkered needs-based letting systems which simply look at the person on the waiting list with the greatest need and give them the house that comes up. In parts of London that may be essential because of the chronic housing shortage but in other areas we have seen a substantial reduction of transfers within the housing stock. I think Hills points out that there is a lot more scope to get people who are living in three-bedroom properties and want to trade down into smaller properties, people who want to be moved near grandparents so they can get childcare which enables them to go back to work, and those sorts of factors ought to be built into the systems wherever possible. Are we going to get some reflection and guidance from the Department to local authorities and others about it?

**Yvette Cooper:** I think probably one of the most striking elements of the Hills review was the analysis he set out which showed how little mobility there was within social housing. John talked particularly about mobility for work but you might also think around mobility for overcrowding or other reasons as to why people should do more moving within the stock. We have been looking particularly around mobility for work reasons and how you should do more to support people who might want to be able to take up a job somewhere to be able to move within the stock. That includes across local authority boundaries as well which can sometimes be more difficult. We are also looking at it as a part of

overcrowding allocations. We do get anecdotes of larger properties being allocated to someone who is currently in temporary accommodation who might be happy in a smaller property where a family in a smaller property who were overcrowded could have moved into a larger property and effectively you then open up their home which the family in temporary accommodation could have moved into. There are some anecdotal examples of the allocations process not working intelligently enough around overcrowding. That is one of the things we have been looking at already as part of the overcrowding programme. Again, it does particularly affect London but it could apply more widely. We are also looking very closely at the broad mobility issues that John raised in terms of work as well.

**Q559 Mr Betts:** Have you got a timescale for when you are likely to come back on those matters?

**Yvette Cooper:** We are trying to do the work as rapidly as possible because we also want to be able to take account of it as part of the Spending Review considerations as well. We are working on it quite intensively over the next few months.

**Q560 Emily Thornberry:** Do you think that overcrowding is set to continue to increase? Is the Department going to set targets for trying to keep the lid on overcrowding and are you going to redefine it?

**Yvette Cooper:** Overcrowding outside London has not changed very much; overcrowding in London has increased. I do think that the current statutory standard is hopelessly out of date. We have already consulted on some options around changing it. What does not help is simply changing the definition. What we need to be able to do is to link the definition with allocation policies or approaches to do something about it with the need to build more family housing. What we do not want to do is just deal with the definition in isolation because that would create additional and more confusing pressure for local authorities who need to do it as part of a wider strategy to address the issue.

**Q561 Chair:** Minister, can I just pick you up on the regional aspect because you appeared to be suggesting that you thought overcrowding was more of a problem in London than elsewhere, but all of us will know from our own constituencies the angst caused by overcrowding in the social sector in particular and the way in which the allocations policy often does not seem to deal with that issue at all. I think it goes back to a question that Clive was asking. What advice is the Department going to be giving on allocations policy to try and deal with overcrowding given the effect that it has on people's health, for example?

**Yvette Cooper:** What we have been looking at, and we have not come to final conclusions on this, is what options there might be for changing the overcrowding standard but doing so in a way that would need to be taken into account in local authority allocations and how you might be able to

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do that over time. In other words, local authorities would have to take greater account of overcrowding than they currently do. If they do that, I was trying to use the example before of a way in which you might be able to deal with it by an intelligent policy that looks at moving more people through the stock and you could end up helping the same number of families and also tackling overcrowding at the same time, but in other cases there will be trade-offs, so it is important that you look at this as part of the strategy around temporary accommodation and homelessness and do not just look at overcrowding in isolation. We are looking at changing guidance for local authorities and better guidance for local authorities to be able to address this.

**Q562 Chair:** One of the issues that was raised with us, and a number of us will recognise it anyway, is that some councils use the overcrowding rule so rigidly that they will not move a family which is severely overcrowded into a property in which it is moderately overcrowded: they wait until they can give them a property where they are not overcrowded. Is your review covering those issues as well?

**Yvette Cooper:** Yes. Terrie, I do not know if you want to add something around overcrowding?

**Ms Alafat:** Just a point of clarification. The reasonable preference category, if you set out a national basis for local allocation policies, does

include overcrowding but one of the issues is the outdated standard which the Minister has already mentioned. One of the things we have done quite recently is we have given some funding to five London boroughs as it happens, because there is a lot of push that is coming from London boroughs—

**Mr Olnier:** Your door is too close to them!

**Q563 Emily Thornberry:** Too overcrowded, Bill!

**Ms Alafat:** The interesting thing about the funding we have given them is what they are trying to do is look at the approach they have taken to homelessness and extend it to overcrowding because for some of these overcrowded households there are things you can do now to alleviate their circumstances even if they are waiting for a larger property. We were quite taken by that approach because that was something John Hills also suggested, that the approach on homelessness seems to be working and should we not be looking at other groups. It is an interesting test case and it is not very large yet but I think it will feed into what the Minister has been saying about taking a more strategic approach to this issue.

**Q564 Chair:** Can I thank you very much, Minister. As you see, we regard housing as an incredibly important subject, hence the time we have given to it today and we are grateful to you for giving your time to it today. Thank you.

**Yvette Cooper:** Thank you very much.

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# Written evidence

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## First Supplementary Memorandum by CityWest Homes

### SUMMARY OF KEY ISSUES AND RECOMMENDATIONS

- The ALMO model has worked very effectively in Westminster and this submission highlights the opportunities for further development of the model. A high performing ALMO like CityWest Homes is able to focus on service delivery and bring about innovations and improvements which frees the Council's Housing Department to focus on strategic issues.
- CityWest Homes (CWH) has a key role in supporting community cohesion and neighbourhood renewal, particularly through its inclusive processes of resident involvement in decision-making and its growing influence on the use of commercial properties within the HRA. Building on this track record of community engagement and its close links with the local authority CWH is capable of making a greater contribution towards increasing the supply of rented housing and improving the management of rented housing.
- Longer-term stability and greater financial freedoms are needed if successful "round one" ALMOs are to thrive and continue to contribute towards the achievement of Government priorities. For CWH there is now an urgent need to plan and deliver beyond "Decent Homes". There is a risk that the momentum behind innovative, customer focused service delivery could be lost and some opportunities for future development stifled.
- CityWest Homes completed the Decent Homes programme in December 2008 and is well placed and ready to embark on an ambitious longer-term asset management programme but is constrained by annual changes to the HRA and the 5-year agreements. Ideally an asset strategy should have a 10–30 year time frame in order to secure and allocate funding and to manage residents' expectations. If given the remit CWH could also embark on building new homes in Westminster, keeping resident involvement at the heart of the process.
- Three-star ALMOs can help to rationalise the management of rented accommodation within the private and public sector but are impeded by the requirement to charge VAT on housing management services.
- A revised ALMO model should therefore include the ability to:
  - Provide a housing management services for other landlords without having to charge VAT;
  - Use full rental income to provide services;
  - Bid directly for Housing Corporation funding and borrow outside HRA constraints in order to attract private finance; and
  - Build new social and intermediate housing.

### 1. INTRODUCTION

1.1 CityWest Homes (CWH) is a "round one" Arms Length Management Organisation (ALMO) and has managed Westminster City Council's housing stock since April 2002. It was one of the first ALMOs in the country to gain excellent status from the Audit Commission and was, again awarded 3 stars with excellent prospects for improvement in September 2006. In December 2006 CWH was one of the first housing management organisations to sign up to the Respect Standard for Housing Management. The board structure combines challenge, support and accountability and includes residents, independent housing experts and council nominations.

1.2 We are pleased to have been invited to provide a second written submission to the inquiry, the first being a joint submission with Westminster City Council which covered a broad range of issues in the terms of reference and included the Report of the Westminster Housing Commission. This submission complements the first by illustrating the experience of an inner city Arms Length Management Organisation (ALMO) with a focus on social housing management as set out in the terms of reference: "...

- The future role for local authorities as builders and managers of social housing
- The effectiveness of different social housing models including traditional local authority housing, ALMOs, housing co-operatives and housing association..."

### 2. THE FUTURE ROLE FOR LOCAL AUTHORITIES AS BUILDERS AND MANAGERS OF SOCIAL HOUSING

2.1 As a manager of social housing CityWest Homes is proud of its achievements, especially meeting the Decent Homes standard in December 2006 and retaining 3-stars status. Through this process CWH attracted and developed the following: expertise in complex building programmes; excellent systems for resident involvement and housing management services; in-depth local knowledge; detailed understanding of the assets it manages; and a vision for sustaining excellent services beyond Decent Homes. CWH would

like to continue to develop a long-term programme of service improvement that includes entering management agreements with other landlords but needs more certainty about the future of ALMOs (see 3.10–3.12)

2.2 Although demand for affordable housing in Westminster will always outweigh supply, there is scope to reverse the decline in the supply of new social housing in Westminster. CityWest Homes, working alongside the City Council, has the potential to embark on a building programme that could make significant progress with tackling the housing shortage, and make more progress with reducing overcrowding and creating sustainable inner city communities. There are substantial development opportunities on HRA land within Westminster where density is low and where there are pockets of un-used and under-used buildings (eg garages, storage sheds and some commercial properties).

2.3 Higher density housing built to excellent design standards is a valid option in parts of Westminster and would enhance the architectural and environmental quality of targeted neighbourhoods. This in turn creates opportunities to reduce overcrowding by developing family accommodation at other sites. For example, one of the best estates in Westminster has very high density and excellent design.

2.4 The extremely high land values could be utilised to attract investment in a greater range of housing products including social rents, intermediate (targeting families) and private housing.

2.5 Building new homes in existing communities requires sustained resident engagement at all stages of the process. CWH is best placed for this role because of its strong track record of resident involvement and the skills it has attracted back into the organisation to deliver the complex building programmes associated with Decent Homes. The organisation already manages the majority of homes on HRA land and is primed for action having just completed the Decent Homes programme.

2.6 This is therefore, an ideal time for CWH to go beyond the Decent Homes Standard to meet other stock maintenance requirements and if allowed, to build new homes. Sustaining this investment and undertaking a programme of continuous improvement beyond five years, will require a longer time frame for planning, additional funding, freedoms and flexibility (see below).

### 3. THE EFFECTIVENESS OF DIFFERENT SOCIAL HOUSING MODELS INCLUDING TRADITIONAL LOCAL AUTHORITY HOUSING, ALMO., HOUSING CO-OPERATIVES AND HOUSING ASSOCIATIONS

3.1 The ALMO model as applied in Westminster shows how adaptive and successful the model can be. Few housing management organisations can match the complexities of the CityWest Homes portfolio which bring opportunities as well as challenges. CWH manages 21,500 properties with a mixture of tenures.

- 12,300 are for council tenants (including sheltered and supported);
- 9,200(42%) are leasehold properties
  - RSLs hold the lease for 411 properties
  - a quarter of all leasehold properties (2,362) are sublet, of which 629 are to RSLs
  - over 1000 of all sublets are for temporary accommodation for the homeless
  - over half of leaseholders are not ex-Council tenants;
- Nearly 90% of the stock is flats, a third of the homes are in conservation areas and 13% are in listed buildings and 15% are street properties;
- CWH supports 14 Tenant Management Organisations which manage 2,827 properties (13% of stock).

3.2 Added to the variety of tenure and stock is the rich diversity of residents in CWH villages and their surrounding communities. Nearly half the resident population is from Black and Minority Ethnic (BME) communities and 182 languages are spoken in the city. Two wards are among the 10% most deprived in the country and pockets of need exist throughout the city, closely correlated to the location of council estates. Nearly 12% of households in Council housing are overcrowded, due mainly to a shortage of larger accommodation. Westminster's unemployment rate is above the English average.

3.3 CityWest Homes carefully manages the inherent tensions arising from such a mix of clients and by providing a variety of opportunities for residents to communicate with us and participate in decision-making. CityWest also takes a broader view of the local community. Unlike RSLs the local authority boundaries set for CWH has allowed it develop in-depth knowledge of local communities, an overview of the city and effective partnerships with other service providers. For example during the immediate aftermath of the bombings on 7 July 05, CityWest Homes worked closely with partners in a community reassurance programme and as a result there were no significant increase in reports of harassment.

3.4 CWH prides itself on its commitment to involving residents in service improvement and exemplifies the assertion that ALMOs are the most effective in the social housing sector at resident involvement. Our recent survey conducted by MORI shows that across the board 70% of tenants are satisfied with the overall service. CWH has very high service standards and has Local Service Improvement Compacts which are tailor made for estates. These unique compacts involve residents in setting service priorities and monitoring performance.

3.5 Much of the Neighbourhood Renewal Strategy and other overarching strategies are targeted where CWH manages homes and CWH is actively involved in local partnerships across the city through its resident involvement, community safety and community development teams. Through close work with the police, health, education and training providers and because of its local knowledge CWH helps to connect local residents and service providers. CityWest Homes was a founding partner in a local charity, “Vital Regeneration” which specialises in IT learning and development projects for people who are not in paid employment. There is scope for future partnership with the private sector through the vehicle of corporate social responsibility.

3.6 With its influence over the commercial HRA properties and close links with local communities and partners CWH can further promote community cohesion and sustainability. Land use can be geared to meet local social and economic needs eg supporting community enterprises, attracting services for the community, and where appropriate homes could be created on redundant “commercial” sites.

3.7 As stated above CWH has become proficient at implementing complex maintenance programmes and completed the Decent Homes Programme in December 2006, four years before the 2010 deadline. During this time over 6,000 homes were improved to the DH standard. Considerable efficiencies were gained through partnering arrangements with constructors (one of the first for public sector housing) and with careful management of the supply chain which includes residents in scoping projects. CWH also became a leading member of a consortium of 11 London ALMOs which combine procurement processes—this has potential benefits worth in excess of £30 million for the network. This was all possible because the ALMO has a clear focus on service delivery and can concentrate on getting the details right and take forward innovations. These capabilities can be transferred into a new role of building homes. In turn, an excellent ALMO allows the Council to focus on the strategic agenda. In this regard the model works very well.

3.8 With its presence spread across the city CWH is ready and able to take a leading role in stock rationalisation and/or management agreements where there are multiple landlords. The mix of landlords in CWH villages can result in different service standards being applied in the same community. There are over fifty RSLs that own or manage properties in Westminster, none of which have a 3-star rating from the Audit Commission and only one has signed up to the Respect Standard. Within the HRA residential property portfolio, over 1,000 properties are either leased or sub-let by RSLs. In addition over 1000 properties including some privately based ones, are used by the temporary accommodation scheme for homeless families. Some of the most vulnerable people in our local communities are getting a one or two star service when they could be better served, as their neighbours are, by a truly local and excellent housing management organisation.

3.9 The administration costs and complexity associated with many layers of management could be reduced if CWH could provide housing management services on behalf of other landlords. This would not result in a monopoly of ownership and management—the social housing sector would remain diverse with a more consistent service within local communities. A significant barrier to progress is the requirement to charge VAT which should be removed or set at a lower rate.

3.10 For successful “first round” ALMOs there is an urgent need to plan beyond “Decent Homes” and sustain high quality services in the longer term. There is a real danger that the momentum behind innovative, customer focused service delivery could be lost and opportunities for future development stifled. Managing resident expectations and optimising asset management cannot be achieved in the current subsidy regime which changes annually. For areas like Westminster the trend is for less subsidy despite the high labour costs and the additional costs of operating in conservation areas. New forms of investment should be permitted.

3.11 A ten- to thirty-year planning cycle is needed for major repairs and maintenance and thirty years is required for planning and programming new developments. For example CWH is particularly concerned about the effects on leaseholders of service charges for major works. Greater financial stability would allow CWH to plan major maintenance and improvements with greater care and certainty and to set up mechanisms like a “sinking fund” to help leaseholders plan well ahead for what can be very high one-off service charges (eg £50,000). (Opportunities for building new social and intermediate homes are mentioned above in section 2.)

3.12 High performing ALMOs should have the ability to move out of the HRA subsidy system and have the ability to use the full rental income to provide services; with this move should come the ability to borrow or bring in investment set against future income streams.

#### 4. CONCLUSION

4.1 In a short period of time CWH has developed a proven capacity for excellent asset management, resident involvement and community development in a complex environment of mixed tenure and diversity. Against this proven ability to perform to excellent standards and to be accountable to local communities the ALMO model should be considered for freedoms and flexibilities that will improve the supply and management of social housing in inner city areas.

4.2 Working alongside the local authority, a successful ALMO like CityWest Homes should be able to use its skills base to build new homes, to plan ahead for ten to thirty years and make more of a contribution to stock rationalisation and management agreements with other landlords. Timing is important: CWH

needs to manage residents' expectations of future services and there is a risk of losing some of the momentum and capacity built up during the Decent Homes programme. The main barriers seem to be financial: freedom to borrow outside the HRA system; use full rental income to provide services; the right to bid directly to the Housing Corporation; and to offer management services without having to charge VAT.

19 January 2007

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## Second Supplementary Memorandum by CityWest Homes

### MEASURES TO ALLEVIATE LEASEHOLDER HARDSHIP

#### INTRODUCTION

1.2 CityWest Homes is actively involved with the London Councils' leasehold forum in discussions with the Department of Communities & Local Government on options for assisting leaseholders with high major works bills. In addition, CityWest Homes also represent the NFA on LEASE's social sector working party, which has a wider agenda of looking at all service charge matters for public sector leaseholders. This submission considers sinking funds, equity release, service charge loans and buy-back.

#### 2. SINKING FUNDS

2.1 Sinking funds are currently used predominantly in the private and RSL sectors. The main benefit of a sinking fund is to provide a leaseholder at point of purchase with clarity on responsibility for future major works. They also are useful in spreading the cost between successive residents and should prevent residents being faced with large bills for infrequent work.

2.2 Capacity for leaseholders to pay major works has been highlighted recently by Karen Buck MP in the Adjournment Debate in Westminster Hall on 1 November. In that debate Karen Buck MP indicated that she would like to see councils required to have a sinking fund for recurring work that is not part of the decent homes initiative. She has also indicated through her website that she will be taking the matter (of high leaseholder bills) forward through additional Parliamentary Questions and raising the profile through the media.

#### SUMMARY OF KEY ISSUES AND RECOMMENDATIONS

There is little coherence in policy and practice across the country regarding the alleviation of hardship for leaseholders. A uniform application of good practice together with active Government support for innovation provides the best option for assisting those in most need.

2.3 CityWest Homes has canvassed the views of London ALMOs on the operation of sinking funds. Obviously it would be difficult for any local authority or ALMO to be required to set up a sinking fund where their current leases did not allow for it. Variation to those leases would be subject to court application or determination by the Leasehold Valuation Tribunal. In either situation, the views of leaseholders to a variation would need to be sought. This has close conformity to the requirements of the Audit Commission's housing inspectorate revised Key Line of Enquiry No. 12, which requires that decisions on the use of sinking funds be made in consultation with leaseholders.

2.4 These responses were amongst those received to NFA consultation with London ALMOs: Ascham Homes report that they have previously operated a sinking fund (now wound up) that was time consuming to administer and was unpopular with leaseholders.

The London Borough of Lewisham (going live as an ALMO 22 January 2007) has recently consulted its leaseholders' standing committee. The committee generally did not see an advantage in saving via a sinking fund and that sound advice on finance options coupled with reliable information on the likely costs and timing of works would assist leaseholders more. In that regard, any local authority/ALMO that did set up a sinking fund in attempting to predict an accurate level of contribution would be hampered by the present subsidy system which does not facilitate long term planning.

Barnet Homes' lease makes no provision for sinking funds.

2.5 CityWest Homes' lease does allow for the operation of a sinking fund where certain funding conditions can be met.

2.6 Despite the April 2006 relief from the former 40% trust rate of taxation for sinking funds in the social housing sector, it may be that even charging tax at the basic or lower rate might be detrimental to lessees on lower incomes who are not liable to pay tax. The tax on the earnings of sinking funds together with administration costs of managing them may render them less attractive as a savings vehicle for leaseholders with limited income in comparison to a tax free savings opportunity such as an ISA. Of course it would be

helpful, if there was encouragement, through affording public sector sinking funds tax free status on earnings or alternatively achieving the same end through either a statutory or voluntary scheme offering the opportunity for leaseholders to pay monthly into a tax free savings account.

2.7 In summary, without some relief from taxation on earnings, it is possible that sinking funds may still be an appropriate solution for some leaseholders, but will be achieved through consultation rather than regulatory means. There is currently little chance of uniform acceptance across the local authority/ALMO community because of leaseholder wishes and lease differences. Reduced taxation could serve to change this, making it more attractive for leaseholders and encourage non-contentious variation to leases to facilitate the setting up of funds. NFA and London Councils' practitioner networks can be used to ensure that where sinking funds are set up following consultation with leaseholders there is discussion to promote adoption of uniform best practice.

2.8 As part of its review of ALMOs, the Department of Communities & Local Government is working with six pilot LAs/ALMOs to demonstrate the added value and opportunities that might accrue from self-financing if they were able to operate outside the constraints of the HRA subsidy system. If that did occur it would remove the current potential position of lessees making their contributions to future works and the LA/ALMO, despite having planned to carry out the necessary works, finds that changes in subsidy rules in the interim means they can't keep their commitment.

### 3. EQUITY RELEASE

3.1 Many local authorities/ALMOs operate deferred payment schemes, which function as a form of equity release, but there is no current commercial vehicle or product available that suits the peculiarities of the public sector leasehold environment. There is the "Houseproud" scheme, but that requires overhaul as its qualifying criteria are restrictive and fees seem expensive.

3.2 Equity release has been seen in some quarters as a panacea for leaseholders facing high bills. Equity release loans were highlighted by the London Councils' leaseholder forum as far back as November 2005, and led to several DCLG sponsored meetings with the Council of Mortgage Lenders (CML), the latest of which was 6 September 2006.

3.3 The CML's view was that there was clearly a contribution that equity release could make, but believed that it was only likely to be an option in a minority of cases. However, they did say that any scheme would need to be a reasonably general scheme that councils and lenders bought into (rather than individual schemes for individual councils).

3.4 The CML's view is mirrored in the recent report published by the Joseph Rowntree Foundation (JRF), "Obstacles to Equity Release" that has provided the best in-depth analysis of this option to date. This report provides a clear focus on the real issues and presents both sides of the equity release argument. A copy can be downloaded at <http://www.irf.orci.uk/pressroom/releases/031006.asp>.

3.5 The report suggests that a new national company be set up to make equity release loans. This company would be sponsored by local government and funded with private finance. The proposal which is endorsed by the NFA includes the following features:

- Finance would be raised privately—no costs to LAs beyond any indemnity or set up costs in individual cases.
- The benefit of the company being a creature of local government would be that the LA would be responsible for admin and process.
- A national company could mix public and private finance to meet LAs' requirements.
- A national company avoids LAs developing and administering their own schemes.
- If equity release is the main purpose of the company, equity release will be restricted to the over 65s.
- Existing commercial equity release providers would provide private finance to the company and mortgage lenders would be interested if the company also provided interest only loans.
- It is thought that if the business is there, it is would be possible to get a group of national firms together to negotiate fixed price arrangements for independent financial advice provided by specialist advisors trained specifically for the LA client group.
- The company would be fully regulated by the FSA.
- The purpose of the company would be to provide credibility in the market place for equity release loans, it could be a transitory company for example 10 years while the mainstream market develops.

3.6 There is also a need for a change to the benefit rules to redefine "essential works" to cover decent homes works for the purposes of pension credit and other benefit entitlements along with a protocol with the Department of Work & Pensions to simplify the process for leaseholders in receipt of benefits to claim interest paid on loans to finance essential repairs.

## 4. OTHER OPTIONS

*Service charge loans*

4.1 A relaxation of service charge loan regulations to allow local authorities/ALMOs to charge a lower rate of interest is recommended. At present local authorities/ALMOs act as lenders of last resort and the interest rate that must be charged reflects this.

4.2 However, the requirement to charge a high rate appears to be predicated on loan qualification criteria that may apply in the general community and not specifically to public sector leasehold units, for example some lenders may be cautious about lending in a high rise block, notwithstanding that the leaseholder can service a loan. Having to come to the local authority/ALMO and paying an interest rate higher than is on offer “in the high street” acts as a penalty for being a public sector leaseholder.

4.3 There are also mandatory service charge loans where local authorities/ALMOs have no choice but to offer a loan. However, these are restricted in that they only apply to properties within 10 years of the original RTB sale. This is another area for possible flexibility.

*Buy-back or staircasing*

4.4 Many local authorities/ALMOs operate a discretionary buy back scheme. However, even in cases of severe financial hardship assessment of cases is subject to available funds and it is recommended that there is an increase in government subsidy to enable more assistance to be provided.

4.5 Another option not presently available for RTB leaseholders is flexibility to staircase down from 100% ownership using the equity in the property to repay a major works recharge or fund a change in circumstances. This is an option capable of further exploration, but initial modelling suggests that increased subsidy or a grant would be necessary for the local authority/ALMO to buy back equity in a unit either as a discrete transaction or where the value of the step down was greater than the liability to be discharged.

## 5. CONCLUSION

5.1 It has become clear from work currently being undertaken in the sector that while some local authorities/ALMOs are pushing innovation to the extent of their powers, there is little coherence in policy and practice not only in London, but across the country. Perhaps uniform application of good practice together with active Government support for innovation such the approaches proposed above and those coming out of the London Councils’ leasehold forum for example, provides the best option for assisting those in most need.

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**Third Supplementary Memorandum by CityWest Homes**

I refer to your letter of 23 January 2007, requesting further information to support the City Council’s evidence to the inquiry into the supply of rented housing. Please find below information to answer each of your questions.

*The number and proportion of households in temporary accommodation being housed outside Westminster, broken down by London borough or region if outside London.*

The table below shows the number of households in TA at the end of each financial year from 2002–03, and the first three quarters of the current financial year. The data for the previous years is unavailable.

## HOUSEHOLDS IN TEMPORARY ACCOMMODATION

	At 31/3/03		At 31/3/04		At 31/3/05		At 31/3/06		31/12/06	
	Number	%	Number	%	Number	%	Number	%	Number	%
<i>Westminster</i>	1,681	62.7%	1,905	64.7%	2,036	66.5%	2,192	70.6%	2,281	74.0%
<i>Barking &amp; Dagenham</i>	172	6.4%	188	6.4%	182	5.9%	204	6.6%	150	4.9%
<i>Barnet</i>	11	0.4%	26	0.9%	16	0.5%	15	0.5%	17	0.6%
<i>Bexley</i>		0.0%	1	0.0%	1	0.0%		0.0%		0.0%
<i>Brent</i>	150	5.6%	99	3.4%	84	2.7%	32	1.0%	12	0.4%
<i>Camden</i>	165	6.2%	161	5.5%	164	5.4%	93	3.0%	12	0.4%
<i>Ealing</i>	24	0.9%	15	0.5%	5	0.2%	6	0.2%	3	0.1%
<i>Hammersmith &amp; Fulham</i>	10	0.4%	4	0.1%	3	0.1%	3	0.1%	1	0.0%
<i>Hackney</i>	46	1.7%	55	1.9%	55	1.8%	45	1.4%	61	2.0%
<i>Havering</i>	10	0.4%	10	0.3%	16	0.5%	13	0.4%	12	0.4%

	<i>At 31/3/03</i>		<i>At 31/3/04</i>		<i>At 31/3/05</i>		<i>At 31/3/06</i>		<i>31/12/06</i>	
	<i>Number</i>	<i>%</i>	<i>Number</i>	<i>%</i>	<i>Number</i>	<i>%</i>	<i>Number</i>	<i>%</i>	<i>Number</i>	<i>%</i>
Hillingdon	13	0.5%		0.0%		0.0%		0.0%		0.0%
Hounslow	11	0.4%	3	0.1%	1	0.0%		0.0%		0.0%
Islington	54	2.0%	29	1.0%	31	1.0%	28	0.9%	20	0.6%
Kensington & Chelsea	37	1.4%	19	0.6%	3	0.1%	10	0.3%	1	0.0%
Lambeth	6	0.2%		0.0%		0.0%		0.0%	2	0.1%
Newham	154	5.7%	231	7.8%	250	8.2%	262	8.4%	296	9.6%
Redbridge	41	1.5%	48	1.6%	52	1.7%	43	1.4%	53	1.7%
Southwark	8	0.3%	6	0.2%	6	0.2%	2	0.1%		0.0%
Tower Hamlets	32	1.2%	32	1.1%	35	1.1%	22	0.7%	29	0.9%
Waltham Forest	35	1.3%	94	3.2%	110	3.6%	123	4.0%	121	3.9%
Wandsworth	6	0.2%	4	0.1%	3	0.1%	2	0.1%		0.0%
<i>Total other London</i>	<i>985</i>	<i>36.8%</i>	<i>1,025</i>	<i>34.8%</i>	<i>1,017</i>	<i>33.2%</i>	<i>903</i>	<i>29.1%</i>	<i>790</i>	<i>25.6%</i>
Birmingham	3	0.1%	5	0.2%	3	0.1%		0.0%		0.0%
Essex	6	0.2%	6	0.2%	5	0.2%	11	0.4%	12	0.4%
Kent		0.0%		0.0%		0.0%		0.0%	1	0.0%
Leicester	5	0.2%	3	0.1%	2	0.1%		0.0%		0.0%
<i>Total outside London</i>	<i>14</i>	<i>0.5%</i>	<i>14</i>	<i>0.5%</i>	<i>10</i>	<i>0.3%</i>	<i>11</i>	<i>0.4%</i>	<i>13</i>	<i>0.4%</i>
<b>Total</b>	<b>2,680</b>	<b>100.0%</b>	<b>2,944</b>	<b>100.0%</b>	<b>3,063</b>	<b>100.0%</b>	<b>3,106</b>	<b>100.0%</b>	<b>3,084</b>	<b>100.0%</b>

*How many new shared equity and social rented houses have been built in your area?*

The following table shows new dwellings completed by Registered Social Landlords (RSLs) in Westminster during each of the past five years (2001–06) and anticipated over the next three years (2006–09). Of the 1,024 social rented units completed to 2006, 750 are described as “new-build”. The remaining 274 units include: acquisitions of properties previously held in the private sector; property disposals by the council to RSLs; and works to existing RSL properties delivering units to which the council now has nomination rights but where the net effect the work may have been to reduce the overall number of social rented homes. All shared ownership dwellings are new properties.

These completions will have been the product of investment decisions primarily taken by the Housing Corporation and Westminster using Local Authority Social Housing Grant (LASHG) perhaps two or three years prior to the delivery of the individual schemes. The demise of LASHG has significantly reduced the City Council’s ability to meet additional needs not met through the Housing Corporation’s mainstream investment programme, particularly the delivery of family sized accommodation as part of a Purchase and Repair programme.

Completion figures for 2004–05 and 2005–06 contain a high number of special needs schemes (112 units), where the client group was nominated primarily via Social Services. This represents an additional obligation, beyond providing affordable homes to meet general housing needs.

The anticipated number of completions due from 2006–07 to 2008–09 fall off significantly in comparison to previous years. These completions in the main relate to Housing Corporation investment decisions made over the period 2004–05 and 2005–06.

<i>Year</i>	<i>New social rented homes (general and special needs)</i>	<i>New shared ownership homes</i>
2001–02	242	77
2002–03	172	66
2003–04	140	26
2004–05	170	18
2005–06	300	44
Total 2001–06	1,024	231
2006–07	37	4
2007–08	108	21
2008–09	88	5

*The number of homes allocated to households from within your borough; and to households from other parts of the North London Sub-region.*

The table below shows lettings to households from within Westminster, and to households from elsewhere. Lettings include those to council properties and to those RSL properties to which the council has nomination rights. Our systems currently do not allow for a further breakdown of the “households from outside Westminster” figure, so we are unable to show the allocations to households from within the North London sub-region.

<i>Year</i>	<i>Lettings to Westminster households</i>	<i>Lettings to households from outside Westminster</i>	<i>Total Allocations</i>
2001–02	1,291	8	1,299
2002–03	1,084	8	1,092
2003–04	1,169	5	1,174
2004–05	1,168	2	1,170
2005–06	1,301	2	1,303
Total	6,013	25	6,038

*The number and proportion of internal and external allocations made to newly-built houses.*

It should be noted that schemes are often completed toward the end of a financial year and therefore not available for letting until the following financial year. Completion and allocation data are notoriously difficult to reconcile. On average, the city council receives nomination rights to approximately 80% of new RSL units. The remaining 20% are available for the RSL’s own purposes, and may be let to households from within Westminster or elsewhere. The council does not retain allocations information for RSLs, so we are unable to say to whom all social rented dwellings in Westminster are let.

The table below shows council nominations to new RSL properties for each of the past five years.

<i>Year</i>	<i>WCC lettings to new RSL units</i>
2001–02	314
2002–03	252
2003–04	184
2004–05	192
2005–06	269
Total	1,211

*How many council properties have been sold to tenants under the right-to-buy?*

<i>Year</i>	<i>Right to Buy sales to tenants</i>
2001–02	189
2002–03	200
2003–04	267
2004–05	145
2005–06	40
Total	841

*Of those above, how many have subsequently entered the private rented sector (whether directly or through buy-to-let); and how many are then being rented by the Council?*

Unfortunately, our systems do not allow us to determine which of those properties sold in the past 5 years have subsequently made their way into the private rented sector. We are, however, able to provide information about the overall portfolio of former council properties.

We currently have 9,224 lessees who will have purchased their property directly from the council under Right to Buy, or on the open market. Of those, 2,740 have registered a sub-lease with us and we have identified a further 259 possible sub-lets. From this we can assume that 2,999 (32.5%) of the properties that have been sold under the Right to Buy are now in the private rented sector. Of those, 1,040 are currently rented back to the Council.

An indication of the amount of Housing Benefit paid through Westminster to the private sector and to social rented sector.

The following table shows Housing Benefit expenditure for each of the past four financial years, plus the projection for the current year. We are able to separate out expenditure on council rented dwellings, however RSL rented dwellings are included within the overall private sector.

#### HOUSING BENEFIT EXPENDITURE (£'000)

<i>Tenure</i>	<i>2002–03</i>	<i>2003–04</i>	<i>2004–05</i>	<i>2005–06</i>	<i>2006–07 (proj)</i>
Council rented	33,900	33,800	36,500	37,100	38,000
Private Sector	64,600	60,300	72,600	77,800	87,000
Temp. Accommodation	36,300	45,900	51,500	59,000	59,400
Total	134,800	140,000	160,600	173,900	184,400

You also asked for confirmation of our affordable housing policies: which areas are covered by the 50 per cent and 30 per cent requirements; and the split between social rented and shared ownership. The table below summarises the policy requirements.

#### SUMMARY OF WESTMINSTER'S AFFORDABLE HOUSING POLICY

<i>No of Additional Residential Units Proposed</i>	<i>Percentage of Affordable Housing Required</i>			
	<i>Inside CAZ, CAZ Frontages and PSPA</i>	<i>1. RSL Schemes</i>	<i>2. Low existing use value</i>	<i>3. Other sites (not covered by 1 and 2)</i>
0–9	0	100%*	0	0
10–24	Stepped to 30%	100%*	Stepped to 50%	Stepped to 30%
25–39	30%	100%*	50%	30%
40–79	30%	100%*	50%	Stepped to 50%
80+	30%	100%*	50%	50%

\* except where a proportion of the units are “market housing” needed to subsidise the affordable housing.

CAZ—Central Activities Zone.

PSPA—Paddington Special Policy Area.

On sites requiring 30% affordable housing, 25% will be for social housing and 5% for intermediate housing.

On sites requiring 50%, the proportions up to 30% will be as above, and the breakdown of the remaining 20% will be determined on a site by site basis, depending on local housing need.

Further information about the council's planning policies can be found in the Unitary Development Plan, adopted by Full Council on 24th January 2007 and available at the following link: <http://www.westminster.gov.uk/udp/>.

#### First Supplementary memorandum by the Department for Communities and Local Government

During the evidence session on the 12th December, I offered to write providing examples where my Directorate has intervened where it appeared that local housing authorities were refusing to accept or deferring a homelessness application when in fact the applicant might have been entitled to be accepted as homeless or been at least offered comprehensive options to avoid homelessness.

I made clear to the Chair that I did not wish to name or shame different councils but did offer to provide concrete examples of where poor practice has been brought to the Directorates attention and where officials and specialist advisors (seconded to my Directorate) have intervened/visited to ensure good practice was being adhered to. Examples of this are attached at annex A.

The Directorate also provides support and advice to all Councils as well as specific action where problems have been identified. The activity which officials/specialist advisors carry out to advise Councils on the best way to prevent homelessness includes:

- Homelessness Roadshows—These are regional events where the Directorate's specialist advisor/officials highlight all areas of good practice that Councils should be adopting. All local authorities are invited to attend, usually resulting in over 90% take up. We have undertaken 25 of these events

in the past two years covering every region. Councils are informed about how to analyse their own performance with a view to improving it and advice on how to get more out of their RSL partners, to enable them to tackle homelessness more effectively.

- Good practice toolkit—This is a comprehensive homelessness prevention toolkit in the shape of a checklist for the local authority to compare their performance against the good practice options listed.
- Regional Champions—Over the past two years we have appointed local authorities to act as critical friends to other authorities and advise and support them with their homelessness agenda. This is carried out by way of an action planning day or a peer review over 3 days. Regional champions have been selected because of their track record on homelessness. There are currently 14.
- Mystery shopping—Specialist advisors will randomly ring local authorities from a member of the public's perspective to ascertain whether or not good practice is being adhered to.
- One to one diagnostics—Specialist homelessness prevention advice to individual Councils (including all front line staff) over 1 or 2 days, depending on size—We have visited over 200 in the past two years.

The Homelessness Minister, Yvette Cooper also wrote to all local authorities last June outlining the need for them to adopt good practice when tackling and preventing homelessness but also making clear that they must ensure that they fulfil their statutory obligations in parallel with their prevention work.

Although we have done our very best to ensure that all local authorities adhere to the best possible practice, there of course have been instances where this has not been the case. However, investigation by my officials has found that this has been mainly due to poor judgement on a individuals' behalf rather than the Council openly flouting the rules.

I hope this clarifies the work of my Directorate to continue to support local authorities' performance in tackling and preventing homelessness.

*Terrie Alafat*  
Director, Housing Strategy and Support

12 January 2007

**Annex A**

#### EXAMPLES OF POOR PRACTICE AND WHERE THE DIRECTORATE HAVE INTERVENED

A local authority housing officer had advised a private rented sector tenant to stay in the accommodation (sit tight) and wait for an eviction notice or the bailiffs to arrive before they can be considered as homeless.

- The advice from a best practice point of view was In this instance the local authority should have acted immediately and negotiated with the landlord on the tenant's behalf and certainly not waited until the very last minute, which can cause undue stress.

A local authority bringing to an end the homelessness duty to a teenage mother who refused an offer of accommodation that she deemed unacceptable.

- The duty should never have been brought to an end because she deemed the offer unsuitable. The offer clearly was unsuitable as it was too far away from her support networks (family), which were vital in this instance and which most likely would have resulted in loss of tenancy.

A seventeen year old being told to attend mediation, knowing that once the mediation was finished that person would be 18 and therefore not in priority need.

- Finally, whilst mediation has proved very successful in preventing homelessness for youngsters, the 17 year old should have been kept informed at all times of the process and what the implications would be once they had turned 18.

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### **Second supplementary memorandum by the Department for Communities and Local Government**

#### HOUSEBUILDING ON SURPLUS PUBLIC SECTOR LAND

When I appeared before the committee on 12 December I was asked to write to you with further background to the Chancellor's PBR announcement of the ambition to see 130,000 homes built on surplus public sector land over the decade to 2016.

The 130,000 homes target in the Chancellor's PBR statement (which replaced a previous target of 100,000 homes announced in the 2006 Budget) is based on an analysis of potential new homes on surplus public sector sites where development is in train and of further sites identified as having residential development potential using data from the Register of Surplus Public Sector Land (The Register) and the most recent compiled National Land Use Database of Previously Developed Land (NLUD-PDL).

The Register, established and managed by English Partnerships, lists sites owned by central government departments and agencies which are surplus to operational requirements. Government departments and their sponsored bodies are required under Government Accounting to add sites identified as surplus to the Register and allow 40 working days to test other public interest before these sites can go on the open market. The Register includes both brownfield and greenfield land. From an analysis of the Register of those sites which are identified as having potential for residential development, we estimate that there is the potential to deliver up to 25,000 new homes on this land (approximately 14% of the total site area on the Register).

In contrast NLUD-PDL covers solely brownfield sites and holds information about previously developed, vacant and derelict land and buildings. It includes local authority land and land in other public ownership as well as privately owned land. NLUD-PDL statistics are compiled on the basis of annual voluntary returns from local authorities. English Partnerships administers the data collection of NLUD-PDL. Based on the NLUD-PDL 2005 return, we believe about 34,000 further homes could be built on public sector land, over and above that included on the Register.

The majority of these estimated 59,000 new homes which can be delivered over the next ten years will be on brownfield land already declared surplus to requirements and identified as such on the Register and NLUD-PDL return. The South East and South West offer the greatest potential for housing development. Where English Partnerships is taking forward sites it will consider carefully the development potential of all the sites to assess their suitability for housing and other development. As part of this process English Partnerships will carry out consultations with local community groups, local planning authorities and other interested bodies about the types of development being considered. Any proposals for new housing development will require planning permission and need to meet the requirements of the development plan process.

The balance of the 130,000 figure—some 71,000 homes—comprises new homes as part of committed developments on surplus land owned by major public sector landowners, for example the Defence Estates Project MoDel, and sites already acquired by English Partnerships. These sites include the Hospital Sites Portfolio of 96 sites acquired in April 2005 from the Department of Health, and Oakington, a former Defence Estates site.

You asked whether the 130,000 figure related exclusively to brownfield sites. It will be clear from what I have said that it relates to both brownfield and greenfield land, although we would expect the great majority of the homes to be on brownfield land.

You also mentioned at the end of the session that you might ask me for an update of the number of Registered Social Landlord Social HomeBuy sales and applications near the end of the inquiry, which I understand is likely to be in about two to three months time. I would of course be happy to provide this information on request.

*Andrew Wells*

*15 January 2007*

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### **Memorandum by the Confederation of Co-operative Housing**

#### **1. INTRODUCTION**

1.1 The Confederation of Co-operative Housing (CCH) is the national representative body for housing co-operatives and other forms of community controlled housing. It is a voluntary organisation, made up of tenant representatives from housing co-ops and other supporter organisations. Since 1994, the CCH has promoted community controlled housing as a means of establishing sustainable communities, and has worked in partnership with Government and other bodies to develop practical methods to implement community controlled housing. The CCH's work has most notably included:

- ongoing support and advice for the housing co-operative movement in England and Wales
- pioneering the Community Gateway model as a means of establishing tenant and community membership based large scale housing organisations, and work in partnership with Co-operatives UK and the Chartered Institute of Housing to develop a Community Gateway framework
- investigation into Community Land Trusts as vehicles to enable community control over wider housing and other neighbourhood based issues
- working with the Housing Corporation to develop the Taking Control in your Community best practice advice and support for housing association tenants and officers on community initiatives

1.2 The CCH welcomes the opportunity to make a submission to the Communities & Local Government Committee Inquiry into the supply of rented housing. We are pleased to have seen the steady progress made on various housing agendas since 1997, particularly the drive to raise the level of tenant involvement in decision-making. However, we also consider that considerable challenges remain or have developed:

- despite Government subsidy, there is still a growing shortage of homes available to meet demand, resulting in escalating house prices

- the traditional UK home ownership model is becoming increasingly harder to sustain. Increasing house prices means that public subsidy is necessary to make homeownership accessible to many first-time buyers, and many low income homeowners lack the resources with which to maintain their homes. As well as this, an increasing social and wealth gap between homeowners and the rest of society has developed.
- increasingly only able to cater for the most vulnerable in our society, social housing gradually retreats into a bunker of permanent state dependency, seen as the housing of last resort. Its only method of survival is merging into larger organisations where services are pared back, where accountability to tenants and communities becomes more difficult, and where far too often, staff are seen as active decision-makers, and tenants passive recipients
- these problems collectively mean that it is becoming harder to utilise what should be the most significant community asset (ie. land and housing) to generate community fabric

1.3 Below we comment on the specific issues highlighted in terms in the Inquiry's terms of reference.

## 2. THE LEVEL OF PUBLIC FUNDING REQUIRED TO MEET SOCIAL HOUSING NEEDS

2.1 A Government supported survey has shown that living in a friendly community is the most important priority for a majority of the UK population in relation to where they would like to live,<sup>1</sup> even more important than living in safe and quiet areas. The research suggests that established communities will take responsibility for tackling the issues important to them, and implies that facilitating community generation should be a guiding principle behind any initiative if we are to meet popular aspirations.

2.2 The CCH's view is that regardless of the right balance between funding social housing and other forms of below market housing, it is necessary to place the generation of community at the heart of any programmes, and that this may require short to medium term seed corn funding. Our view, based on the experiences of co-operative and community controlled housing, is that generating community activity within housing will lead in the long term to greater efficiency and value for money, community self-responsibility, as well as a range of other social and community benefits. These benefits will lessen public expenditure in the long term.

## 3. THE EFFECTIVENESS OF DIFFERENT SOCIAL HOUSING MODELS—LOCAL AUTHORITIES AND HOUSING ASSOCIATIONS

3.1 The National Housing Federation and the National Consumer Council have recently published the report from an independent Tenant Involvement Commission.<sup>2</sup> Chaired by Ed Mayo from the National Consumer Council, the Tenant Involvement Commission was charged with exploring how housing associations can meet their tenants' aspirations, and how to increase accountability in the housing association sector.

3.2 The report concludes that, whilst some housing associations are engaging well with their tenants, they are often seen as paternalistic by tenants, and calls for a renewed "relationship between landlord and tenant based on customer service, mutuality and business success".

3.3 Drawing on the findings from a seminar held in Leeds where housing association tenants who had previously not been involved in their associations spoke of a get what you are given culture, the report not surprisingly identifies that tenants want housing associations to get basic services right, whilst at the same time indicating that "community is important to many tenants". It highlights that "tenants are interested in becoming involved" but needed to see how getting involved matters and can make a difference.

3.4 Launching the report at the National Housing Federation conference in September, Ed Mayo said "the headline message is that housing associations are perhaps not yet as good as they think they are. The message from tenants is stark: you must put your own house in order and deliver better services, more choice, and ensure that tenants have a greater say over their homes and neighbourhoods."

3.5 The Tenant Involvement Commission report is about housing associations, but surveys carried out in 2003–04 showed that 53% of local authority tenants (including ALMOs) were unhappy with their opportunities to participate in decision-making (as opposed to 41% in the housing association sector). Whilst both of these statistics demonstrate the need for fundamental cultural change, they would appear to suggest that there is an even greater need for change in the local authority housing sector.

3.6 These problems may not be surprising given that usually local authority housing departments, ALMOs and the housing association sector are led by people who are not required to have skills or knowledge of tenant and community empowerment. This is a problem that particularly needs to be addressed.

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<sup>1</sup> ESRC: British Household Panel Study 2002—quoted in *Regional Futures & Neighbourhood Realities*—Professor Richard Scase & Dr Jonathan Scales—published by the National Housing Federation 2003.

<sup>2</sup> *What Tenants Want*—Report of the Tenant Involvement Commission—2006.

3.7 Community generation needs to be placed at the heart of a process of cultural change in the way that social housing homes are provided in the UK. Social housing providers should be seen as community facilitators. Their role should be to generate, guide and support communities in making decisions about their neighbourhoods, where the provider only takes decisions if adequate community capacity does not yet exist, or where the community actively delegates decision-making.

3.8 Experience has shown that the greatest recent progress in tenant and community accountability have been made as a consequence of the requirement to hold stock transfer tenant ballots, which have required tenant engagement on an unprecedented level. It may be that requiring social housing providers to hold ballots amongst their tenants on key issues, particularly including housing association merger proposals, would force the pace of the cultural change that is necessary.

#### 4. THE EFFECTIVENESS OF DIFFERENT SOCIAL HOUSING MODELS—COMMUNITY GATEWAY

4.1 The Community Gateway model, pioneered by the co-operative movement through the CCH, was highlighted as a model of best practice by the Minister for Communities at this year's launch of the housing stock transfer programme.

4.2 The key aspects that have helped Community Gateway to transform tenant hostility towards the "traditional" housing association approach, and has enabled community partnership between tenants, residents, Council officers and members, and other stakeholders have been:

- the tenant democracy inherent in tenant majority membership—whereby tenant engagement, previously considered a minor add-on becomes essential and legally based
- the commitment to enabling communities to get involved in decision-making at a local level
- the objectivity and clarity of the Community Gateway principles, built into the rules and structure of the organisation
- the reputation that Community Gateway is gradually building up in the tenant movement

4.3 Community Gateway has been pioneered through the Preston Community Gateway, and next year will see the second Community Gateway set up in Watford, where tenants recently voted in favour of transfer. Tenants ballots are also due to be held in Tamworth, Braintree, Brighton and Lewisham on Community Gateway transfers, and in Welsh local authorities for Community Mutual transfers—the equivalent of Community Gateway in Wales.

4.4 In a paper<sup>3</sup> published in 2004, Jeff Zitron, a leading consultant in the social housing sector, argued that all Council housing should be transferred to tenant membership based Community Gateway Associations. His argument was that the choice inherent to the stock transfer process was artificial given the imbalance of resources available to transfer and local authority retention, and that the real choice that should be available to tenants should be about what type of organisation local authority homes should transfer to.

4.5 Given that:

- the Government's stock transfer programme has largely been successful with a majority of stock transfer ballots resulting in transfer, and with additional private resources that have been made available to social housing through stock transfer
- even where tenants have voted against transfer, this has largely been due to misinformation campaigns by those opposed to transfer
- stock transfer housing associations have out-performed existing housing associations and local authorities
- the Community Gateway model has now introduced the concept of tenant ownership, membership and democracy to the housing association sector
- Community Gateway is beginning to develop significant cultural change in the provision of social housing (both in the Community Gateways that are being established, and also in the wider social housing world—where, for example, it provided some of the impetus for the National Housing Federation to establish its Tenant Involvement Commission)

there may be merit in Zitron's argument that all local authority housing should be transferred to Community Gateway Associations.

4.6 The CCH would urge the Government with the CCH and others to review the progress and potential use of the Community Gateway model.

<sup>3</sup> Transfer of Affections—Jeff Zitron—Tribal HCH—2004—published by the Fabian Society.

## 5. THE EFFECTIVENESS OF DIFFERENT SOCIAL HOUSING MODELS—HOUSING CO-OPERATIVES

5.1 For many years, the housing co-operatives and other forms of community controlled housing the CCH represents have played an important role in generating community to provide its own self-help approach to provide good quality and cost effective services. Research that concluded in 1995 that community controlled housing is amongst the most effective form of social housing has been confirmed in all research carried out since then.<sup>4</sup>

5.2 However, with very little public attention paid to the housing co-op sector for many years, it is in need of a review and refreshment process that is beyond the voluntary means available to the CCH. In particular, at present, the co-operative housing sector's assets of approximately £250 million are difficult to use because they are held across a large number of small, independent co-ops. In the light of the Barker review, discussions have started to take place amongst housing co-ops about how these assets could be rationalised, but this debate is limited by the lack of resources in our sector to move forward what would be a complex process.

5.3 Nonetheless, together with other new community membership housing organisations, a rationalisation of the housing co-op sector could offer potential to form large scale self-financing community based regional housing organisations, with democratic community values at their core. The CCH has proposed that the Housing Corporation should fund a programme to explore how the housing co-operative movement can meet the challenges posed by the Barker review.

5.4 Initial discussions have also taken place about establishing a Co-operative Movement Real Estate Investment Trust to utilise the significant co-operative movement asset base, alongside the housing co-operative asset base, to ethically deliver a range of affordable and other housing initiatives. Again, this is a complex proposal that would take significant resources to forward, although some of these resources would be available from the co-operative movement itself.

5.5 Other forms of co-operative and community controlled housing also need some attention. In particular, the recent Government White Paper on Local Government highlighted the important role that tenant management could play (again all the available research has pointed to the success of tenant management). Dialogue has started with the Housing Corporation on updating arrangements for establishing tenant management organisations. A particular noticeable problem has been the lack of funding and framework to establish tenant management organisations in the housing association sector, and the CCH and other bodies have always considered that there is a need to extend the formal Right to Manage to assured housing association tenants.

5.6 There is also a need to consider how to remove the obstacle that VAT liabilities place on establishing community ownership and management organisations and the development of neighbourhood based approaches. The loss of 17.5% expenditure is a disincentive for any organisation to consider how to encourage devolution of management or ownership to community organisations.

## 6. THE RELATIVE FUNDING PRIORITY BEING GIVEN TO SOCIAL RENTED HOUSING AS OPPOSED TO SHARED OWNERSHIP & OTHER FORMS OF BELOW MARKET HOUSING

6.1 The CCH is concerned that, particularly with growing demand for housing and demographic changes, public subsidy for individual home ownership may prove unsustainable in the long term unless:

- there are community based means for public subsidy for home ownership to be recycled for future generations, and not simply lost through public subsidy to individual asset building
- public subsidy for home ownership is allied to models that will generate community activity, community ownership and long term community responsibility for the future of neighbourhoods

6.2 The CCH has proposed a gradual redefinition of housing provision in this country, where a community housing option becomes available as an option in a continuum that spans between community based owner occupation (ie not simply based on individual asset ownership) through to what is now identified as social housing, where those who contribute financially receive an asset in relation to their

<sup>4</sup> There are many pieces of research that have demonstrated the success of community controlled housing, including:

Tenants in Control: an evaluation of tenant led housing management solutions—Price Waterhouse 1995. Commissioned by the then DOE, this study compared the performance of housing co-ops and other tenant controlled organisations to local authority and housing association counterparts. It concluded that housing co-ops outperformed their local authority and housing association counterparts, and provided a range of unquantifiable social and community benefits.

Clapham, Kintrea & Kay, 3 university study 1998, first reported in the May 1998 issue of the Journal for Co-operative Studies in 1998. Researchers studying the benefits of community and co-operative ownership in Scotland concluded that “although a major programme in Scotland, the approach has not been adopted in England and Wales. The continued success of community ownership argues strongly for the model to be adopted more widely”.

An Evaluation of Tenant Management Organisations in England—Oxford Brookes University—published by the Office of the Deputy Prime Minister 2002—concluded that “In most cases, TMOs were performing better than their own Council and compared favourably with the top 25% of local authorities. TMOs are a model of what local people can achieve. They are generally well run and over half are involved in wider social and development activities that help to strengthen their community”.

Tenant Control & Social Exclusion—Clapham, O'Neill & Bliss—published by the CCH 2000—concluded that tenant controlled housing organisations have a favourable impact on Government defined indices of social exclusion.

contributions and where public support is provided as needed. This option needs to become an attractive sector of choice firstly through it being a cheaper alternative to traditional homeownership and secondly through it being based on community ownership, community control and community membership, responding to popular aspirations to live in friendly communities.

6.3 Community Land Trusts may be one means of establishing this continuum. Community Land Trusts are community ownership organisations that can carry out a wide range of housing and other functions. They could:

- ensure affordable housing provision becomes relevant to all sections of the community
- unfetter community vision and imagination to provide its own self-help solutions and enable affordable housing to progressively break free from its state dependency
- become attractive to ordinary people so that they gift, bequeath or sell at below market levels land or assets to Community Land Trusts
- be a means of utilising the most substantial neighbourhood community asset (ie. its housing) for community benefit

6.4 But this bold vision will only be achievable if Community Land Trusts are clearly accountable to local communities, community owned and set up with community memberships to act as their stewards.

6.5 With the Community Land Trust model currently being new and complex to implement, resources need to be devoted to the development of practical methods of establishing Community Land Trusts, including the establishment of a number of pilot programmes, and the promotion of the model.

6.6 Community Land Trusts also offer a means of establishing mutual homeownership organisations, whereby local authority land or other public assets used to subsidise individual home ownership can be permanently locked in to providing affordable housing whilst providing members an equity stake.

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### **Memorandum by the Joseph Rowntree Foundation**

#### **ABOUT THE JRF**

The Joseph Rowntree Foundation (JRF) is one of the largest social policy research and development charities in the UK. It supports a research and development programme that seeks to understand the causes of social difficulties and explore ways of overcoming them. This is combined with extensive practical experience of housing and care provision through the Joseph Rowntree Housing Trust (JRHT). We are a strictly apolitical organisation. Our research is made freely available to all through our website ([www.jrf.org.uk](http://www.jrf.org.uk)).

This memorandum has tried where possible to address the areas of interest expressed by the committee and has therefore used bullet points from the inquiry notice as titles. However, due to there not being suitable recent JRF research available, this paper has not addressed issues of:

- the geographical distribution of subsidies for affordable housing;
- the effectiveness of different social housing models including traditional local authority housing, ALMOs, housing co-operatives and housing associations;
- the priorities and effectiveness of the Housing Corporation, English Partnerships and the Regional Housing Boards in responding to housing needs;
- the effectiveness of housing benefit as a means of providing access to rented housing to those in need.

#### **SUMMARY**

- Following its overall decline during the last century, the private rented sector now caters for a number of specialised needs.
- Recent growth in the private rented sector has been concentrated in areas which witnessed the largest decline in the 70s and 80s.
- Despite improving quality in recent years, private rented accommodation is still the most likely tenure to be without central heating.
- The private rented sector is still dominated by small landlords and in need of institutional investment if supply is to be increased without removing properties from owner occupation or the social sector.
- Growth in social rented and affordable properties will increasingly be dependent on the outcomes of S106 agreements.
- S106 agreements not only present an opportunity to increase supply, but are as importantly an opportunity to create sustainable mixed communities.

- However, a number of barriers and concerns need to be reduced/addressed if the greatest potential is to be made of this. Notably it would seem that successful S106 agreements are dependent on a buoyant housing market and state subsidy.
- Work still needs to be done to convince developers and local residents that mixed communities are desirable and that social tenants do not equate to “problem tenants”. While incentives need to be provided to ensure that S106 agreements produce sufficient family homes to ensure that communities are mixed in demographic terms, alongside tenure and income.
- Finally, although S106 agreements have great potential to increase supply, on their own they will not be sufficient. There is still a significant role for RSL-led development and greater consideration should be given to the Government’s role in providing gap funding and the role that can be played by local authorities and others in releasing land.

#### THE ROLE AND EFFECTIVENESS OF PRIVATE RENTED HOUSING IN MEETING HOUSING NEEDS

1. The JRF has recently published extensive research, based on recently released census data, which examines the state of the private rented sector.<sup>5</sup> It is worth drawing the Committee’s attention to a few areas of interest highlighted by the report.

2. For much of the 20th Century, the size of the private rented sector has decreased in size and moved from being a traditional, general form of housing to one that now typically caters for specialised needs. The research found this to focus on five main roles:

- a “traditional role”, housing people who have rented privately for many years;
- flexible, easy access housing for young and mobile people;
- accommodation linked to employment;
- a “residual role”, in housing people who are unable to access owner occupation or social renting;
- and as an “escape route” from social rented housing.

3. This is perhaps unsurprising, but it does highlight a unique role for the sector. Those who use the sector in its “traditional role” are seemingly declining in their make up of the market. For example, single pensioner households have decreased by a third (1981–2001) in their use of it. It aids large proportions of young people by providing them with accommodation during higher and further education. It allows them to take jobs outside their “home town”. There is still a significant minority of privately rented properties that are employment-linked (5%); these are typically in non-deprived areas (both urban and rural) and occupied by a higher proportion of people in managerial/supervisory roles. This perhaps suggests that the private sector, along with the state, is having to provide some element of key worker housing, though employers could perhaps do more.

4. A specific role of the sector not covered above is that it provides a significant proportion of the accommodation used to house homeless people; 32.7% of the total households granted temporary accommodation (5.5% of all private rented stock). Further, it is the most ethnically diverse sector with all BME groups over represented in the sector.

5. Those areas which have experienced above trend growth in rented accommodation over recent years (1991–2001) seem to have been those areas which experienced the largest decline in the sector over the previous two decades (1971–1991).

6. The research found there to be no link between the levels of private rented houses and the levels of multiple deprivation, breaking the stereotypical 1960s view of the sector. However, the private rented sector still in areas displays sub-average quality levels of accommodation. Private sector properties are twice as likely to have no central heating when compared to all other tenures, with 17.4% nationally not having any, which rises to as high as 23% in areas like Yorkshire & Humberside, and as low as 13.1% in the North-East region. The households in this sector most likely to be without central heating are single pensioners (25.7%).

7. There is also an issue of whether there is sufficient local authority capacity to aid private sector renewal. This work found that while 80% of housing stock is in private ownership, over half (54%) of all local housing authorities employed fewer than five full-time members of staff on private sector housing renewal activity, and 26% of authorities had less than three people undertaking such work.<sup>6</sup>

8. In ownership terms, the sector is (still) characterised by small-scale landlordism. The 2003 Survey of Private Landlords<sup>7</sup> revealed that two out of three landlords were “one-person” enterprises, and that only one in three let properties as a main business. Individual landlords tended to have more modern stock in better condition, and to be more represented amongst the 90%+ of privately rented stock that is not in low housing demand areas. The survey also showed the significance of new entrants to the sector; 16% of landlords had been in the sector for less than 2 years, 88% of whom were private individuals. While these landlords have improved the quality of the sector and expanded its supply, they have not significantly

<sup>5</sup> *The modern private rented sector*, David Rhodes, 2006 (JRF/CIH).

<sup>6</sup> *Implementing new powers for private sector housing renewal*, Rick Groves and Sian Sankey, 2005 (JRF).

<sup>7</sup> *English House Condition Survey 2003—Private Landlords Survey*, 2003 (ODPM).

contributed to an increase in overall supply, suggesting the need for larger, institutional, players to enter the market. This formed one of the main conclusions of the 2002 JRF/Shelter Private Rented Sector Commission report.<sup>8</sup>

9. The Foundation, through its City-centre Apartments for Single People at Affordable Rents (CASPAR) in Leeds and Birmingham, has shown that strong positive returns for such investors are possible.

10. This small landlordism is likely to have increased further since the above statistics were recorded given the continued rise in the buy-to-let element of the sector. It could well be this group that is driving the current further growth in the private rented sector (though of course increases in buy-to-let mortgages can not be equated directly with increases in small scale landlordism).

#### PERCEPTIONS OF SOCIAL SECTOR TENANTS

11. Though the JRF has not recently undertaken any research specifically on the requested area of the perceptions of social-rented sector tenants, we have recently commissioned some research from York University into the perspectives of those living in affordable high density housing, which we would be happy to share with the Committee when the results are available in late 2007.

#### THE ROLE AND EFFECTIVENESS OF THE PLANNING SYSTEM, INCLUDING SECTION 106 AGREEMENTS IN THE PROVISION OF RENTED HOUSING AND SECURING MIXED TENURE HOUSING DEVELOPMENTS

12. The rise in households in the UK and the failure of overall housing supply to keep pace has been well documented.<sup>9</sup> Alongside this trend in recent years, the number of homes built through S106 agreements are rapidly increasing in their proportion of the socially rented and affordable stock that is built. As it is unlikely that there will be a large increase in state spending in this area and, because some Housing Associations find it difficult to acquire affordable land for new build, this is likely to become an extremely important form of providing socially rented and affordable housing in the future (if it is not already).

13. JRF research<sup>10</sup> has highlighted that between 2000–1 and 2002–3 the proportion of affordable homes built through S106 agreements increased from 30% to 47% of all affordable completions. While during the same period non-S106 completions fell from 21,451 to 13,949. The same research included a survey of housing associations undertaking development work. This noted that in only 38% of cases S106 developments were taking place where direct RSL development may have occurred and notably that such sites were increasingly difficult and expensive to obtain and develop. Overall, housing associations increasingly saw themselves as only able to gain access to land in the areas of greatest housing pressure. Many housing associations stressed that land supply was their main constraint and that, for them, the prime rationale of S106 is that it provides land.

14. This memorandum will later highlight some of the barriers to greater outputs from S106 agreements, but firstly it is important to draw attention to a significant other benefit of them. S106 agreements provide a means of increasing social and affordable housing, but as importantly, they present a significant opportunity to create mixed communities. Given this, the supply of rented housing (both social and private) is inextricably linked to the wider supply of housing, and it is important that it is considered as such.

#### *Mixed Communities*

15. The JRF's work into mixed communities<sup>11</sup> has shown that there is no one definition of what one should consist of and that nor should there be. Mixed communities can be a mix of incomes, tenures, demographics and ethnic groups, and how this mix comes about can be caused by a range of factors, including, tenure mix, local authority allotment, market pressures, migration and property specifications; some active and some passive. Most importantly, the mix of community most likely to create a sustainable community is going to be one that responds well to local demands and pressures.

16. Ultimately a mixed community is one that avoids a neighbourhood becoming too socio-economically and demographically homogenous—relative to the wider community. This can occur as much at the higher end of the economic spectrum as it can in more deprived areas, though it is of course the latter which is the focus of most research. A number of research pieces shows that concentrating deprivation magnifies the individually negative aspects of being in poverty: low educational achievement, poor mental and physical health, worklessness, the likelihood of being a victim of crime or committing a crime, low self-esteem and well-being while often reducing access to more mainstream services, such as financial and essential retail services.

<sup>8</sup> *A new settlement for the private rented sector*, 2002 JRF/Shelter Private Rented Sector Commission).

<sup>9</sup> For good succinct summary of the latest figures on this please see the recent, *Housing and neighbourhoods monitor*, 2006 (JRF/NPI).

<sup>10</sup> For an overview the main issues in this area please see, *Land and finance for affordable housing*, Sarah Monk, Tony Crook, Diane Lister, Steven Rowley, Christine Short and Christine Whitehead, 2005 (JRF).

<sup>11</sup> Neatly summarised by: *Foundations: Mixed Communities*, 2006 (JRF).

17. Defining them positively, a JRF good practice guide based on current example of mixed communities<sup>12</sup> has identified a number of key attributes for their long-term success:

- a clear assessment of local housing needs and market conditions;
- a briefing and master plan process which produces a full range of housing types and sizes, located in an attractive environment;
- a vision promoted and sustained by all stakeholders;
- a locally based and unified system of housing and environmental management embracing all stakeholders and including substantial community involvement.

18. Housing markets in all areas in the UK are changing rapidly. Although economic self segregation has always been with us and will continue to be a real choice for the very wealthy, to those further down the socio-economic ladder, the Right to Buy, the Right to Acquire, Buy to Let, flexible tenure and equity release products, mean that neighbourhoods are increasingly likely to be tenure fluid. An individual home is no longer fossilised in the tenure for which it may originally have been intended. There is no evidence to suggest this is a temporary trend, indeed indications suggest it is likely to become more the norm as, due to planning guidance and regulation and increased interest in residential investment, new communities are built as mixed tenure and as more and more often, off-plan sales are made to Buy to Let investors. It is given this fluidity that the supply of rented accommodation cannot be considered in isolation from all other tenures.

#### *Achieving increased supply and mixed communities through S106*

19. While, as noted above, S106 are unlikely on their own to be able to regenerate areas facing deepening decline, they have an important role to play to ensure that in other areas the supply of housing that is built is mixed for the longer-term benefit of residents. It is therefore vital that the most is made of this potential.

20. In 2002–03 just over 2,260 affordable homes were completed through the S106 policy without any public subsidy, 9 per cent of the total. The remainder rely on SHG and subsidy from other sources including the now abolished Local Authority SHG (LASHG), Single Regeneration Budget and Safer Communities Grant. Land costs are a significant element in the total cost of S106 provision and contributions from private developers are important in reducing these costs and bringing total development costs within levels that are within the limits imposed by the Housing Corporation funding regulations.

21. Importantly for mixed communities, a survey of housing associations<sup>13</sup> found that nearly 70% of respondents believed that the growth of S106 meant they were developing in more expensive areas (in terms of land costs) and 68% stated they were able to develop in areas not normally associated with affordable housing. These agreements are also producing value for money homes as only minor differences were found in the amount of Social Housing Grant required on S106 sites compared with other sites because contributions from private developers bring S106 site costs down to funding limits in line with non-S106 sites. S106 sites funded through the use of public subsidy will thus produce a similar number of homes as the same level of funding on non-S106 sites, despite being located in areas of generally higher land costs. The importance of this is further highlighted by research currently being undertaken for the JRF.<sup>14</sup> This has noted that new social housing units are still being concentrated in more deprived areas, while new private housing is more evenly spread (though this may be caused by new social build occurring on demolished sites, which actually be increasing the tenure mix—this is being further examined at present as part of this research). The same research has also further highlighted that one of chief reasons for failed regeneration initiatives are that they are unbalanced and have failed to change the social standing of the neighbourhoods.

22. This further highlights the need for the supply of rented housing to be considered in relation to wider supply and mixed communities. There may be instances in which it is advisable to reduce the provision of social rented housing within an estate. This can include demolition, as noted above, seen most commonly in HM Pathfinder areas, but also extends to housing sales. A forthcoming JRF publication<sup>15</sup> highlights the benefits estates can realise if certain properties are sold for owner-occupation in order to make the community more mixed. As is the case of JRHT-run New Earswick and as was suggested for rural areas by the JRF Rural Housing Policy Forum,<sup>16</sup> covenants can be placed on the property to allow the RSL first refusal on buying the property back when it is next put up for sale to allow some continued control over the tenure mix and to ensure the new owners do not then turn this into private-rented housing (defeating the point of the original sale). Beyond the creation of a greater tenure mix, the community can further benefit from the reinvestment of the sale funds into increases in or improvements in housing stock or new community facilities.

<sup>12</sup> *Creating and sustaining mixed income communities: A good practice guide*, Nick Bailey, Anna Haworth, Tony Manzi, Primali Paranagamage, Marion Roberts, 2006 (JRF/CIH).

<sup>13</sup> Found in: *Land and finance for affordable housing*, Sarah Monk, Tony Crook, Diane Lister, Steven Rowley, Christine Short and Christine Whitehead, 2005 (JRF).

<sup>14</sup> *Transforming places: Housing investment and neighbourhoods market change*, Glen Bramley, forthcoming 2007 (JRF).

<sup>15</sup> *Rebalancing Communities: A guide to selling vacant properties on existing mono-tenure social rented estates*, Graham Martin and Judi Watkinson, forthcoming (JRF).

<sup>16</sup> *Homes for rural communities: Report of the Joseph Rowntree Foundation Rural Housing Policy Forum*, Richard Best and Mark Shucksmith, 2006 (JRF).

23. Turning back to areas where greater supply is needed, further research<sup>17</sup> commissioned by the JRF, based on the study of 39 developments, has highlighted that once a development starts on a site, S106 pretty much delivers what was agreed. However a number of problems and concerns remain and are highlighted by the range of aforementioned research above:

- securing homes through S106 depends heavily on the buoyancy of the housing market—a strong market makes it easier to agree the original S106 and to deliver the desired affordable output (a downturn will present greater challenges);
- there is growing concern about the quality of the housing produced—but this applies across housing development as a whole and is not specific to affordable housing;
- mixed communities are not just about varied incomes and tenures, but also household types—JRF research has concluded that while inner-city<sup>18</sup> mixed communities are good places to raise children, a lack of family homes is not allowing families to remain within them (research noted that developers were reluctant to address the needs of larger families where land values are high, and that changing incentives will be required to change this behaviour);<sup>19</sup>
- while the majority of S106 homes are delivered on the same site as those homes available on the open market, there is still work to do in persuading developers and local residents that social housing tenants do not directly equate to “problem tenants”;
- although Social Housing Grant limits are not seen as slowing development at the moment they could become more binding if the number of S106 permissions were to more rapidly convert into developments.

24. Further concerns were highlighted (there are also wider concerns to do with developments not specific to S106 sites):

- problems remain over the length of negotiations with the start of the process to occupancy taking up to four years for some S106 provision.
- a large number of S106 permissions do not become developments which could suggest an unwillingness by private developers to increase supply in certain areas, highlighting the case that not all affordable and social housing will be supplied though S106 agreements and that there is still a need for RSL led developments (this is addressed further below in the gap funding section).

#### THE FUTURE ROLE FOR LOCAL AUTHORITIES AND RSLs AS BUILDERS AND MANAGERS OF SOCIAL HOUSING

25. The final point above is more extensively raised in the JRF’s recent response to the Government’s consultation on Planning Policy Statement 3. This in particular highlighted that releasing land will not in itself lead to an increase in housing supply as private developers have a profit motive in ensuring that areas do not suddenly witness a significant up surge in new build units. There is still a considerable need for RSL driven development.

26. Greater consideration should be given to the use of cross-subsidising, leveraging existing assets and partnerships with private sector investors which would assume that state funding for sustainable communities will be in the form of Gap Funding. There will be occasions where no funding is necessary if organisations are inventive and creative in their use of methods such as those above. Similarly there will be occasions where short term pump priming only is necessary.

27. English Partnerships has developed expertise in this area already and there are tried and tested models such as the Gro grant Initiative (introduced by Scottish Homes in the 1990’s) on which to build.

28. Consideration should also be given as to whether the state is content with grant aid in the form of gap funding or with being a long term capital investor. The ability for the state agency to choose the form of funding most necessary, appropriate and—in investment terms—desirable could yield significant savings and/or receipts for reinvestment in social housing.

29. Finally, there is also greater scope for local authorities to form partnerships with RSLs on certain developments for joint funding and to help aid community involvement and ensure the community is mixed and sustainable, as is currently being undertaken by the Joseph Rowntree Housing Trust in partnership with City of York Council at Derwenthorpe.<sup>20</sup>

<sup>17</sup> *Delivering affordable housing through Section 106: Outputs and outcomes*, Sarah Monk, Tony Crook, Diane Lister, Roland Lovatt, Aoife Ni Luanaigh, Steven Rowley and Christine Whitehead, 2006 (JRF).

<sup>18</sup> *More than tenure mix: Developer and purchaser attitudes to new housing estates*, Rob Rowlands, Alan Murie and Andrew Tice, 2006 (JRF/CIH).

<sup>19</sup> *A good place for children? Attracting and retaining families in inner urban mixed income communities*, Emily Silverman, Ruth Lupton and Alex Fenton, 2006 (JRF/CH).

<sup>20</sup> For more information please visit:  
<http://www.jrf.org.uk/housingandcare/derwenthorpe/background.asp>

#### THE LEVEL OF PUBLIC FUNDING REQUIRED TO MEET SOCIAL HOUSING NEEDS

30. Though the JRF has not conducted research specifically on this area, other work undertaken for the Town & Country Planning Association has highlighted the levels of demand for housing overall, of which social housing need will of course be part.<sup>21</sup>

#### THE RELATIVE FUNDING PRIORITY BEING GIVEN TO SOCIAL RENTED HOUSING AS OPPOSED TO SHARED OWNERSHIP AND OTHER FORMS OF BELOW MARKET HOUSING

31. Though again the JRF has not conducted research specifically into the balance of priority, work undertaken for the Foundation<sup>22</sup> has demonstrated the scale of the intermediate market which highlights the potential demand for shared ownership housing. The intermediate market is made up of those households who earn enough not to require or be granted social housing but are relatively poor enough not to be able to purchase an open market property at the lowest decile (10 per cent) point of local house prices. In 40 local authority areas 40% or more of all younger (20–39 years) working households fall into this increasing market, which is concentrated in London and the South (including many rural areas).<sup>23</sup> Only through some form of shared ownership or subsidised housing could these households enter homeownership at their current income levels, which gives some suggestion as to the potential latent demand for such schemes.

#### THE IMPACT OF THE OPERATION OF COUNCIL TAX BENEFIT ON THE AFFORDABILITY OF RENTED HOUSING

32. While the JRF has not conducted any specific research into how Council Tax Benefit relates to the specific affordability of rented housing, a wider piece of work on this area highlighted a number of difficulties with it.

33. The qualitative work<sup>24</sup> noted that many low-income households struggle to pay Council Tax and that there were poor take levels amongst pensioners. Amongst working age recipients it was concluded that the benefit was in some ways being used to try to remedy the regressive nature of the tax, which in turn (due to it being means-tested) often reduced people's work incentives. Further, many interviewees considered the benefit rules to be highly complex and subject to a number of administrative problems.

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#### Supplementary Memorandum by the Joseph Rowntree Foundation

My colleagues at the Joseph Rowntree Foundation have made a submission to your inquiry into Rented Housing and I thought I would add one or two supplementary comments.

First, as the Chair of the Westminster Housing Commission, I enclose a copy of our recent report,<sup>25</sup> looking at the problems facing central London. Many of the issues have wider application.

You will see that both social housing and the private rented sector get chapters of their own. Some of the points in these may be of particular interest to members of your Inquiry.

The second issue on which I wanted to add some supplementary points to those in the JRF submission relates to the phenomenon of Buy-to-Let: the wall of investment into the rented sector through (mostly new) private investors deserves special mention. The Council of Mortgage Lenders suggest that some £70 billion has flowed into private rented over the last six years—far more than the housing associations have borrowed from the private sector over the last twenty years. And it seems that from its bottom line of 9% of the nation's housing, the PRS is now up to 12% of the total. This is a remarkable turnaround in the fortunes of a sector that has been in decline for decades.

My anxieties are that this may not be entirely a good news story. Since those purchasing properties in order to let them are not commissioning new development, the phenomenon has meant increased demand without a comparable increase in supply. More buyers chasing the same number of properties pushes up prices. And it seems that this is the principal reason for the sharp decline in numbers of first-time buyers which I understand to be at the lowest percentage rate of new purchases since records began.

Coupled with this trend is the shift from the building of family houses to the construction of high density apartments. This may have some environmental advantages but there may be some social consequences. I note that 80% of new residential building down the Thames Gateway is in one and two bedroom flats. And yet there is huge demand from families with children who are looking for houses: the Thames Gateway could provide opportunities for family living for many of those working in London, as well as for singles. Indeed,

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<sup>21</sup> *More Households to be Housed: Where is the Increase Coming From?* Alan Holmans and Christine Whitehead, 2006 (TCPA).

<sup>22</sup> *Affordability and the intermediate housing market: Local measures for all local authority areas in Great Britain*, Steve Wilcox, 2005 (JRF).

<sup>23</sup> *Homes for rural communities: Report of the Joseph Rowntree Foundation Rural Housing Policy Forum*, Richard Best and Mark Shucksmith, 2006 (JRF).

<sup>24</sup> *Struggling to pay council tax: A new perspective on the debate about local taxation*, Michael Orton, 2006 (JRF).

<sup>25</sup> Not printed.

it appears that increasing numbers of buy-to-let flats are now standing empty. This is two for city centres in the north of England as much as in London's Docklands. No one has precise figures but everyone comments on the issue. It may result from a glut of properties now that the backlog of demand from those able to pay market rents who need small apartments is satisfied; or it may result from some investors deliberately refraining from letting their properties because the purchase is geared simply to the potential capital gains.

I think these are slightly disturbing reports, not yet the subject of academic research from the Joseph Rowntree Foundation but worth the Inquiry pondering.

27 November 2006

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### **Memorandum by the British Property Federation**

#### SUMMARY

Growth in the private rented sector is needed to cater for increasing numbers of people, who are ineligible for social housing, but cannot afford to buy their own home.

Policymakers should be considering the contribution that private institutional investors can make to delivering a high-quality private rented sector, which is contributing to housing supply and better meeting intermediate market needs.

The institutional sector proportionately accounts for less of the private rented sector than it did a decade ago, reflecting significant growth in buy-to-let, but also tax and regulatory policies that have worked to discourage institutional investment.

To address these the Federation advocates:

- i. Applying stamp duty on the average, rather than aggregate value of portfolio transactions.
- ii. Reducing the rate of VAT on residential refurbishment costs.
- iii. Consideration of the potential barriers to residential REITs.
- iv. Pursuing the Law Commission's Draft Bill on Renting Homes.

Necessary growth in the Private Rented Sector could add to supply, or compete with owner-occupiers for housing stock. We believe the Government should be encouraging the former, a build-to-let sector, which might have some of the following characteristics:

- i. A qualifying rental spectrum, say 75% to 85% of average local private rents.
- ii. Some kind of intermediate tenancy, which provides a slightly longer period of security of tenure of say between three and five years.
- iii. Exemption from some (s106) planning gain requirements.
- iv. Some kind of Code of Standards or Accreditation Scheme, which was open to private managers and housing associations and backed by a dispute resolution body, such as the Housing Ombudsman Scheme,
- v. The ability for the tenant to staircase into shared or full ownership at some future date.
- vi. No dictation of the property manager as part of gaining planning consent.
- vii. To promote take up, some sort of tax incentive, or rental guarantees could be provided, as is the case with private sector leasing schemes.

Part of the rationale behind introducing the Local Housing Allowance is the laudable aim to give housing benefit claimants more choice. That aim, however, will remain significantly unachieved, whilst other facets of the housing benefit system remain unresolved. Some local Authorities' performances at paying new claims needs to significantly improve. If claimants are going to be in position to secure accommodation on the same terms as non-claimants, the BPF would also advocate that:

- i. Housing benefit payment should be paid in advance.
- ii. The Government should be seeking to act as guarantor for legitimate housing benefit payments.
- iii. The Single Room Rent should be scrapped.
- iv. There should be a national minimum housing benefit rent assessment, which takes into account the reasonable costs incurred in managing and maintaining a property.

ABOUT THE BRITISH PROPERTY FEDERATION

1. The British Property Federation (BPF) is the voice of property in the UK, representing organisations owning, managing and investing in property. This includes a broad range of businesses comprising commercial property owners, financial institutions investing on behalf of life assurance and pension funds, corporate landlords, local private landlords, developers in commercial, residential and mixed-use property as well as all those professions that support the industry, such as law firms, surveyors and consultants.

2. Our members are significant investors in property, with substantial investments in residential property for rent. BPF members also deliver significant residential development, often as part of broader large-scale mixed use developments. They are not traditional house builders, but are skilled at using commercial property construction techniques and regeneration expertise to create sustainable communities on urban brownfield land. Often, through joint working between commercial developers with investors and housing managers, including housing associations, to deliver mixed tenure and mixed use schemes.

TRENDS IN THE PRIVATE RENTED SECTOR

3. BPF members invest in the private rented sector in a variety of ways. Some are developers and managers of student accommodation, others seek to provide accommodation for key workers, at least one fund we know of provides first step accommodation for young workers migrating to London, another runs a fund providing accommodation for inward investors trying to place staff in the UK, some provide accommodation across the UK to a mixture of tenants on and off benefit, others focus on premium properties where the tenant is renting out of choice.

4. Such variety is also seen in occupiers in the sector:

- households unable to access social housing, and who may not be in a position to buy;
- students away from home for the first time;
- people on the move because of their job;
- migrants to this country;
- those who have divorced or separated;
- the elderly;
- and younger workers who through choice prefer to rent rather than buy.

5. The chart below illustrates that nearly half (47 %) of current demand for private rented property is from people who fall between affordable home ownership and state-supported renting, what is often termed the intermediate market.

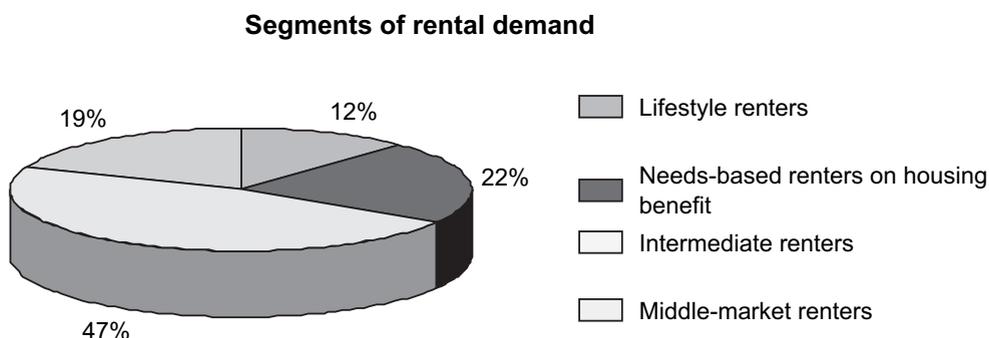


Figure 1—Source Hometrack.

6. Separate analysis by Hometrack predicts that on current demographic trends, 33,000 new renting households will need accommodated each year up until 2021. Hometrack, however, stresses that this might be an under-estimate because recent net migration figures are so hard to ascertain and many migrants end up in the private rented sector. The number of renters will also be affected by social and economic factors, which are hard to predict, because we do not know what future social and economic policy will be.

7. This introductory analysis highlights four points:
- i. The sector is increasingly being innovative in serving particular niches of the market.
  - ii. Such diversification is, however, leading to even greater variability in the standards of management and accommodation in the sector, which vary significantly.
  - iii. Growth in the sector is currently coming from a number of quarters (young people buying later, the expansion in higher education, etc.) but predominantly from expansion of the intermediate market and unless there is a significant increase in the provision of social rented housing or the Government's various home buy schemes, that trend will continue and accelerate.
  - iv. Based on past trends continuing, the sector will need to expand and unless there is policy change, in some areas that will lead to continued competition between potential owner-occupiers wishing to buy and potential investors wishing to buy-to-let.
8. Policymakers should be considering the contribution that institutional landlords could make to resolving some of these issues:
- delivering a high quality PRS;
  - contributing to housing supply;
  - better meeting intermediate market needs;
  - and, driving innovation in the sector.
9. It is, however, the "private" rented sector and to satisfy all these objectives the sector must generate sufficient returns to make it an attractive and viable investment.

#### INSTITUTIONAL INVESTMENT IN THE PRS

10. The last decade has seen a boom in buy-to-let investment. However, institutional and corporate landlords' share of the private rented sector has declined. In 1994 the make up of landlords was fairly evenly split between companies/organisations (50%), and individuals/couples (47%).<sup>26</sup> By 2003 two-thirds of landlords were individuals/couples, with only one third of these full time landlords. Part of this is explained by the growth in buy-to-let, but it also reflects other policy changes which have made the sector relatively disadvantageous to large corporate and institutional landlords.

11. At least part of the reason why the institutional sector is not experiencing the same growth as individual investment lies in returns. Yields from residential renting are currently low reflecting high house prices and relatively low rents. True income returns for the individual investor are often cross-subsidised through their own work in managing their properties. Individual investors will also have different comparators, mostly equities, whereas institutions will compare returns on large scale residential investment with the returns seen in commercial property.

12. To provide competitive returns existing residential vehicles often trade properties and thus bolster returns by releasing capital appreciation. This is not ideal, however, as investing institutions, such as pension funds, will be investing in residential property as much for the income it generates as any capital returns, to help pay pensioners. Funds will therefore seek to replace units that are sold, but as is set out in the "tax" section below, institutional investors' portfolio purchases will normally attract the highest rate of stamp duty, versus the individual investor who may be paying lower rates. Trading will also make residential vehicles ineligible to become Real Estate Investment Trusts (REIT).

13. There is perhaps a misconception that institutions will only be interested in the expensive end of the rental market, but actually the contrary will often be true. It is the yield that is important, not the rent in isolation. Property at average or affordable rents will be less expensive to buy, rents will better reflect average earnings growth or inflation, which pension funds like to track, and such property will be less prone to voids than a 5-bed executive home, which will only appeal to a small marketplace.

#### BARRIERS TO INSTITUTIONAL INVESTMENT

14. There are several tax and regulatory policies, which although perhaps not intentional work to discourage institutional investment:

##### *Tax*

15. The large PRS investor who trades portfolios of property suffers stamp duty on the aggregate value of their transaction, rather than a charge related to the housing unit value. This means that in nearly every transaction the large investor will be paying the highest rate of stamp duty, 4%, compared to the unit-by-unit buyer who is either exempt or incurs a far lower rate of tax. Large investors in the PRS tend to invest

<sup>26</sup> 2003 English Housing survey, ODPM Housing Research Summary, no 226.

in property on average rents, which are easier to let and should incur lower duty. It is also far better from a service and management efficiency perspective to have blocks of units. The perverse impact of this tax situation is that it encourages large investors to trade in individual units.

The BPF recommends the stamp duty rule should be amended to, at worst, a charge based on the average unit value of the transaction. This should be easier to calculate than a unit-by unit basis, where individual values may not have been agreed.

16. The residential property investor is at a comparative disadvantage to the commercial property investor as VAT is not recoverable on refurbishment costs; causing a drag on returns. The small investor is often able to mitigate this through self-management.

We recommend reducing the rate of VAT on residential refurbishment costs.

17. Real Estate Investment Trusts become operative from January 2007. These will open up indirect property investment to individual investors and pension funds. It remains to be seen how many residential REITs will develop. Early indications are that there may be one investing in the private rented stock of housing associations and perhaps one private sector inspired residential REIT. A particular problem that might limit the number of residential REITs is the requirement for a full stock exchange listing, which not many existing vehicles can justify in terms of their size.

It will be important to consider the take up and potential barriers to residential REITs in the light of experience.

### *Regulatory*

18. Too often policy and lack of enforcement has meant that regulation in the PRS has caught the “innocent” majority, whilst the “guilty” minority have simply continued to perpetrate the practices that regulation was meant to solve.

19. There is a feeling amongst the landlord community that regulation of the sector has reached the stage of being counterproductive, because without sufficiently targeted and enforced regulation, the gap in cost competitiveness between the compliant and non-compliant is widened.

For larger landlords there are two particular frustrations:

- i. There are market mechanisms that help regulate the behaviour of larger landlords. The likelihood of adverse publicity and impact on reputation is a significant threat that impacts on larger landlords’ behaviour.
- ii. Much housing regulation is enforced through local authorities. They are given significant discretion and scope in their enforcement. For example, on the licensing of houses in multiple occupation, everything from fees to amenity standards and the forms that landlords need to fill in is left to the discretion of the local authority. For a large landlord operating perhaps in 100 local authority areas, this is a huge and administratively burdensome challenge.

20. We agree that tenants need protecting from the unscrupulous but, despite several Housing Acts the unscrupulous continue to thrive. There must be better ways of protecting tenants than the plethora of Acts of Parliament, secondary legislation, codes of practice and other measures currently imposed on the sector.

21. The Law Commission’s work on Renting Homes, recently published as a draft bill, is a step in the right direction. It seeks to put the contract at the centre of the law and put it on a consumer footing. It would make it obligatory to have a written agreement that covered the key elements of a tenancy: its scope, length, check in and check out procedures and other core terms, such as possession. The obligation to have a written agreement would ensure that tenants were protected by consumer law.

### WHAT COULD THE INSTITUTIONAL SECTOR CONTRIBUTE?

22. Research for the Barker Review by Glen Bramley showed that approximately 90,000 new households a year are in need of affordable housing. At present, social housing provision, both through public-funded development and s106, is providing about 40,000 units. Government shared equity schemes are aspiring to deliver 110,000 homes by 2010, about an additional 22,000 units a year. The table below illustrates that there has been little perceivable growth in the intermediate market. Supply is therefore only providing for, and will continue to provide for about a half to two-thirds of demand under current state-funded programmes.

Table 1

PERCENTAGE OF NEW BUILD HOUSING THAT IS “AFFORDABLE”  
IE AT SUB MARKET RENT OR FOR SHARED OWNERSHIP

Year	97–98	98–99	99–00	00–01	01–02	02–03	03–04	04–05	05–06
NE	15	13	11	9	12	5	8	9	11
NW	16	18	13	13	13	13	8	9	6
YH	14	12	10	10	9	7	8	7	7
EM	12	11	9	10	9	7	9	9	11
WM	17	16	17	14	13	16	12	15	15
E	13	15	10	12	12	11	12	13	14
Lon	32	31	31	30	24	26	30	24	26
SE	19	19	15	15	14	16	18	18	20
SW	16	15	15	13	14	13	16	15	15
Eng	17	17	14	15	14	13	14	14	15

Source: House of Commons Written Answer 3rd July 2006.

23. We believe there is a huge opportunity to try and address the shortfall, providing homes for those that need them at affordable rents, with eventual opportunities to staircase into ownership. What it requires is the development of a build-to-let sector in the UK, where developers, funded by private capital such as pension funds, provide additional supply of new-build accommodation.

We recommend Government introduces an intermediate rental product, which might have some of the following characteristics:

- i. A qualifying rental spectrum, say 75% to 85% of average local private rents.
- ii. Some kind of intermediate tenancy, which provides a slightly longer period of security of tenure of say between three and five years.
- iii. Exemption from some (s106) planning gain requirements.
- iv. Some kind of Code of Standards or Accreditation Scheme, which was open to private managers and housing associations and backed by a dispute resolution body, such as the Housing Ombudsman Scheme,
- v. The ability for the tenant to staircase into shared or full ownership at some future date.
- vi. No dictation of the property manager as part of gaining planning consent.
- vii. To promote take up, some sort of tax incentive, or rental guarantees could be provided, as is the case with private sector leasing schemes.

24. There are several good reasons why policy makers should be keen to promote large scale developers and investors to invest in build-to-let:

25. The Barker Review identified the country is facing an affordable housing shortage. Whilst Barker argued that increasing the supply of housing for owner-occupation would eventually make home ownership more affordable, her analysis showed that the short-term impact would be limited. Even if all 39 of her recommendations were implemented, the results would not be seen for two to three decades.

26. There is little incentive for traditional house builders to significantly raise output, because to flood the marketplace would be commercial suicide. Therefore, house builders strategically phase or restrict supply for sound commercial reasons. And although the Government has said that social housing, built largely by housing associations, will be a priority in the next spending review, this will be taking place at a time when public finances are expected to be under great strain. Therefore, in reality, social housing may fail to plug the gap between demand and supply.

27. According to a recent Joseph Rowntree Foundation report, there are 1.25 million people earning too much for social housing and unable to afford their own home. This includes one in five people under 40. There therefore needs to be a massive expansion of the housing stock to meet this demand and until there is it is within the private rented sector that many of such people will live.<sup>27</sup>

28. If supply of housing overall cannot be increased, such demand will have to be met from private house building, with investors competing with potential owner occupiers to satisfy demand, putting more pressure on house prices. If, on the other hand, such pressures stimulate and increase supply, this will not happen.

29. The Government is increasingly using public subsidy to support the intermediate market, mainly through products which subsidise low cost home ownership. This can be an extremely costly, particularly where any subsidy is in grant form and therefore a “one-off” payment, which carries no obligation to repay it. BPF members, with far less support from Government, could be expanding the intermediate market, through investment in shared equity products and expansion of the intermediate market for rent.

<sup>27</sup> Affordability and the Intermediate Housing Market, JRF, 2005.

30. There is the opportunity to raise standards through competition. The student sector exemplifies this well. Large scale privately managed student accommodation has been introduced in some places, demanding a response from other providers in the market. Large scale PRS providers offering high levels of service and intermediate renting would, we believe, have a similar effect in the general rental market.

31. The keys to understanding how our members could play a greater part is to appreciate that:

- Private developers and investors spending hundreds of millions of pounds are going to want to sufficiently protect their investments. They will want to appoint good property managers and to have the discretion to do so. They will want to put in place long term arrangements for managing the development as a whole.
- Such developers will make money on income from rent rather than quickly selling the property. As such, the sooner they can provide accommodation the better, as it will bring income on stream. Therefore, it is in their interests to meet demand as soon as possible, ensure a high quality product to guarantee long term returns and avoid any land-banking.

#### THE WELFARE REFORM BILL:

32. Given the current Bill we did not feel our evidence would be complete without mentioning some reforms we advocate to housing benefit:

33. There is wide divergence in the performance of local authorities' delivery of housing benefit. The latest DWP quarterly performance figures demonstrate that the best performing authority in 2005–2006 took 11 days on average to process a new housing benefit claim, whilst the worst authority took 104 days on average. Geography cannot explain the differences in performance as there are authorities neighbouring each other whose performance varies significantly.

34. Currently, the delivery of housing benefit entails a two-part process. The rent is assessed by the Rent Service whilst the claimant's housing benefit application is processed by the local authority. To speed up the first part of this process, the Government has tested a new housing benefit system, called the Local Housing Allowance (LHA).

35. Two key facets of LHA have been piloted in the pathfinders. The first is a simplified method for rent assessment, which rather than having rent assessed for a particular property, seeks to generalise a rent, based on an area assessment and the rooms that should be required by the claimant. Clearly, such a system should speed up process of rent assessment and therefore housing benefit delivery, which early results show is happening. However, such innovation is only able to achieve so much, as the second part of delivery—claim handling by local authorities—is left relatively untouched by the reforms. If the variations in payment times and service are to be reduced, then the variable performance by local authorities needs to be tackled.

36. The other major element of the LHA reforms is direct payment. This has less to do with speeding up processing times, and is more about providing housing benefit tenants with greater choice over their accommodation. This is a laudable objective, but has other implications and consequences.

37. If the rationale is to level the playing field between those on and off benefit it will fail because there are other tell-tale signs that identify benefit claimants. For example, rent is normally paid monthly in advance in the sector, but housing benefit claimants are normally paid in arrears.

We recommend housing benefit payments should be paid in advance.

38. A consequence of direct payments to tenants is that housing benefit payments will lose their bond-like status. This will make it more expensive for any private organisations trying to raise finance to house housing benefit claimants, although it will not affect the social rented sector where direct payment will continue.

We believe that Government should be seeking to act as guarantor for legitimate housing benefit payments.

39. The LHA forms part of the Welfare Reform Bill. Whilst some fine-tuning is to be expected as part of the development of a programme, some of the proposals in the bill are substantially different from the pathfinders and they have not been tested. Careful consideration needs to be given to these changes in Committee stage.

40. More generally, there are other housing benefit reforms that are long overdue. The Single Room Rent provided to young people under 25 has its proponents who argue for it on theoretical grounds. In practice, however, there is a significant scarcity of the type of property it is meant to provide for, which leaves the claimant either without roof over their heads or having to pay rent which they cannot afford. As a result, this forces many on to the streets or into informal accommodation arrangements. It drives young people who can just about afford to rent into some of the worst accommodation in the private rented sector. It can also lead to debt and eviction, as young people struggle to pay the excess between the SRR and market rents. It may force young people, who are at an age when they are not worldly wise, to share with others who will exploit their vulnerability. It simply cannot be right that a policy forces young people, some of whom will have just left home, are vulnerable, and are struggling to put a roof over their heads to accept some of the worst standards in the private rented sector.

We recommend the Single Room Rent is scrapped.

41. Housing benefit, at least in theory, is set to reflect market rents. In some areas, however, the market itself will be failing and therefore rents will be below what is sustainable to keep properties well-managed and well-maintained.

We recommend there should be a national minimum housing benefit rent assessment, which takes into account the reasonable costs incurred in managing and maintaining a property.

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### **Supplementary Memorandum by the British Property Federation**

Further to the evidence we gave at last week's Select Committee hearing, you and your colleagues requested that we submit supplementary written evidence on how the rental market could be expanded. We understood this to be with particular reference to CLG providing clarification and best practice guidance with regard to the interpretation of PPS 3 and its companion document Delivering Affordable Housing.

To set our evidence in context we believe there is interest from financial institutions in large scale investment in the Private Rented Sector (PRS) and Affordable Housing Sector. This interest comes about because the cashflow from such an investment matches the liability profile of pension funds in providing a long term relatively stable income.

The main barriers to entry by the institutions are:

1. Lack of product on a large scale.
2. Risk to reputation by poor management.
3. Lack of clarity on Government policy / regulation.
4. Lower returns than commercial property.

Dealing with these in turn, our suggested responses are as follows:

1. All parties need to encourage a "Build to Let" sector where institutions can negotiate direct with developers. This should underpin developments financially and see sites brought forward faster. We would suggest that REITs should be allowed to grow by taking on developers' units over a 5 year period to reach the 85% let rule, not one year as at present. This would encourage institutions to deal with developers on the large scale regeneration schemes such as those in the Thames Gateway. Encouragement should also be given to other financial models such as Affordable Property Trusts, Temp to Perm etc all of which have potential for providing large scale investments. Our suggestion on averaging Stamp Duty would assist here.

2. DCLG should encourage RSLs to work with private landlords to manage stock on their behalf. Private Sector Managers could become Approved Managers under the Housing Corporation scheme, however most are put off by the bureaucratic requirements. BPF offers to work with Communities England to define a simpler code of conduct and registration for Approved Private Sector Managers.

3. The perception by the private sector is that Government has over regulated rented housing which in reality may not be the case. However implementation of regulation such as HMO licensing is very variable across the country and local authorities need to coordinate their efforts better.

The issue of vacant properties with regard to new build we see as only anecdotal and may be resolved by recent increases in interest rates which will make it harder for speculators to service debt. The idea put forward at the committee of tax on vacant property would only act as a disincentive to institutional investors who are already concerned about void rates reducing returns.

A more serious concern we have on large high-density sites is the quality of management provided by buy-to-let investors, which individually can be patchy and collectively lack co-ordination. To overcome this requires no new additional tax or regulatory policies, but simply responsible developers who take a long-term view, and insert covenants into sale contracts which insist that any investors on the development use the developer's property manager. At Grainger Trust's Newlands development at West Waterlooville, it is forming a joint management company with Hyde Housing Association. Similarly, at Wembley, one of our members is insisting through covenants that private investors' property is managed by the same housing association manager as the social rented provision.

One of our members has created a set of criteria (Annex B) which could be used to select managers in accordance with PPS3.

The ambiguities in PPS3 are addressed below and in Annex A.

4. A strong PRS and Affordable Housing sector have to compete with commercial property for capital. Initial yields in residential can be as low as 4-4.5%. Over a normal investment period of say 20 years, this can rise to 8-9%, however commercial property can achieve 13%+.

To improve this position and encourage institutional investment we propose three measures:

- (a) Introduction of a new longer lease (say 7 years) with pre-emption rights for the tenant to convert to shared ownership and onwards to ownership.

- (b) Clarification to local authorities that where PPS3 calls for recycling of “subsidy”, this applies on public subsidy in the form of Grant from the Housing Corporation, local authorities or other public bodies (see Appendix A).
- (c) Best practice guidance in implementing PPS3 that local authorities seeking to create mixed and balanced communities should include an appropriate level of intermediate rented or shared equity housing which matches their strategic housing market assessment, rather than just seeking a majority of social housing.

Implementation of the above measures would give financial institutions confidence in the private rented and affordable housing market place, and will see long term yields rise by virtue of some staircasing receipts being returned to investors. The committee and indeed local authorities should not be concerned that such measures will see a reduction in social renting and PRS stock, because historical data shows that social tenants only take up RTA / RTB at a rate of 0.2–0.5% per annum, and shared ownership tenants staircase at a rate of 2.5% per annum. Increasing investment should see more than enough replacement stock being built and let.

We trust the above gives you the additional information you require. We have a suite of other documentation that one of our members has produced, flexible tenure leases and agreements, guidance for prospective shared owners, etc., but these have some commercial value and we could therefore only provide to the Committee in confidence on request.

*Rupert Dickinson*  
Chair

*Andy Leahy*  
Member

**Annex A**

## GUIDANCE ON INTERPRETATION OF PPS3 AND DELIVERING AFFORDABLE HOUSING

### PPS 3

Para 22—The percentage of affordable housing defined in LDDs should be broken down into Social Rented Housing, Intermediate Rented Housing and Intermediate Shared Equity Housing. The relative proportions of these types of housing should follow the evidence of the SHMA. This clarification should also apply to paras 23, 24 and 29.

Para 25—Local authorities should be cogniscent of the needs of the private rented sector and include assessment of this in their SHMA.

#### Annex B—Definitions

First paragraph—if restrictions are lifted for subsidy to be recycled for alternative affordable housing provision. This should be clarified to be “Public Subsidy” ie Grant.

### DELIVERING AFFORDABLE HOUSING

#### Annex A

Para 19—This para makes clear it is public subsidy and not developer contributions or increase in market value that should be recycled.

#### Annex B

Para 30—this uses the term “any subsidy” with regard to recycling and is therefore at odds with para 19.

Para 38—Shared ownership—This states that staircasing receipts should be recycled, but this is at odds with para 19.

Annex C—This discusses what it terms Affordable Housing Providers. Whilst it encourages a broad range from RSLs through ALMOs to Unregistered Bodies it confuses Ownership and Management. Local authorities do not like to use private sector providers, despite PPS3’s intentions, they have misunderstood the differential between Ownership and Management, which is not helped by the language in Delivering Affordable Housing. Institutional investors will want to have their investment protected by being declared as owner of a property. That property can then be managed by an RSL, ALMO or Approved Manager under the Housing Corporation scheme. Local authorities should be advised that the intent of Annex C is to define appropriate affordable housing managers and that ownership is irrelevant as long as the manager operates under a suitable Service Level Agreement which meets criteria that all of the parties agree are appropriate. This accords with para 48.

#### Annex D

Para 67—This confirms the Government’s intention that those accessing shared equity / ownership products should be able to increase the size of their equity share until they achieve full ownership. This should apply to all Intermediate Tenures and not just the Homebuy products.

Para 72—This paragraph initially refers to affordable housing that was grant funded but then goes on to state that any subsidy obtained by the developer should be reinvested. This is ambiguous and at odds with para 19. It should be clarified that only Public Subsidy should be reinvested.

Para 83—Sets out the alternative sources of subsidy. On-site developer contributions should be deleted from this list so that it does not form part of subsidy to be recycled, or if it is deemed to be part of the public subsidy it should be quantified in the S.106 agreement so any increase caused by house price inflation over and above it can be identified and used to pay investors an improved yield.

Para 99—This refers again generally about recycling receipts, and is ambiguous and contrary to para 19.

Para 100—This refers to private companies “owning and managing” the stock which whilst encouraging continues the confusion that the two have to be linked, ie all private or all public.

## SUMMARY

As can be seen from the above suggestions, investors will have no problem with NAHP Grant or other “public subsidy” being recycled but they do need to receive any staircasing receipts over and above that to ensure long term yields are reasonable for the risk they are taking.

With regard to the promotion of intermediate tenures local authorities need to be guided further that their requirements should reflect the SHMA and have due regard to the viability of the development by use of the Housing Corporation Economic Viability Assessment Tool.

## Annex B

### SUGGESTED CRITERIA FOR ASSESSING AFFORDABLE HOUSING PROVIDERS UNDER PPS 3

#### STAGE ONE CRITERIA

<i>Criteria</i>	<i>Characteristics of Affordable Housing Providers (AHP) that meet requirement</i>	<i>How this will be assessed</i>
1.1 Housing Corporation Assessment	Has green lights in all categories	Most recent Housing Corporation Assessment
Management Viability Governance Development		
1.2 Satisfactory Audit Commission inspection report	Has a one star inspection outcome with promising prospects for improvement	Audit commission inspection report
1.3 Satisfactory tenants survey results	Over 70% of tenants satisfied or very satisfied with the performance of the RSL	Tenants satisfaction survey results
1.4 Non RSL providers must be accredited with the Housing Corporation	Accredited under the Housing Corporation’s housing management accreditation scheme.	Housing Management accreditation certificate
1.5 Local management base	Has a management base within reasonable distance of stock, or peripatetic housing management service convenient to tenants	Management base to be within 25 miles of stock Peripatetic housing management service standards with an appointments system.
1.6 Local focus	Has demonstrable commitment to working in the area	Stock already in the borough or adjacent
1.7 Good quality stock	On target to meet the Decent Homes Standard by 2010	A strategic re-investment plan supported by a recent stock condition survey

## STAGE TWO CRITERIA

<i>Criteria</i>	<i>Characteristics of AHPs that meet our requirements</i>	<i>How this will be assessed</i>
2.1 Well managed external environments	External areas managed by the AHP are clean, safe, and well maintained and managed.	Tenants satisfaction with the external environment surrounding their homes Evidence of regular estate inspection and implementation of actions following visits. Budgets of external improvements Evidence of targeted and coordinated approach to investment in external environments. Clear arrangements for management of external areas.
2.2 Tenancy support and prevention of homelessness	Uses support services to maintain tenancies.	Numbers of referrals to tenancy support schemes per year as a percentage of stock. Numbers of referrals to statutory, voluntary and care and support organisations over the last 12 months. Provider of specialist or generic tenancy support. Numbers of evictions prevented per year by supporting tenants and by referral to other agencies and joint working. Policy to show that direct assistance is provided to tenants who are victims of domestic violence or hate crime to prevent them becoming homeless.
2.3 Lettings	An AHP that will Enter into the Council's standard nomination agreements Enter into lettings plans Is committed to sub-regional choice based lettings Assists its tenants to transfer in an emergency	Commitment to offer 100% of first lettings on new schemes and 75% of following lettings. Examples of a lettings plan approach used by the AHP Examples of experience with choice based lettings including sub-regional working. Track record/percentage of lettings to Local Authority over the last two years if currently operating in the borough. An allocations policy that includes transfers for tenants in cases of emergency such as fire, flood, domestic violence, hate crime and sexual or racial harassment.
2.4 Anti Social Behaviour	Has clear policies and procedures for tackling anti social behaviour.	Evidence of membership and involvement in multi-agency groups to tackle anti social behaviour. Numbers of evictions, ASBOs and injunctions over the last 12 months. Numbers of evictions prevented by interventions plus an example Resourcing (staff and dedicated budgets) for anti- social behaviour work.
2.5 Aids and adaptations	An AHP that takes a positive approach to aids and adaptations for their tenants.  Acts as an agent on behalf of their tenants providing advice, quotes and supervision of works or will allow others to do this on their behalf.	Budget in place to fund all aids and adaptations up to a value of £1,000. Evidence of the agency approach.

<i>Criteria</i>	<i>Characteristics of AHPs that meet our requirements</i>	<i>How this will be assessed</i>
2.6 Commitment to partnership working	An AHP that has a track record of involvement in local partnerships	Evidence of participation and active involvement in local partnerships
2.7 Diversity	An AHP that can offer access to housing and services to the whole community	Percentage of homes meeting lifetime homes standards as a percentage of stock. Percentage of specially adapted homes as a percentage of stock. Numbers of residents helped to remain in their own homes rather than moving to a residential setting over the last 12 months, plus and example. Lettings to Black and Minority Ethnic tenants consistent with BME population in the borough or other boroughs.
2.8 Good quality development programme	An AHP that is a development partner of the Housing Corporation	Status confirmed with the Housing Corporation
	An AHP that develops new affordable homes that meet or exceed Housing Corporation Scheme Development Standards (SDS)	Percentage of development programme requiring waivers from SDS in the last two years.
	Percentage of development programme that exceeded SDS in the last two years.	
	Has a development programme that is delivered on time.	Confirmed with the Housing Corporation Last two Housing Corporation scheme audits
	Is committed to developing sustainable communities including the ability to offer a full range of tenure options to include target rent, sub-market rent, Newbuild Homebuy ( a range of shares offered and with rents at no more than 3% unsold equity, discounted sales and out right sale)	Confirmation that constitution allows for provision of the full range of tenure types. Evidence of use of community development workers, participation in management organisations.
	Is committed to creating environmentally sustainable developments.	Percentage of programme meeting the Housing Corporation's eco homes "very good" standard and percentage of programme at eco homes "excellent" standard.
2.9 Financial Capacity	Innovation in developments.	Two case studies
	Has the financial capacity to grow whilst maintaining services to tenants.	Track record of growth, consistent performance indicator results and tenant satisfaction over three years. Percentage of total resources devoted to supporting development and percentage devoted to running tenant services and managing and maintaining the stock. Strong AVR.
2.10 References	Receives good references from three local authorities	Contacts for the Local Authority to take up references from three local authorities.

### Memorandum by the South East England Regional Housing Board

1. The South East England Regional Housing Board (RHB) is a partnership board. It is responsible for identifying regional priorities for housing investment through the Regional Housing Strategy (RHS) and providing advice to ministers on the allocation of investment in affordable housing in the region.

2. The Board's investment programme for 2006–8 gives priority to increasing the supply of new affordable housing, allocating 92% of the funding available to the provision of additional affordable housing with the remainder targeted at private sector renewal and local authority decent homes.

3. The comprehensive evidence base developed by the Regional Assembly in preparing the draft South East Plan (the Regional Spatial Strategy) and the Regional Housing Strategy underpins the work of the Board. The draft South East Plan provides for an annual average of 28,900 net additional dwellings between 2006 and 2026.

4. The evidence base shows a backlog of 29,000 households in need of social rented housing or private rented housing with the support of housing benefit. Analysis of affordability shows that although some households can afford forms of home ownership, there is a core need for social rented housing, and that 25% of new housing to be social rented and 10% other forms of affordable housing.

5. This requirement is set out in the draft South East Plan. In order to fulfill it the region needs to deliver 7225 social rented homes and 2890 other forms of affordable housing per year (10,115 in total). (See Table 1)

6. The Regional Housing Strategy published in 2006 gives priority to:

- increasing the supply of affordable housing and in particular new social rented housing to meet identified need;
- achieving the Government target of halving the number of homeless households in temporary accommodation by 2010; and
- addressing the needs of the most vulnerable and those with support needs.

Alongside this, it recognises the value of mixed-tenure/ mixed-income developments to achieve sustainable communities and support economic growth.

7. The region's annual monitoring indicates a significant increase in housing completions in recent years. Completions have increased from just over 25,000 per year in 2001–02 to 33,300 in year ending March 2006. The evidence indicates that increased public sector investment in delivering affordable housing is increasing the number of completions.

8. The 2006–8 affordable housing programme is on track to deliver significantly more homes overall and particularly social rented housing than in the previous two years (Table 2). Nonetheless, social rented provision falls short of the current level of planned growth in the draft South East Plan by 2560 homes per year. Further progress will be difficult to achieve without additional public sector funding. This reflects the higher cost of providing social rented housing and the need for grants to be made available in order to ensure the financial viability of development sites.

9. The Implementation Plan for the draft South East Plan identifies a role for the RHB in maximising opportunities to act as a catalyst for the delivery of affordable housing. The Board is already taking action by:

- Working with local authorities and the Housing Corporation on improving the assessment of financial viability of sites for housing development to make cost effective use of public funds. Recent research indicates that acute affordability problems occur in urban areas within the region and are caused by a diverse range of factors which cannot be addressed by a single measure or package of measures. The same research suggests that public subsidy could be used more effectively if financial viability issues were better understood and managed by local authorities. More effective application of public investment could release additional funds for social rented housing.
- Working with public sector landowners to identify a portfolio of brownfield land suitable for use to deliver affordable housing and which could be purchased with RHB funds to deliver affordable housing that meets higher standards of design and environmental sustainability.
- Maintaining a list of strategic sites which offer potential to deliver a significant increase in the supply of affordable housing.
- Investing £20 million per year in improving unfit private sector housing. Research for the RHB confirms that the private rented sector plays an important part in the provision of affordable housing for people who are vulnerable and/ or on low incomes. However, the condition of such housing stock gives cause for concern. Of 2,981,040 private sector dwellings in the South East, 166,465 private rented dwellings fail the Decent Home Standard. Of these, 47,703 are vulnerable households least able to improve the condition of their homes and most reliant on a complex network of advice and assistance from a range of providers.
- Considering how funds can be targeted most effectively to improve the condition of empty homes. The most recent (2004) validated returns from local authorities show that just over 32,000 homes (most of them privately owned) in the region had been vacant for 6 months or more. The overall

level of empty homes in the South East represents 2.7% of the housing stock, lower than the 3% vacancy rate recognised as a necessary level for the housing market to function effectively. Work is progressing with the Empty Homes Agency to assist local authorities to reduce the long term vacancy figure and hence contribute to the supply of housing.

10. The Implementation Plan also emphasises the importance of aligning investment strategies at regional level and, most importantly, improving the alignment of the investment strategies of national agencies with regional priorities. The Board welcomed the proposals set out in the recent Housing Corporation consultation on Future Investment Approaches which offers continuity and innovation through approaches such as those described above.

11. These areas of work have the potential to deliver more affordable housing in a cost effective way but it is unlikely that these initiatives alone will bring provision up to the level identified in the draft South East Plan. The shortfall is particularly acute in the social rented sector. Additional public sector funding is likely to be the only solution to this problem.

12. The supply of new housing in the South East relies to a considerable extent on smaller sites. The identification of thresholds at a national level, replicated at a local level, limit the opportunity for smaller sites to make a contribution towards delivery of affordable housing. In addition, there are increasing concerns that the pressure for higher thresholds for affordable housing as part of Section 106 agreements creates a perverse incentive that encourages the construction of smaller units and flats rather than a better balance of housing size and type. This may have negative effects on the sustainability of communities. The Regional Assembly has commissioned work on the issue of size and type of housing being delivered; this will be available early in the New Year. We welcome the greater flexibility introduced by PPS3 but are concerned that the inclusion of a national indicative threshold could limit such flexibility in practice.

13. To conclude, regional evidence of the need for affordable housing and the region's ability to deliver a greater supply are clear. Through the RHB, significant funding has been made available for 2006–8 to increase the supply of rented housing and to improve conditions in the private rented sector. However it is clear that with the current level of resources available for the public sector it will not be possible to tackle the backlog of need for decent, affordable rented housing.

December 2006

**Table 1**

<i>Type of affordable housing</i>	<i>South East Plan target</i>	<i>Housing Corporations Affordable Housing Development Programme</i>	<i>Shortfall</i>
Social rented	7,225	4,665	2,560
All others	2,890	2,070	820
Total	10,115	6,735	3,380

*Note:* Figures are on annual basis.

**Table 2**

INVESTMENT BY THE REGIONAL HOUSING BOARD (RHB) THROUGH THE HOUSING CORPORATION'S AFFORDABLE HOUSING DEVELOPMENT PROGRAMME (AHDP) FOR 2006–08

<i>Type of affordable housing</i>	<i>Units completed during 2004–2006 programme</i>	<i>Units of accommodation in 2006–2008 programme</i>	<i>Cost £m</i>
Social rented	5,806	9,330	502
Newbuild HomeBuy (formerly Low Cost Home Ownership)	4,146	3,871	71
Other	1,823	269	5.6
Total	11,775	13,470	578.6

*Note:* Figures are for two years.

[Note that the programme also included funding for HomeBuy Market Purchase for key workers/ first time buyers which made no addition to the existing stock).

## Memorandum by the National Federation of ALMOs

### SUMMARY AND RECOMMENDATIONS

- Since their establishment four years ago, ALMOs have secured an unrivalled track record of success, from meeting Government targets for improving housing standards, to tenant empowerment and groundbreaking new services on safety and community integration.
- The DCLG's "Review of Arms Length Management Organisations" recognised the achievements of ALMOs and sets the scope for their long term future.
- ALMOs have delivered large scale, decent homes, refurbishment projects on time and in some cases ahead of the 2010 target date.
- To further improve housing, build new homes, regenerate estates and provide safe communities, ALMOs require longer-term stability and greater financial freedom.
- The decision by the Secretary of State to ask all ALMOs with expenditure profiles beyond 2007—08 to review their target dates and consider reprofiling their spend beyond 2010 needs to be reviewed, otherwise it will have detrimental consequences for tenants and ALMOs.
- There needs to be funding after 2010 for maintaining housing brought up to standard in 2010 and investment to provide for further improvement, with a total of £3.2 billion being made available for the 2008–11 Spending Review period, and a further £1.2 billion for the following period.
- ALMOs have the potential to deliver new build homes to replenish stock, but with no physical assets to support borrowing, and restrictions on raising and keeping revenue, ALMOs are currently unable to invest in new build.
- ALMOs need to have long term security of operation and finance reform to enable them to raise the funding for new build.
- A community ownership model would enable access by ALMOs to private sector finance and borrow on the basis of income stream to fund new build housing.
- Allowing ALMOs to be self-financing outside the HRA would offer long-term financial security, enabling ALMOs to better manage assets.
- The Government should give incentives to local authorities and public sector bodies to release land for ALMOs to deliver new homes.
- Under an amended structure, ALMOs would be able to supplement RSL new build, replacing properties lost through Right to Buy, properties that need remodelling or replacement due to structures no longer meeting current or future needs.
- ALMOs are not only interested in owning stock, but also in managing the neighbourhood.
- Tenants should become financial stakeholders in their ALMO, sharing the financial benefits of success.

### 1. THE EFFECTIVENESS OF ALMOs AS A SOCIAL HOUSING MODEL

1.1 ALMOs deliver high quality services. Their local focus means they are embedded in, and have an understanding of, their community as they only work in one local authority area.

1.2 ALMOs have demonstrated their willingness to innovate and engage in initiatives that go beyond the stock management—enhancing the lives of those living in ALMO neighbourhoods.

1.3 Currently there are 62 ALMOs in operation across 57 local authorities managing 924,000 council properties. Round 6 of the ALMO programme could see the total rise to 69 in 2007, and see ALMO managed homes top the one million mark.

1.4 Of the 48 ALMOs inspected by the Audit Commission, 12 have been classified as excellent (3\*) and 29 as good (2\*) on performance and service delivery. Performance is also improving year on year.

1.5 No traditional local authority and only one housing association has achieved three stars in the last three years.

1.6 ALMOs have delivered large scale, decent homes, refurbishment projects on time and in some cases ahead of the 2010 target date.

1.7 ALMOs have demonstrated an impressive record of delivering value for money services. The most recent analysis of local authority annual efficiency statements showed that, while ALMO authorities make up only 21% of local housing authorities in England, they produce 68% of local authority housing efficiency gains.

1.8 ALMOs have an excellent record on procurement. Long-term procurement relationships have brought investment in apprentice training and social enterprises as well as efficiency gains.

1.9 ALMOs are popular with residents with direct involvement in the management of their homes.

1.10 In the latest survey, 77 per cent of ALMO tenants were satisfied with the performance of their housing manager, higher than either local authority controlled housing or housing associations.

1.11 Tenants have a greater say in how their properties and environment are managed and how their money will be spent than under any other structure. At least a third of Board members are tenants, a higher proportion in some ALMOs, and many Boards are chaired by tenants. Three out of the four authorities awarded Beacon Status for “improving housing services by involving tenants” are ALMO managed.

1.12 Day to day management is handed to Boards made up of tenants, councillors and independent members who reflect the diversity of the communities they serve. Strong community leadership also allows ALMOs to get things done.

1.13 Working within only one local authority, each ALMO has a detailed knowledge of the local community enabling it to tailor services to needs.

1.14 Separation from the council allows staff to focus purely on service delivery.

1.15 ALMOs recognise that improving housing standards is only one part of a wider role to improve neighbourhoods. ALMOs have an active role in regeneration and improving the local environment.

1.16 ALMOs contribute to the quality of the lives of their customers well beyond the traditional remit of housing management, and help councils and other agencies deliver innovative social inclusion and community safety agendas. They provide out of school clubs, mother and toddler schemes, training schemes, activities for older people, savings and debt reduction advice, and help with tackling fuel poverty amongst others.

1.17 Leading ALMOs have signed up to the Respect Standard of Housing Management, designed to help stamp out anti-social behaviour and build a stronger sense of community. Youth intervention schemes offer young people constructive alternatives to hanging around on streets, and by working, for instance, with schools and football clubs.

1.18 However, to further improve housing standards, build new homes, improve and regenerate estates and provide safe communities, ALMOs require longer-term stability and greater freedoms.

1.19 They are the potential first choice partners for regeneration and are well placed to make better use of public sector assets, including demolition and replacement of stock where necessary.

1.20 Because they work within the local community, ALMOs would also be suited to the promotion of mixed tenure solutions and to delivering broader neighbourhood functions on behalf of their home councils.

## 2. THE LEVEL OF PUBLIC FUNDING REQUIRED TO MEET SOCIAL HOUSING NEEDS

2.1 The Decent Homes Standard is a major improvement, but housing needs and peoples’ aspirations increase. There needs to be funding after 2010 for maintaining housing brought up to standard in 2010 and investment to provide for further improvement.

2.2 The following resources will be required to meet the commitments already made to those councils and tenants in the indicative and anticipated ALMO bids to date:-

2.2.1 A total of £3.2 billion for the 2008–11 Spending Review period

2.2.2 A further £1.2 billion for the following period

2.3 With this in mind, the recent decision by the Secretary of State to ask all ALMOs with expenditure profiles beyond 2007—08, particularly those with major programmes, to review their target dates and consider reprofiling their spend beyond 2010 to avoid peaks in expenditure, will have significant repercussions:

2.3.1 Some ALMOs will have to interrupt current contracts

2.3.2 Some Round 6 ALMOs may have to defer improvements to their homes for up to four years taking them beyond 2014 with implications for the survival of the ALMO, given the length of time without any benefit being apparent

2.3.3 Work of a lower standard may be imposed

2.4 ALMOs accept the current and future stringent constraints on public expenditure, but it is important that this issue is dealt with in a way that is fair to tenants and ensures that ALMO success in improving the lives of their residents can be developed.

## 3. THE FUTURE ROLE FOR LOCAL AUTHORITIES AS BUILDERS AND MANAGERS OF SOCIAL HOUSING

3.1 New social homes require subsidy through Social Housing Grant (SHG) administered by the Housing Corporation.

3.2 Without SHG it is much more difficult for ALMOs to develop viable schemes that stack up and retain reasonable rents and which compare favourably with RSL schemes.

3.3 ALMOs are not asking for special treatment—simply a level playing field with RSLs.

3.4 We would also like to see the Housing Corporation act upon the original intent of the legislative change in the Housing Act 2004 that enabled ALMOs and private developers to apply for SHG.

3.5 There are also technical issues which currently prevent ALMOs from competing with RSLs and the private sector for SHG.

3.5.1 ALMOs have no physical assets to support borrowing

3.5.2 Furthermore, due to restrictions on raising and keeping revenue, it is also not possible to replace houses sold under right to buy with new build.

3.6 We are seeking to develop a community ownership model where ALMOs can borrow on the basis of income stream rather than assets to fund new build housing.

3.7 The current 5–10 year contracts and erratic Housing Revenue Account system, which recycles income between councils and makes revenue receipts unpredictable, inhibits long term planning and therefore the ability to borrow.

3.8 ALMOs cannot give borrowers the assurance that they will be operational for a period necessary to obtain finance. To give security for loans, management agreements with ALMOs would need to be extended significantly—to over 30 years.

3.9 Self-financing, and incentives for local authorities and public bodies to release land to ALMOs, would help increase the housing stock and reduce waiting lists.

3.10 Allowing ALMOs to be self-financing outside the HRA subsidy system would offer long-term financial stability and security, enabling ALMOs to better manage assets and deliver services—including new build opportunities. Six local authorities are working with the DCLG to further examine a basic model of freedom from subsidy.

3.11 As they would be outside the HRA, the right to buy would not be applicable. Applicants could decide when they bid for a property if they are likely to pursue the right to buy and consequently bid for council owned properties. Capital receipt rules would not apply, so the value of the housing would be retained.

3.12 In some cases, rents could increase, but in many cases rents would be contained within the normal rent restructuring parameters through cross subsidy.

3.13 Greater use of council owned and HRA land, where it is still available, could help develop affordable homes.

3.14 The Government needs to give further guidance and incentives to local authorities and other public sector bodies to release land for this purpose.

3.15 The “disposal for best consideration” rules need to more clearly recognise the added social value and the “best outcome” that can be delivered by using land supply for affordable housing.

3.16 Under an amended structure, ALMOs would be able to supplement RSL new build, replacing properties lost through Right to Buy, properties that need remodelling or replacement due to structures no longer meeting current or future needs.

3.17 ALMOs only work within their own local authority areas, and so offer detailed knowledge of local community needs in relation to new build.

3.18 ALMOs are not only interested in owning stock, but also in managing the neighbourhood. This would mean managing not just council and ALMO owned property, but also RSL and private sector owned, enabling a more holistic approach and a suite of services at the neighbourhood level.

3.19 Tenants should become financial stakeholders in their ALMO, sharing the financial benefits of success, or as “shareholders” in the housing stock, benefiting from added stock value, providing tenants with some form of return on the capital value.

#### 4. THE ROLE AND EFFECTIVENESS OF THE PLANNING SYSTEM

4.1 The supply of affordable housing can be improved both by increasing the availability of sites specifically prioritised for this purpose and by increasing land brought forward for housing supply in general, provided that planning policy reinforces that affordable housing also be provided on site and in kind, often through Section 106 agreements.

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## Memorandum by Sheffield City Council and Sheffield Homes Ltd

### 1. INTRODUCTION

The Committee has invited written evidence in to the supply of private and social rented housing with reference, among other issues, to:

- The future role for local authorities as builders and managers of social housing.
- The effectiveness of different social housing models, including traditional local authority housing, ALMOs, housing co-operatives and housing associations.
- The priorities and effectiveness of the Housing Corporation, English Partnerships and the Regional Housing Boards in responding to housing needs.

This submission from Sheffield City Council and Sheffield Homes focuses on how ALMOs can meet the increasing need for new social housing provided government and the Housing Corporation enable ALMOs to compete on a level playing field with Housing Associations and the private sector.

### 2. EXECUTIVE SUMMARY

The government announced in June 2006 that Councils that have achieved four star CPA assessments and their ALMOs that achieved three star inspection ratings from the Audit Commission could own and manage new build homes through the ALMO. There are some barriers to this initiative which are identified in paragraph five. We are seeking to work constructively with the government and the Housing Corporation to counter these barriers. Further changes to the rules for the allocation of Social Housing Grant, the status of ALMOs or the length of the management agreement, and the treatment of ALMO capital expenditure outside the PSBR are required before we can turn this aspiration into reality.

### 3. SHEFFIELD HOMES

Sheffield Homes is the largest Arms Length Management Organisation in the country, managing 48,000 homes on behalf of Sheffield City Council. Sheffield Homes is a not for profit, limited company set up on 1 April 2004 and is wholly-owned by Sheffield City Council.

Sheffield City Council has achieved a four star CPA rating and was the 2005 LGA Council of the Year. The council, as the sole shareholder, took an innovative approach to the composition of the Sheffield Homes' board rejecting the usual model of equal representation between tenants, independents and council nominees. It reduced its membership to two councillors and one council officer to give much greater representation to tenants.

The Board of fifteen comprises seven tenants, five independents and the three council nominees. Many operational decisions are delegated to six Area Boards. Again, the tenants have the most say on these Boards. Each Area Board is made up of five tenants, four independents and two Council nominees.

Sheffield Homes was the first organisation in the country to achieve the top "three star" excellent rating from the Audit Commission twice, placing our housing services amongst the top 1% in the sector.

The decent homes programme is £125 million per annum. The whole programme is worth £669 million up to 2010. It is the largest of its type in the country. Clearly we have the capacity, capability and expertise to manage large scale capital programmes. Sheffield Homes is seeking to extend its role to meet the demand for new affordable homes in the city.

We have Egan compliant long term partnering contracts with Connaught Property Services Ltd, Keepmoat plc, Kier Sheffield LLP, Lovell Partnerships Ltd, and Mears Group plc, to bring all homes up to the Government's "Decent Homes" standard by 2010. We aspire to extend the contracts to provide the capacity to build new homes in a partnering arrangement. The partnerships have brought many social benefits to the city which we would seek to extend, for example, the JOBMatch scheme where over 250 formerly unemployed residents have obtained apprenticeships and training in high value construction skills. The South Yorkshire Efficiency Trailblazer is enabling the four districts and ALMOs in the county to use our collective buying power to achieve more outputs for the decent homes investment. We would like to extend these efficiency savings to a new build programme.

Sheffield is one of the six authorities working with the DCLG to establish a self financing Housing Revenue Account. The work should be completed by March for CSR 2007. A self financing Housing Revenue Account would give authorities the potential to plan their business over thirty years rather than the current one year cycle. If a workable model can be built it would allow for authorities to borrow on the basis of a thirty year income stream which would be wholly under the control of the authority.

#### 4. THE CASE FOR MORE NEW BUILD SOCIAL HOUSING

##### 4.1 Demand

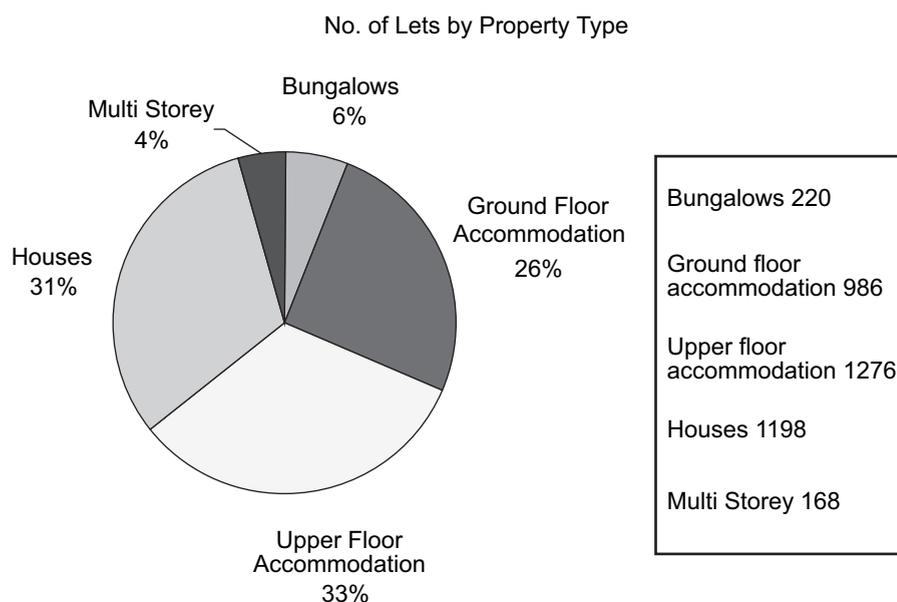
Demand for social housing in Sheffield is far above supply. In the year to 30/09/06 there was 4,400 lettings which was a 4% reduction in lettings on the previous year. 3,833 homes were let through the Choice Based Lettings service. Sheffield was one of the first authorities to embrace the choice based approach. We have found it has led to much greater transparency and customer control over where applicants choose to live.

There were 19,813 individual bidders for those 3,833 homes broken down as follows:

	Lettings	Active bidders per letting	
		2005-06	2006-07
BS/1 bed	1,945 (50%)	4:1	4.5:1
2 bed	1,272 (35%)	4.6:1	5:1
3 bed	616 (15%)	5:1	7:1

The table shows that for every category of home, demand has increased. It is not unusual to have more than 100 bidders for a vacant home.

The pie chart below shows lettings analysed by property types. 63% of all lettings are to flats and maisonettes rather than houses. Bungalows account for less than 6% of lettings. Most families aspire to rent a house. We have a large elderly and disabled population whose needs cannot be met in upper floor accommodation.



One of the objectives of a new build ALMO programme is to increase the supply of social rented family houses and accessible ground floor accommodation to better meet the needs of our applicants.

##### 4.2 The Housing Market in Sheffield

House prices in Sheffield are increasing at a rate greater than the country as a whole. There has been a 100% increase in Sheffield property prices in the four years 2000-04. In 2005-06 average house prices in the city rose by 7.4% to £140,736 compared with an increase in England and Wales of 4.8%. The market continues to expand with a projected population growth of at least 22,000 forecast over the next ten years. Most of these inward migrants will need affordable homes so we can see the imbalance will get much worse unless we tackle the shortfall in new supply now.

Average earnings are approximately £22,000 pa. An affordable home in the city is defined as one that could be supported by a £70,000 mortgage or a rent of £87.50 per week.

Consequently homeownership for new households on average earnings (or even significantly higher than average earnings) is unaffordable.

Council rents are significantly below this level at £53 per week. RSL rents, including service charges, average at over £64 per week.

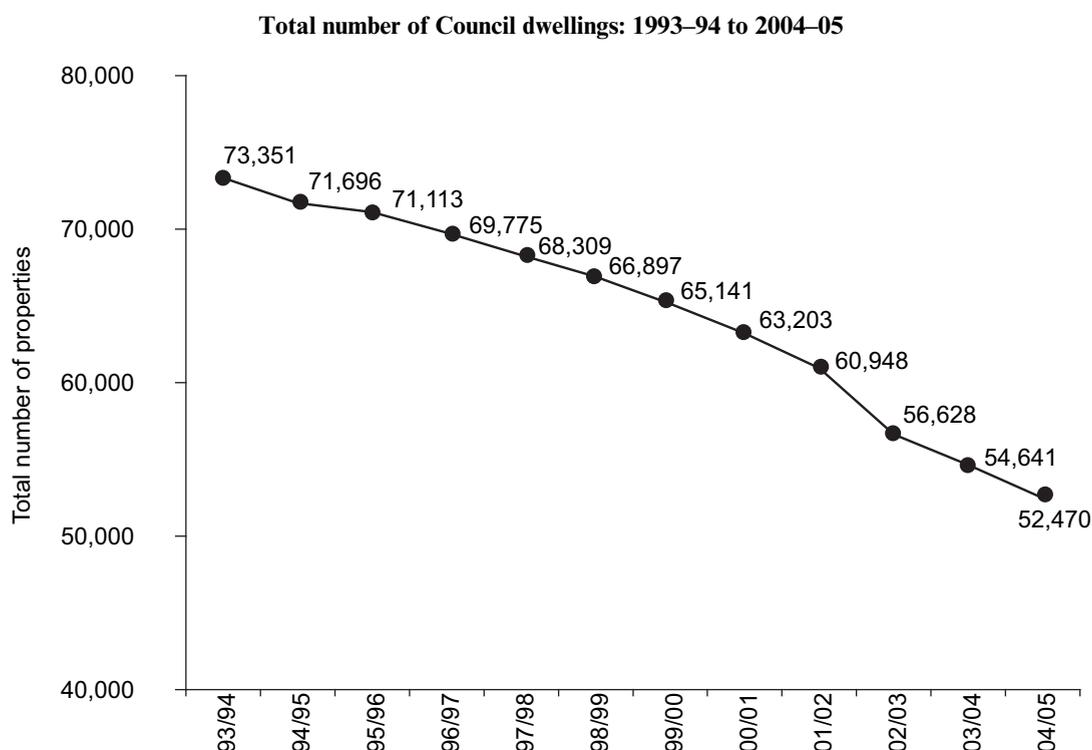
Therefore more applicants seek council accommodation because it is affordable and gives better value for money.

There are three key elements which impact on the balance of supply and demand for social housing; on the supply side, we are continuing to replace obsolete housing as part of an overall strategy for sustainable neighbourhoods, the Right-to-Buy which, although falling in the current year, reduces the social rented stock by 550 per annum, and the rate at which new housing can be delivered through the use of planning gain and the National Affordable housing programme.

There is a shortage of 400 affordable homes per annum—both low cost home ownership including shared ownership and social rent. Sheffield Homes has the commitment and skills to provide additional new homes to bridge this gap not to substitute ALMO homes for RSL homes. Our services are quality assured by the two Audit Commission inspections so government and regulators are guaranteed a product which meets all their requirements.

#### 4.3 Reducing council stock

Despite a high level of unmet demand the supply of council housing is reducing. The chart shows the steep decline in council housing over the 12 years to 2004–05.



Currently 48,000 council homes are managed by Sheffield Homes. This will fall by a further 3,000 next year due to transfers to Housing Associations and by about 550 due to Right-to-Buy sales. By the end of the decade the council is likely to own less than 40,000 homes which will make the demand problem much worse.

#### 5. WHY DON'T COUNCIL'S BUILD NEW HOMES?

There are three main reasons why councils do not build new council homes.

5.1 Through the national Housing Revenue Account system a local authority will not see the financial benefit of new homes. Most authorities would be penalised through the subsidy system if they built new homes.

Within the work being undertaken as part of the Self Financing Housing Revenue Account pilot, we would wish to test the extent to which new borrowing could be supported through a rent structure that is closer to the affordable rent level of £350 per month in the city.

5.2 A new home cannot be sold for less than it cost for the first ten years but after this period it can be bought by a tenant for a fraction of the construction price and the authority is able to reinvest only 25% in decent homes or other improvement programmes.

In 2005–06 Sheffield sold 950 homes for a total market value of £57,269,107—an average of £60,283 per home. The discount paid to tenants was £21,425,123 an average of £22,552 per home. The average discount rate was 37%.

The total revenue after discount was £35,843,984, an average of £37,730 per property.

75% of this revenue is forwarded to the exchequer—approximately £26.9 million and slightly less that £9 million is retained by Sheffield to invest in decent homes. Assets with a market value of over £57 million are sold leaving the city with less than £9 million to reinvest.

5.3 The Council’s ability to borrow and the controls on capital expenditure encourage local authorities to invest in decent homes and other improvement programmes rather than new build. After these programmes focused on maintaining existing stock have been supported there is no headroom to support new or replacement homes.

## 6. WHY DON’T ALMOs BUILD NEW HOMES?

This paper is seeking support for ALMOs to build additional new homes. In June 2006 DCLG published the Review of ALMOs which included proposals for three star ALMOs like Sheffield Homes to own new social housing. New social home, whether they are built by Housing Associations, the private sector or ALMOs, usually require subsidy through Social Housing Grant (SHG) administered by the Housing Corporation. Without SHG it is difficult for new homes to be built in the public sector. We are using our land values within the context of our housing market transformation programme to deliver affordable housing through the use of cross subsidy from the sale of homes for owner occupation, however we cannot match the rate at which new rented accommodation is required.

There are technical issues, which currently prevent ALMOs from competing with RSLs and the private sector for SHG.

### *Asset base*

ALMOs have no physical assets to support borrowing. We are seeking to develop a model where ALMOs can borrow on the basis of the income stream rather than the assets to fund new build housing. However the HRA income stream is not controlled by the authority. Council’s are only able to plan on a one year basis due to the vagaries of the HRA subsidy system where income can fluctuate from year to year from positive to negative subsidy controlled by central government rather than the city council. We are hopeful that our pioneering work with DCLG on the self-financing HRA will find a solution to this critical issue.

### *Security*

ALMOs are management companies that have a management agreement with their local authority to manage council housing. The Sheffield agreement is for ten years but this is insufficient time to support borrowing. ALMOs can’t give funders a guarantee that the organisation will have permanence. To give security for loans the management agreement would need to be extended to 30+ years.

### *Low land values*

Hounslow Homes has developed a model for new build which relies on high value land given to the ALMO for nil consideration and cross subsidising between homes for sale and for rent at a ratio for 2 for sale funds one for rent. This model isn’t directly replicable in the north due to much lower land values. To give an indication of the scale of the challenge, land values will subsidise the delivery of one new affordable home for every six sold on the open market.

### *Capital Receipts*

Whilst discounting land value to deliver more affordable housing is possible, currently capital receipts are required to match fund Decent Homes programmes and to supplement our Neighbourhood regeneration programme.

### *The Public Balance Sheet*

We are seeking a level playing field with Housing Associations. Expenditure by ALMOs counts as public borrowing and is subject to government controls. Housing Associations are able to borrow private funds so for similar notional income streams they are able to invest in additional and replacement stock. We are seeking a solution where ALMO new build investment doesn’t count as public borrowing.

## 7. THE OBJECTIVE

The aim is to build new homes owned by Sheffield Homes rather than the council. This would take them outside the Housing Revenue Account subsidy system and the right to buy would not be applicable. Applicants could decide when they bid for a property if they are likely to pursue the right to buy and consequently bid for council owned properties which would be far and away most of the portfolio managed by the ALMO.

The social rented housing would be retained by the ALMO to meet the needs of the residents.

Rents would be higher than those charged by the council to support the borrowing at the affordable rent level.

In order to make this model work ALMOs need to be able to compete for SHG on a level playing field with RSLs and the private sector.

## 8. WHY SHOULD GOVERNMENT SUPPORT NEW BUILD BY ALMOs?

ALMOs bring many benefits to the social housing service for a local authority.

### *Quality of Service*

The ALMO programme has transformed the quality of housing management service across the country. ALMOs must achieve a two or three star rating from the Audit Commission to access the funding stream. Of the 47 ALMOs inspected 12 have three stars excellent services and 29 two stars. No traditional local authority with housing stock and only one housing association has achieved three stars in the last three years. There is no doubt that the reward of ALMO funding has galvanised ALMOs to drive up performance. It would be beneficial to tenants if their new homes were owned and managed by excellent ALMOs.

### *Value for money and Efficiency*

To achieve such high inspection ratings ALMOs have demonstrated an impressive record of delivering value for money services. ALMOs contribute 68% of all local authority housing efficiency savings although we manage only 21% the country's council housing stock.

The most recent analysis of local authority annual efficiency statements 2006 show that, while ALMOs make up only 21% of local housing authorities in England they are producing 68% of local authority housing efficiency gains. As can be seen from the rents charged—£53 per week for a Sheffield Council home compared with £64 per week for a Housing Association home- ALMOs deliver more high quality services as demonstrated by the three star ratings for a much lower rent.

### *Procurement*

ALMOs have used Egan compliant partnering contracts to deliver their decent homes programmes. These long-term relationships have brought social benefits through investment in apprentice training schemes and social enterprises as well as efficiency gains. For example through the JOB Match programme Sheffield is providing 250 apprenticeships in high value trades for previously unemployed residents.

These partnerships have the potential to mature in to longer term relationships to deliver new build homes embedding the social benefits as a permanent feature of the construction industry.

### *Guarantee of delivering council objectives*

ALMOs are part key players in local strategic partnerships. ALMOs focus on one local authority unlike RSLs that spread their input across many areas. We have deep roots in the neighbourhoods we serve and deliver community benefits as well as high quality housing services. For example all ALMO new build homes would be let to applicants from the local authority rehousing register. Although Housing Associations are required to let 50% of their homes to local authority nominations, current performance in Sheffield is about 29%. Homeless applicants are therefore denied access to high quality housing association homes.

### *Quality*

We are seeking a level playing field with housing associations and the private sector. Only ALMOs with three star inspection scores from the Audit Commission, providing their authority has an excellent four star CPA rating, are permitted to take advantage of the June announcement. Excellent ALMOs are able to guarantee quality. We have been through a rigorous independent inspection regime. We have proven high standards of housing management, resident involvement and efficiency. We must demonstrate value for money in everything we do.

## 9. CONCLUSION

Sheffield Council and Sheffield Homes are working together to find a solution to the challenges identified in paragraph five to deliver more homes and greater value for money than the current models on offer.

Through our demonstrable expertise and track record in efficiency, procurement and excellent housing management we would provide greater benefits and deliver outcomes which better meet the needs of government and our local authority eg Respect, homelessness and accountability.

It would be helpful if the committee could support this objective by requiring the Housing Corporation to flex the capital allocation rules to enable ALMOs to build new homes on a level playing field.

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### **Supplementary memorandum by Sheffield Homes Ltd**

You asked for two additional pieces of information.

1. Since 23 January we have had several discussions with the Housing Corporation to make progress on the development of new build homes. The latest position is that the Housing Corporation will be issuing guidance shortly for the next development round. Sheffield Homes, working with Sheffield Council and a developer, intends to work up a bid to develop garage sites to build infill affordable housing for sale and rent. There will be a great deal of competition in the bids and we should know later in the year if we have been successful.

2. There are 2007 leaseholders in Sheffield.

*Peter Morton*  
Chief Executive

*5 March 2007*

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### **Memorandum by Nuneaton and Bedworth Borough Council**

#### 1. THE NATIONAL PICTURE

1.1 The increased number of households and changes to household patterns has meant that in many parts of the Country, the supply of housing has not increased in line with demand. This has led to rapidly increasing house prices.

1.2 Kate Baker's Review of Housing Supply analysed the problems with the supply of housing amid projections that there will be 209,000 more households per annum to 2026. This is due to population growth, more single person households and the demographic trends, particularly the increase in older persons anticipated until that date.

1.3 The Baker Review recommended that there should be an increase in the provision of social rented housing to deal with the growth in need for social housing. The Government has stated that social housing will be a priority in the 2007 Comprehensive Spending Review.

1.4 House prices are at record levels. House price inflation has far outstripped wage levels, thus the gap for those hoping to own has become wider. As a result, there are some 94,000 households in temporary accommodation and around 1.5m households on waiting list.

1.5 Interest rates for borrowing on mortgages have been at their lowest level for 40 years. This has enabled many to buy by borrowing 100% (and more) of the house value by way of mortgages and other loans. However, many have had to borrow in excess of sustainable levels through a lack of alternatives and recent minor interest rate increases have generated the highest number of repossessions since 2000.

1.6 Latest figures produced by the Council of Mortgage Lenders (2006) shows that the average first time mortgage is £142,000. This equates to between 5 and 6 times the national average salary. Anecdotal evidence suggests that it is necessary to borrow 8 or 9 times salary in London to get a "foot on the ladder". Latest information from Royal Institution of Chartered Surveyors suggests that house price inflation probably hit a plateau in November 2006, but strong employment conditions and a robust economy continue to shield the market from any dip. The RICS believe that house price inflation will be at around 7% to 9% during 2007.

1.7 Guidance from the National Housing Federation and Housing Corporation suggests that affordability is spending approximately 28% or 30% of disposable income on housing costs. The extent of borrowing has been brought a little closer to the affordable definition only by mortgage terms increasing from the traditional 25 years to 30 or even 40 years.

1.8 There is a demonstrable need for more affordable housing. This has been targeted, in part, by the move towards shared equity housing, as offered by Registered Social Landlords (RSL's) and the range of Homebuy products. This form of tenure allows households who aspire to home ownership to get a foot on

the ladder at a time when they cannot afford a mortgage to the full value of the home. However, shared ownership targets customers with an average salary of £26,500 (2004–05) compared to gross annual salary of £25,008 in England in 2006 (ASHE).

1.9 One of the clear issues is that not only has housing supply not kept up with demand, but that there is a serious issue of affordability to address. This demonstrates a clear need for affordable homes to rent. CORE data shows that for 2004–05, 57% of new entrants to social rented housing were eligible for housing benefit, with 51% wholly dependent on state benefits for their income.

## 2. NUNEATON AND BEDWORTH

2.1 Nuneaton and Bedworth is the smallest Warwickshire District geographically, but has the second highest population. Population growth was predicted to be 2.4% between 2003 and 2011 and is predicted at 3.4% between 2011 and 2021. There is predicted to be a fall in the 5–14 and 30–49 age groups, with the resultant impact on schools, facilities and working population. The highest rate of growth is expected in the over 85 age group. The black and minority ethnic population constitutes 4.9%, well below the regional figure of 11.3%, but above the Warwickshire figure of 4.4%.

2.2 There are pockets of serious deprivation within the Borough. The Index of Multiple Deprivation 2004 showed that two of the Boroughs Super Output Areas (SOA's) are within the 10% most deprived SOA's in England—the only ones in Warwickshire to be so. There are 37 Warwickshire SOA's within the most deprived 30% SOA's in England, of which 26 are in the Borough. The Authority is ranked 123rd of 354 local authorities in England (one being the most deprived) by the Index of Multiple Deprivation.

2.3 Due to the previous decline in the manufacturing and employment base of the Borough, there are still pockets of high unemployment associated with deprived areas. Unemployment in May 2006, stood at 2.6%, below the national average, but the highest level in Warwickshire. Growth in employment has been in service industries, much of it warehousing due to the road network. Overall the Borough is a low pay economy with average pay being £21,652—well below the county and national averages of £25,099 and £25,008 respectively.

2.4 Although there are some affluent areas in the Borough, almost 83% of all dwellings in Nuneaton and Bedworth fall within Council Tax Bands A to C, compared to 76% regionally. There are 51,000 dwellings in the Borough of which some 81% are owner-occupied which is well above the national average (71%).

2.5 Following extensive consultation with tenants and leaseholders in 2002, the Council decided to retain its housing stock, which currently stands at 6,187. The Council is well on target to achieve the governments Decent Homes standard for its homes by 2010.

2.6 Average house price sales April to June 2006 show that prices in the Borough are the lowest in Warwickshire. (see table 1 attached) with the overall average at £134,675. However income levels are also the lowest in the County (see table 2 attached). Current shared ownership properties being built by Registered Social Landlord (RSL) partners are marketed at around £130,000.

2.7 Nuneaton and Bedworth is covered by the West Midlands Regional Housing Strategy and West Midlands Regional Spatial Strategy. Housebuilding in the Borough has already exceeded the target set in the Regional Spatial Strategy to 2011. However, virtually all housing built has been open market housing built by private developers. Very little “affordable” housing has been provided. Nuneaton and Bedworth, as with all other District Council's, makes a key contribution in the provision of affordable housing through its own stock and the enabling role.

2.8 The Council's Local Plan, adopted in 2006, requires that on any development of 15 dwellings or more than 0.5 hectares, affordable housing of 25% of the total is to be provided under Section 106 Town and Country Planning Act 1990. This policy is currently under review.

2.9 The Council owns very little land and is therefore heavily reliant on developers providing affordable homes under Section 106 provisions.

2.10 The Council works in partnership with six Registered Social Landlords, all of whom are approved development partners with the Housing Corporation. RSL partners are buying land and working with developers to provide social housing. However, such is the cost of land and subsidy levels from the Housing Corporation, that very few properties for rent can be achieved. Recent inquiries show that land in the Borough is attracting in excess of £1 million per acre.

2.11 A number of Brownfield sites are owned by the Council's Housing Revenue Account (HRA). The Council is actively in discussion with RSL partners on seeking to maximise the provision of affordable homes on these sites. The Council will use its best endeavours given the resources available to maximise the number of rented homes provided on these sites. It has recently provided land to an RSL partner at nil consideration to ensure rented, as well as shared ownership dwellings, have been provided in the town of Nuneaton.

2.12 The Council's Housing Register continues to be the natural location of those seeking accommodation in the area, who are unable to purchase. Applications stood at 3,600 in December 2004, 3,860 in December 2005 and 4130 in December 2006. Stock owned by the Council has fallen due to the Right to Buy—7242 in 2001 compared to 6187 today. Whilst the waiting list continues to grow, the vacancy rate of Council-owned properties has fallen; some 400 in 2006, of which 65% were for supported housing.

2.13 The Council has recently introduced a revised housing accommodation application form, which allows more data to be collected to be better able to discuss housing options with applicants, seeking income data and whether applicants would consider private sector renting as an alternative. We suspect that average incomes of those on the register are more in the range of £15,000 to £16,000 per annum for those in paid employment—considerably less than the Borough average. Very few on the housing register are able to enter shared ownership. With entry levels generally still at 50% because of financial balancing, this tenure is out of reach of the majority in housing need in the Borough.

2.14 There is a reasonable private rented sector in the Borough:

There are some 2,500 privately rented homes in the Borough. Council Tax records show that 50% of these are in receipt of housing benefit. The Council is working with private sector landlords through its Accreditation Scheme and Rent Deposit Scheme to maximise use of properties for those in most housing need.

2.15 There are significant numbers of empty properties in the Borough, with an estimated 700 empty for six months or more. The Council has provided more resources to target these homes and bring them back into use. This will involve working with owners on condition and offering advice and support for disposal as well as using the Empty Dwelling Management Orders to ensure they are let. RSL partners are keen to work with the Council to buy up some properties and work collaboratively on managing these properties.

2.16 The Governments regulations on the HRA subsidy are detrimental to the Council. The allowances for major repairs and management on the one hand, compared to the rents necessarily charged on the other, lead to a notional surplus on the HRA. Some £2.9 million was paid back to the Secretary of State for 2005–06 and the Council estimates this will be £3.3 million in 2006–07. If the Council was allowed to retain its tenant rental income, more could be done to improve existing accommodation or provide additional affordable homes. The Council commented on this when replying to the discussion document “ From Decent Homes to Sustainable Communities” in September 2006.

### 3. CONSIDERATIONS

3.1 Those in housing need naturally look to the Council for help with accommodation. Most register on the Council's waiting list. However, continued sales, lower number of voids and continued pressures to help homeless families, make it increasingly difficult to offer real hope to most applicants.

3.2 Land prices in Nuneaton and Bedworth are currently £1 million per acre. This is making it increasingly difficult for RSL's to provide rented as well as shared ownership properties on sites they purchase. The Housing Corporation may need to reconsider its subsidy levels in order to target those most in housing need.

3.3 Where shared ownership properties are provided, there needs to be entry at lower levels if those on the housing register are to be able to afford them. The standard 50% entry level is beyond the reach of the majority on the register, before adding fees, charges and the rent levels.

3.4 The Regional Spatial Strategy commits the Council to looking at land use on a much wider basis. However, to be able to help local people in local housing need, a more flexible approach is necessary. Land ought to be released which enables people to live where they want in relation to existing facilities, helping to provide or maintain existing cohesive communities. The Council is undertaking a Housing Needs Survey during 2007. It is the view of the West Midlands Regional Assembly (and they claim DCLG) that such work is not necessary. However, recent experiences by Lichfield City Council and Stafford Borough Council show that the Planning Inspectorate insist on this quality of robust data to approve planning framework

3.5 The Council should be able to retain the notional surplus on its HRA to provide more affordable homes for local people in housing need. This currently amounts to £3.3 million per annum for Nuneaton and Bedworth Borough Council. This could be used to buy land and/or enable other providers.

January 2007

**Table 1**

#### **Average House Prices**

The tables below detail the average house prices for the same areas for the same periods in 2005 and 2006: April- June 2005 figures.

<i>District</i>	<i>Detached</i> £	<i>Semi-Detached</i> £	<i>Terraced</i> £	<i>Flat or Maisonette</i> £	<i>Overall Average</i> £
North Warwickshire	246,850	153,692	126,586	101,590	159,352
Nuneaton & Bedworth	198,479	129,440	108,874	107,929	133,009
Rugby	258,580	155,876	123,898	113,464	171,590
Stratford on Avon	352,311	215,465	180,707	165,523	252,543
Warwick	338,731	206,548	192,926	169,855	220,527
Hinckley & Bosworth	246,823	147,336	117,943	110,824	165,922
Coventry	268,693	143,942	112,890	101,207	128,899
Tamworth	227,259	130,980	116,429	110,450	145,847
South Staffordshire	283,943	143,980	139,965	136,389	188,593
Birmingham	307,250	150,766	121,699	133,534	146,822

*Source:* Land Registry. April—June 2006 figures.

<i>District</i>	<i>Detached</i> £	<i>Semi-Detached</i> £	<i>Terraced</i> £	<i>Flat or Maisonette</i> £	<i>Overall Average</i> £
North Warwickshire	275,949	159,851	128,303	130,990	172,948
Nuneaton & Bedworth	209,660	129,987	107,843	105,735	134,675
Rugby	277,743	166,874	139,400	118,866	182,692
Stratford on Avon	367,842	221,411	188,460	145,017	250,954
Warwick	347,174	208,558	190,689	163,218	225,263
Hinckley & Bosworth	241,362	150,808	129,211	104,595	169,414
Coventry	292,948	156,563	118,501	116,761	140,573
Tamworth	220,609	139,847	129,082	125,853	151,929
South Staffordshire	298,503	153,056	154,221	126,560	201,417
Birmingham	312,327	156,875	126,820	131,000	153,374

*Source:* Land Registry.

It is clear that Nuneaton and Bedworth overall have the lowest house prices in the County and in comparison with neighbouring authorities.

**Table 2**

## EARNINGS

A summary of earnings in Nuneaton and Bedworth, in comparison to other areas in Warwickshire, and England.

Within Warwickshire, wage levels are highest for Warwick and Stratford-on-Avon residents, £27,683 and £28,130 respectively. Wages for residents of Nuneaton and Bedworth are the lowest in the County, at £21,652:

	<i>Residence</i>	<i>Workplace</i>
North Warwickshire	£21,998	£23,560
Nuneaton & Bedworth	£21,652	£19,908
Rugby	£24,307	£22,510
Stratford-on-Avon	£28,130	£24,934
Warwick	£27,683	£25,180
Warwickshire	£25,099	£23,562
Hinckley & Bosworth	£22,060	£19,908
Coventry	£21,487	£25,167
Tamworth	£21,274	£23,400
South Staffordshire	£22,420	£22,099
England	£25,008	£24,948

Typical gross annual wage, full time workers, 2006

*Source:* Annual Survey of Hours & Earnings (ASHE), National Statistics.

Residence based earnings are considerably higher in the South of the County than the workplace earnings, suggesting that a significant proportion of South Warwickshire residents work outside the County earning higher wages than are available within Warwickshire.

Workplace earnings are fairly consistent across the County except for Nuneaton and Bedworth where annual earnings are £2,600 lower than in any other district. The largest employment sector in Nuneaton and Bedworth is wholesale and retail where wages tend to be lower.

**Supplementary Memorandum by Nuneaton & Bedworth Borough Council**

I have included below the further information you have requested. The completions are for shared ownership and social rented properties using Section 106 (Town and Country Planning Act 1990) agreements.

<i>2005-06</i>	<i>2003-04</i>
30 social rented	17 shared ownership 17 social rented
<i>2004-05</i>	<i>2001-02</i>
57 social rented	20 shared ownership

**Memorandum by Connaught plc**

**I. BACKGROUND ON CONNAUGHT PLC**

- Connaught has been operating in the social housing market for 25 years
- We provide a full range of housing maintenance and estate management services to social landlords and the communities in which we work
- We currently operate over 100 partnerships with Local Authorities, ALMOs and Housing Associations

**2. PARTNERSHIP CONTRACT TYPES & EXAMPLE CLIENTS**

- Decent homes—Hammersmith & Fulham BC, Hull CC, Hackney Homes, Sheffield Homes, Sandwell Homes, Stafford & Rural Homes, One Vision Housing (Sefton), Golden Gates Housing (Warrington)
- Planned maintenance—Ashfield Homes, West Wilts Housing Society
- Reactive maintenance—Derwent Living, Midsummer HA, East Devon DC
- Void refurbishment—various
- Gas servicing—Cheltenham Homes, Bristol CC, Teign Homes
- Estate cleaning—Lambeth BC, Wandsworth BC, Brent BC, Solihull MBC
- Street cleaning—Wandsworth BC, Mendip DC, North Somerset DC
- Grounds maintenance—Portsmouth BC, Hillingdon BC
- Recycling programmes—Lambeth BC, Kingston BC
- Asset management—Paradigm Housing Group, Gosport BC, South Somerset Homes

**3. KEY THEMES FOR BUILDING SUCCESSFUL PARTNERSHIPS IN SOCIAL HOUSING**

- Partnership
- Efficiency
- Community

**3.1 Partnership**

The introduction of “partnering” and best value procurement in social housing has been a major factor in getting clients and contractors working together more effectively, as a team, as opposed to a more traditional adversarial contractual relationship.

It is our belief that a strong partnership is based on trust, co-operation and communication between all parties.

Successful partnerships bring together all the stakeholders in a project, including the social landlord, residents, contractor and supply chain partners.

The key to a successful partnership is people.

### 3.2 *Efficiency*

There are huge opportunities to achieve efficiency benefits in the delivery of a social housing maintenance programme. Efficiency gains can be delivered specifically through : best practice from other programmes, self-delivery of projects rather than sub-contract, process re-engineering, technology and the consolidation of service provision and the supplier base.

The Gershon efficiency agenda has become a major priori for all social landlords. The proper maintenance budget is a major component of the cost base of housing associations and using departments in local authorities.

We believe there are great opportunities to deliver the Gershon targets in social housing maintenance and repair, particularly through supplier consolidation and a more comprehensive multi-service partnering approach.

### 3.3 *Community*

Sustainable communities is high on the agenda of all social landlords.

We have developed the Connaught Community Initiative, which is driven by a desire to build a lasting legacy in every community in which we work.

We believe any community initiative should address 4 key areas:

1. Economy—developing local skills and jobs, supporting local businesses
2. Social—supporting local community initiatives, respecting people & cultures
3. Environment—improving the whole social housing environment, not just homes
4. Empowerment—working with residents and the wider community to deliver these sustainable community benefits

There as been some discussion about developing Decent Homes into a broader Decent Communities programme. We would welcome such a development, with the emphasis on the four areas mentioned above. Specifically, a proportion of the decent homes expenditure could be allocated to improving the whole social housing environment in and around council estates

I would be very happy to discuss these thoughts in more detail during the forthcoming oral committee session.

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## **Memorandum by Local Space Housing Association**

### INTRODUCTION

Local Space Housing Association has developed a model that provides immediate temporary accommodation for homeless people.

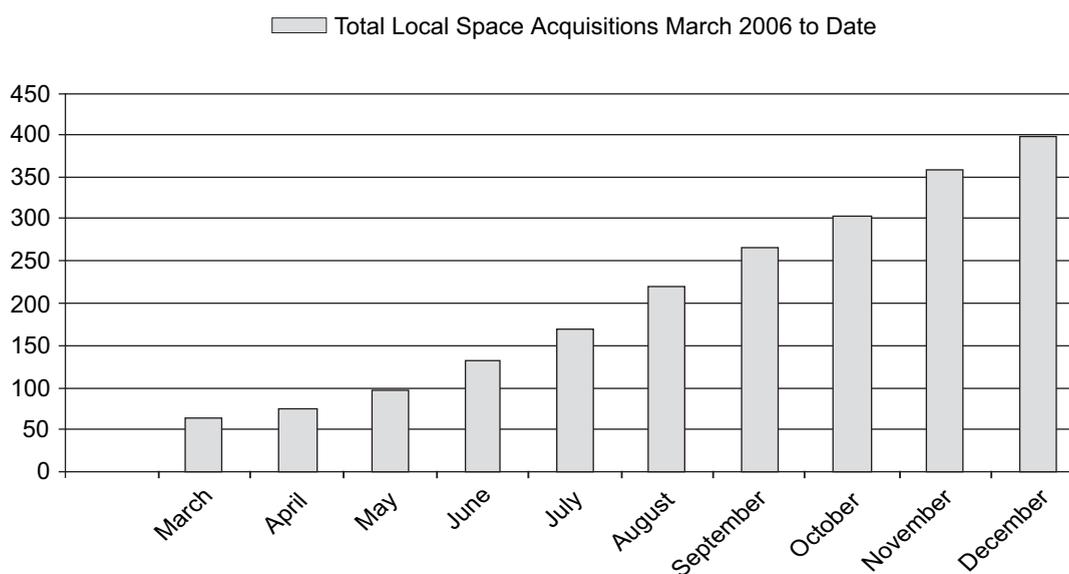
In the longer term this housing can be turned into permanent social housing. Using this model, the £500 million a year paid out in Housing Benefit to private landlords in London alone could support a £15 billion investment that could deliver 50,000 extra affordable homes at no additional cost to the taxpayer.

### ABOUT LOCAL SPACE

1. A registered housing association,<sup>28</sup> Local Space was set up in 2006 in partnership with the London Borough of Newham. Its short-term goal is to provide an immediate supply of good quality and well-managed temporary housing for homeless people.
2. It is buying ten street and estate properties on the open market a week with a mixture of Housing Corporation Grant and funding from the Royal Bank of Canada.
3. It is on target to deliver 1,000 extra homes to the social housing sector by March 2008. Leading property services group Savills monitors all the Association's property buying activities to ensure probity and value for money

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<sup>28</sup> Local Space is registered as an RSL with the Housing Corporation (Reg. No. LH4454) and with the Financial Services Authority (FSA) as a Registered Charitable Industrial and Provident Society (Reg. No: 29840R).



4. The properties are brought up to the Government's Decent Homes Standard before they are let to tenants nominated by the London Borough of Newham. Currently there is no explicit requirement by Government that housing benefit investment in to the private sector as temporary accommodation or settled homes, delivers decent homes for homeless and other vulnerable people.

5. In the longer term, the Association will use its T2P model to convert the temporary accommodation into good quality permanent accommodation using Housing Benefit to service the mortgages on the properties. This makes a great deal more sense than paying huge sums of public money in Housing Benefit (more than £500 million a year in London alone) to private landlords for temporary accommodation with no long-term social benefits.

6. The Local Space T2P model can be used in other local authorities to provide decent homes for homeless people and to provide a rolling programme of permanent additions to the affordable social housing stock.

#### *How the Local Space/Newham model works*

- Newham leased 450 homes used as temporary accommodation and valued at £50 million to the Association for a 125-year period while retaining the freehold.
- Local Space leased the homes back to Newham under a 15-year partnering deal enabling the Royal Bank of Canada to provide the Association with a loan facility of £200 million.
- The loan is serviced by the Association's rental income, which is largely met by Housing Benefit. Rents are the same as those paid for short-term private sector temporary accommodation thanks to a grant from the Housing Corporation who committed £25 million of Social Housing Grant to the purchase of a further 1,000 homes.
- The Association is buying an average of two homes every working day on the open market. It is on target to deliver 1,000 houses and flats by the spring of 2008.
- After 15 years of mortgage repayments, Local Space may have to sell a small percentage of the homes to raise money to pay down the outstanding loan to a level where the homes it retains can be converted to permanent housing at affordable rents. At this point they are transformed from temporary to permanent accommodation

7. The Association is supporting the Government's sustainable communities agenda by helping to develop mixed tenure communities, by filling empty homes and by contributing to neighbourhood and community regeneration programmes.

8. It contributes to the Government's PSA7 goals by delivering decent homes to vulnerable households.

#### LOCAL SPACE AND GOVERNMENT POLICY

1. In March 2005 the then Office of the Deputy Prime Minister published *Sustainable Communities: Settled homes; changing lives* setting out its strategy for further tackling homelessness. Key to this strategy was a new target to halve the number of households living in insecure temporary accommodation by 2010.

2. Under current definitions Local Space and similar schemes based upon a lease to a local authority, are viewed simply as temporary accommodation and therefore not seen as assisting councils in meeting their 2010 temporary accommodation reduction target. This is despite the fact that such long-term lease

arrangements demonstrably offer occupants far greater stability, certainty and security (in every sense other than the legal tenancy status) than the alternative being promoted by the DCLG of a direct private sector Assured Shorthold Tenancy (AST). Such lease arrangements are also viewed more positively by funders.

3. It is important to note that the target set out in *Sustainable Communities: Settled homes; changing lives*, refers to halving the number of households living in “insecure temporary accommodation” by 2010. However, the ODPM offered no clear definition of the difference between insecure and secure temporary accommodation.

4. Local Space believes there is a genuine need for DCLG to redefine insecure temporary accommodation using the conditions and nature of the accommodation and occupancy and even the landlord (for instance, where accommodation is owned by a housing association) rather than simply the tenancy status. A new definition would enable local authorities to invest time, effort and resources to establishing good quality “temporary to permanent” initiatives providing quality accommodation and a longer-term social housing asset.

5. If this is not done, achieving the target will result in many more vulnerable households depending upon a potentially volatile private rented sector, funded largely by Housing Benefit where longer term physical and management standards are not protected. Furthermore, these households could be forced out should the housing market see a major change in future years.

#### POST 2010

1. Even if the 2010 temporary accommodation reduction target is met under current definitions, more than 25,000 temporary homes will still be needed in London.

2. Local Space has urged the Government to state clearly that from 2010 it expects local authorities to use T2P schemes to provide most of their temporary housing provision. Now that vehicles like Local Space are available to capture the Housing Benefit revenue flow and convert it into social housing assets, it would be a scandal for local authorities to continue to pour such huge sums of public money into the private sector beyond 2010 by way of short term private sector leasing or other schemes.

#### TIME FOR A SHIFT IN PERCEPTIONS AND POLICY

1. A shift in perceptions and policy is needed to realise the enormous potential of the Local Space model and similar initiatives. At present, there is a concern that perceptions within Government may limit their role. Local Space fears the Government sees these initiatives simply as a means of addressing homelessness through temporary accommodation and short term solutions and risks overlooking the significant role Local Space and similar initiatives can play in providing additional permanent social housing. There is some concern that it could have a limiting effect on the potential of the schemes.

2. This limited view of the work of Local Space and others is mirrored in the view of most local authorities that see T2P schemes primarily as a new form of temporary accommodation for homeless households. We believe local authorities should see our work as part of the bigger housing supply picture and factor T2P schemes into their mainstream housing supply equations.

3. Ministers could help to change this limiting view, both at central government and local government level. The business and social case for their intervention is overwhelming. In London alone more than 50,000 homeless households have been placed in temporary accommodation by local authorities at a cost of about £500 million a year as part of a laudable drive to end the use of bed and breakfast accommodation. The private sector providers charge market rents, face limited risks and reap the benefits of long-term equity growth in their properties. Furthermore, they have no obligations to meet the decent homes standard or to provide proper housing management.

4. London’s Housing Benefit bill could be put to better use to provide up to 50,000 properly managed and maintained permanent houses and flats in the social housing sector. Nationally this figure could be doubled, if full advantage was taken of T2P schemes. However, it will take a major policy shift by both central and local government to realise the full potential of Local Space and other T2P models

#### CONCLUSION:

Through its T2P initiative Local Space delivers good quality temporary accommodation for homeless people in East London. In the longer term this is converted into permanent and affordable social housing, using Housing Benefit as investment capital.

The work is carried out through a partnership with the London Borough of Newham that could be used nation-wide by other local authorities.

The potential is enormous: 50,000 homes could be added to London’s social housing stock.

And all at no extra cost to the taxpayer.

### Supplementary memorandum by Local Space Housing Association

I have set out below the additional information requested by the Committee.

Firstly with regard to surpluses generated by the Local Space business model; the first point to note is that the nature of the partnership relationship between Local Space and LB Newham is governed in broad and specific terms by our 15 Year Framework Agreement and is designed to ensure that, within the permitted objects of the association as an RSL, the benefits from this T2P initiative both immediate and longer term can help further the aims and policy objectives of the Council in benefiting the local population. The definition of surpluses being derived from audited accounts and the requirements to maintain certain lender covenants.

As discussed at the Committee session, the primary aim of the initiative is to maximise the number of long-term permanent affordable housing that is produced. To this end the starting expectation within the Framework Agreement is that surpluses generated by the effective delivery of the business plan are initially considered to acquire additional stock for the scheme or to pay down debt earlier thus reducing the potential number of sales required at the exit point.

However as discussed the agreement also allows for a range of other options to be considered such as:

- The earlier conversion of some stock to permanent affordable housing earlier
- The purchase of additional stock as affordable housing from day one
- The amelioration of rent and I or support for tenants under the scheme gaining access to training or employment
- The development of other housing related resources or services such as community centres
- Reduction of rent payable under the lease by LBN to Local Space
- Ultimately, if none of the above are required the transfer of funds back from the association to LBN general funds.

As noted during the discussion, the implementation of any or all of these additional options will have an impact on total permanent affordable homes delivered at the end of the scheme, by reducing the total rental stream to the association or taking surpluses out of the model. This will result in a higher level of debt likely to be outstanding at the end which may require additional property sales to reduce outstanding debt to a level that can be serviced in to the future by affordable rents. The determination of if and how such surpluses are used is by agreement between the association and the council.

The scheme was initially modelled to address one key issue the huge outflow of public resources into the hands of private landlords through the short term procurement of temporary accommodation. Having successfully created a model that demonstrably works and has enjoyed the support of central and local government and crucially the private finance sector we are then able to consider addressing some of the other concerns common to temporary accommodation across London and elsewhere the high rent levels and impacts on individual households. The issue of high rents and benefit dependency of tenants housed during the temporary accommodation phase of this initiative has been a regular feature of discussion between LBN and Local Space from the outset.

The scheme for surplus projects kicks in following completion of the acquisition of the 1,000 properties in March 2008. The design of a scheme for supporting homeless tenants seeking training or employment who would otherwise be poverty-trapped is entirely a matter for the Council but Local Space would not unreasonably withhold consent to the use of surplus moneys for this purpose as this clearly aids the longer term stability of our accommodation.

The relative priority of a training and employment subsidy scheme to combat poverty trapping would presumably depend upon the scale of resources available and as noted above, the council's requirements for additional temporary accommodation or permanent affordable housing at the time. Only when the scale of the resource to be committed and its availability is known would it be appropriate to publish details to tenants. Even then, we believe, targeting rather than broadcasting would be preferred.

Turning to the issue of the scale of Local Space's acquisitions and impact on the market. I am pleased to attach a letter from Savills giving their assessment of our purchase activity which as you will see at a borough level they assess at being well below the 71/2% target the association has set for itself—peaking at a 6.2% share of flat sales in Barking & Dagenham in the third quarter of 2006. They have calculated this from Land Registry data on total sales however assuming a restricted market of terraced houses and flats as they have excluded data for detached or semi-detached house sales which are rarely accessible to Local Space.

I have also attached to the email version of this letter electronic copies of the more detailed and comprehensive quarterly monitoring reports provided by Savills to the association and our funders. However it should be noted the principle purpose of these reports is as a check on quality, value for money and probity of the acquisition programme along with an assessment of performance against targets.

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### Memorandum by English Partnerships

1. Thank you for the letter dated 18 December 2006 formally inviting English Partnerships (EP) to give evidence to the above inquiry alongside the Housing Corporation. I confirm that as Chief Executive of English Partnerships, I will be attending the evidence session as a witness.

2. As you are aware, English Partnerships contributed to the written evidence prepared by our sponsor department, Communities and Local Government (CLG). However, in advance of the oral evidence session, I thought that it would be helpful if I outlined English Partnerships' role in the supply of rented housing.

3. English Partnerships is the national regeneration agency, helping the Government support high quality sustainable growth across England. EP focuses on land assembly, pre-investment in infrastructure, remediation and masterplanning to bring about sustainable mixed communities. English Partnerships facilitates development that will support a range of housing sizes, types and incomes, including social and private rented accommodation.

4. In 2005–06 we facilitated 7,389 housing starts on site including 2,057 affordable units, of which 933 were affordable for rent. We also facilitated 3,238 housing completions, including 1,073 affordable units, of which 653 were affordable for rent.

#### SUPPLY OF LAND

5. English Partnerships recognises that the availability of land is a key issue in the supply of housing, including the provision of rented accommodation. English Partnerships has a key role in bringing forward land for development, particularly in bringing surplus public sector land and brownfield land back into use.

6. English Partnerships has acquired more than 2,000 hectares of surplus public sector land over the last four years, including 96 former hospital sites which will contribute to the delivery of 14,000 new homes of which 50% will be affordable. English Partnerships and the Office of Government Commerce also administer the Register of Surplus Public Sector Land, which provides a single reference point for all participating public sector organisations on the available national supply of surplus land and helps to ensure that wider government objectives, including housing need, are factored into land disposal decisions. Sites from around 50 public sector bodies make up the Register.

7. EP's experience has also informed the work of the joint HM Treasury/ CLG Surplus Public Sector Land Taskforce. The Taskforce is focused on providing a more comprehensive picture of surplus public sector land, exploring with landowners how more of this land might be utilised to increase the supply of new homes and examining cost-effective options for releasing more public sector land to facilitate growth.

8. English Partnerships recognises the critical role brownfield land has in contributing to increasing the supply of housing and delivering the Government's wider objectives. EP has launched a best practice toolkit aimed at disseminating the experience of English Partnerships and other organisations that are actively involved in reusing brownfield land and is including recommendations for a National Brownfield Strategy for consideration by Ministers in the Spring.

9. English Partnerships is also a partner in the National Land Use Database of Previously Developed Land (NLUD), a key tool in recording the availability of brownfield land in England. In 2005, NLUD recorded that a total of 53,291 hectares of land comprising more than 25,500 sites that, having been developed, were now lying derelict or vacant, or although still occupied, was considered suitable for redevelopment.

#### DELIVERING AFFORDABLE HOUSING

10. English Partnerships works to deliver affordable as well as market housing, principally through the delivery of innovative intermediate housing products.

- The London-Wide Initiative (LWI) uses redundant buildings and sites to provide discounted for sale intermediate affordable housing (totalling about 1500) across London. LWI is a deferred equity model in which EP retains the unsold equity of the homes. Sites will also provide a further 2500 homes, a mixture of open market for sale and other affordable tenures, including some social rented homes.
- The First Time Buyer's Initiative (FTBI) is a shared equity product providing first time buyers a "stepping stone" into home ownership. It forms part of CLG's New Build HomeBuy initiative, targeted at key workers and other eligible groups currently priced out of the market. FTBI will deliver 15,000 homes across England by 2010.

11. English Partnerships encourages the use of effective Section 106 agreements to release land to deliver affordable housing and infrastructure. For example, English Partnerships has led on innovative land value capture mechanisms in areas such as West Bedford and Milton Keynes. We are currently working with the Housing Corporation to produce guidance on the use of cascades to simplify section 106 arrangements where the level of public sector funding is uncertain.

12. English Partnerships encourages high quality mixed-tenure and mixed-income communities to achieve better social cohesion and sustainability. Our challenging quality standards require homes to be well designed and constructed so that the social housing is not differentiated from other tenures by design, quality or location within a site or by significant differences in access to services and amenities. We are also committed to implementing the level 3 of the Code for Sustainable Homes on our developments from 1 April 2007 which will apply to both market and rented housing.

13. We recognise the benefits that the growth of the private investment market has brought to the housing market, especially the attraction of new institutional investors and a greater attention to long-term management of property. We also acknowledge the tensions that sometimes arise where investors and owner-occupiers buy within the same developments. For this reason, especially to avoid empty properties caused by investors holding homes only for capital growth, in some of our schemes we have sought to limit the number of homes sold to private investors.

14. English Partnerships believes that early engagement of the local community, including social housing tenants, in the development process is key to the success of its projects. We are currently developing new good practice guidance on community planning and engagement which includes pioneering the use of collaborative design workshops to create visions for our developments.

#### FAMILY HOUSING

15. English Partnerships supports mixed communities which include a range of housing types. This includes the provision of larger accommodation to support families in need of housing. In its quality standards, EP has adopted the requirement that housing on all its future development is built to the principles of Lifetime Homes. This aims to promote housing which is flexible, adaptable and robust to changing social and demographic times. Homes should be of a reasonable size to allow adaptation and flexible use by owners throughout their lifetime.

16. In addition, EP is promoting the development of “super-flexible homes” which support a range of design features including foundations to attached garages designed to accommodate potential first floor extensions; open truss roof structures designed to facilitate future upwards extensions; and houses built with basements which can easily be converted into living space.

#### WORKING WITH THE HOUSING CORPORATION

17. EP works in close collaboration with the Housing Corporation across its programmes. We have 12 Joint Strategic Projects that bring together English Partnerships’ expertise in land and development with the Housing Corporation’s affordable housing investment and regulatory expertise.

18. Government has recently announced proposals for a new agency to deliver regeneration and housing. Communities England will bring together the functions of English Partnerships, the Housing Corporation, and a range of programmes currently carried out by Communities and Local Government. English Partnerships welcomes the announcement and looks forward to playing a part in creating the new agency.

### Memorandum by the London Borough of Islington

#### SHARED EQUITY & SOCIAL RENTED HOMES IN THE NORTH LONDON SUB REGION

As has been discussed, providing the information you seek is not a straightforward exercise. I have put together information for Islington, which I hope meets your requirements. It concentrates on social rented homes because information regarding the origins of those households purchasing equity share homes is held by the respective RSL’s who develop(ed) the schemes or our zone agent Metropolitan Housing Trust.

Q1. *How many new shared equity & social rented homes have been built in Islington in the past 5 years.*

<i>Homes Provided</i>	<i>Year</i>				
	<i>2002–03</i>	<i>2003–04</i>	<i>2004–05</i>	<i>2005–06</i>	<i>2006–Dec06</i>
Shared Equity Homes	73	16	30	24	202
Social Rented Homes					
General Needs	180	164	222	157	60
Supported Housing	20		11	81	
Sheltered Housing		34	35		
Total	200	198	268	238	60

Shared Equity—the steep increase in numbers during the current year is due to the effects of the Arsenal redevelopment .

I am unable at this time to provide you with information on the origins of those households who have purchased equity shared homes. RSL's hold this detail.

Social Housing—the figures in the table include general needs housing, supported & sheltered housing. I can only provide you with figures for rehousing into general needs social housing. Allocation to supported and sheltered housing is not directly handled by the council's rehousing section. The general needs housing figures include homes built inside and outside Islington. The majority of the homes built outside the borough do not fall within the North London Sub region area.

Q2. *The number of new build homes allocated to households from within the borough*

Year	General Needs Homes In Borough			General Needs Homes Out Borough		
		IR	NIR		IR	NIR
2002–03	125	125	0	55	55	0
2003–04	123	123	0	41	41	0
2004–05	194	193	1	28	28	0
2005–06	157	157	0			
2006–Dec 2006	60	60	0			

IR = Islington Resident.

NIR = Non Islington Resident .

Islington residents have almost exclusively benefited from the allocation of general needs new build homes over the last five years. Only one external resident being allocated a new build home in the borough.

I think it important to note however that this position is about to radically change. The North London Sub Region arrangements will come into play in 2007–08 and into the future. Looking at projections, Islington will become an importing borough taking residents from the other authorities in the sub region.

Q3. *The number of homes allocated to people from other parts of the North London Sub Region*

As set out in the allocations table, only one non Islington household was allocated a new build home in Islington over the period. They came via an inter borough nomination.

Q4. *The number or proportion of internal & external allocations made to newly built homes.*

See 3 above

If you require any further explanation or have any questions regarding the information please contact me

**Memorandum by Orchard & Shipman**

I appreciate that the closing date for submission of evidence has passed but nevertheless feel I should draw your attention to a major source of private financing which is currently available to the social housing sector and is not being currently used.

Orchard & Shipman are a private sector “for profit” property services organisation with a specialist social housing department. In particular we act as agents for the London Borough of Hillingdon and the City of Edinburgh Council to procure and manage properties from the private sector and manage tenants nominated by the respective councils. The client group are singles and families where the Council has accepted a statutory duty and the contracts are managed under a Private Sector Leasing scheme (PSL).

Our work was commended by the ODPM in August 2003 “*Reducing B&B use and tackling homelessness—what's working. A Good Practice Handbook*”

Orchard & Shipman are also members of the CLG strategy group looking at means to reduce the use of temporary accommodation (currently circa 100,000 units in England and Wales) by 50% by 2010.

Several years ago, Orchard & Shipman recognised that renting properties from private landlords was not the most effective way of providing temporary or settled accommodation. Some of the disadvantages are:

1. Choice of property type and location is limited and influenced by current market availability.
2. Cost and availability of rented properties is subject to availability and can not be guaranteed in the future.
3. Management of several hundreds of landlords with varying experience and ethical values is expensive and sometimes problematic.
4. Properties are leased for 3 to 5 years creating an ongoing procurement cost.

5. Rental values will typically increase year on year with no asset value being accrued.
6. PSL can provide good quality homes and if properly managed is cost effective compared to other rental schemes but does not contribute towards permanent social housing provision.

Recognising these limitations, Orchard & Shipman in association with Lloyds TSB launched a Temporary to Permanent housing product (T2P). In overview T2P will:

1. Purchase a portfolio of properties to the Council's order (including new build if required)
2. Lease the properties back to the council for typically 10 years.
3. Manage the properties and tenancies.
4. Use the surpluses between Lease payments and costs to set up and run the scheme to reduce debt levels.
5. Offer the council or their nominated RSL partners an option at the end of the lease to:
  - (a) Renew the lease for a further period.
  - (b) Purchase the properties from Lloyds TSB at the debt level.
  - (c) End the lease (walk away).

The benefits of this scheme are:

1. The Council can select the property types and areas needed for their customers.
2. The Council or their nominated partner benefit from all of the equity uplift but do not take any equity risk
3. If the nomination is ceded to an RSL partner it is off balance sheet for the authority.
4. In consideration of the benefit of receiving the nomination the RSL partners are invariably prepared to add value to the scheme through property or finance.
5. The property stock is secured on a long term basis and the council's exposure to market movements is greatly reduced.
6. There is only one landlord thereby reducing management costs and improving property standards.
7. At the end of the lease period our modelling indicates that in most cases (depends on initial purchase price and rental values).the debt level is sufficiently reduced to enable the debt to be funded at social housing rent levels and hence the properties can be converted to permanently rented units with the council having nomination rights in perpetuity.

This product is structured to enable us to work anywhere in the UK with RSL, private sector and local authority partners. To date we are actively working with RSLs such as A2 Housing group, Genesis and Sunderland Housing and we have had or are having discussions with over 150 local and city authorities in the UK and are expecting a number of these to formally commit to T2P this year.

What makes this product possible is a resource that the government and local authorities do not fully utilise and that is the ability to guarantee a rental income stream over a prolonged period.

There are a very large number of financial institutions that are prepared to invest, for a relatively low coupon, on the basis of a long term secure income stream and it is essentially this market that Councils can access through T2P type products.

However, the two requirements are long term and guaranteed income. For Councils to feel comfortable committing to these types of schemes it is imperative that the Housing benefit regime is appropriately structured and offers long term stability.

A properly structured HB regime can provide incentives to the Council and the tenant and lever in Billions of pounds of private finance.

Unfortunately it could be said that the structure for PSL schemes was not appropriately structured and this has built in unnecessary cost and has exacerbated the benefits poverty trap (rents tend to be higher than market rent because they include management costs, acting as a disincentive to tenants who have to meet these payments if they find work). Although it should be recognised that the current finance arrangements achieved the objective of getting families out of B&B and in to self contained properties.

Quite properly, the DWP is reviewing current arrangements and is suggesting that management costs be split out and funded separately from rent costs. In general this appears to be an entirely sensible approach but it is critical that the detail allows and encourages a T2P type approach and it should be noted that the delay in ending the current uncertainty is massively expensive as the cost of buying homes increases daily.

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**Memorandum by London Borough of Enfield**

In answer to the request for information regarding the supply of social rented housing in the London Borough of Enfield for the previous five years (2001–2006):

*Question 1*

The number of shared equity and social rented homes built in the area.

<i>2001–2</i>	<i>2002–3</i>	<i>2003–4</i>	<i>2004–5</i>	<i>2005–6</i>	<i>Total</i>	
Shared Ownership	26	69	20	53	47	215
Rented	402	361	108	239	223	1,333
Total	428	430	128	292	270	1,548

*Question 2*

The number of homes allocated to households from within Enfield.

<i>2001–2</i>	<i>2002–3</i>	<i>2003–4</i>	<i>2004–5</i>	<i>2005–6</i>	<i>Total</i>	
Rented	402	361	108	233	211	1,315

*Question 3*

The number of homes allocated to people from other parts of the North London Housing Sub-region.

	<i>2001–2</i>	<i>2002–3</i>	<i>2003–4</i>	<i>2004–5</i>	<i>2005–6</i>	<i>Total</i>
Barnet				2	2	4
Camden				2	3	5
Westminster			2	7	9	
Total	0	0	0	6	12	18

*Question 4*

The proportion of internal and external allocations made to newly built homes.

<i>2001–2</i>	<i>2002–3</i>	<i>2003–4</i>	<i>2004–5</i>	<i>2005–6</i>	
Internal	100%	100%	100%	97.4%	94.3%
External	–	–	–	2.6%	5.7%

It will be noticed that the above outputs relate to the five years 2001–2—2005–6. 2006–7 is in progress at the time of writing and the total completions cannot therefore be confirmed. However, a further 20 units have so far been allocated by Enfield to other LAs; 11 to Camden, 6 to Westminster and 3 to Hackney.

It should also be noted that the data relates to the years in which the completion of affordable homes occurs and this is therefore different to the annual figures of new homes funded under the Housing Corporation programmes. For example units will not usually be completed in the year that they receive funding and for some complex schemes this may not happen for 2–3 years. Completions in any one year will therefore be composed of schemes funded in different years and because nomination shares are based upon total annual funding allocations the actual nominations distribution in any one year will not be comparable to any individual years funding allocation.

Sub-regional nomination shares are calculated annually based upon the total housing Corporation funding allocation for that year using agreed criteria for exclusions and a formula based on needs.

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### **Memorandum by CPRE**

1. CPRE welcomes the opportunity to contribute to this inquiry. We are acutely aware of the importance of the rented sector, both in meeting housing needs and for the economy, on which labour mobility depends. We believe that both the private rented and social housing sector have an important but undervalued role to play in meeting housing needs. We are concerned that the focus on home ownership in recent years has devalued renting to the extent that it is viewed by some as an inferior form of accommodation. Yet in many prosperous countries, such as Germany and Switzerland, more people rent than own their homes.

2. CPRE believes there is a major crisis in the lack of provision of social rented housing. The decline in social housebuilding over recent decades and the loss of affordable homes without replacement through Right to Buy has led to the residualisation of the remaining stock, while council and housing association waiting lists have risen sharply. Some communities have been left with very little social rented housing at all.

3. In rural areas, in particular, the supply of social rented housing is considerably below the national average, with social housing comprising an estimated 5 per cent of homes compared with 23 per cent nationally (Affordable Rural Housing Commission, final report May 2006). With average rural incomes at £17,400 and average rural house prices standing at £172,500 local people would need to borrow 9.9 times their salary to afford to own their own home. The implications of the lack of supply of social rented housing are twofold: rural communities become increasingly unbalanced as people on low incomes, often younger households, are priced out; and people must travel further to work and gain access to essential services, with consequences for the level of carbon emissions. That is why CPRE joined forces with the National Housing Federation last year to produce an Affordable Rural Housing Charter a copy of which is attached as an annex to this paper. We urge the Committee to consider this as part of the current inquiry.

4. CPRE supports the Affordable Rural Housing Commission's call for 11,000 affordable homes to be provided each year in rural areas, 7,600 of which should be social rented homes. While we recognise that shared ownership has helped widen housing choices, in our view its role is limited since for many households it is too expensive and they will continue to rely on social rented housing to meet their needs. Yet, while the Commission's report was published almost a year ago, we are concerned at the lack of evidence of Government action to address its findings.

5. There is an urgent need for increased investment and new policy measures to help remedy this lack of social rented housing. Planning policies have a critical role to play. We welcome many of the measures put forward in the Government's new policy on planning for housing PPS3. In particular, we support its emphasis on "mixed communities", the provision for allocating sites solely for affordable housing, adopting lower thresholds and higher quotas for affordable housing provision, and the use of conditions to ensure that homes remain affordable and available to local people who continue to have a need to live or work in an area. While it is important that these policies are effectively implemented on the ground, we believe that they will be inadequate unless complemented by a significant increase in the public funding of affordable housing, with rural areas receiving a proportionate share.

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### **Memorandum by the Department for Work and Pensions**

#### **SUMMARY**

1. This memorandum is submitted by the Department for Work and Pensions in response to a request from the Committee to indicate the impact on Housing Benefit (HB) expenditure if "temporary to settled" schemes, such as those operated by the housing association, Local Space, were to become more widespread.

2. The scheme described by Local Space in their written evidence to the Committee broadly involves using the rental stream associated with temporary accommodation to procure more social housing. The properties concerned are owned by Local Space but held on a short-term lease by Newham local authority for a period of 10 to 15 years from when they will revert to the housing association and be settled properties. In the Department's view, using projected HB payments as a basis for investment decisions carries significant risk.

3. More recent temporary to settled initiatives, which involve a variety of organisations, not just Local Space, do not involve leasing arrangements between the purchaser of the property and the local authority and, as such, are intended to provide homes at rents that are cheaper than temporary accommodation rents. In some schemes, the homes become social housing, and settled, earlier on. The criteria for the pilot Extra Homes initiative, launched by Communities and Local Government and the Greater London Authority, require that the property is able to bring the homelessness duty to an end from day one when the family move in.

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 BACKGROUND
*What is temporary accommodation?*

4. When required to house a homeless person under their statutory duty, a local authority will often rely on temporary accommodation until a permanent housing solution is available. Temporary accommodation encompasses the following.

- Local authority short term leases—these are properties which the local authority leases from a private landlord for a period not exceeding ten years. The Department pays HB subsidy on these properties at 100% up to a local authority specific upper financial limit, which is known as the cap. No subsidy is paid for any part of the rent which is above the cap.
- Local authority licensed accommodation (rare) usually hotel licenses, and subsidised like local authority short-term leases.
- Bed and breakfast accommodation—subsidised at 100% up to a local authority specific lower limit which is known as the threshold, and at 10% up to a local authority specific upper limit, which is known as the cap, with nil above the cap. These subsidy rates are lower to discourage the use of such accommodation in line with CLG's remit to keep families in bed and breakfast only in exceptional circumstances and then for only up to six weeks.
- Housing Association short-term leases (HALS). These are properties which a housing association leases from a private landlord on a short-term basis. For HB purposes they are treated in the same way as any other housing association tenancy—referred to the rent officer for a possible rent restriction if the local authority considers the rent too high or the property under-occupied.
- Local authorities can also use other types of non-permanent accommodation, such as hostels, and temporary council, housing association or private accommodation let directly to the applicant.

5. The vast majority of households (some 90%) placed in temporary accommodation rely on HB to pay their accommodation costs.

*The Local Space scheme in Newham*

6. Leasing arrangements are commonly used by local authorities to house homeless people until a settled home becomes available. The total cost of providing this accommodation combines a lease or rental payment to the landlord plus management costs incurred by the local authority or a housing association managing the property on the local authority's behalf. At the end of a lease or rental period, the private landlord regains his or her property for re-letting or selling.

7. The scheme operated by Local Space is an alternative to the usual temporary accommodation leasing arrangements in that the properties revert to the landlord at the end of the leasing period. The intention is that they provide a more stable stock of temporary accommodation in the short term and in the longer term, permanent social housing.

8. This scheme uses the rental stream associated with temporary accommodation to finance borrowing to purchase the homes, so that they can be converted into social housing at the end of the borrowing term—typically 10 to 15 years—rather than returning properties to the private landlord. In other words, the HB subsidy procures a public asset rather than going to a private landlord.

*5Implications for Housing Benefit* 9. Whilst the scheme operated by Local Space has obvious attractions, the Department has the following *caveats*.

- The explicit use of HB to fund capital investment is a departure from the current expectation that HB is paid in order to meet an individual tenant's rent liability.
- It would be risky for this scheme to base a longer term financial guarantee to local authorities and landlords on any assumptions about the long term benefit dependency of the tenants given the Government's wider aspirations to help these tenants move off benefit and into work.
- This scheme is intended to run for some 10 to 15 years and it does not necessarily follow that the HB rules will remain the same for the whole period concerned. Under this scheme, whereby the properties are leased to Newham Council, the rents are set by the council at the maximum levels for HB subsidy purposes. Therefore the scheme relies heavily on the current HB subsidy regime for temporary accommodation. This is a significant risk because the rules are likely to change.
- The high level of rents/costs for tenants and HB over the 10 to 15 year period before properties convert to social housing could be perceived by tenants as a disincentive to work and exacerbate benefit dependency and the public cost of such initiatives (although possible future changes to the HB rules for people in temporary accommodation which set rents at an affordable level would help to address this issue),
- Whilst the intention of the Local Space model is to allow people to remain in the property for the period of the lease, and then, hopefully, move into social housing, in that sense it does provide a stable home from day one. However these are still non-secure tenancies, and classified as

temporary accommodation. In later initiatives, the Government has required that these properties are not formally temporary accommodation from day one, although they are still let on assured shorthold tenancies.

10. In fact, in London, the subsidy caps are set at a generous level and there is nothing to stop a local authority from setting its rents for leased accommodation at the cap regardless of the true cost of procuring that accommodation. The Department have therefore made some HB subsidy changes for local authority short term leases from April 2007, with a view to possibly making further changes from April 2008 in the light of evidence gathered by the Benefit Fraud Inspectorate on a sample of London authorities.

11. The Department is also considering making some major changes to the HB rules for people in temporary accommodation from 2009. Together with Communities and Local Government and the devolved administrations, the Department is currently developing proposals which separate reasonable costs for the rent of and management of temporary accommodation,

12. The objectives for reform are to ensure that the amount paid reflects reasonable rent and management costs (ie an affordable rent), offers value for money; and helps to support people in temporary accommodation until a permanent solution is available. This would, of course, have significant implications for schemes such as those operated by Local Space.

#### *The future of temporary to permanent schemes*

13. The basic principle behind temporary to settled schemes remains, ie. that rental income is used to repay borrowing that has been used to buy a home, instead of going to a private landlord to pay for renting a property as temporary accommodation. After 10 to 15 years, the borrowing has been repaid to a level that allows the properties to be converted to social housing, let at affordable rents,

14. With this in mind, CLG and the GLA's Settled Homes bid was launched in October 2006 to help families in London accepted as homeless and living in temporary accommodation move into long term housing.

15. As a result, housing schemes in Bromley, Hackney, City of Westminster, Brent, Ealing and West London will receive a total of £30million to help fund the purchase of around 900 homes and convert them over time into quality settled social housing.

16. The bids were assessed against the following criteria:

- Providing settled accommodation
- Contribution to the 2010 temporary accommodation reduction target
- Value for money
- Sound delivery plan and risk mitigation
- Housing quality standards.

17. These pilots aim to explore new approaches which help families to overcome barriers to work, provide settled homes, and reduce the cost of funding expensive temporary homes through Housing Benefit,

18. Properties provided under these pilots will be initially offered as fixed-term qualifying assured shorthold tenancies (giving homeless families more certainty about where they will be living compared with non-secure tenancies in temporary accommodation) and at rents that are more affordable than temporary accommodation (market levels or lower). As these properties will not be held on a short-term lease by a local authority, this would remove the scope for taking advantage of the generous HB subsidy arrangements for temporary accommodation,

19. As there will be no leasing involved, these properties will be cheaper than the current temporary accommodation rents for leased units and, although the properties will initially be provided on temporary tenancies, they will convert to long term social rented housing within a given period. This means that the families would not have to live in leased temporary accommodation where at the end of the lease, the property would have to be handed back to the private landlord.

#### *The impact on the total housing benefit bill of extending the Local Space temporary to permanent scheme*

20. In 2005–06, nearly £600 million was spent on HB for temporary accommodation rent rebate cases in England. In London, the total spend was nearly £500 million and in Newham it was around £70 million. Economic analysis by CLG in 2005 showed that temporary to settled housing schemes are good value for money compared with temporary accommodation and favourable value for money when compared with traditional capital investment in social housing.

21. However, since this economic assessment was made, there have been two important policy developments. Firstly, the CLG's Pilot Extra Homes Initiative has been established which has introduced different models of temporary to settled schemes. These have different features to the Local Space model and therefore each have different effects on the HB bill. Secondly, the economic assessment assumed that HB spend on temporary accommodation would remain around the same level as currently. For example,

the Local Space scheme uses the higher rental stream and HB subsidy associated with temporary accommodation to finance borrowing to purchase new homes. This means that compared to current HB spending on temporary accommodation, this would not incur additional public funding, all other things being equal. However under the major changes to the HB rules for people in temporary accommodation from April 2009 that the Department is currently considering, this higher rental stream may not exist and the resulting lower HB bill may mean that additional or alternative forms of funding would be required for Local Space schemes to purchase new homes.

22. The Department has yet to finalise the details of its proposed reform of HB for those in temporary accommodation and is therefore currently unable to give a detailed breakdown of the financial impact of temporary to settled schemes, including Local Space, on Housing Benefit expenditure.

23. The Department will work very closely with colleagues in Communities and Local Government to ensure we take account of the impact on Housing Benefit expenditure of future temporary to settled schemes.

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### **Supplementary Memorandum by the Department for Communities and Local Government**

1. At the start of the session (Q479) there was some debate on vacant premises and the Minister agreed to send information on the incidences of properties being purchased as an untenanted investment (buy to leave), particularly in Leeds. At Q482, the Minister agreed to send information on the relative activity of individuals and institutions in the buy-to-let market.

The Department collects information from local authorities on the number of empty properties within their area and whether they have been empty for less or more than 6 months. The data is not attributed to particular addresses. As part of the regeneration of urban areas the Department acknowledged that there appear to be issues of residential development that have not been fully occupied. We believe this can be for a number of reasons: the developments may not be responsive to demand; are seeking to create a market for city centre living; or responding to what is considered to be a sound investment option. Often we accept the answer will be specific to particular developments. The material we have provided in respect of Leeds is, we believe, a helpful case study. The Leeds City Council's empty properties strategy 2006–10 is at attachment 1 and a short overview by the Council at attachment 2.

The Committee asked about the relative activity of individuals and institutions in the buy to let market. The term buy to let was derived from the creation of a mortgage product that allowed individuals to borrow money to enable them to buy a property to let out. Institutional investors will not access funds through this route. Therefore it is the Department's view that central to the concept of buy to let is that it is an individual who is entering the rental market and therefore we do not consider institutional investment in the private rented sector as buy-to-let.

2. Mr Hands asked about the impact of the energy performance certificates (Q480–481) and the Minister agreed to send the Committee copies of the estimations of the actual impact that the Department has made.

A copy of the RIA of the energy performance of buildings is at attachment 3.

3. Later in the session (Q483–485) research commissioned by the GLA into the market for newly built dwellings was highlighted. The Committee is aware of this research (who buys new market homes in London) but would like the Department to provide any supporting evidence of the GLA's findings.

"Who buys new market homes in London?" produced for the GLA is attached at 4 and the GLA's press release is attachment 5. CLG does not have any supporting evidence of the findings of this research.

4. At Q492, temporary to settled programmes were discussed. The Committee would be interested in obtaining further information about the specific funding arrangements of these new schemes.

The basic principle behind temporary to settled schemes is that rental income is used to repay borrowing that has been used to buy a home, instead of going to a private landlord to pay for renting a property as temporary accommodation. After 10 to 15 years, the borrowing has been repaid to a level that allows the properties to be converted to social housing, let at affordable rents.

DCLG and GLA launched bidding round for a £30 million Settled Homes Initiative (previously known as Extra Homes pilot) last October, with a deadline for bids of 16 January. 20 bids were received totalling just under £117 million. An assessment panel comprising the GLA, CLG, Housing Corporation and GOL evaluated the bids with London Councils as observers.

Yvette Cooper jointly announced with the Mayor Ken Livingstone on 19th April the winning bids for the £30 million Settled Homes Initiative launched last October, to help families in London accepted as homeless and living in temporary accommodation move into long term housing.

Housing schemes in Bromley, Hackney, City of Westminster, Brent, Ealing and West London will receive a total of £30 million to help fund the purchase of around 900 homes and convert them over time into quality settled social housing.

Bids were assessed against the following criteria:

- Providing settled accommodation
- Contribution to the 2010 temporary accommodation reduction target
- Value for money
- Sound delivery plan and risk mitigation
- Housing quality standards

The new pilots will build on the range of existing and emerging “temporary to permanent” housing schemes, such as the “Local Space” scheme in Newham which is working to provide more affordable and settled homes over the long term by capturing funding that was previously being used to pay for costly temporary accommodation.

Our aim is that by offering a bit of capital investment up front, we hope these schemes can work in a way that provides homes that are more settled and more affordable earlier on.

The pilot will also explore new approaches which help families to overcome barriers to work, provide settled homes, and reduce the cost of funding expensive temporary homes through housing benefit.

#### BACKGROUND

The Chancellor announced an Extra Homes Pilot in the 2006 Budget. Further information was given in press releases on 4 April and 14 July, with the latter announcing that there was £30 million available for the pilot (£10 million of which has come from Treasury).

The bidding process was launched on 24 October by Yvette Cooper and the Mayor. All bids were assessed by a panel including representatives of the Mayor, Government Office for London, ALG, Housing Corporation and CLG.

There are six successful schemes.

<i>Scheme</i>	<i>Grant requested</i>	<i>Proposed SHI allocation</i>	<i>Number of units</i>
Bromley	£4,125,000	£4,000,000	73
Hackney	£6,755,000	£4,000,000	50
Westminster	£7,000,000	£7,000,000	200
Brent	£5,000,000	£5,000,000	260
Ealing	£5,000,000	£4,000,000	150
West London	£16,975,000	£6,000,000	171
Total	£44,855,000	£30,000,000	904

The final report by Civis consultants ‘Review of temporary to permanent arrangements is at attachment 6.

5. At Q511–512, and also at Q515, data on the sub-regional demand for housing was debated and the Minister agreed to send the Committee a list of local authorities which it includes in the review of the data.

#### *List of local authorities included in the review of data*

- Middlesbrough
- Ryedale
- Kingston upon Hull
- Manchester
- Derbyshire Dales
- Malvern Hills
- Epping Forest
- Hertsmere
- Kensington and Chelsea
- Tower Hamlets
- Taunton Deane
- East Hampshire

6. The Committee would like to receive the tables that the Housing Corporation produced detailing the average cost of new social housing and the average level of grant for new social housing and new shared ownership by region (Q517, page 28).

	<i>LCHO grant per unit</i>			<i>Social Rent grant per unit</i>		
	<i>2003-04</i>	<i>2004-06</i>	<i>2006-08</i>	<i>2003-04</i>	<i>2004-06</i>	<i>2006-08</i>
East Midlands	21,118	21,690	20,111	48,730	43,753	44,150
East of England	26,966	23,230	14,749	49,101	48,215	39,563
London	48,137	46,792	42,368	96,217	100,932	100,683
North East	28,333	34,517	18,725	53,728	57,831	60,449
North West	27,609	30,506	33,663	55,620	63,841	63,177
South East	28,655	26,913	18,271	61,048	58,939	53,711
South West	21,794	18,537	18,995	40,526	41,021	44,239
West Midlands	24,495	31,605	20,278	53,904	56,248	49,722
Yorks & Humber	33,448	28,619	26,643	50,313	53,093	52,816
National	34,961	31,057	26,828	65,507	66,886	61,907

Source: Housing Corporation.

	<i>LCHO Total cost per unit 2006-07</i>	<i>Social Rent Total cost per unit 2006-07</i>
East Midlands	100,856	94,640
East	126,972	106,881
London	174,467	188,494
North East	82,027	102,101
North West	109,919	114,606
South East	132,172	124,591
South West	109,052	100,111
West Midlands	97,928	99,282
Yorks & Humber	88,807	102,807
National	134,902	128,877

Source: Housing Corporation 2006-07 Affordable Housing Programme average total scheme costs for approved bids (excludes OMHB and TSH).

7. On page 30 of the transcript (Q523) the Chair requested figures on precisely what proportion of the additional funds made available (say over the last three years) have been taken up with land costs.

The Housing Corporation's publication "Unlocking the door" (attachment 7) shows land and build costs for low cost home ownership schemes and social rented schemes (Graphs 3 and 4) from 2004-05 to 2007-08.

8. At Q525 and 526 Mr Hands requested a direct comparison between expenditure and output between 1997 and that predicted for 2008.

No direct comparison can be made between spend in one year and completions in that same year due to the length of time it can take for a scheme to be built. Spend in any one year will be on a mix of payments for starts on site and practical completions.

#### AFFORDABLE HOUSING COMPLETIONS AND EXPENDITURE

	<i>Total Rent completions</i>	<i>Social Total Rent completions (£m)</i>	<i>Total LCHO completions</i>	<i>Total LCHO (£m)</i>
1997-98	35,780	782	11,684	173
1998-99	33,576	752	8,874	125
1999-00	28,743	823	5,116	94
2000-01	27,077	937	5,244	117
2001-02	26,836	1,009	5,541	121
2002-03	23,946	1,198	8,387	229
2003-04	22,698	1,399	14,793	576
2004-05	21,059	1,085	15,526	590
2005-06	23,415	956	22,073	582
2006-07 provisional	25,159	1,433	19,571	523
2007-08 plans	31,440	1,390	25,499	697

Notes:

1. The above completion figures include the following programmes:

Affordable Housing Programme

Local Authority Social Housing Grant

Private Finance Initiative  
Starter Home Initiative  
First time buyers and London wide initiative  
Local Authority schemes  
Delivery through S106 without grant

2. The above spend figures include the following programmes:

Affordable Housing Programme  
Local Authority Social Housing Grant  
Starter Home Initiative  
First time buyers and London wide initiative

9. The Minister agreed to send the Committee further information on the progress of the self-financing pilots (Q533) including timetable

Six local authorities three with ALMOs are developing model business plans to test the costs and benefits of severing ties with the housing subsidy system. The authorities and ALMOs are: Sheffield City Council and Sheffield Homes; the London Borough of Hounslow and Hounslow Homes; Carrick District Council and Carrick Housing; Cambridge City Council; Darlington Borough Council; and Warwick District Council.

“Self financing” housing authorities would have a one off adjustment to their housing debt based on the net present value of anticipated future subsidies or surplus payments within the HRA subsidy system. They would then leave the subsidy system, retaining future rental incomes, receiving no further HRA subsidy and making no further surplus payments.

Work to date suggests that self-financing has the potential to increase efficiency, improve asset management and lever in more private investment. More work is required to quantify the benefits and find ways to manage the risks of self financing.

We expect to complete the modeling work in the summer. Decisions on next steps will be made in the context of the Comprehensive Spending Review. Any changes would have to be fair to councils who remain within the redistributive HRA subsidy system, as this is an important means of allocating resources on the basis of need.

10. The subject of housing associations underutilizing capital assets was discussed at Q536 and 537 and the Minister agreed to send estimations made on the total value of capital assets not being used by associations.

The Housing Corporation commissioned work from the accountancy firm Grant Thornton to identify capacity within the RSL sector to lever in more private finance. The analysis is set out in the Housing Corporation’s “Unlocking the Door” (attachment 7, see the section on “shifting the balance between subsidy and private finance from page 16).

The work indicates that:

- there may be potential for additional debt capacity of £4.6 billion, excluding property sales, or £6.8 billion including property sales, within the 348 associations analysed;
- 63% of the additional capacity is with associations with 5,000+ homes;
- Housing associations based in London, South East and North West have the highest levels of capacity;
- associations can withstand, within limits, adverse changes in the macro-economic environment and reduced grant rates and continue to develop;
- increases in running costs and a downturn in the housing market pose the biggest threats.

11. The movement of social tenants between homes, particularly in London, was discussed and at Q550. The Chair requested detailed information about how schemes to encourage greater movement are or are not operating.

The contract for delivering housing mobility services (moveUK) ended on 20 January 2007. This decision was made in the interests of the public and the taxpayer because of serious concerns about the performance and fitness for purpose of the software developed by CLG’s contractor to provide those services.

#### TRANSITIONAL ARRANGEMENTS

Whilst we are finalising arrangements to effect the long term delivery of mobility services, we have developed transitional arrangements to minimise the disruption to customers and landlords.

London Councils’ has agreed to provide a transitional service for the Seaside and Country Homes (SSCH) and the LAWN Mobility Scheme, on a medium term basis. Both schemes focus on moving people out of London and have provided high value for money and highly sustainable moves.

It should be noted that the LAWN Mobility Scheme facilitates moves out of London arranged by and through London Authorities and some northern counterparts. This scheme is continuing unchanged in all practical effects.

London Councils is now finalising proposals for how it intends to deliver the objectives of the Seaside and Country Homes Scheme prior to seeking formal approval from its Executive Committee. This is likely to result in new mobility services for London based applicants from July 2007.

Local and sub-regional Choice based lettings schemes (CBL), also facilitates additional social housing moves other than those from out of London. CLG is currently considering bids for a Regional Challenge Fund to increase the number of cross boundary schemes from the existing 26 schemes across England.

#### CBL AND MOBILITY IN LONDON

There are currently 11 CBL schemes operating in London, with 27 Boroughs participating.

3 cross-borough schemes:

- Choice Homes UK : Hackney, Havering, Newham, Redbridge, Southwark, Waltham Forest.
- Home Connections: covering the North London sub-region, comprising Barnet Camden, Enfield, Islington, Haringey, Westminster; and also Kensington & Chelsea, Kingston, Merton (with Lambeth going live soon).
- Locata : Brent, Ealing, Hammersmith & Fulham, Hillingdon, Hounslow and Harrow

And 6 standalone schemes in :

- Barking & Dagenham (operated by Choice Homes UK)
- Croydon
- Greenwich
- Lewisham
- Sutton
- Tower Hamlets

CBL schemes allow people who have registered for housing to choose the property and area they would like to move to. All the schemes operate on a similar basis. Properties that are available to rent are advertised on a weekly or fortnightly basis, eg on a dedicated website, local newspapers or bulletin sheets which are widely distributed (eg council offices, libraries, hostels). Applicants registered with the scheme “bid” for properties they are interested in (eg by phone, text message, online or through coupons). Some schemes restrict the number of properties you can bid for per cycle. Once people have “bid” for properties, bidders will be assessed according to the priority system adopted by the scheme partners, which may be a points-based system or a wider banding system.

People with the highest priority will be put onto a short list. If the applicant with the highest priority refuses a property after having had the chance to view it, the next person on the shortlist will be invited to view the property. Feedback on recent lettings will be published to help people make informed decisions about whether and what to bid for in future.

Cross-boundary mobility. All three sub-regional schemes allow for an element of mobility within the sub-region (ie across local authority boundaries). Locata partners put 10% of their properties into a “pool” which applicants resident in the other LA districts can apply for. Choice Homes UK operate an exchange scheme (with 8% of properties advertised this way: eg. a property in Hackney will be made available for Newham applicants to bid for and vice versa. In the North London sub-region (where they use Home Connections), all new build and some adapted properties are advertised sub-regionally.

We have also agreed with The Cabinet Office a medium term plan to adapt the Government website “Directgov” to ease access to customers to facilitate moves. This website provides:

1. facilities to make direct applications to LAs and Housing Associations and their housing exchange schemes across England;
2. links to other service providers of mutual exchange services and information (most are free, some charge a small fee) across England;
3. details of other housing schemes (ie Homebuy, Right to Buy, Low-Cost Ownership Homes including the Key Worker Living Programme);
4. other social housing related information.

In addition, there are links to other Government services such as the “Looking for Work” facility which links to the Jobcentre Plus database with job vacancies throughout the UK, and a variety of pages relating to local information (ie schools, hospitals and local services). Users can also access the full range of other Government services on Directgov.

12. In addition to the above, which the Department has already agreed to send, the Committee would like the Department's view on emerging evidence from the GLA that households that are eligible and are able to afford intermediate schemes could have afforded to rent accommodation from a private sector landlord, and whether the schemes should be adjusted so that those who are able to afford to rent are not eligible.

This request refers to analysis undertaken by Peter Williams and Steve Wilcox for the GLA as part of the work on the market for intermediate housing. The analysis illustrates that many of those eligible for low cost home ownership assistance could afford to rent a suitable property in the private rented sector.

Social tenants remain the highest priority for our low cost home ownership schemes. Helping a social tenant to move into low cost home ownership can achieve significant savings through freeing up their socially rented property for another household.

But there is also a role for Low Cost Home Ownership in helping other households, including those who afford to rent in the private rented sector. Indeed, around 40% of low cost home ownership purchasers rent in the private sector before moving into low cost home ownership.

The private rented sector has an important role to play, particularly for younger households who may need to move home to follow employment opportunities. But we recognise that home ownership is an aspiration for a large number of households, and that it has significant benefits both for families and the wider community. Home ownership offers a security of tenure which can be important for families with children. And offering opportunities for low cost home ownership can help essential workers like police officers, nurses and teachers to live in the communities in which they need to work.

13. During the session, Mr Hands asked about the Department's view on shared-equity schemes recently made available in Australia. There are public schemes where the Government (Western Australia) contributes to the purchase and retains a share. There are also private schemes where the bank offers a loan but instead of paying interest on the loan, some of the capital appreciation is surrendered. The Committee would like to know the Department's opinion on the applicability of the public and private schemes and what lessons can be learnt from them.

There are a wide range of shared equity products currently being developed by state housing authorities, government agencies and the private sector in Australia. Some of these products have been launched but most are still in the early stages of development. Mr Hands specifically mentioned two schemes.

First Start is provided by the Western Australian Government Department for Housing and Works. It is an equity loan scheme, and the detailed operation is very similar to our own Open Market HomeBuy. The main difference is that equity loans are available for up to 40% of the property value, and that the loan is provided entirely by the Department for Housing and Works. Under Open Market HomeBuy the equity loans are for 25% of the property value and they are jointly funded by government and mortgage lenders.

Adelaide Bank Equity Finance Mortgage is an entirely private scheme developed by Rismark International. It is currently only sold through Adelaide Bank but Rismark hope to attract other mortgage providers to the scheme.

Under the scheme, purchasers take on a conventional mortgage for at least 75% of the property value alongside a deposit of at least 5%. The remaining 20% is purchased with an equity loan (known as an "Equity Finance Mortgage". There are no ongoing interest charges on the equity loan, but on redemption the lender takes 40% of the value of total capital gains on the property. If the value falls they take up to 20% of losses.

So far, this type of scheme is not yet available in the UK (although we are aware that Rismark International have made initial enquiries into the market here). Private sector equity sharing mortgages are available, but they are structured differently. The Adelaide Bank / Rismark product has no ongoing charge on the equity loan, but the lender takes a proportionately larger share of the capital gains than they originally financed. Shared equity mortgages available in the UK have an ongoing interest charge on the equity loan, but the capital gains are shared proportionately.

CLG are keen to promote the development of the shared equity market in England so that it offers a diverse range of competitive products. In support of this, the Chancellor announced in the 2007 Budget the first stage of a Competition to select lenders to work in partnership with Government in developing Open Market HomeBuy from 2008 onwards.

14. At Q542 there was reference to the Housing Corporation monitoring asset sales on the part of the Housing Associations. It would be useful to know how the monitoring is being done and what it's showing so far.

The Housing Corporation has very recently published a report on its thematic review on disposals. Introduced as a new regulatory product in 2006, the thematic reviews use existing sources of data that the Corporation holds on housing association, examining specific areas of performance by specific sections of the housing association sector.

The review on disposals (attachment 8) examines the volume and frequency with which associations are selling rented units and the reasons behind these decisions.

15. Larger homes for families was also discussed (Q546). The Committee would like to know the proportion of the social housing budget being spent to provide “family” housing. The Minister indicated that figures for London would be available but the Committee would like to receive information about similar activity in other regions. PPG3 introduced the ability for local authorities to monitor and influence the size and type of housing. The Committee would like to know about examples of local policies that define and require a certain size of dwelling and any appeal cases where the size and type of dwelling has been a material consideration.

**PROPORTION OF HOUSING CORPORATION EXPENDITURE  
ON SOCIAL RENTED HOMES SPENT ON LARGER  
(3 + BEDROOM) HOMES**

	2006–07	2007–08 <i>(forecast)</i>
East Midlands	24%	27%
Eastern	24%	25%
London	30%	33%
North East	34%	35%
North West	33%	41%
South East	20%	21%
South West	23%	24%
West Midlands	27%	32%
Yorkshire and Humberside	42%	42%
Total	27%	29%

New planning for housing policy—Planning Policy Statement 3—published on 29 November 2006 gives stronger policies on affordable housing, giving tools to local planning authorities to deliver more affordable homes in rural and urban areas.

Regional Spatial Strategies and Local Development Frameworks should set out an Affordable Housing target for their areas, with the latter setting separate targets for social-rented and intermediate affordable housing where appropriate. Local Planning Authorities should also specify the size and type of affordable homes needed, the range of circumstances in which affordable housing will be required, and the approach to seeking developer contributions.

The requirement to provide an affordable housing target in RSS is new. But the key element to the PPS3 approach is in how local authorities identify how many market and affordable homes are needed, using Strategic Housing Market Assessments which take an evidence based approach to assessing housing need and demand. CLG published in March supporting practice guidance, which sets out a framework for local authorities to bring together available evidence about the size of households requiring housing, demand for housing of different sizes and current preferences for different dwelling types, and so help them produce robust and consistent Strategic Housing Market Assessments.

The guidance in PPS3 about separate targets for social rented and intermediate housing, and the wider mix of housing (both for affordable and for market) have not yet had time to be reflected in emerging Development Plan documents.

Attachment 9 has extracts taken from local planning authority local plans, or supplementary planning guidance, illustrating policies setting out any particular requirements of dwelling size or tenure in relation to proposed affordable housing provision in their plan area. These policies, being drawn up before the publication of new PPS3 in November, do not of course yet take into account the new policy approach.

**LIST OF ATTACHMENTS**

1. “Empty properties strategy 2006–10”—Leeds City Council
2. Leeds City Council overview of the empty homes strategy
3. Regulatory Impact Assessment—Energy Performance of Buildings Directive Articles 7–10—Communities and Local Government
4. “Who buys new market homes in London”, December 2006
5. GLA news release on “Who buys new market homes in London”
6. Review of temporary to permanent arrangements—final report—Civis Consultants, September 2006
7. “Unlocking the Door”—Housing Corporation, February 2007
8. “Disposals”—Housing Corporation, April 2007
9. Extract from local plans/supplementary planning guidance policies setting out size/type of affordable housing.

### Supplementary memorandum by the Department for Communities and Local Government

#### DELIVERY OF AFFORDABLE HOUSING—DETAILS ON SCHEMES AND KEY FACTS

The Government offers a variety of HomeBuy schemes designed to help social tenants, first time buyers and key workers get a foothold on the property ladder.

These schemes are designed to work together as a package—the different options offer choices in the type of homes available, and help to meet the needs of a range of households with different incomes, and in changing market conditions. The three HomeBuy products are:

- Social HomeBuy enables tenants of local authorities and housing associations to buy a share in their current home at a discount.
- New Build HomeBuy enables people to buy a share of a newly built property, including homes built on public sector land through the First-Time Buyers initiative.
- Open Market HomeBuy enables people to buy a property on the open market with the help of equity loans.

Since 1997 we have helped:

- 77,000 households into home ownership through shared equity;
- 22,956 households have taken up Open Market HomeBuy;
- provided 51,920 homes through New Build HomeBuy (and its predecessor schemes); and
- 47 households have purchased their home through the new Social HomeBuy scheme, mainly through the early pilots launched last year.

These totals include 24,833 key workers.

#### SOCIAL HOME BUY

The Committee asked for details of the proportions of equity purchased under Social HomeBuy so far.

The majority of the early Social HomeBuy sales have been at 100% (i.e 38 out of a total of 48 up until March 2007).

Purchasers are encouraged to maximise the share they can afford and sustain. Other purchasers (10) have bought shares ranging from 25% to 75%.

80%	- 100% share
4%	- 75% share
2%	- 65% share
2%	- 60% share
8%	- 50% share
2%	- 40% share
2%	- 25% share

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#### Memorandum by Shelter

Shelter is grateful for the opportunity to provide supplementary evidence outlining our views on the Housing Green Paper before the select committee finalises its report into the Supply of Rented Housing.

We welcome the Housing Green Paper, which clearly symbolises the new Prime Minister's personal commitment to a massive increase in housebuilding. In particular, we very strongly support the 50 per cent increase in the number of new social rented homes the Government plans to have built—an additional 45,000 in 2010–11. This would take the number of social homes built each year beyond the levels achieved in the mid-1990s.

The committee will recall endorsing Shelter's original recommendation that 50,000 extra social rented homes are needed annually over the course of the next Spending Review period to keep pace with Kate Barker's assessment of "acute" newly arising housing need and meet the target of halving the use of temporary accommodation by 2010. We note, that in her statement to the House of Commons, Housing Minister, Yvette Cooper MP, acknowledged this scale of need, and indicated that the Government would aim to reach that rate of new social housebuilding during the course of the next Spending Review period. We hope the committee will restate its support for this objective and recommend that it should be achieved in 2011–12 at the latest.

At the same time, we note that, thus far, CLG has not specified the number of new social homes it wants to see built in 2008–09 and 2009–10. This uncertainty clearly needs to be resolved urgently if the Housing Corporation is to know exactly how much funding is available and Registered Social Landlords themselves are able to submit bids for Social Housing Grant to pursue new schemes in April 2008.

Anecdotal evidence about the development capacity within the housing association sector suggests that there will have to be a phased approach. However, Shelter very strongly believes that the number of new social homes should exceed the current rate of 30,000 in both of these years. We have therefore recommended that CLG should ensure that the Housing Corporation is given funding to provide 35,000 new social homes in Year 1 and 40,000 in Year 2 of the CSR period. We would welcome the committee's support on this point.

Clearly, the Government's inability to keep pace with newly-arising need for social housing, places an additional requirement to make good this deficit in subsequent spending rounds. The rate of social housebuilding must therefore increase beyond 50,000 a year after 2011–12. It is not possible, at this stage, to identify exactly how many new social homes will be needed, but Shelter believes that between one quarter and one-third of the three million new homes planned between now and 2020 will have to be social rented housing, if the Government is to make any real impact in helping the growing numbers of households languishing on council waiting lists.

The key question, of course, is how these short and longer-term objectives can be met, and so this note focuses specifically on the proposals in Chapter 8 of the Housing Green Paper.

#### *Comprehensive Spending Review*

The Green Paper indicates that around £8 billion will be spent on affordable housing over the CSR period, of which at least £6.5 billion will be used to fund new social rented homes. CLG claims that this total is almost £3 billion more than was invested from SR2004. Early indications have been that there is not a big increase in investment for LCHO products. This claim merits further interrogation, as £3 billion could theoretically deliver almost all the extra social housing Shelter has called for, not only during the final year, but throughout the CSR period.

Unfortunately, however, there has been some ambiguity over funding in the past. In July 2004, the then-Deputy Prime Minister argued that an additional £430 million would be invested in new social housing. It later became clear that much of this "extra" funding was in fact centrally-pooled Local Authority Social Housing Grant that would have been available for new social homes in any case. Further, this funding would only be available in 2007–08. As a result, the Housing Corporation's output in 2005–06 was exceptionally low—just 16,500 social homes.

Shelter hopes therefore, that the committee will recommend that CLG make it clear at an early stage exactly how much funding is available for social housing over the three year period.

#### *Increasing housing associations contribution*

Shelter welcomes the central role housing associations have played in the provision of new social housing since the late-1980s and we support their continued place as the key agents of delivery. However, we note that there have long been suggestions that RSLs could deliver new homes more efficiently and that the grant-rate per unit built should be reduced accordingly. When this took place in the mid- to late-1990s, both quality and the proportion of family-sized homes were said to have suffered. RSLs have also argued that steeper rent increases and even a declining interest in social housebuilding could also occur if grant-rates were to be reduced again. Shelter accepts that any changes must be introduced sensitively. Nevertheless, we do have sympathy for the view that RSLs could make better use of their reserves and borrowing capacity to subsidise development, and support the Housing Corporation's efforts to ensure better value for money from the Affordable Housing Programme.

#### *Working with the private sector*

Shelter had a number of concerns about the Government's decision to allow private developers to bid for Social Housing Grant, and we supported the National Housing Federation's efforts to persuade ministers to ensure a level playing field between the for-profit and not-for-profit sectors. We would therefore encourage the committee to recommend that the Housing Corporation monitor closely standards on privately-developed social housing estates and publish its findings.

#### *A Renewed role for local authorities*

Shelter also welcomes the renewed role for local authorities in the direct supply of new social housing and the recent changes to allow Special Purpose Vehicles or Arms Length Management Organisations to bid for Social Housing Grant. We hope that the first ten such bodies pre-qualified as being eligible for bidding in the next round will be successful in securing SHG to enable this approach to be properly tested. We support the proposal to extend pre-qualification to two-star ALMOs and hope that more SPVs and ALMOs will be given pre-qualification status next year.

### *Local authority new build within the HRA*

The Housing Revenue Account has provided a useful redistributive mechanism to ensure that local authorities facing intense pressure on their own stock can deliver effective management and maintenance of those homes and estates. However, it is clear that, to some extent, it has also been a disincentive to those who might have considered using their own land and capital receipts to build extra council housing. We agree therefore with the principle that, where councils choose to invest money and land, they should be able to keep the income and capital returns from those additional homes.

### *Reforming the HRA*

It is also understandable that, CLG also wants to explore options for the longer-term reform of this redistributive subsidy system, including allowing some councils to leave HRA and become self-financing. We assume that those councils who are net-contributors are the most likely to leave, and anticipate that this could have an impact on the funding available for those remaining. We would not want to see councils with relatively high management and maintenance costs resulting for example from having an above-average proportion of flats in tower blocks being penalised. Shelter therefore supports the proposal that those leaving the HRA subsidy system should face a one-off adjustment to their HRA, based on the present value of anticipated future subsidies or surplus payments were they to remain. We believe this should be incorporated within the self-financing pilot.

### *Changes to rules on capital receipts*

Shelter strongly believes that income from the sale of council homes should be reinvested in replacement stock. Much greater transparency and accountability at both the national and local level is required to ensure this is the case. We therefore welcome the review of rules governing the treatment of housing capital receipts. While some councils are critical of HM Treasury's central-pooling arrangements for Right to Buy receipts, it is clear that, in the past, many local authorities used the receipts they are allowed to retain to fund non-housing capital projects. Some even used them to cross-subsidise revenue costs and lower Council Tax. In theory, central-pooling has ensured those receipts can be recycled as funding in areas of greatest housing need.

It is also clear, that a number of authorities have contributed a very high level of receipts to the central pot in recent years, for example as a result of the high number of Right to Buy sales in London prior to the introduction of the reduced £16,000 maximum discount. Obviously, with a finite stock of council housing, this cannot continue indefinitely, and in fact, there is already a significant drop off in Right to Buy sales across London. It is only right that, as receipts from sales in London subsidised Social Housing Grant in other parts of the country for a number of years, so receipts from those regions should now be used to underpin SHG in the Capital.

### *Temporary to Settled Homes*

The Green Paper also looks towards a "significant expansion of the Settled Homes Initiative scheme in London, which allows councils and partners to buy back properties for families in temporary accommodation." Shelter very strongly supported the "Temporary to Permanent" idea first proposed by the Association of London Government (now London Councils) and we have been involved on the Board of Local Space Ltd in Newham. This involved the stock transfer of 450 LB Newham flats to provide a dowry against which Local Space could borrow funding to purchase properties on the open market. Around two-thirds of the homes would be available as social housing by the end of the 15 year business plan.

It makes sense to ensure that the £500 million of Housing Benefit now being spent paying rent to private landlords accommodating homeless families, delivers better value for money to the taxpayer. Specifically, the principle of using this revenue expenditure to acquire new social housing is a sound one and so we welcome the £30 million pilot scheme in London. By taking direct control of the temporary accommodation LB Newham and Local Space has been able to drive up physical and management standards. The initiative is also helping regenerate a deprived part of Newham, in which poor quality private rented housing was prevalent.

However, we note that there has been a subtle shift in policy from "Temporary to Permanent" towards "Temporary to Settled" accommodation over the past 12 months. As originally envisaged, at least by Shelter, the scheme was designed to provide a better experience of TA while homeless families waited for a Secure or Assured Tenancy in a Council or Housing Association property to become available. Homeless families would not lose the "Reasonable Preference" they currently enjoy when bidding under Choice-Based Lettings.

Increasingly, it seems CLG sees this "settled" accommodation, which is effectively an Assured Shorthold Tenancy, as an alternative to that. Shelter disagrees with this analysis. We very strongly feel that the lack of security of tenure and the high rents mean that, in most cases, "settled" accommodation is unlikely to be an effective solution to homelessness. We hope that committee will agree with this analysis and recommend

that CLG amends the eligibility criteria for the “Settled Homes Initiative” funding so it no longer prioritises schemes delivering ASTs and ensures that local authorities involved do not withdraw the reasonable preference of homeless households placed in this type of temporary accommodation.

#### *Meeting the rural challenge*

In our submission to the Comprehensive Spending Review, Shelter argued that the rural housing crisis has become so acute, that at least 5% of the Housing Corporation’s Affordable Housing Programme should be ring-fenced for rural settlements of fewer than 3,000 people. We welcome the investment already directed at building social housing in rural areas and innovations such as the seven pilot Rural Community Land Trusts. Ultimately, however, more needs to be done to ensure social homes are built in rural settlements. We hope, therefore, that the committee will recommend that CLG set a target of at least 5% of the Housing Corporation’s programme being in these areas.

#### *More family homes*

Shelter has long campaigned to highlight the impact of overcrowded conditions on the health, education and life chances of young children, and so we welcome the emphasis on family-sized homes in PPS3, and the London Housing Board’s target that 35 per cent of its programme should be three-bedroom or more. We hope the committee will recommend that CLG encourage the other Regional Housing Boards to aim for significant increases in family-sized homes in the Housing Corporation’s forthcoming Affordable Housing Programme.

#### *Private rented sector*

We note that this Green Paper is all but silent on the issue of Private Rented Housing. While it is understandable that the new Prime Minister will have wanted to focus on the supply of new housing at the start of his term of office, we hope that further policy reforms, including reform of the private rented sector, will be brought forward in the months to come. Any recommendations made by the committee in support of Shelter’s proposals to reform the PRS would be very timely.

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### **Supplementary memorandum by the Department of Communities and Local Government**

#### **THE HOUSING SUPPLY AND REGIONAL SPATIAL STRATEGIES**

This paper responds to the request dated 13 August 2007 from the Communities and Local Government Committee for a Memorandum dealing with the application of the Habitats Directive to Regional Spatial Strategies. Four questions were posed and these are dealt with in turn.

#### *1. What Guidance, and when, has DCLG provided to Government Offices and/or Regional Assemblies regarding the application of the Habitats Directive to Regional Spatial Strategies?*

The Habitats Directive (more formally known as Council Directive 92/43/EEC on the Conservation of Natural Habitats and of Wild Fauna and Flora) aims to protect over 200 habitats and approximately 1000 species across Europe. These habitats and species are considered to be of European interest, following criteria given in the Directive.

The Directive established Special Areas of Conservation which together with the existing Special Protection Areas form a network of protected sites across the European Union called Natura 2000 sites (NK2 sites) or European Sites.

For the purposes of the Directive, and this determination, the Government Offices (GOs) are part of Communities and Local Government. The GOs are central Government’s regional interface with the local authorities within their respective regions.

On 9 January 2004 action was brought by the Commission of European Communities against the United Kingdom of Great Britain and Northern Ireland. This action was on the grounds that the UK had failed to transpose the requirements of Council Directive 92/43/EEC on the Conservation of Natural Habitats and of Wild Fauna and Flora (Habitats Directive) and thereby fulfil its obligations under that Directive.

In August 2005 reference was made to the pending ECJ judgment in Government Circular: *Biodiversity and Geological Conservation—Statutory Obligations And Their Impact Within The Planning System*. This circular, jointly produced by the Office of the Deputy Prime Minister and the Department of the Environment, Food and Rural Affairs, was circulated prior to the final judgment.

In 20 October 2005, the European Court of Justice ruled that the United Kingdom had failed to transpose the provisions of Article 6(3) and (4) of the Directive 92/43/EEC on the Conservation of Natural Habitats and of Wild Fauna and Flora (Habitats Directive) into UK Law in case C-06-/04 (Commission v United

Kingdom). The Court found that, as a result of the failure to make land-use plans subject to Appropriate Assessment (AA) of their implications for European Sites, Article 6 (3) and (4) of the Habitats Directive has not been transposed completely.

The first formal correspondence from the then Office of the Deputy Prime Minister (ODPM) to all Government Offices (GOs) on this ruling and the subsequent requirement to consider the Directive for Regional Spatial Strategies (RSSs) was sent via an email, from the Department's policy lead on Habitats Matters on 19 January 2006. (See Attachment 1). This email advised the GOs of the ruling and that the Department for the Environment (Defra), in partnership with ODPM, would respond to the infraction proceedings by revising the Statutory Instrument: The Conservation (Natural Habitats &c.) (England and Wales) Regulations, and developing guidance. When the email was sent, it was uncertain whether the judgment would have immediate implications or whether it would apply only when the amending regulations were brought in.

In March 2006, the Department sent a letter to all local planning authorities and regional planning bodies in England advising them of the October 2005 ruling and the requirements to consider the directive in the plan making process. (See Attachment 2) This clarified the implications of the judgement and highlighted the responsibility of the Regional Planning Body (RPB) and Local Planning Authority (LPA) to assess whether AA is necessary and to carry out in the preparation of a Regional Spatial Strategy, and at a local level a Development Plan Document or Supplementary Plan Document where it is required.

As a result of the ECJ ruling of October 2005, the necessary amendments have now been made to the UK Conservation (Habitats, &c.) Regulations (1994). These amendments were made on 22 June 2007, laid before parliament on 3 July 2007 and came into force on 21 August 2007. The relevant provisions of the Habitats Directive were transposed in Schedule 1 of the Amending Regulations which inserts a new Part IVA into the 1994 Habitats Regulations. The Department has also set about producing guidance on how the Habitats Directive should be applied to Land Use Plans in England. Draft guidance for the implementation of the Habitats Directive in preparing Regional Spatial Strategies and Local Development Documents was circulated for formal consultation between 31 August 2006 and 31 October 2006. It remains in draft form and is still applicable to RSSs.

*2. Has it always been the Government's understanding that the Habitats Directive applied to RSSs? If not, when and why did this understanding change and when was it communicated to Government Offices and Regional Assemblies?*

Until the ECJ ruling in October 2005, the Government understood that the Habitats Directive did not apply to RSSs. As a result of the judgment, the need to have consideration of the Directive was advised to Government Offices and Regional Assemblies in March 2006 (as above). This was the first formal correspondence from the Government to all authorities on the need to apply the Directive to Regional Spatial Strategies and Local Development Documents.

*3. Will the Habitats Directive apply to RSSs in every region? If application varies between regions, what criteria determined whether the Habitats Directive is applicable?*

Implementation of the Habitats Directive applies to RSSs in every region in England without prejudice. There is no variation whatsoever.

If the region contains a Special Area of Conservation or a Special Protection Area (collectively known as Natura 2000 or European Sites) then consideration on the likely significant effects of the plan or policy on these sites will need to be made.

*4. The East of England Region has adjusted the timetable for publication of its RSS to ensure compliance with the Directive. Has application of the Directive resulted in delays in other regions too? What effect will such delays have on future housing delivery?*

In addition to the Eastern region the other region that has incurred a delay to its RSS revision because of the Habitats Directive has been the draft *RSS Phase One Revision—the Black Country* in the West Midlands. The proposed changes of the first phase were due to be published in July but are now expected in September 2007, allowing for Habitats Directive requirements to be taken into account before the proposed changes are consulted on.

Approved RSSs already exist in each of the regions, forming part of the statutory Development Plan. They set out the housing requirements for each region. The Development Plan is the starting point in the consideration of planning applications unless material considerations indicate otherwise. These considerations include updated housing figures in RSS revisions, local priorities and needs, and relevant national policy.

The flexibility of this underlying process should ensure that delays incurred in a draft RSS revision do not prevent decisions on the delivery of housing being taken.