



Communities and Local Government Committee

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

Tuesday 15 December 2015

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Watch the session

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

Evidence from witnesses:

Questions 282 – 387

Witness: **Brandon Lewis MP**, Minister of State for Housing and Planning, Department for Communities and Local Government.

Q282 Chair: Minister, welcome to our final evidence session in our inquiry into housing associations and the right to buy. I will just ask Committee members to put on record any interests that they may have at the beginning of the session. I am a vice president of the Local Government Association.

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

David Mackintosh: I am a Northamptonshire county councillor.

Julian Knight: I employ a councillor in my private office.

Chair: Thank you, Committee members, for that and thank you for coming once again, Minister. I think you are our most regular or popular—I do not know which it is—witness at these sessions.

Brandon Lewis: I will take popular and stick with that, if you do not mind.

Q283 Chair: I do not want to worry you, but we have a wonderful new gadget in front of the Clerks here, which says that the scheduled end

time of the session is 13.45, but I am sure we can manage a little bit before that with your assistance. Thank you once again for coming. An obvious first question, Minister, if you could help the Committee, is that the Government did this voluntary deal with the NHF, rather than put a statutory right to buy in legislation. Perhaps you could just explain what the Government's thinking was and what it was hoping to achieve through the voluntary deal that it felt it might not get through a statutory arrangement.

Brandon Lewis: Sure, and I should draw members' attention to my register of interests. I do now also employ a councillor as well. The Conservative Party were very clear in our manifesto at the general election that we would extend the right to buy. We wanted to extend it to those 1.3 million people who are social housing tenants in housing-association-owned properties who did not have that full right to buy previously.

Over the summer, after the general election, the National Housing Federation were negotiating with us and saying that they wanted to work out a voluntary deal for the sector, something that worked for the sector as well as for Government, to avoid the need for legislation. To be honest, we think we should use legislation where we need legislation. As the sector were responding to the fact that 86% of people want to own their own home, recognising that their tenants aspire to home ownership and wanting to do their bit to work towards that, plus clearly the public has spoken through the mandate they gave us through our manifesto, we wanted to work out a deal. When they came forward with that, it made sense for us to agree it and we have done.

That is going to lead us to some more work, and we might come on to those issues later in this session. When it comes up, if you will indulge me, I will take you through what we are thinking in terms of deregulation, but that is the reason we agreed to the voluntary deal, because it does deliver that extension of right to buy and, in some ways, delivers it in an improved way on what we have had before.

Q284 Chair: There is nothing in it from Government's point of view, other than the fact that you did not have to legislate; you could get the deal without legislation.

Brandon Lewis: I have to say that we should legislate where we need to legislate, rather than legislating just because we want to. With a voluntary deal, there is no need to legislate. Housing associations are organisations professionally run and managed, with very clear intentions about doing the right thing for their tenants, and I have absolute faith that they will deliver on their side of the bargain. Our job is to deliver on our side.

Q285 Chair: When David Orr came to see us to give evidence right at the beginning of our inquiry, he said, "If there is full compensation, the sales will happen and the agreement holds. If there is not full compensation and, for whatever reason, the Government change their mind about doing that, the agreement will fall." In the Bill itself, it simply says, "The Secretary of State may make grants to private registered providers in respect of right to buy discounts." It is a "may" and it is not specific about full compensation. Why is that?

Brandon Lewis: I am sure you will appreciate with your experience, Chairman, that, in terms of legislation, we have to frame things in the correct way to be able to do things legally. For us, that does come forward as a grant. However, we are very clear, and David makes a very fair point. We said, as I said a few moments ago, that we have to fulfil our side of the bargain, and our side of the bargain is that we will make sure that housing associations have that full compensation for the property, so they have that money to spend on building more homes. From our point of view, we determined to make sure we deliver that extension of right to buy, and that means we need to deliver on our side of the bargain, which is making sure those housing associations do get the full value and full compensation for the discount on those homes.

Q286 Chair: That is pretty clear. We had witnesses from the HCA yesterday and they were asked about what would happen if a housing association tenant rang up and said, "My association will not sell me the property." What would they do with them? Would they sort it out for them or pass them on to someone else? What would happen in that case? Who is actually going to have the power over this? Is anyone going to have the power to compel an association to sell that does not want to?

Brandon Lewis: We will publish some details on the complaints procedure for the voluntary right to buy deal, in due course. Broadly, having said that, I would expect to see complaints, where housing associations have a material breach that has to be dealt with, to be dealt with, as they are now, by the ombudsman. But we also expect every housing association to clearly set out how it intends to operate the voluntary right to buy and which properties it intends to exempt, as per the deal. Systematic complaints and systematic avoidance, which I am sure there will not be but if they were to happen, would be considered by the regulator.

Q287 Chair: Given that it is a voluntary deal, what power would the regulator have to deal with them?

Brandon Lewis: We have taken some powers in the Housing and Planning Bill around the duty to support home ownership. If housing associations are not supporting home ownership, the regulator will have some power around that. We will publish and are working through with the sector as well some details around complaints procedures.

I have to say, bearing in mind at the moment we had housing associations coming forward wanting to be pilots, and I have had a couple even since saying, "Can we now join?" as well, I think the sector generally is very supportive of this. Even where some housing associations—I met one in particular recently—have voiced concerns around the deal with the National Housing Federation, their issues are not around whether they want to help their tenants into ownership, so much as making sure that there are properties where we need them around the country.

Q288 Chair: If most of the sector signs up and gets on with it, as promised, but one or two associations are less enthusiastic, for those tenants that is what matters, because it is their association. Two possible ways forward for an individual tenant you mentioned. One is the ombudsman, but the ombudsman does not have the power to compel, do they? They can make recommendations. Is the regulator going to have powers to force the sale of a property or will it simply be that there are other consequences for an association if they do not fulfil the spirit and the letter of the deal that has been entered into?

Brandon Lewis: At the moment, I would be loth to go down the road of saying that the regulator would be able to compel, partly because I do not think we will need to, but I will explain that in a second. We will outline the complaints procedure that we are working through with the federation; indeed, I am hoping to see the Chief Executive of the National Housing Federation, David Orr, today to go through this and a few other things. That is an ongoing conversation.

Having said that, let us also be very clear that, at the time the deal with the voluntary agreement acceptance by Government was announced, 93% of stock had signed up. It has gone up slightly since then. Of the stock that has not signed up, we also need to bear in mind that within that is a chunk of stock that has the right to buy through being transferred stock anyway, and therefore did not technically need to sign up because those people already have it. There are also some associations in there that could not sign up, because they literally could not get together quickly enough to have a board meeting to have that agreement. There is a very small percentage that you could look at and say that these associations may not be keen to do this. We and the federation were very clear that this was a deal for the sector as a whole.

Q289 Chair: Is there not a danger that, if you have this overwhelming amount of support and intention to comply with the voluntary arrangement, for the few that may not be so enthusiastic, any element of compulsion introduced through consequences for not following agreement with the deal could undermine the whole idea of the agreement being voluntary?

Brandon Lewis: That comes back to my opening remark. This is a voluntary deal. We have faith and trust in the sector to do the right thing, to do what they said they would do and to agree to do what they want to do. I would rather work with them on that positive basis than start presuming that we need to bring in regulation to do something that, at the moment, the evidence is that we will not need to do.

Q290 David Mackintosh: What discretion will the housing associations really have? For example, in a rural community, could they exclude all of their properties?

Brandon Lewis: The voluntary agreement has some examples in it around what the exemptions will be. Rural exemptions that are already in place for right to buy as it stands, with council housing, is one of the examples that is given. Yes, those associations in those kinds of rural areas may well be able to take the choice to use that exemption. In those cases, what is different is that, once we move past the pilots, they will also be able to offer those tenants that portable discount as well, so even those tenants will have an option that they have never had before.

Q291 David Mackintosh: How will the portable discount work?

Brandon Lewis: In those areas, where an exemption is used and they can offer that portable discount, then, if that property in itself is exempted, it will basically be saying to those tenants, "In this property, your discount would be value X, and you can take that value X as a portable discount to buy a new build home, from either us as a housing association or a partner housing association, somewhere else in the area or elsewhere."

Q292 David Mackintosh: What if there is no property available in that area?

Brandon Lewis: Where there is not another property available that is suitable for the tenant and that the tenant is willing to accept, if the exemption applies, then the tenant would be able to stay in the property they are in.

Q293 David Mackintosh: Has the pilot that was announced in the spending review provided any insight into how this is working yet?

Brandon Lewis: It has only been running for a couple of weeks. I have personally already met three of the housing associations. I have spoken to four, actually. I am very fortunate to have met the lady, Wendy in Liverpool, who was arguably the very first person to sign up, because she stayed up until midnight to click the button on the Wednesday night of the spending review, and to have seen what that meant to her.

It is probably a bit too early, other than to say that the five associations are working very closely together. I want to clearly put on record here, as I have done elsewhere, the huge thank you to those associations for coming forward, over a wide range of different demographics and geographic areas, to look at doing this, because they are really setting a trend in a couple of ways. One such trend is by working together very closely on the process. With 1.3 million people having access to ownership for the first time, we want to make that as smooth and easy a process as possible, as far as buying a house can be, because it is a complicated, difficult process at any point in your life. These five are working together around what the administration is and literally the paperwork required, etc, to get a very clear template of how this can work. It is really important. It is a good thing to do in a very controlled way.

It has shown that the demand is there. Through the website in our Department, we have had about 11,000 people already express an interest in exercising their right to buy and, in the pilots, they are already at just over 300, I think it is, getting on for 350 the last time I looked, and that was a few days ago. It went off literally at midnight on that night, so there is certainly an interest there and the lessons will come through. It is a six-month pilot, so those lessons will come through over a few months, as we go forward.

Q294 David Mackintosh: Do we know yet from the pilot how many properties have been exempted?

Brandon Lewis: No, it has only been literally a couple of weeks. We have 300-350 applications. As I say, it might be slightly higher now. As to what we will be doing and what those housing associations will be doing, 600 can go forward in the pilot, so we expect to get to that 600 over the six-month period. But it is a bit early to go much further than that at the moment. To be fair to them, they have literally had about two weeks. If anybody does work out how to do an entire transfer of the sale of a home in two weeks, I would like to know about it.

Q295 Julian Knight: I think we all would. I waited four months for mine. Minister, just on the portable discount for a second, does this also apply to specially adapted homes as well?

Brandon Lewis: It will apply wherever a housing association exercises an exemption. The examples are examples. I want to be very clear that the examples set out there are not exclusive. They are examples. Some housing associations may, for one reason or another, say to a tenant, even for one of the properties that could be exempt, "We are happy to let you buy that property, because we can build somewhere else nearby", or, "It is a good thing for us to do and we will support you in that", or they can offer them a portable discount. In theory, yes, it is possible that somebody in a specially adapted home could well find that they cannot buy the home they are in, because it is specially adapted and the housing association want to use an exemption there, if it is appropriate to do so, but they will offer them an appropriate home somewhere else to buy and use their discount. That could happen, yes.

Q296 Julian Knight: Presumably that also applies to issues of rurality.

Brandon Lewis: Absolutely, yes. That is why I think this does open up an opportunity for people that they have just not had before. If you are in a rural exempt area, you are in a rural exempt area. What this means is that housing associations that use the exemptions will be able to look at offering that portable discount when it is appropriate as well.

Q297 Julian Knight: What do you think will be the long-term effects of that?

Brandon Lewis: It will do two things, actually. You will see more people being able to exercise their right to home ownership and it will send up housing supply. I say that for two reasons. One is that them buying the home means there is money coming into the system that can be used to build more homes, but also, if a housing association want to offer a portable discount, either themselves or through a partner, they are going to be able to recommend another property to buy, so that property will have to be going through and being built. One way or another, housing supply will go up.

Q298 Julian Knight: You expect housing associations to talk to one another as well and effectively say, "We have someone who wants to access right to buy. However, it is on a property that we wish to remain

within our stock. Do you have a property there that they could apply their portable discount to?"

Brandon Lewis: Yes. I expect to see two things to happen. Housing associations themselves will be building more homes. That is one of the parts of it. The housing federation and housing associations are very keen to do this; they want to be part of the solution to the challenge we have with housing across the country, but also to partner up and to be working together so that, if in one area a housing association could partner up with another housing association that has a building programme at that point in time, they could offer that kind of work and that kind of exchange.

Q299 Kevin Hollinrake: There were some reports, I think on the website Social Housing, that the five pilot associations have exempted any stock they have got through Section 106 contributions, which is about half the stock that has been built since 2004. Have you any thoughts or comments on that?

Brandon Lewis: They will not have been able to exempt them yet, because obviously the legislation has not gone through. The only ones allowed there are the pilots. Now, we are not having exemptions within the pilots, but, because of the range of pilots, including some rural—Saffron in Norfolk, for example, do rural, and indeed some of the others as well—they will start to give us an indication of the interest in areas and properties that might be exempt. They will register that interest, so we can assess that and work with them, ready for the rollout next year. I am not too concerned at the moment about that issue, because the exemptions are going to have to be clear and proper exemptions. There is a pretty good guide for the kind of thing that would qualify and be acceptable as an exemption in the voluntary deal that the National Housing Federation has published, and that does not include those kinds of properties.

Q300 Chair: Can I just follow up that question? If there are legal problems with 106 that require a property to be kept for affordable renting in perpetuity, how is that going to be gotten around other than saying that that property cannot be sold?

Brandon Lewis: It depends on what the issue is. Obviously, it is always dangerous to take a judgment call or give a comment on a particular case without having the full details in front of us, but if there is, for example, a property that is argued to be exempt because of a covenant or some kind of legal requirement, then again that housing association can look at offering a portable discount.

Chair: That would be the way forward. That is an increasingly small pool of properties.

Brandon Lewis: That is one of the options, but it would depend on what the legal restriction is and whether it is a legal restriction that cannot be removed.

Q301 Mr Prisk: Can I turn to the question of funding right to buy and the issue of council assets? A lot of people have suggested that there is confusion within the sector about the timing of what comes first. Would housing association tenants be able to exercise their right only once local authorities have actually sold the assets?

Brandon Lewis: There will not be a direct local link in that way, no. It will be a national programme, so they will be able to move on. We always said we would phase this scheme in. The pilots are part of that, because we need to make sure it fiscally can deliver as well. There will be a phasing in that sense, but it will not necessarily be that you can only exercise right to buy in area X if we have money from high-value asset sales in area X as well, so, no, there will not necessarily be that kind of a link.

Q302 Mr Prisk: Naturally, not least because of legal timetables and so on, there is potentially going to quite a gap between revenue in and spending out, in totality. What is your estimate of the total income needed—we have seen different figures—for the three elements that are coming together from the council asset sale? There is the issue around funding right to buy discounts, the building of replacement homes and the Brownfield Regeneration Fund. What is the total income that you are anticipating from that?

Brandon Lewis: I am not at the moment in a position to give you those kinds of figures, partly because we are still working with the sector around exactly how this will work. If you look at the powers we have taken in the Bill, there is flexibility in there to deliver a formula-based approach and, in fact, I have meetings with two different groups of local authorities this afternoon on this very issue as well. Those conversations are still ongoing. It will probably be towards the end of the first quarter of next year before I am able to give you some detail on the kinds of numbers we are talking about but, yes, it is obviously going to need to raise enough money to fund the right to buy, as we said we would do.

Q303 Mr Prisk: Certainly from the evidence we have heard, there seems to be quite a gap. We have heard the number £4.5 billion floated around from one end of Whitehall, and then there was a discussion as to whether the Chartered Institute of Housing and others felt that, in truth, the sales were more likely to generate something like £2 billion, so there is concern not only in the timing of how this is funded, but the amount

that is available and what impact that may have on the rest of your budget. The Chancellor has given you additional funding for the coming year. Are you worried that this is going to bite into that?

Brandon Lewis: No. We are very fortunate in what the Chancellor has given us. I think the Chancellor's own words were, "We choose housing" and so to give us the largest building programme since the 1970s, which is great, but that is about building more houses. We have always said that the right to buy and the voluntary right to buy will be funded through the sale of high-value assets, and that is what we will do. I have also heard the range of numbers being quoted, which is why I do not want to give you my pitch as to whether it will be one figure or another, but, towards the end of the first quarter of next year, I will be able to give you a firmer position on that. I would be very happy at that point to write to the Committee to give you an outline on where we are on that.

Working with the local authorities, we are trying to get the balance right between two things: making sure that, through the high-value asset sales, we get good asset management that also allows us to deliver the right to buy, but also making sure that that money is going to make sure we actually increase housing supply. We have been very clear from the beginning: the extension of right to buy and indeed the high-value asset sales is about driving home ownership, but it is also about driving up housing supply.

Q304 Mr Prisk: Then looking at the more localised issue, which is what a lot of the local authorities we have heard from are concerned about, just how do you define a high-value council home?

Brandon Lewis: That is part of the negotiations we are having with local authorities at the moment. Because of the way we have framed it in the legislation, it gives us that flexibility to work with them around what is right for them. There are some local authorities who are looking and talking to us about working out a programme, particularly for the high-value areas, and that is not just London. Obviously we all talk about London, but you can think of places like Oxford, Cambridge, Winchester and Harrogate, which have particular challenges in their area around land values and pressure on land. They are looking to come up with a formula that means they can do the housing supply increases that they want to see as well. I am very sympathetic to that and that is why those meetings are ongoing. As I say, I have two meetings this afternoon on that very issue. That is still an ongoing conversation.

Q305 Mr Prisk: At this stage, you are not in a position to indicate whether, for example in an area where there are substantially different

housing markets, one of a higher value and one of a lower, you are going to be looking at them on solely a local authority basis or a sub—regional basis. Are you in a position to give us any indication at this stage?

Brandon Lewis: Not at this stage, no.

Q306 Mr Prisk: Do you have a preference?

Brandon Lewis: Only in the sense that I want to make sure we are driving up housing supply. I am very sympathetic to the cases made by some of those, particularly the higher-value areas. In some of the rural areas, they have a real challenge as well and want to make sure that they can do their part in driving housing supply. It is good if they are working to do that and we want to work with them, which is why I do not want to rush into it. We have purposefully taken that flexibility in the Bill, as it is at the moment, to make sure that we can work with them to deliver that increase in housing supply. I wanted to go through that process and get that right.

Q307 Mr Prisk: Westminster does not need to worry that it is going to have to sell all its homes.

Brandon Lewis: I am sure that Westminster will always worry about everything, quite rightly. They are very keen to make sure that they are providing the housing they need for people locally, but we are determined to work with them. Westminster is one of the authorities I have met and we are continuing to talk to, as well as other London local authorities. As I say, it is not just London. Oxford and Cambridge make a similar case, as do Winchester, Harrogate and places like that, around the challenges that they face. We want to make sure we get something that works for everybody.

Q308 Mr Prisk: That flexibility will respect the fact that local authorities such as my own, East Herts, have no council houses to sell.

Brandon Lewis: Yes, and in fact one benefit of the way we have done the pilots is that there are authorities in the right to buy pilots that have no council housing stock. For example, South Norfolk has Saffron Housing running a pilot there, and they are in that very position, so that is part of the benefit of having these pilots.

Q309 Chair: On the point about the Chartered Institute of Housing that Mark raised, we have had quite a bit of evidence around the work that they have done to analyse the likely proceeds from the sale of higher-value council properties. They have basically said that they do not see how that can fund replacement of the housing association property, replacement of the council property and the contribution towards the

Brownfield Regeneration Fund. Do you dispute those figures in the Department?

Brandon Lewis: That will make my representations to you in the first part of next year all the more interesting to compare to then, will it not, Chairman? Our position is that we said we would use high-value asset sales to fund the right to buy and we need to do that to make sure that voluntary deal works.

Q310 Chair: At this stage, you cannot give a specific number.

Brandon Lewis: I am not going to give you specific numbers or structures, but I am confident that it will work.

Q311 Chair: You will be able to next year, in the next three months.

Brandon Lewis: Certainly next year, because right to buy starts in 2016, so we absolutely have to do it by then.

Q312 Chair: Before it actually begins in earnest then, you will be able to give us a rebuttal to the Chartered Institute of Housing figures.

Brandon Lewis: I will certainly be able to give you a response to their figures, yes.

Q313 Helen Hayes: We heard evidence from at least one local authority that said that they are pretty much at the limit of their borrowing capability on their HRA. When that authority is selling council homes, a large proportion of the receipts will go towards debt repayment against the HRA. When you provide figures to the Committee, will you be giving an indication of the impact of the debt profile of local authorities on the net receipt and then their ability to fund all of the things that they are supposed to?

Brandon Lewis: That is one of the things that we are looking at, and I had a conversation with a local authority about that very issue in the last two weeks; I was going to say last week, but it might have been the week before. That is certainly one of the things we are looking at. It is actually why, 18 months ago, we gave some extra headroom to local authorities that are at the limit to enable them to go a bit further. I think that gives an indication of our intention around that.

Q314 Julian Knight: Minister, following on a little bit from Helen's question, we have been told in evidence that councils may well struggle to make upfront payments, based on a presumed number of vacant

properties, with some suggesting that they will need to borrow from their general fund. Are you comfortable with that?

Brandon Lewis: I am not sure I necessarily accept that. I have to say, in the meetings that I have had with local authorities so far, from memory—I will caveat that, because I have had a fair few of these meetings and do not want to mislead anybody—I do not recall anybody, particularly from a local authority, raising that as an issue with us thus far. No doubt, now that I have said that, it will come up in the two I have later today.

The reality is that we are looking at a formula-based approach because that is what the sector wanted us to do, rather than giving too fixed an approach. We are also very clear that this is about making sure that we have good asset management. The figures that we are working up will be based on what we believe would be good asset management work. That is partly why we are having these meetings with local authorities: to make sure that the final scheme works for both sides, in terms of driving up housing supply, but also being manageable for those local authorities. We would not be looking for the local authority to pay over money that they cannot afford to pay over while doing what they normally would and should be doing, in terms of good asset management for high-value asset sales.

Q315 Julian Knight: Would you be looking for a local authority facing that sort of crunch situation to dispose of other assets, such as land that is not being used effectively?

Brandon Lewis: Under a formula-based approach, with the flexibility we have allowed for in the Bill, if a local authority wants to keep ownership of a particular local authority property, but to pay off the required amount doing something else, whether it is from the general revenue account or whether it is selling off a different piece of land, that will be very much a matter for them. It is not for us to judge that from the centre; it is a matter for the local authority to look at what they think is right for them.

Julian Knight: You are relatively comfortable with that.

Brandon Lewis: Yes.

Q316 Julian Knight: Just following on a bit from Mark's question before, some councils do not have any housing assets. How will the extended right to buy be funded in these areas?

Brandon Lewis: That is why it is a national scheme. The high-value assets will not necessarily be about having high-value asset sales in area X only being spent in area X. We are very clear about that and I am happy to be very open about that. It will be a national

programme, so the money will be brought in nationally and then paid out. It will cover areas that do not have high-value assets to sell in the first place.

Q317 Julian Knight: Does that mean some areas will lose more affordable housing than other areas, because their council has retained stock?

Brandon Lewis: No, not necessarily. There will be variations. There will potentially also be areas where there is a lower demand than other areas, and part of the job will be working with local authorities to make sure we are building the homes we need where we actually need them.

Julian Knight: It is quite a fluid situation. There will not be ring-fencing, effectively.

Brandon Lewis: It is very much intended to be quite flexible. At the moment, we are working through this with the local authorities as well and those conversations are still ongoing. That is why I do not want to fix anything down or prejudge where we might get to with those. We will be in a much better position towards the end of the first quarter next year, before the Bill gets Royal Assent, to be more fixed around that. But it is intended to be quite flexible in order to make sure that we can have a system that works and is fluid enough to reflect how the housing market moves as well.

Q318 Julian Knight: Will councils be expected to treat a high-value property as vacant, if a fixed-term tenancy agreement comes to an end, even if the tenants in question are expected to remain in the property?

Brandon Lewis: No.

Q319 Julian Knight: That is simple. More generally, do you think that all public bodies, including housing associations, should be required to sell off their high-value assets?

Brandon Lewis: What we are looking at is to do with local authority housing. Generally across the public sector, certainly from a central Government point of view, we should be looking very carefully at all of that surplus land and the opportunity we have. We need to build more houses. We need the capacity to build more houses and, right across the public sector, we should look at how we can play our part in that. We are certainly doing that from a central Government point of view and through those arm's length bodies. I think local government has a part to play in that. It goes beyond the high-value asset sales into looking at the land opportunity they have, and the

buildings and access they have to those kinds of facilities, but that is separate from what we are legislating about.

Q320 Julian Knight: You see this basically as the shape of things to come.

Brandon Lewis: Yes. This came up at the Bill Committee in the last couple of weeks, and I said to the members of the Committee that I would look at that through the passage of the Bill. You will have to bear with us for a little bit longer, but that is something that I am having a look at, at the moment.

Q321 Julian Knight: Do you have any idea which part of the public body or housing association will be first?

Brandon Lewis: Housing associations are, as far as we are concerned, independent organisations.

Julian Knight: Have you told the ONS?

Brandon Lewis: I am sure we will come to that at some stage this morning and I will explain our position in a moment. We have been very clear from the very beginning that we believe they are independent organisations and we want to get them off the Government books, which is what they want, as quickly as possible. As I say, when the Chairman wants to touch on deregulation, I will talk about that in a moment. In terms of the wider public sector, central Government, local government and some of the arm's length bodies linking central Government Departments, we all need to be aware of our duty to look at the assets we have and manage them properly.

Q322 Kevin Hollinrake: In terms of properties sold under the voluntary extension to the right to buy, are they replaced regionally or nationally?

Brandon Lewis: Nationally.

Q323 Kevin Hollinrake: Without question?

Brandon Lewis: Yes. That is how it has been under the reinvigorated scheme since 2012 and that is how it will be.

Q324 Kevin Hollinrake: In terms of the profile of sales of homes, do you see a spike in the early years, followed by a levelling-off of interest in the extension of right to buy?

Brandon Lewis: To an extent, the pilots will give us some indication of that. Since we announced, we have had an expression of

interest from 11,000 people already and this has not actually come into place yet. That gives you an indication. With 1.3 million people getting a right that they have not had before, I suspect we will see a big demand, particularly early on. Obviously, there will be a process. One reason for the pilot is to make sure that the process is smooth if an awful lot of people come forward. One benefit of phasing is that we can do it in a managed way, so that people hopefully have a good experience in buying their own home, in terms of the administration of it and the process of it as well.

If you look at the last years since the reinvigorated scheme has come in, it has been a relatively steady demand, so I suspect that we will see, at least for the short and medium term, a pretty steady demand. The housing associations themselves are very keen to do their bit around driving supply up. Rather than see it spike at one point, I would like to see housing supply go up and continue to rise, hopefully at a positive trajectory that matches the increasing trajectory we are seeing in the private sector and we have seen over the last couple of years.

Q325 Kevin Hollinrake: That is on the back of one-for-one replacement or additional home. It is going to take, in your own policy, up to three years to replace that home. What about filling the gap in that three-year period?

Brandon Lewis: This comes back to the conversation that I had on the Floor of the House and I think with this Committee before. I do not accept the terminology of replacements. They are not replacement homes. The home is still there and the family, or the people who have bought it, are in it. Bearing in mind they need to stay in it for a period of years, within those three years, the people who have bought the home are still in that home, by definition of the way the system works. When we are building the extra home, it is about creating an extra home for somebody.

The reason that three years was brought in for local authorities—although I have to say that housing associations are quite keen to move quicker than three years; that is to be applauded and I hope they will—is to recognise that period of time to get the land brought together, to get the planning permission through and to get the building physically in place.

I know I digress, but I will be two seconds on this. We still too often take 20 weeks to build a house in this country. Housing associations are at the leading edge, in many areas, of doing that quicker, and I want to go further. I hope to see that sped up a bit. That is what the three years are about. Let us be very clear around

that: nobody is missing out in that three-year period while the home is being delivered. The reality is, when we get through this, it actually means housing supply is going up. Of course, as we are at the start of the next affordable housing programme, we will see an increase coming through from that as well.

Q326 Kevin Hollinrake: Generally in housebuilding activity, we have seen a spike in planning consents, up to 240,000 a year, but starts are still at 130,000 a year. What is happening there? Is there a time lag? Are we just coming up to the level of the numbers we need?

Brandon Lewis: There are a few things going on. First of all, housing starts are up. Bear in mind we inherited housing starts of about 88,000 and 95,000, which was the lowest level since the 1920s. We have got that back up, which is good, but there is still a way to go.

A couple of things have been going on. One is that there is obviously a lag between planning permission being granted and people getting on site and starting. That record number of planning permissions granted is only the last years; there will be a few months' lag between that and actually starting. Also, within that, you will have some very large sites. Yes, they will have got planning permission for X number of homes, but of course they will have only gone on site to start building a lower number of those and that site will get built out over a number of years. In my own constituency, I have a site of circa 900 homes and they are going to build that out over 15 years. Now, I am very keen to see that sped up, but that is one of the reasons why you will have a gap between the two.

Also, in some cases, although planning permission has been granted, in fact there will still be some negotiations on preconditions and things like that going on, so that is why there is a lag between the two. There are lots of other small things going on, but that gives an example of some of the issues. Certainly there is also a challenge around the fact that we take 20 weeks to build a house and we need to see that come down to more like two or three at most, to see that real step change in delivery.

Q327 Kevin Hollinrake: What about capacity in the market to build? You want to build a million houses in this parliament. Do we have the capacity in the UK workforce to do that?

Brandon Lewis: That is the biggest challenge. I have said this on record. There was a survey done last summer. One of the magazines talked to a load of the larger developers. Different developers will sometimes talk about the planning process; sometimes they will talk about access to finance and all of those things, and even

suppliers, although that has pretty much gone away now. The one thing that everybody will mention and the one thing they all have in common is the issue around skills. There is a real challenge in getting enough people to come into the construction industry generally to build the homes we need to see built, but that is also why we are doing a huge amount of work on this with my colleagues at the Department for Business around apprenticeships. I had some meetings on that just in the last couple of weeks as well.

It is also why it is important that we start changing the way we deliver homes. Using advanced construction requires a different skill set and allows more people to stay in the industry for longer, come back into the industry and to deliver at a much faster pace, with a different skill set.

I saw one example, Accord in Warrington, which had a factory delivering houses literally on the other side of the road to the housing estate, in that particular example. They did build two homes in a day for me and *The One Show*, but they also explained that they had 18 members of staff building, 17 of whom had been unemployed and had never been near building a house before in their lives. Within two weeks of coming to that organisation, they were able to build houses. That gives an example of how we can move the skill set on if we use that kind of advanced construction.

Q328 Kevin Hollinrake: One body of the workforce that used to build a lot of the homes, 100,000 a year, is the SME sector, which is now building 18,000 homes a year. 60% of them cannot get access to finance, and a similar percentage access to viable land. Is there any help you can give the SME sector?

Brandon Lewis: Yes, I think there is. There are a few things that we are doing and going forward can do. There is access to finance, which is why earlier this year I expanded the Builders Finance Fund to bring it into working with small builders, as well as medium-sized builders, encouraging more people to look at that.

It is also why, in the Housing and Planning Bill, planning permission in principle is really important. That takes away this issue that, on average for an SME, the figure is about £24,000 per plot to get planning permission. If you are going to build 10 homes that is a substantial investment in trying to get planning permission, which is a complete gamble, even on land that is in a local plan. Planning permission in principle takes away that gamble and moves the plan into being a discussion about detail, which means access to finance can potentially be quite a bit easier as well. Now, we need to understand and accept the reality that, from when those SMEs were in full flight in

the 1980s to today, the barriers to entry through the bureaucracy of our planning system have quadrupled if not more. That is why we need to look at the planning process and I am very determined to do that.

Equally, it is also around local authorities looking at delivering more small sites, not just focusing on large sites. Small sites obviously work for smaller developers, and indeed housing associations, when they are looking at developments, can use small local builders as well. I have seen some examples recently in Norfolk of where they can do that. That is a big opportunity. It is also why, in the Housing and Planning Bill, the work we are doing around customer self-build is really important, because again that lays itself the opportunities perfectly at the feet of SMEs, but particularly the smaller builders as well.

Q329 Helen Hayes: I am interested in the example that you quoted from your own constituency of a developer that has permission for 900 homes with a plan to build them out over 15 years. I do not think that that is an uncommon issue across the country. You see building sites all over the place where the developer is announcing the next phase of 25 more homes, when they have a very large consent. I am interested in your explanation of the reasons for that problem and whether it has to do with the capacity of the industry or whether there is in fact a perverse incentive in the market, which leads developers to constrain supply, even when they have large planning consents, because it keeps the values high.

Brandon Lewis: It depends on what site you are thinking about in the country. It can be all of the above and other things as well. Every site has its own unique challenges around it. I visited Dicot last Monday and, on that site there, they built out over 400 homes last year. Now, the difference there is you have three going to four developers on site. Taylor Woodrow themselves are building out just over 200 a year themselves, on that one site, so they can do it. What has made a difference there, though, is that, by having other developers on site, you have more outlets.

I gave you the example of my area. In my area at that point, the local authority effectively released the land and the planning permissions in three phases. I just wonder, if they had sold it to three different developers, whether we would see them all building out at an average of 48 a year, and therefore it would happen in a third of the time that it is happening in. It is why there is an educational thing for local authorities, where they have control over land or influence over the land itself, to look at allocating land in a way that gets developers working together.

The reality is that you see output go up where you have more sales outlets. If a local authority is looking at a new settlement or a

large site, if you have more than one developer on site, you will see output go up, so there is that. Of course, that is very generalistic; every site will have its own challenges. There will be different things going on at different sites. Sometimes it could very much be, to your point—I will not deny that—a local developer looking at how it can best facilitate its own bottom line. One of the challenges in many areas is around having enough people to physically build the homes at the speed they want. But one of the biggest differences we can see is to get local authorities to allocate land in more small sites, to see more of these things coming through, because the more sales outlets we have, the more turnout we will have as well.

Q330 Mr Prisk: Back on the question of the capability of the sector, off-site construction has been mentioned. It seems to me that, as both landowner and procurer, the Government are very well placed to open up a much wider potential offer of supply. Yes, it is great to have building trades and so on, but we all know that it will be a year or so before that starts to have any impact on site, whereas in off-site construction there are a number of players ready to go now, so the opportunity, particularly with the starter homes programme, for example, is for Government to nudge this to substantially widen out the range of suppliers. Is that something you are minded to consider and, if so, how would you try to implement that?

Brandon Lewis: Yes is the short answer. Particularly if you look at some of the opportunities where we have said we are going to do direct commissioning, in places like Northstowe, for example, we will be looking very carefully at how we can put our money where our mouth is and lead from the front. In our affordable housebuilding programme as well, we have grants available and will look at how we use that to motivate, encourage and require potentially advanced construction techniques. We have an opportunities with things like Northstowe and will certainly be looking to do that.

Q331 Mary Robinson: I just have a small question regarding the sites, because we often talk about small developments and small sites, and I am not sure whether there is a difference between the two. There seems to be some interest in just what the size of a small site is. What would you say that is?

Brandon Lewis: It is a very good question. One of the challenges, coming back to Mr Hollinrake's point, is, yes, we have a pretty much record number of planning permissions coming through, but it is on fewer sites. We are getting more and more for these large sites. There is a real learning curve, and I have made this point to the

LGA and to local authorities when I am talking to them, about looking at smaller sites.

That is a relative point. In some areas, a small site can be two or three homes, and others have made the point before that, if every village in the country and small town in the country looked at building half a dozen homes in the next few years, that in itself would make a massive difference to the housing supply numbers and they would get built out fairly quickly. They tend to be more acceptable to people, because they tend to be built more appropriately, to most people's minds, in their areas.

We still need the large sites as well. A large site can be a couple of hundred homes upwards and a small site can be anything from two homes up to 100. It depends, relative to where you are and what you are looking at. If you look at the sector itself, it will class an SME as a builder of anything up to potentially 1,000 homes a year, so you can take a view from that. Some of the more regional builders might build over 1,000 homes a year and still class themselves as SME. I suppose some of us would class them as larger but, when they look at the larger builders that are building many thousands of homes a year, that is how they tend to judge it.

Q332 Mary Robinson: Looking at the potential for a funding gap between income from sales, through both the right to buy and council homes, and the cost of building those new homes, do you have any money to fund this, if there is that potential gap?

Brandon Lewis: I do not think that that will be an issue, in the sense that we will make sure that high-value asset sales will fund the right to buy. Obviously, the housing associations, through the voluntary agreement, are in a different situation to the ones that local authorities have been in, in the sense that they have the full value of the homes. I already have housing associations making very clear to me the view in their area and, in many areas—and obviously this depends on land values—they are saying to us that they would expect to be building more than one home for every home they sell. That is good and we will see how the numbers come through on that. You will no doubt hold me to account for that in a year or two.

Q333 Mary Robinson: Probably. The OBR have been making some forecasts. They have been looking at the effects of Government policies on the number of homes that are likely to be built. Are you worried about their forecast that there will be 34,000 fewer affordable homes built by housing associations as a result of Government policies, such as the minus 1% and right to buy?

Brandon Lewis: No, I am not. That does not underestimate the importance of what the OBR is doing. We are still working with the housing association sector, which is very keen to play its part in delivering homes. Some of the larger ones are already starting to be very clear about the fact that they have quite ambitious programmes, and I expect to see more of that. Particularly with the way that right to buy can work and deliver that money for them to build more homes, I think, over the next few years, we will see a period of good uplift in the housing supply.

The National Housing Federation themselves talk about wanting to be a substantial part of the answer to the housing challenge we have in this country. They have a huge opportunity to play their part in that, working with us as partners, so I am quite confident about the next couple of years. Particularly once we can clarify where we are at with their future around deregulation, we are into a potentially exciting time of opportunity for housing associations.

Q334 Mary Robinson: They are forecasting a dip followed by a rise.

Brandon Lewis: We have to bear in mind, in terms of a dip, that there is also the way that the programme profiles work. We have had the end of the affordable housing programme leading up to 2015, so there would always have naturally been a dip anyway. As one programme ends, the new programme picks up and takes off, so there is an element of that, which we are fully aware of and were expecting.

Q335 Mary Robinson: Is the emphasis on starter homes likely to come at the expense of affordable housing, in your view?

Brandon Lewis: They will all continue to be part of the mix. Housing associations particularly and local authorities will continue to build the homes they want to build. Some housing associations that have had large building programmes for a while have been building a mixed tenure of property for some time now, and I think that will continue. What we have been very clear about is that the hardest hit sector of the housing market has been first-time buyers. We were very clear in our manifesto, through the course of this summer and leading up over the last year of the last Parliament, that we wanted to do something for first-time buyers and that is what starter homes are about.

I make no apologies about wanting to drive up housing supply and home ownership, and give people an opportunity. This is a new product, so clearly there is a focus on us delivering this product,

making sure we get it off the ground and give it a good turbo-charge for those people who want that opportunity.

Q336 Mary Robinson: There is a clear emphasis on home ownership, which seems to be running through this, but do you see a role for affordable rental housing?

Brandon Lewis: Yes. I think we will see that continue, because housing associations themselves want to do that. They want to deliver that. It is part of their business model and I absolutely think we will see that continue.

Q337 Mary Robinson: In terms of shared ownership, we have heard that there could be difficulties and challenges in securing mortgages. Will you be taking any steps to help with this?

Brandon Lewis: Yes. Again, I am not really able to go into any detail on this today, but we have been very clear that we want to make it easier to expand shared ownership. It is a really important part of the sector. It is also hugely important to give people more opportunity to get into home ownership. The Prime Minister and I, last Monday, were visiting different families. He was in my hon. Friend the Member for Burton's constituency and I was visiting Oxfordshire, meeting people who were in shared ownership, who were able to get into home ownership with just a £1,500 deposit, or, where I was, a couple of thousand pound deposit, in quite a high-value area. Even in London, it can be less than £5,000.

It has a huge, important part to play in that ladder for home ownership and affordability. We want to see it go a bit further. The autumn statement gave a very clear journey of travel for that to see that delivery increase. Part of that will be around deregulation and working with the lenders to make it more accessible for more people.

Q338 Mary Robinson: What steps will you be taking, working with those lenders?

Brandon Lewis: One of the challenges around shared ownership has been the secondary market as well, making it easier for somebody to move on and up the ladder, to sell their shared ownership property and their part of that shared ownership, so we will be talking to lenders around that. Also, it is a product that has been so heavily regulated that it is quite difficult for the sector to move forward, so we are looking at that at the moment, working with housing associations, the private sector and the lenders to put together a package that means that we can get that streamlined a bit, to really give it a turbo-charge and see more come through.

Q339 Chair: To pick up on one or two points that other witnesses have raised with us on shared ownership, and I think the Committee will probably have a look at this in due course, there are concerns about barriers to making it move. The housing associations were raising with me in Sheffield the other week that they did not think there would be a great take-up, notwithstanding the efforts that you are making to improve the offer. If it was the case that the money available for shared ownership did not really get taken up by associations, would there be any ability for the HCA to move that money into other products that might get built?

Brandon Lewis: Chairman, you will not be surprised to know that I have great confidence that we will be able to make shared ownership fly in the way we want to see it fly. I genuinely think that shared ownership is a very much under-rated and under-valued part of the housing sector, particularly when you look at those high-value areas. As I say, in London you can start getting into a shared ownership property with a deposit of less than £5,000. It really starts to make it very affordable to get on the housing ladder for people. There is some work to do around making that clearer to people, to make it not just easier, but more understandable for people about why it is an option to look at.

Equally, we are very determined to see housing supply go up. As we move forward through these programmes, there is a duty for us in Government to make sure that we are learning from what we are doing and maximising the efficiency in delivery for housing supply. It is one thing we have been very clear about. Not only do we want to see home ownership increase, which we do, but it is very much about driving up housing supply as well.

Q340 Chair: Coming back to starter homes and 106, there is a lot of concern out there. People do not really understand what is going to happen. In practical terms, in the past, a local authority and a developer would negotiate a 106 deal. A certain percentage of properties would be for rent, for shared ownership or whatever. Now starter homes come into the mix. How do they come into the mix? Is there a requirement on local authorities to insist on a certain percentage of starter homes or is it purely down to local agreement, bearing in mind the Government's pressure to get starter homes built?

Brandon Lewis: Obviously the Housing and Planning Bill is still going through Parliament, so I would not want to prejudge the final outcome of that, but certainly the intention is that they will be part of the mix. In negotiating any on-site affordable housing element, they will be part of the mix, so local authorities will have a duty to look at

delivering starter homes, because that is part of the drive towards home ownership: creating homes to own that are affordable as well.

Q341 Chair: I am trying to work out how the duty operates though. Is it a duty that says we have to get a certain percentage?

Brandon Lewis: There is no fixed central Government percentage figure, no. It is a matter for local negotiation.

Q342 Chair: It will be a duty to achieve some starter homes, but it will be in general terms.

Brandon Lewis: It will be part of that local negotiation.

Q343 Chair: On the 34,000 fewer homes that the OBR said were going to be built as a result of the policies that you were asked about, you accepted the importance of OBR figures, but then threw a bit of cold water on them.

Brandon Lewis: That was only in the sense that the OBR have to do an estimate and a forecast of what they believe will happen, looking at where they are. I have confidence, working with the housing association sector and the housing market more generally, around things like shared ownership, around starter homes, around delivery of affordable homes going forward and with the affordable housebuilding programme. If we can get housing associations in the right place—and this partly comes back to deregulation as well—and give them the freedom to grow, we have a very exciting time ahead and will see housing numbers increase. I am sure you will hold both me and the OBR to account on that over the next couple of years, and quite rightly so.

Q344 Chair: The OBR figure may be wrong, but do you have an alternative figure in the Department?

Brandon Lewis: You know very well, Chairman, how much I loathe getting involved and playing with targets.

Q345 Chair: The important thing will be how things work out in practice. Is a key issue that there should be very effective monitoring of what happens to this policy, in terms of the number of replacement homes delivered, the tenure of those homes and where they are actually built?

Brandon Lewis: Certainly in the sense that we have, through the reinvigorated right to buy scheme, kept an eye on delivery. That is why we all end up having a debate about the statistics on a regular

basis. There is no shortage of statistics out there as to what is getting built and where it is getting built. I am sure that will continue and it will always give us something to talk about. But, right across the sector, it is about making sure that we are getting every part of the sector correct, whether it is starter homes, shared ownership, affordable rent, social rent, outright market sale and lots of other niche products out there. It is having the ability to grow and develop the private rented sector, obviously, in the way that we want to see it grow, so that overall we get the right number of houses. It is also about making sure we build houses where the demand is and where people want to live.

Q346 Chair: That monitoring will be important. Some of the Committee will want to come back, in due course, to monitoring the effect of the policy.

Brandon Lewis: I am sure that you will be continually holding us to account over our delivery methods, yes.

Q347 Chair: Finally, do you not think it is slightly strange that a major Government policy initiative is being launched, legislation is going through the House and, before the policy is implemented or introduced, the Department cannot stack up the financial consequences of that policy?

Brandon Lewis: In what sense?

Chair: Earlier on, you were saying that we would have the financial information about how the policy might work, in terms of replacement of housing association properties, council properties and the Brownfield Regeneration Fund, but the figures were not available yet and we would probably have them in three months' time.

Brandon Lewis: In the sense that we have said from the very beginning that the sale of high-value assets will fund the right to buy scheme and we have a voluntary deal that we will be phasing over a period, those numbers will add up. We are working with the sector and the local government sector itself on how they want that deal to work and the flexibility they want. We have said it will be a formula-based approach already; that is in the Bill itself. We want to make sure we work that through the sector and it is quite reasonable that we take the time to do that right with that sector.

Q348 Chair: That is quite right but surely, Minister, if you have said that there will be replacement of the housing association properties, of the council properties and money for brownfield regeneration, the figures ought to be there now, ought they not?

Brandon Lewis: The figures need to be there by the time the Bill gets Royal Assent. Doing things in parallel is good, because it means we get on with delivering the policy; otherwise we can just delay the policy and the delivery of those homes. It is important that we get on with delivering the homes.

Q349 Chair: As MPs, we are being asked to vote for something where the financial consequences have not yet been worked out.

Brandon Lewis: No, Members of Parliament are being asked to vote for something that delivers more homes for people across our country, and working with the sector to have the flexibility around how it delivers and pays for that.

Q350 Helen Hayes: Turning now to pay to stay, it was one of the more controversial policies within the Housing and Planning Bill: controversial for councils as much as for housing associations, but I will stick today within the remit of this inquiry, which is implications for housing associations. We have heard from David Orr and from several housing associations giving evidence to this inquiry their deep concerns about pay to stay, in two main respects: firstly, the extent to which it changes the relationship between landlord and tenant quite fundamentally; and, secondly, in relation to the impact in terms of housing associations' workload and whether they in fact have the resources to administer the scheme in a context where their funding from rental income is being reduced, as a consequence of the 1% cut in social rents. How will pay to stay work for housing associations and will you help them to determine their tenants' incomes in the context of the concerns that have been raised to this inquiry?

Brandon Lewis: Chairman, if you will indulge me for a few moments, before I go directly into answering that very question, it might be worth me outlining our proposals for deregulation. If you are happy to do that, I am very happy to announce this morning for the Select Committee to have the first hearing of what we are planning to do. If you give me a few moments, that will, in part, come to this point as well.

Now, I am pleased to be able to say in front of the Committee this morning that I will be laying a package of amendments to the Housing and Planning Bill to deregulate the social housing sector. In developing this package, we have sought to balance two key aims: to enable the Office for National Statistics to return the sector entirely to private and to maintain a proportionate regulatory system for the sector that give tenants comfort. This package consists of a number of measures, which I will outline.

Removal of the constitutional consents regime: housing associations will therefore no longer need permission from the regulator before they undertake certain changes to their organisations, such as mergers, changing status, restructuring, winding-up and dissolution. Removal of the disposals regime: housing associations will therefore no longer need permission from the regulator for sales, charging for security and changes of ownership of social housing stock. To enable the regulator to maintain a register of social housing providers in England, they will still however need to notify the regulator when they make these changes, rather than seeking consent, an important distinction there.

Abolishing the disposals proceeds fund: this means housing associations will no longer need to spend receipts from sales from right to buy and right to acquire according to rules set by the regulator. This will give them more flexibility to manage their funds, to build more affordable homes and to help more people into home ownership, while ensuring that the historic grant is reinvested in housing, as it was intended. Tightening the regulator's powers to appoint managers to housing associations: this will apply so that they can do it where there are breaches of legal requirements.

A change to the approach on high-income social tenants: coming directly to the point that was just raised, this will now be voluntary for housing associations. This is to make the approach consistent as part of the deregulation of the sector. Housing associations will also be able to operate policy that sets higher levels of rents for those high-income tenants, and they will be able to set the level of rent for these households.

We expect that the majority of housing associations will consider operating a policy, and we will continue to engage with the sector and the National Housing Federation on this. As far as possible, we will encourage parity between the housing and local authority sectors to ensure fairness for tenants but, as I say, it will be voluntary for housing associations.

Finally, we are introducing a special administration regime for the sector. This is to be used in the unlikely event of a housing association becoming insolvent. Now, there has never been an insolvency to date, but this will help protect the service to tenants and the £45 billion worth of Government grant invested in the sector, and will also ensure that creditors can recover their security, if necessary. That is an important factor for them, in terms of their borrowing opportunities with lenders. These measures will be tabled today to enable debate at the Commons report stage, and obviously I am interested in any views from the Committee. I will put this in writing to you, Chairman and the Committee, as we go forward to debate this at report.

Chair: Thank you, Minister. It is very helpful for the Committee to understand the background to that.

Q351 Helen Hayes: Is there any further detail in relation to the specific question on pay to stay?

Brandon Lewis: It becomes voluntary for housing associations so, to an extent, that will be led by the sector itself.

Q352 Helen Hayes: Will the 1% compulsory reduction in rent still apply to housing associations under this regime?

Brandon Lewis: Yes.

Q353 Helen Hayes: How will you ensure, taking pay to stay as a policy that remains in the Bill, that it does not act as a disincentive to work harder and to increase earnings?

Brandon Lewis: With regards to housing associations it has moved somewhat, because it will be voluntary for housing associations. I am sure, talking to housing associations generally, that they are very keen to make sure they do the best thing for their tenants, so they will be looking at that. From the wider point of view of central Government, we are looking at that at the moment, in order to make sure that it remains an incentive to be in work because, as we have said from the very beginning and as the Secretary of State for Work and Pensions has been clear, it must always pay to work.

Q354 Helen Hayes: In relation to the 1% reduction in rent, it represents quite a substantial reduction in the income of housing associations. Can you also expect them to build more in the context of that reduction in their income?

Brandon Lewis: Yes. I have been quite clear about this before, particularly for housing associations where they have not been faced with the requirement to make the kinds of efficiencies that all other parts of the public sector, particularly their direct competitors in social housing, affordable housing and local authorities, have had to make over the last few years. Actually, their surpluses have increased, even in the last financial year, quite substantially. Looking to make that kind of saving will be quite achievable. I have even seen some of the evidence to the Committee that outlines that associations will be looking to make these savings from efficiencies going forward. I do not think that is too unreasonable.

Talking to associations, now things have settled down, many of them are still looking at quite adventurous, and in some cases even larger, building programmes, but that will also link into the work we are

doing around affordable housing and the affordable housebuilding programme going forward, particularly in light of the autumn statement that gave us that substantial increase in the housebuilding programme.

Q355 Helen Hayes: It is a little surprising that, in the context where you have just announced before this Committee a raft of measures that are at pains to ensure that housing associations are defined as not being part of the public sector, you are nevertheless making remarks about the efficiency of housing associations as if they were a part of the public sector. Would you not agree that it is for the boards and the senior staff of housing associations to determine whether they are being run on an efficient basis or whether there are efficiency savings that can be made? In that context, would you recognise the concerns that have been raised by housing associations and by the national federation in relation to the 1% rent reduction?

Brandon Lewis: I disagree with you entirely on that. I have made this point to this Committee, I appreciate in the last parliament, around local authorities. While we believe in localisation, that does not mean we take a vow of silence. We have an absolute duty and ability, as politicians and people, to talk about areas, whether it is local government, any other part of the public sector or indeed housing associations. It is legitimate and there is no contradiction in saying that.

I appreciate that there is a difference going forward for them, because they have to find this 1% saving. Do I think that is manageable for them? In light of the fact that they have not had to make the kinds of efficiencies that most of the public sector has had to find and other housing suppliers have had to find, yes, I do think it is achievable for them. I do not see any contradiction in us saying, if we do believe that—and I do believe it—that the housing association can look at some of the efficiencies that the Government have found, through shared management and shared administration to find those efficiencies within the housing association sector.

The difference is that I will not make them do things. It is up to them, you are quite right, for those housing associations, their governance boards and their local members, to work out what is right for them and to decide whether they do it or not. That is quite different from whether I will give a comment on it. It is absolutely right that we do highlight that issue. There are housing associations that are doing some great work and some great building programmes, but that does not mean that they cannot find efficiencies.

Q356 Helen Hayes: In relation now to the impact of the 1% rent reduction on the certainty of the lending environment for housing associations, we heard yesterday from The Housing Finance Corporation that lenders are already pricing in the uncertainty generated by the 1% reduction in rent and, in particular, since they are typically lending over a 30-year term, the extreme uncertainty about what happens in 2020, at the end of the period of the current rent reduction to housing associations' income. Can you give any certainty on the policy at the end of that period, which might provide a little bit more stability and efficiency indeed within the lending market for housing associations?

Brandon Lewis: We also need to be very clear that of course that reduction is also a saving for the tenants themselves. That sometimes gets lost. It is actually against the backdrop of the social housing sector having had its rents go up, as a percentage, higher and quicker over the last few years than the private rented sector as well, so across the sector it is not an unreasonable situation, particularly when the housing benefit bill has risen by a quarter to over £13 billion over the last 10 years. Getting those rising rents under control is quite sensible. We are very clear that it is a four-year change; it is an adjustment. Instead of doing 4% straight off the bat, it is 1% a year for four years. That is what the change is, and there was obviously an agreement that goes beyond that already, so I do not see any reason for that to change.

Q357 Helen Hayes: That is the second time in two days that I have heard you quote that rents in the social sector have risen by more than rents in the private sector. I wondered if we could ask that you write to the Committee setting out the details of the data that underpins that assertion.

Brandon Lewis: Sure.

Q358 Julian Knight: Obviously reacting to the amendments you have just outlined to us, on pay to stay and that becoming voluntary, do you envisage therefore that housing associations will be able to adopt a case-by-case basis in that regard, therefore mitigating the situation Helen talked about, in terms of that sort of cliff-edge of earnings?

Brandon Lewis: It would be difficult to prejudge what housing associations might want to do on that. As I say, I have literally announced this to the Committee. You are the first to hear this today. The amendments are being laid and tabled today. I will be talking to the National Housing Federation today on this so, if you do not mind, I will reserve my judgment. If it is a voluntary option for them then, yes, everything is possible.

Q359 Julian Knight: It is just that a lot of the criticism of pay to stay related to that area of people coming up into the higher tax bracket and suddenly finding that, effectively, it is more worthwhile for them to remain in the lower tax bracket than the higher tax bracket, from the perspective of paying rent. I just wonder if that was a motivating factor at least in what you have done.

Brandon Lewis: The motivating factor behind the changes outlined is to deal with the issue around housing associations being classified by the ONS. We said right at the very beginning; both myself and the Secretary of State were very clear, even the Chancellor as well, around making sure we do everything we can to get them off the books. They are independent organisations. We see them as such and want to continue to see them as such, and we want the ONS to see them as such, so this is a programme of measures that we think gives a good balance between giving continued confidence for lenders that it is a regulated sector. That is partly why they have got those lowering borrowing rates—because it is a regulated sector—but equally has those freedoms to come off the government books and to be recognised by the Office for National Statistics as an independent organisation as well. That is the driving force behind the changes.

Q360 Julian Knight: Just in the middle of the package of announcements you just made, you mentioned that the regulator sends in management when a housing association is failing. Is that correct?

Brandon Lewis: Yes.

Q361 Julian Knight: Is that like sending in commissioners effectively?

Brandon Lewis: At the moment, we have the regulator's ability to appoint people to housing associations. What we are refining is refining that, so it will only take effect where there is a potential breach of a legal requirement. It will be a higher bar for the regulator.

Q362 Julian Knight: Effectively it will be more difficult for the regulator to effect change.

Brandon Lewis: There will have to be a clear possibility of a breach of a legal requirement.

Q363 Julian Knight: It is not because the housing association, for example, is not pushing forward, say, with right to buy in the way it should do.

Brandon Lewis: Correct.

Q364 Alison Thewliss: Do you not think there is a bit of a contradiction in what you are saying that you do not want to make housing associations do things? You said that earlier on, but yet you are forcing them to make a 1% reduction. That is therefore undermining that independence that you say that they ought to have to make their decisions.

Brandon Lewis: The 1% rent reduction is actually right across the social housing sector. It is about reducing the cost of rent right across the sector, so that applies to everybody in social housing.

Q365 Alison Thewliss: That is government interference in independent organisations.

Brandon Lewis: That comes back to the balance between making sure that we see them as independent organisations that are not on the government books, but also making sure that we balance the public finances properly as well. There is always a balance with these things and that is the judgment call we have made. We do think it is important to get that housing benefit bill down and also to the benefit of the tenants.

Q366 Alison Thewliss: You would not force the private rented sector to bring their rents down in the same way. Is there not a contradiction here about how you treat the private rented sector and the social rented sector, in that respect?

Brandon Lewis: As I said, the social rented sector, in the last four or five years, has gone up in percentage terms more than the private rented sector.

Q367 Alison Thewliss: The private rented sector is responsible for higher benefit bills.

Brandon Lewis: Also, the private rented sector is not part of the same regulatory regime. It is a balance. It is about making sure that we are doing what we can for tenants and doing what we can for the public accounts, as well.

Q368 Alison Thewliss: How are you going to help tenants in the private rented sector then? Are they going to get a similar rent reduction, if you think that tenants should get a break?

Brandon Lewis: Tenants in the private rented sector are not part of the social rent, and this is about social rent.

Q369 Alison Thewliss: You are not benefiting everybody equally then, in that case.

Brandon Lewis: We are treating everybody who is on social rent the same. That is the point.

Q370 Alison Thewliss: The problem there is not the same scale as the private rented sector.

Brandon Lewis: It is not social rent either. It is an entirely different model.

Q371 Kevin Hollinrake: Moody's has said that deregulation of housing associations might affect lender confidence. Have you done any work in determining whether housing associations will have marginal borrowing or more expensive borrowing following the deregulation?

Brandon Lewis: This is where there is obviously this balance to get right. We want to see them off the books, but we also want to make sure that there is still a regulatory regime that gives confidence to the lenders, so that it allows the housing association sector to continue to borrow at those rates that are much lower than the private sector. We have been talking to lenders and, in fact, I spoke to the Council of Mortgage Lenders earlier this week as well. Now we have made this announcement, we will be having ongoing conversations with them in the weeks ahead, but we think the balance is probably about right with that special regime, with the ability to appoint where there is a legal breach as well. We think that that probably gets the balance right and that is how we have come to that conclusion.

Q372 Mr Prisk: Obviously we will want to look at the details of what you have announced today. As a former Minister for deregulation, it would be remiss of me not to be welcoming deregulation in some form, but let me just tease out a couple of small details, if I can. What is your estimate of the net impact on the Government balance sheet of the moving of housing associations off the existing balance sheet?

Brandon Lewis: It is about £60 billion.

Q373 Mr Prisk: Okay, thank you. Can you tell me, from what you have said, if the new rent-setting powers or freedoms that housing associations will have will presumably be in the accepted frameworks, so 60% or 80% of the full market rent?

Brandon Lewis: This is around the high-income social tenants, the pay to stay option. They will have that flexibility and it will be voluntary for them, so yes.

Q374 Mr Prisk: Will housing associations therefore have greater freedom to adopt some of the newer models, say in discounted market rents for example, without having to go back to the regulator on a regular basis? Will they be able to look at how they can deliver that?

Brandon Lewis: I see. If you do not mind, I will come back to you on that. Let me have a look at that and I will write to you on that.

Mr Prisk: You will write to the Committee on that.

Brandon Lewis: Yes.

Q375 Chair: The pay to stay scheme will be voluntary. Will it be the same scheme that local authorities have to adopt that housing associations are free to adopt, or can they tweak the pay to stay scheme to fit their own particular circumstances?

Brandon Lewis: The fact that it is voluntary whether they do it at all or not, if they decide to take it on and look at it, obviously we have not finished the process of the Bill, so we have not quite yet finalised exactly how this will work in local government either. There is some work to do with housing associations, should they want to take this on, in how that goes forward, but that will become clear as we get towards the end of the process of the Bill.

Chair: That is still being worked out.

Brandon Lewis: Yes.

Q376 Chair: Just in terms of Kevin's point about lenders, which I think is a very important one given the evidence we had yesterday, do we take it that lenders have already been consulted about these measures, or is the announcement now one that you will be consulting on with lenders to make sure that they are comfortable with the proposals that you are making?

Brandon Lewis: The second, the latter part, is what we will now be talking to them about. Lenders knew that we were very clear that we would be looking at a deregulation package and, for us, it is around getting that balance. We will work with them over the next few months to make sure we get the balance right, but they still have confidence in the sector, because the fact that the sector is regulated gives them the confidence to be able to get those lower rates of borrowing in the first place, so there is that important balance there, yes.

Q377 Chair: Just moving on to the issue about the rent reduction, which a number of questions have been asked about, certainly when David Orr came to give evidence right at the beginning, he said that the

one major measure of deregulation they really wanted to see in the sector was the freedom to set rents. Obviously you have not gone that far yet but, just coming back to the issue about the private rented sector, in the budget there was an announcement that, in future, housing benefit will not be paid on social rents, full stop. It would be paid at no more than the local housing allowance level. By limiting what housing benefit will be paid on social rents, does that not give a further ability for Government to give freedom to set rents in the housing association sector, without actually affecting the housing benefit bill?

Brandon Lewis: I would need to have a look at that. I am not sure I quite follow.

Q378 Chair: Currently, if housing associations have freedom to put their rents up to whatever level they want and someone is entitled to housing benefit, then they get housing benefit on the rent that is set. As I understand the proposals in the Budget, in future, housing benefit will only be paid on a social rented property up to the level of the local housing allowance. In other words, if rents are simply put up, it will not simply mean a higher bill for DWP.

Brandon Lewis: That is a fair point. I would not want to prejudge where we end up. We are not quite at that point. You make a reasonable point, but it is a bit too early to judge yet.

Q379 Chair: It is one that could be on the table for consideration, because I think it is quite important for the future anyway.

Brandon Lewis: We are always reviewing these things at all times.

Q380 Chair: That is the issue, is it not? It is not merely what happens now, but housing associations, with their lenders, are looking at what happens up to 2020. They are worried not merely that Government are not saying anything about that, but whatever Government say may be changed, given what has happened in the last few months.

Brandon Lewis: We are always expecting providers to make all the right efforts to manage their business within existing rent reductions. Now, the Welfare Reform and Work Bill that is going through at the moment also allows the regulator, with the agreement of the Secretary of State, to issue exemptions on social rent reduction if the regulator considers that complying with the social rent reductions would jeopardise the financial viability of the organisation. There are some options there and, when they are looking at requesting an exemption, for example under the rent standard, there will be an exemption that an organisation can explore thoroughly what it can do to mitigate its risks to financial viability without recourse to an exemption, so there is

already some flexibility and options in there but, yes, we are always looking at these things and keeping these things under review.

Q381 Chair: Have the Government got some idea of when it might be able to give the sector some indication of what is going to happen post 2020? I know it is quite a long way ahead.

Brandon Lewis: Yes, but I would not want to put a timeframe on that being by a specific date, but certainly we will keep it under review and I am happy to come back to the Committee on that.

Q382 Chair: If we were to ask you in a year's time, you might have a clearer indication of what is going to happen.

Brandon Lewis: I am sure you would put me under a lot of pressure to give you a clear view on that by then.

Q383 Chair: Can we take it, now that Government have made this important announcement today and, without anticipating what the Committee will do, I think generally they will welcome the direction of travel of the proposals, that ideas that have been floated mainly by Policy Exchange and others about privatising the Government grant on housing association books are now off the agenda. It is not something Government are considering doing.

Brandon Lewis: I think that both myself and the Secretary of State made it fairly clear that that was never on our agenda. The Secretary of State gave a very direct, short and sharp answer to that just yesterday on the Floor of the House as well.

Q384 Chair: Just in terms of the role of housing associations in the future, you have indicated that they should be independent organisations largely free to take decisions, but Government still take a view about what they are doing. There has been quite a bit of evidence about the work housing associations do not directly related to the provision of housing, but about trying to get people back into work, skilling up some of those tenants who have not worked for a long time, offering community support through warden schemes and those sorts of things. Do the Government have a view about the regard that they hold those schemes in? Do they think that they are something housing associations should be doing in the future or should they get back to a core business of just providing houses?

Brandon Lewis: There is a range. Housing associations in most cases are charities as well. They have a charitable mission statement around what they do. Certainly I absolutely respect that, and some of them are doing some really good work around all of these things. As the

Housing and Planning Minister, my main focus is on housing in itself, in terms of the role in that, but one of the things I have been talking to the sector about is working with them on some of the things around the skills agenda. Where some of them are, first of all, on a building programme, they can help working. They obviously have a challenge with the skills agenda, like anybody else in construction. They can play an important part in working with us on that as well.

I actually think this is a really exciting time of opportunity for housing associations. I have to say I have been talking to them over the last few months and certainly in the last couple of weeks, post the spending review, and there is a real excitement about the opportunities ahead to be a huge part of the solution to the housing challenge we face. They themselves, the federation, published a paper about a year ago about upscaling and lifting up their supply lines. Now, that does not mean it is bringing everybody together to do it, and I am looking forward to working with them on that.

That does not mean that they do that at the exclusion of everything else, and some of them have some very good programmes. I have looked at what goes on overseas. I think we are in a position, in this country, to be very proud of what our housing associations do generally, in terms of working in their communities to help people move on and move up through the ladder. It is one of the reasons why, actually, we should not be overly surprised by the fact that they came forward with a voluntary deal around working with their tenants to help them into home ownership, because they have a good track record in most cases, by far the majority of cases, of working to the benefit of their tenants.

Now, that does not mean equally that I am not keen to make sure that all housing associations play their part in driving up housing supply and home ownership, and I will work with them and the sector generally around that, but there is a reality that, yes, if you have a housing association that is not building houses and has become a welfare organisation, I would say to them that they are a housing association. I would look to encourage them to get housing supply as a very key part, if not the priority, for their agenda.

Q385 Chair: Do you expect, at the end of this Parliament, there to be more or fewer social rented houses available?

Brandon Lewis: There is a very real possibility of having more. There was more in the last Parliament as well. I am very proud of the fact that we saw more council houses built, as you will know, Chairman, from my comments just yesterday, than we did in 13 years of Labour. It is not just about housing associations; I am very keen to see local

authorities get on with their building programmes, especially when they have so many billions of pounds in headroom to play with.

Q386 Chair: I am not sure whether that answers a promise, a commitment or an aspiration. Finally, do you understand that there is some concern that, if there is a reduction in social rented properties or a reduction in some areas, the areas where they may be reduced will be central London, higher-value suburbs in our cities and rural areas, where there probably is already an acute shortage of social housing? It will actually mean that the mixed communities will no longer exist in those areas. That is evidence that has been given to us. Do you have any concerns in that regard?

Brandon Lewis: I do think mixed communities are really important, actually. London is a really good example where we have some housing associations that have done some really interesting work, very good work, around delivering those mixed communities with developments that have included the private rented sector, outright purchase, shared ownership, social and affordable rent, as well. I have confidence that we will see that continue as we go forward, particularly as we look at some of the opportunities around estate regeneration. I do think it is important, but we also need to be very clear about the fact that we need to increase housing supply right across all tenures. Actually, the tenure that has been hit the hardest is the people who are looking to get into home ownership for the first time, so that is why we have that particular focus with products like starter homes.

Q387 Chair: If it turned out in practice that the number of social rented homes was going down and it was going down in areas such as those just described, where communities were being less mixed, would you at that point be prepared to review the impact of your policies?

Brandon Lewis: As I said a few moments ago, obviously we keep all things under review, at all times. That does not change. We are looking at how we can drive our housing. It is also around making sure we are working with local authorities and indeed the housing associations to make sure they are providing the homes that are appropriate and right for their community. We are making sure we have a big, wide range of offers. For example, some people may struggle who want to get into ownership and struggle to get on to the ownership sector. We are making sure that we are delivering more shared ownership, making it more accessible to people and giving people the opportunity to understand why that is an important option for them, and equally with starter homes. That will actually give people more options than they have had before, as well as obviously the right to buy.

Chair: Thank you, Minister, very much for coming today. Could I just take this opportunity on behalf of the Committee to wish you and your ministerial colleagues all the best for Christmas and the New Year? You will appreciate, from some of us at least, they will be non-political best wishes.

Brandon Lewis: Chairman, having visited the Committee regularly over the course of the year, I look forward to my next visit, but I also equally wish everybody on the Committee the very best and happy Christmas. Best wishes, in a non-political sense, for 2016 as well.

Chair: Thank you very much, Minister.