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Communities and Local Government Committee

Housing and the credit crunch: follow–up

Eighth Report of Session 2008–09

Report, together with formal minutes, oral and written evidence

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Communities and Local Government Committee

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Summary

The decline in the provision of new housing, especially affordable social housing, can have a dramatic impact on communities. In our previous report *Housing and the Credit Crunch* we made a commitment to revisit certain key issues affecting housing and to assess the developing situation in the wake of the credit crunch. This short report presents our findings.

Since our previous report, the 2009 Budget has made substantial provision for the housing industry. We support the measures the Government took in the Budget, and also those it has announced since, as part of the *Building Britain's Future* package. However, our witnesses told us that the measures have not so far been enough to stimulate house building and housing market activity in the economic downturn. The previous steady progress towards achieving the targets has been dramatically reversed, though indications seem to be that the Government has done enough to arrest the fall-off in housebuilding, at least in the short term. We identify two imperatives for Government action. First, the Government must avoid storing up problems in the future by taking all steps possible to retain capacity in the housebuilding sector. Secondly, steps must be taken to ensure that housebuilders can sell the homes they build. The flow of mortgage finance is crucial and it is evident that the Treasury Asset-backed Guarantee Scheme is not providing the necessary impetus.

Our report illustrates the fact that the current economic circumstances are still having a profound effect on the Government's housing policy. We urge the Government to consider the implications of the economic circumstances for its medium- to long-term housing policy, and to ensure that it is continuing to take action which will further its aim of a decent home for all.

1 Introduction

It is very simple: if you cannot sell a home, you do not build it.[1]

If we cannot build new homes and we lose that construction capacity, and the skills, then it will take a long time for this to build up again.[2]

At root this comes back to the availability of mortgage finance.[3]

1. The quotations above come from the evidence given by representatives from the National Housing Federation and the Home Builders Federation at the oral evidence session which preceded this Report. The remarks exemplify in stark terms the concerns of key organisations within the industry. The Government is doing a great deal to support the housing industry, but far more needs to be done to tackle the growing housing shortage.

Background

2. Last year, we decided to inquire into the issues surrounding housing, in the light of the current economic downturn. We invited written evidence, held an oral evidence session in December 2008 and published *Housing and the credit crunch* in February 2009.[4] In that report, we committed ourselves to revisiting certain issues to examine progress. We duly held a further oral evidence session on 1 June 2009.

Oral evidence session

3. Our evidence session began with the following external witnesses, representing the same organisations who had given oral evidence to our earlier inquiry:

— Mr Andrew Heywood, Deputy Head of Policy, Council of Mortgage Lenders;

— Mr David Orr, Chief Executive, National Housing Federation;

— Mr John Stewart, Director of Economic Affairs, Home Builders Federation; and

— Mr John Heron, Deputy Chairman, Intermediary Mortgage Lenders' Association.

We then heard from the following witnesses on behalf of the Government and its agencies:

— Rt. Hon Margaret Beckett MP, then Minister for Housing;

— Mr Richard McCarthy, Director General, Housing and Planning, Department of Communities and Local Government;

[1] Q 11, Mr Stewart, Director of Economic Affairs, Home Builders Federation.

[2] Q 17, Mr Orr, Chief Executive, National Housing Federation.

[3] *Ibid.*

[4] Third Report from the Communities and Local Government Committee, Session 2008–09, *Housing and the Credit Crunch*, HC 101.

— Sir Robert Kerslake, Chief Executive, Homes and Communities Agency; and

— Mr Peter Marsh, Chief Executive, Tenant Services Authority.

4. Our oral evidence session included discussion of the following topics, amongst others:

- the Budget, including funding for housing programmes and the Asset-backed Guarantee Scheme (Q1–8, Q16, Q37–38, Q40–48, Q82–84);
- house building targets and current levels of housebuilding (Q9, Q38, Q10–15, Q64–70);
- the effect of the 'credit crunch' on housing associations (Q25–27, Q 38, Q56–57, Q71–81);
- repossessions (Q28–32, Q85–90); and
- low-cost home ownership schemes (Q34–36, Q49–55, Q58–63).

Issues covered in this report

5. Since we last inquired into this subject, the Government has made further provision for addressing the effects of the credit crunch on housing through the 2009 Budget. We summarise the housing-related provisions in the Budget, consider the reactions to the Budget from our witnesses, and discuss three crucial issues arising out of the evidence we took at this follow-up session: the Government's house building targets; capacity in the house building sector; and the flow of mortgage finance.

2 Issues arising from our follow-up evidence session

The 2009 Budget

6. The Budget outlined the long-term housing plans of the Government:

> The Government will report at the 2009 Pre-Budget Report on progress and set out its strategy to support a timely and effective housing supply response through the recovery, in order to maximise delivery of high quality, energy efficient homes, supporting our long term housing supply and environmental objectives. This will cover measures to:
>
> - ensure sufficient land for development, through housing allocations in local plans and further action on public sector land, supported by a responsive and efficient planning system;
> - deliver effective and coordinated infrastructure provision;
> - promote a strong and diverse house building sector;
> - continue to ensure the increased long-term supply of social and affordable housing;
> - ensure a proportionate approach to land-value capture and cumulative regulation.[5]

The Government explains that, as part of this strategy, it will "identify, working with industry and other partners, the best regulatory and policy framework to support the Government's long-term housing objectives".[6]

7. The Budget provided some £1bn overall for housing, made up as follows:

- the Kickstart Programme (£400 million), a scheme aiming to "unlock sites that have stalled, but where development could proceed immediately";[7]
- Local Authority New Build (£100 million), under which local authorities are expected to build approximately 900 new social homes over two years;
- an extension to Mortgage Rescue (£80 million), the scheme designed to help up to 6,000 of the most vulnerable households at risk of repossession remain in their home;
- the local authority repossessions prevention fund (£20 million), which will enable local authorities to extend small loans to families at risk of homelessness through repossession or eviction;

[5] HM Treasury, *Budget 2009,Building Britain's Future, Economic and Fiscal Strategy Report and Financial Statement and Budget Report, April 2009* (The budget 2009), paragraph 5.78. www.hm-treasury.gov.uk/bud_bud09_index.htm

[6] *Ibid,* paragraph 5.79.

[7] Ev 20

- £135 million to maintain the Standard Interest Rate to calculate Support for Mortgage Interest (SMI);[8]
- £90 million to support an extension of the stamp duty holiday for all houses costing up to £175,000 until 31 December 2009;[9]
- the Social Housing Energy Saving Programme (£84 million), which will help social landlords insulate hard to treat cavity walls that would not otherwise be filled under the Decent Homes programme; and
- the District Heating Schemes fund (£21 million), to provide gap funding to sites that can provide energy efficiency and low carbon infrastructure in the next two years in order to unlock housing sites.[10]

The balance is accounted for by £110 million for the effects of "Barnett consequentials".[11]

8. Since our oral evidence session, the Government has made a further announcement about measures to boost the construction of social housing. "£1.5 billion of housing investment" was announced as part of the *Building Britain's Future* announcement made by the Prime Minister on 29 June, to include:

- Extra funding so councils and housing associations can build around 15,500 new affordable homes, of which over 11,000 will be available for social rental. More may be built if greater value for money can be achieved;
- Extending the Kickstart programme with the aim of delivering an additional 11,000 homes, of which 4,000 will be "affordable"; and
- Investing in the development of public sector land owned by the Homes and Communities Agency, local authorities and other public sector bodies to deliver up to 1,250 units, of which 500 "could be affordable".[12]

It is not clear how much of this £1.5 billion is new money, as the Department has not responded to our request for clarification.

Reaction to the Budget

9. David Orr, Chief Executive of the National Housing Federation (NHF), spoke for many in the housing sector when he told us that the Budget announcements were generally welcomed:

> I think we certainly understood that the Budget was announced in a particularly difficult economic environment, and I think we recognised that housing and housing

[8] Ev 23

[9] *Ibid.*

[10] Ev 20

[11] "Barnett consequentials" are the sums added to the block grants to the devolved administrations in accordance with the "Barnett formula".

[12] CLG press release 29 June 2009, available on www.communities.gov.uk.

> issues were an important component of that Budget. We recognised the fact that there was additional spend and for many parts of the economy that was not the case.[13]

10. Nevertheless, concern remained that the measures announced in the Budget (and previously) were not sufficient to tackle the current housing problem. Our oral evidence identified three particular issues on which we wish to report:

- progress towards achievement of the Government's house building targets;
- retention of skills and capacity in the house building sector; and
- the flow of mortgage finance, specifically the Treasury's Asset-backed Guarantee Scheme.

The Government's housing targets

11. The National Housing Federation is one of the members of the '2020 Group', a collection of individuals and organisations active in the housing sector set up "to maintain focus on, and to support the delivery of, sufficient new housing to meet arising need and address the shortage of housing".[14] That group, along with many others, had hoped for more from the Budget, as the NHF's David Orr told us:

> You will know that the Federation along with some other organisations in the 2020 Group had proposed a much bigger injection of capital funding. We still feel that it was rather an opportunity lost just because the level of new building in the market at present is so low that I think we are in danger of storing up some real problems for the future.[15]

He had previously explained this problem in greater detail in *Inside Housing*:

> We now fear that because the government has failed to back a comprehensive house building programme, the number of homes delivered this financial year will slump to an 88-year low of 70,000, while the number of people on social housing waiting lists will simply soar.[16]

12. Section II of the 2007 Green Paper *Homes for the future: more affordable, more sustainable*[17] explained the Government's plans for housing growth of "delivering 2 million homes by 2016 and 3 million homes by 2020".[18] In the Budget, these figures were repeated:

> Alongside the need to support homeowners and homebuyers in current conditions, the long-term challenges for housing supply remain, as set out in the *Barker Review of Housing Supply*. That is why the Government has set an ambitious target of providing an additional 240,000 homes per year by 2016. It remains important to maintain

[13] Q 1

[14] "*2020 Group Launch Document*", available from www.shelter.org.uk.

[15] Q 1

[16] "*Inside Housing*", 14 May 2009.

[17] www.communities.gov.uk/publications/housing/homesforfuture

[18] *Ibid.*

> momentum on improving the responsiveness of housing supply, both to meet the needs of a growing population in the future, and to support economic recovery, by reducing housing market volatility, helping macroeconomic stability, and supporting growth through increasing labour market flexibility. The Government is therefore focused on action to retain capacity and skills in the house building industry, and to promote conditions for a robust supply response as the housing. [19]

13. These targets are not being met. The Department for Communities and Local Government (CLG) publishes regularly updated tables on house-building: the number started and the number completed. The latest figures show that, in 2008, there were only 141,900 completions, a 19% reduction on the 174,530 completions in 2007; meanwhile, starts fell even further, by 37%, to 105,200 from 166,350 in 2007.[20]

14. In our previous inquiry, the Government stated that it intended to conduct research on the likely impact of the credit crunch on housing demand.[21] In its response to our report published in February 2009, the Government cited forthcoming research by the National Housing and Planning Advice Unit (NHPAU), which it said it would use to update its Affordability model.[22] The NHPAU published this research in May 2009. It concludes:

> We currently find ourselves in the situation where levels of building are dropping to historically low levels, whilst projections of future housing requirements are rising. Clearly the scale of the challenge in terms of deliverability is significant, but this is where the focus now firmly needs to be. Pressure in the future, given projections for levels of delivery in the next couple of years, may well be for higher levels of annual delivery. Neither global recession nor a global credit crunch are candidates for improving affordability in terms of households' ability to pay or their access to housing. If chronic housing pressures are to be relieved and long term market volatility addressed, what's not delivered now will need to be delivered at a later date.[23]

15. We discussed progress towards the Government's targets of 2 million homes by 2016 and 3 million homes by 2020 with our witnesses in oral evidence. John Stewart, Director of Economic Affairs at the Home Builders Federation, described to us in bleak terms the current situation:

> There are some signs that [the decline in] house building is bottoming out but you get to a point where things are so low that they cannot go much further […] we are talking about very, very low levels so there is not really much further to fall.[24]

He went on to describe why house builders have stopped building, even though the demand for housing is rising:

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[19] The Budget 2009, para 5.75.

[20] www.communities.gov.uk/documents/housing/xls/140894.xls

[21] HC (2008-09) 101, para 9.

[22] Government response to the Committee's Third Report, *Housing and the Credit Crunch,* Cm 7619, p 3.

[23] "*Housing requirements and the impact of recent economic and demographic change*", The National Housing and Planning Advice Unit, May 2009, p 12.

[24] Q 10

> It is very simple: if you cannot sell a home, you do not build it. House builders cannot afford to just endlessly build up stocks of unsold property […] If you cannot sell something clearly you do not go on just building more and more and more and piling up unsold properties.[25]

16. Connected with the drop in house building is the crucial issue of house building skills. At our oral evidence session, the housing market crash of the 1980s and early 1990s, with the resulting lack of skilled workforce, was discussed. Mr Stewart agreed that this problem could reoccur:

> The whole industry has contracted to, who knows, perhaps half the size it was back in 2007 and the number of people employed has contracted accordingly. Some of those skills will be lost […] as in the early 1990s.[26]

17. Mr Orr reiterated this point, putting it in the context of the wider issues facing the housing world:

> I think that there are a whole series of problems here which link together. The case that we made with the 2020 Group was that 100,000 new homes keeps 250,000 construction workers in jobs. Our latest assessment by colleagues in the Federation is that we reckon that the output of new homes this year across the whole market might be as few as 70,000. That is less than a third of the output that we really need. That leads to huge problems of unmet demand but, most frustratingly, it means retraining in exactly the kind of skills that you are talking about which left the industry in the early 1990s and did not come back. It took ten years to get the level of capacity back up. We are going to see that happening again because people will leave the industry. […] If we cannot build new homes and we lose that construction capacity, and the skills, then it will take a long time for this to build up again.[27]

18. **We concluded in our previous report that the credit crunch does not reduce levels of need for new housing, nor does it obviate the necessity of addressing years of undersupply of new housing stock. The results of the National Housing and Planning Advice Unit's most recent research show that that conclusion remains valid. We therefore continue strongly to support the Government's house building targets. The latest figures confirm, however, that the previous steady progress towards achieving the target of 240,000 new homes per year has been dramatically reversed. There seems to be a general acceptance that the Government has done a lot to try to arrest and ameliorate the fall-off in housebuilding, but the availability of public funding is simply not enough to overcome the impact of the credit crunch on the industry. The severe downturn in private housebuilding has in turn had a major impact on the provision of affordable homes due to the loss of cross-subsidy. We are impressed by the flexible approach being taken by the Government and the HCA to work with the industry to unblock frozen sites and bring forward as many schemes as possible in the short term, but this is simply not enough to fill the gap created by the recession.**

[25] Q 11

[26] Q 17

[27] *Ibid.*

19. **There are two further imperatives for Government action. First, it must take all steps possible to retain capacity in the housebuilding sector, to avoid storing up problems for the future. The Government should monitor the situation closely and assess whether the steps it has already taken are sufficient to maintain that capacity. Second, and more crucially, steps must be taken to enable house builders to sell the homes they build and to allow housing need to be expressed as economic demand.** We consider this point further below.

20. **We welcome the announcement in the *Building Britain's Future* package of further public funding for the housing sector. This new funding may go a considerable way towards addressing the concerns about the provision of affordable homes and about retaining capacity in the house building sector which have arisen from our oral evidence. The Government will, however, need to go further. We support the Government's decision not to abandon its long term targets for new housebuilding—because these targets reflect known demands and needs—but the longer the recession goes on, and the deeper it is, the harder it will be to get back on track. Following the announcement of new funding, the Government needs to plan a new trajectory for housebuilding which aims to get provision back on track as the recession eases, and to consider the range of policies that might be needed to achieve the targets. This plan should consider both the needs of the private housebuilding industry and the measures needed to deliver the targets for social rented and other affordable homes.**

The flow of mortgage finance

21. As we noted in our original report, the demand for housing remains: what is lacking is the availability of the finance to make that demand effective. In December 2008, our witnesses all agreed that the key to addressing that problem was to implement the recommendations of the Crosby review of mortgage finance. Chief among those recommendations was the creation of the Asset-backed Securities Guarantee Scheme, a Treasury scheme intended to improve banks' and building societies' access to wholesale funding markets and help support lending to creditworthy borrowers.[28]

22. At our latest session, all our witnesses from housing and mortgage organisations once more agreed that there is still not enough funding to support the ailing housing market and to encourage mortgage availability. John Heron of the Intermediary Mortgage Lenders Association explained the problem as follows:

> The key dysfunction from the mortgage lender's viewpoint at present in the economy, and in mortgage lending and indeed in housing generally, is the absence of funding and the absence of operating market mechanisms to ensure a flow of funds to mortgage lenders which in due course, of course, would fund both home ownership, private renting and the social rented sector, and therefore whilst we were impressed with the Asset-backed Guarantee Scheme that was announced and subsequently introduced, it is a great shame that it falls short of its objectives. [29]

[28] HM Treasury, "*Market Notice: Outline of the UK Government's 2009 Asset-backed Securities Guarantee Scheme*", available from www.dmo.gov.uk.

[29] Q 1

23. Mr Heron went on to describe the failings of the Asset-backed Securities Guarantee Scheme:

- it only covers the very highest risk of mortgage funding, which means that only mortgages that require a greater level of funding of capital can benefit;
- it can only be accessed by banks and building societies, which means more specialist lenders—the lenders that typically support the private rented sector and have customers in greater financial difficulty—do not have access;
- it will only cover AAA-rated securities; and
- the Government has the right to put the scheme back to the lender, which means that, if a lender borrowed, say, £50 billion, they could be required under the terms of the guarantee to repay that money in three or five years' time, which is not tenable when such funding is used for mortgages of 20 or 25 years duration.[30]

24. In oral evidence, Mr Heron observed that:

> […] there is only so much risk that a government-sponsored scheme can reasonably take, and that is the position they are in, but the problem with that is that it is rather like half a leap across a chasm: very impressive but doomed to failure.[31]

He concluded that "unless the scheme is improved, it will not do anything, I am afraid, to support mortgage lending".[32]

25. Mr Heron was supported by John Stewart of the Home Builders Federation[33] and by Andrew Heywood of the Council of Mortgage Lenders, who agreed that "there are ways in which the Asset-backed Guarantee Scheme could be improved."[34] Mr Heywood went on to make some broader points about the availability of mortgage funding, particularly for shared ownership and for the private rented sector:

> there are clearly two areas where the Budget has left a gap. […] Because of the funding issues, shared ownership and indeed low cost ownership generally remains depressed as does the rest of the mortgage market […] The area which I think has missed out seriously in the Budget, […] in spite of the Private Rented Sector Initiative announced since then, […] is the private rented sector because the funding crisis has artificially hit that. It was more reliant on some of the lenders who have not been able to access government schemes. It is universally acknowledged to need to expand because home ownership is falling and that slack has to be taken up somewhere. No-one expects government to have the money to continue to expand social housing beyond the next year or two. The eternal search […] for institutional investment into the private rented sector announced recently, while it is a good thing to do, is unlikely to fill the gap which

30 Q 1 and 2

31 Q 6

32 Q 1

33 Q 37

34 Q 8

> has been left by the cut-back in mortgage funding for the individual and smaller landlord, who remain the backbone of the private rented sector.[35]

26. Mr Heywood's concerns, particularly with regard to shared ownership, were in turn supported by David Orr[36] and by John Stewart;[37] but the final word from our external witnesses goes to Mr Heron, who told us:

> If there is one critical thing that the Government could do, it would be to look with greater urgency and with greater invention at this particular problem: how do you support mortgage funding?[38]

27. We put these concerns to our Government witnesses. Richard McCarthy, Director General of Housing and Planning at CLG, seemed to think that the onus was now on lenders: "The Government has made available now guarantees for wholesale schemes, so those have been announced and it is now a question of the market actually taking those opportunities up".[39] When it was pointed out that our earlier witnesses said that the Asset-backed Securities Guarantee Scheme was not working, the Minister responded, "We will read their evidence with great interest".[40]

28. **All our witnesses were agreed that the flow of mortgage funding was a prerequisite for the revival of the housing market, which in turn is a prerequisite for the achievement of the Government's housing targets. According to the evidence we have received, the Asset-backed Securities Guarantee Scheme, one of the most important of the weapons in the Government's armoury for tackling the effects of the credit crunch on its housing policy, is not working. The design and operation of this scheme is the responsibility of the Treasury, rather than CLG: we have not, therefore, considered it in detail. Its successful operation, however—and indeed the availability of mortgage funding generally—are crucial to the achievement of CLG's policy goals. CLG—at both official and Ministerial level—must continue to work closely with the Treasury and keep up the pressure to ensure that mortgage funding flows more easily and to more mortgage providers.**

The balance of housing tenure

29. The quotation from Mr Heywood reproduced in paragraph 25 above introduces another, more long-term question: that of the future direction of Government policy in respect of the balance of housing tenure. Many housing organisations considered the Budget to have favoured home ownership to the detriment of other housing tenures. Sarah Webb, the chief executive of the Chartered Institute of Housing, for example, stated:

> We need a better balance and choice of places to live. The infatuation with homeownership must be tempered. We need to talk less about housing as an

[35] Q 8

[36] Q 1

[37] Q 37

[38] Q 36

[39] Q 83

[40] Q 84

investment and housing ladders, and more about ways to address waiting lists, ways to reduce housing as a polluter, and ways to close the gap between the number of homes being built and the households being formed.[41]

30. The view that too much emphasis had been given to home ownership and not enough to tenants, including tenants in the private sector, was rebutted by the Minister:

> […] a lot of the money from the Budget was for unlocking frozen sites. There is nothing that says that those would be necessarily for home ownership rather than social rent; it would be a matter of what sites are more viable. There was specifically the money for local authorities to carry out social rent and also, of course, the fact that the other changes that we are making mean that they will be able to apply for a housing grant on the same basis as anybody else in the future, RSLs or ALMOs, so there is something there not directly funded within the Budget, but a freedom that is created for them.[42]

31. The fact remains, however, that home ownership schemes have been directly funded in the Budget and the private rented sector—the value of which, properly regulated, the Government has recognised in its response to the Rugg review of the sector[43]—has not. Mr Heywood told us about the funding crisis "artificially" hitting the private rented sector and suggested that it was "universally acknowledged" that the private rented sector needs to expand.[44] When asked whether there was a bias in favour of home ownership, Mr Heywood told us:

> I do not think there is in that sense a bias in favour of home ownership at the moment. I think there is a discussion for government to have—and I understand CLG is beginning to do that internally—about where the balance of tenures is going. We have seen the beginnings of a fall-off in the level of home ownership. Clearly private renting is expanding and in many ways is more congruent with the changing social and economic circumstances in which the country finds itself.[45]

Later, when invited to tell us what one thing more the Government needed to do that it has not done yet, he responded thus:

> […] The Government needs to have a fundamental review of where it thinks the balance of housing tenure is going. The policy needs to derive from that. I think one of the key areas that is going to have to be funded going forwards, possibly even more important than home ownership at the margin, is going to be the private rented sector. I do not think that issue has yet been nailed down.[46]

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41 "*Inside Housing*", 14 May 2009.

42 Q 40

43 *The private rented sector: professionalism and quality - The Government response to the Rugg Review Consultation*, CLG, 13 May 2009.

44 Q 8

45 Q 9

46 Q 38

32. These comments add credence to recommendations that we made in our report published in May 2008, *The Supply of Rented Housing.*[47] That inquiry found that both the private and the social rented sector should be supported, recommending:

> One key objective of any further reform of the private and social rented sectors has to be to challenge the unhelpful perception that renting is always second best. Whether from necessity or choice, significant numbers of people are and will continue to rely on the rented sector. Their needs and aspirations are every bit as important as those of home owners.[48]

33. **As we reported a year ago, for thirty years Government policy has been focussed on promoting home ownership, with insufficient attention given to the rented sectors. Current economic circumstances, however, demonstrate that there is no immutable law that owner occupation should increase. The tenure is not appropriate for a significant proportion of the population who need homes, and much more attention needs to be paid to developing the roles of both the private and social rented sectors. We therefore add our voice to those arguing that the Government needs to debate and decide on its medium- to long-term policy with regard to the balance of tenure.**

[47] Eighth Report from the Communities and Local Government Committee, Session 2007–08, *The Supply of Rented Housing,* HC 457.

[48] *Ibid,* para 19.

3 Conclusion

34. This short report focuses on issues that, in February of this year, we committed ourselves to revisiting. Since our follow-up evidence session, there has been a major Ministerial reshuffle, with the Rt Hon John Healey MP becoming the fourth Housing Minister in two years. Although we have no reason to believe that Mr Healey will not be a very effective Minister for Housing, the appointment of so many housing ministers in such a short time cannot be beneficial to the advancement of a consistent and effective housing policy. **While we recognise the need for changes to Ministerial posts, it is vital that CLG has continuity in its housing policy: regular changes in the responsible Minister do not further that aim.**

35. In our previous report, we quoted the Government's ambition for "everyone to have access to a decent home at a price they can afford, in a place where they want to live."[49] The Budget has gone some way towards making that ambition more achievable. However, the alarming drop-off in house building figures and the potential loss of capacity in the house building sector continue to put it at risk. In the absence of further public funding, the flow of mortgage finance from lenders will be key. All of our external witnesses agreed that the Asset-backed Securities Guarantee Scheme is not working. We urge CLG to keep up the pressure on the Treasury to ensure that mortgage funding flows more easily and to a wider range of mortgage providers, including those who fund sub-prime mortgages.

36. The oral evidence illustrated that the current economic circumstances are still having a profound effect on the Government's housing policy, on the construction industry, and on people's ability to pay the rent or mortgage payments—or to secure a tenancy or mortgage in the first place. We urge the Government to consider the implications of the economic circumstances for its medium to long-term housing policy, and to ensure that it is continuing to take action which will further its aim of a decent home for all.

[49] CLG (July 2007), Housing Green Paper, *Homes for the future; more affordable, more sustainable*, p 64.

Conclusions and recommendations

The Government's housing targets

1. **We concluded in our previous report that the credit crunch does not reduce levels of need for new housing, nor does it obviate the necessity of addressing years of undersupply of new housing stock. The results of the National Housing and Planning Advice Unit's most recent research show that that conclusion remains valid. We therefore continue strongly to support the Government's house building targets. The latest figures confirm, however, that the previous steady progress towards achieving the target of 240,000 new homes per year has been dramatically reversed. There seems to be a general acceptance that the Government has done a lot to try to arrest and ameliorate the fall-off in housebuilding, but the availability of public funding is simply not enough to overcome the impact of the credit crunch on the industry. The severe downturn in private housebuilding has in turn had a major impact on the provision of affordable homes due to the loss of cross-subsidy. We are impressed by the flexible approach being taken by the Government and the HCA to work with the industry to unblock frozen sites and bring forward as many schemes as possible in the short term, but this is simply not enough to fill the gap created by the recession.** (Paragraph 18)

2. **There are two further imperatives for Government action. First, it must take all steps possible to retain capacity in the housebuilding sector, to avoid storing up problems for the future. The Government should monitor the situation closely and assess whether the steps it has already taken are sufficient to maintain that capacity. Second, and most crucially, steps must be taken to enable house builders to sell the homes they build and to allow housing need to be expressed as economic demand.** (Paragraph 19)

3. **We welcome the announcement in the *Building Britain's Future* package of further public funding for the housing sector. This new funding may go a considerable way towards addressing the concerns about the provision of affordable homes and about retaining capacity in the house building sector which have arisen from our oral evidence. The Government will, however, need to go further. We support the Government's decision not to abandon its long term targets for new housebuilding—because these targets reflect known demands and needs—but the longer the recession goes on, and the deeper it is, the harder it will be to get back on track. Following the announcement of new funding, the Government needs to plan a new trajectory for housebuilding which aims to get provision back on track as the recession eases, and to consider the range of policies that might be needed to achieve the targets. This plan should consider both the needs of the private housebuilding industry and the measures needed to deliver the targets for social rented and other affordable homes.** (Paragraph 20)

The flow of mortgage finance

4. **All our witnesses were agreed that the flow of mortgage funding was a prerequisite for the revival of the housing market, which in turn is a prerequisite for the achievement of the Government's housing targets. According to the evidence we have received, the Asset-backed Securities Guarantee Scheme, one of the most important of the weapons in the Government's armoury for tackling the effects of the credit crunch on its housing policy, is not working. The design and operation of this scheme is the responsibility of the Treasury, rather than CLG: we have not, therefore, considered it in detail. Its successful operation, however—and indeed the availability of mortgage funding generally—are crucial to the achievement of CLG's policy goals. CLG—at both official and Ministerial level—must continue to work closely with the Treasury and keep up the pressure to ensure that mortgage funding flows more easily and to more mortgage providers.** (Paragraph 28)

The balance of housing tenure

5. **As we reported a year ago, for thirty years Government policy has been focussed on promoting home ownership, with insufficient attention given to the rented sectors. Current economic circumstances, however, demonstrate that there is no immutable law that owner occupation should increase. The tenure is not appropriate for a significant proportion of the population who need homes, and much more attention needs to be paid to developing the roles of both the private and social rented sectors. We therefore add our voice to those arguing that the Government needs to debate and decide on its medium- to long-term policy with regard to the balance of tenure.** (Paragraph 33)

Conclusion

6. **While we recognise the need for changes to Ministerial posts, it is vital that CLG has continuity in its housing policy: regular changes in the responsible Minister do not further that aim.** (Paragraph 34)

Formal minutes

Tuesday 7 July 2009

Members present:

Dr Phyllis Starkey, in the Chair

Sir Paul Beresford	John Cummings
Mr Clive Betts	Anne Main

Housing and the credit crunch: follow-up

Draft Report (*Housing and the credit crunch: a follow-up*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 36 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Eighth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 13 July 2009 at 4.00pm.

Witnesses

List of written evidence

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2008–09

First Report	Work of the Committee in 2007–08	HC 120
Second Report	Communities and Local Government's Departmental Annual Report 2008	HC 238 (*Cm* 7614)
Third Report	Housing and the Credit Crunch	HC 101 (*Cm* 7619)
Fourth Report	Appointment of the Chair of the Infrastructure Planning Commission	HC 354
Fifth Report	New Towns Follow-Up—Government Response to the Ninth Report of the Committee, Session 2007–08	HC 253
Sixth Report	Balance of Power: Central and Local Government	HC 33-I
Seventh Report	Local authority investments	HC 164-I
Eighth Report	Housing and the credit crunch: follow-up	HC 568

Session 2007–08

First Report	Coastal Towns: the Government's Second Response	HC 69
Second Report	DCLG Annual Report 2007	HC 170 (*Cm 7335)*
Third Report	Local Government Finance—Supplementary Business Rate: the Government's Response	HC 210 *(HC 1200)*
Fourth Report	Work of the Committee in 2007	HC 211
Fifth Report	Ordnance Survey	HC 268 *(HC 516)*
Sixth Report	Refuse Collection: Waste Reduction Pilots	HC 195 *(HC 541)*
Seventh Report	Existing Housing and Climate Change	HC 432 (*Cm 7428)*
Eighth Report	The Supply of Rented Housing	HC 457-I & II (*Cm 7326)*
Ninth Report	New Towns Follow-Up	HC 889
Tenth Report	Community Cohesion and Migration	HC 369-I & II (*Cm 7489*)
Eleventh Report	Planning Matters—labour shortages and skills gaps	HC 517-I & II (*Cm 7495*)
Twelfth Report	The Provision of Public Toilets	HC 636 (*Cm 7530*)

Session 2006–07

First Report	The Work of the Committee in 2005–06	HC 198
Second Report	Coastal Towns	HC 351 (*Cm 7126*)
Third Report	DCLG Annual Report 2006	HC 106 (*Cm 7125*)
Fourth Report	Is there a Future for Regional Government?	HC 352-I (*Cm 7119*)
Fifth Report	Refuse Collection	HC 536-I *(HC 1095)*

Sixth Report	Equality	HC 468 (*Cm 7246*)
Seventh Report	Local Government Finance—Supplementary Business Rate	HC 719
Eighth Report	Local Government Finance—Council Tax Benefit	HC 718 *(HC 1037)*

Session 2005–06

First Report	ODPM Annual Report and Accounts	HC 559 (*HC 1072*)
Second Report	Re-licensing	HC 606 (*Cm 6788*)
Third Report	Affordability and the Supply of Housing	HC 703-I (*Cm 6912*)
Fourth Report	The Fire and Rescue Service	HC 872-I (*Cm 6919*)
Fifth Report	Planning Gain Supplement	HC 1024-I (*Cm 7005*)
First Special Report	Government Response to the Committee's Fourth Report of Session 2004–05, on the ODPM Annual Reports and Accounts 2004	HC 407
Second Special Report	Government Response to the Committee's Eleventh Report of Session 2004–05, on the Role and Effectiveness of The Local Government Ombudsmen for England	HC 605
Third Special Report	Government Response to the Committee's Seventh Report of Session 2004–05, on the Role and Effectiveness of the Standards Board for England	HC 988

Oral evidence

Taken before the Communities and Local Government Committee

on Monday 1 June 2009

Members present

Dr Phyllis Starkey, in the Chair

Mr Clive Betts	Anne Main
John Cummings	Dr John Pugh
Mr Greg Hands	Mr Neil Turner

Witnesses: **Mr Andrew Heywood**, Deputy Head of Policy, Council of Mortgage Lenders; **Mr David Orr**, Chief Executive, National Housing Federation; **Mr John Stewart**, Director of Economic Affairs, Home Builders Federation; and **Mr John Heron**, Deputy Chairman, Intermediary Mortgage Lenders' Association, gave evidence.

Q1 Chair: Can I welcome the witnesses. For the most part, I think it is welcoming you back but thank you to Mr Heywood for standing in for Mr Coogan who I think is unwell. As at the meeting last December, we will direct questions at all of you, sometimes specifically at one of you. Given there are four of you, do not feel obliged to repeat things that other people have said, but obviously if you have a very different viewpoint or slant on something that would be very helpful. This is obviously a re-visiting, in a sense, of the issues that we explored before. I would really like to start off by asking whether you believe that the measures that were taken in the Budget are enough to stimulate housing development and, as a subsidiary, whether you think that the budget was fair to all different housing sectors and, if not, why not? I do not mind who starts. Mr Orr?

Mr Orr: I am happy to kick off. I think we certainly understood that the Budget was announced in a particularly difficult economic environment, and I think we recognised that housing and housing issues were an important component of that Budget. We recognised the fact that there was additional spend and for many parts of the economy that was not the case. You will know that the Federation along with some other organisations in the 2020 Group had proposed a much bigger injection of capital funding. We still feel that it was rather an opportunity lost just because the level of new building in the market at present is so low that I think we are in danger of storing up some real problems for the future. We thought that investing in housing was not just a housing solution, we did think it was a proper economic stimulant because of the economic multipliers that housing investment delivers and which I know you have considered in the past. I think most sections were addressed in the Budget but the area that we were most disappointed in was that there was a lack of any specific initiative to assist in the provision of mortgages for people who want to buy under shared ownership in particular, and the absence of mortgage funding for shared ownership remains a significant problem, particularly when the demand for that product is as high as it has ever been.

Mr Heron: The key dysfunction from the mortgage lender's viewpoint at present in the economy, and in mortgage lending and indeed in housing generally, is the absence of funding and the absence of operating market mechanisms to ensure a flow of funds to mortgage lenders which in due course, of course, would fund both home ownership, private renting and the social rented sector, and therefore whilst we were impressed with the Asset-backed Guarantee Scheme that was announced and subsequently introduced, it is a great shame that it falls short of its objectives. A scheme that has been announced and has been discussed with mortgage lenders by the Treasury is incapable of doing what is required of it for a number of detailed reasons, these being that it only covers the very highest risk of mortgage funding, which means that only mortgages that require a greater level of funding of capital can be funded by this scheme. Furthermore, the scheme can only be accessed by banks and building societies, which means that specialist lenders, who are the lenders that have more typically supported the private rented sector for instance, and have supported customers with greater financial difficulty, have not been able to access the scheme at all. Unless the scheme is improved, it will not do anything, I am afraid, to support mortgage lending.

Q2 Chair: Can I briefly ask on that, by "improved" you would also therefore require it to have more money, presumably?

Mr Heron: At present the money is not the issue. I think £50 billion was announced as being associated with the scheme. That is not the issue. The problem is that it simply does not work from a mortgage lender's viewpoint—any mortgage lender—and that is putting to one side, as I say, the fact that specialist lenders simply do not have access to this scheme at all. It will only cover AAA-rated securities. It was designed as a scheme to fund new lending and it makes new lending incredibly capital inefficient. It is also entirely recourse driven as a scheme and that means that, indirectly, the Government, if called upon to make the guarantee work in due course, would have the right to put the scheme back to the lender. So if, for instance, we lent on this scheme, say,

£50 billion, we could be required under the terms of the guarantee to repay that £50 billion in three or five years' time, which is the way it is structured, and of course that kind of arrangement is not satisfactory for the long-term funding of mortgages that may be 20 or 25 years.

Q3 Anne Main: Just on that last comment, are you saying that the scheme as it exists is not going to deliver that injection that was indicated in the Budget because it is just unworkable?
Mr Heron: No, it will not deliver that.

Q4 Anne Main: Could you have come up with something better? Were you asked your views on this?
Mr Heron: Both the Council of Mortgage Lenders and the Intermediary Mortgage Lenders' Association have put several proposals forward to the Treasury.

Q5 Anne Main: Since the Budget?
Mr Heron: Since the Budget, and we have met with them on a number of occasions in an attempt to put forward alternatives or improvements that might make this scheme work.

Q6 Anne Main: Is anybody listening?
Mr Heron: I think, to be fair to the people at the Treasury, they have listened, but I think that where they stand at present is there is only so much a government-sponsored scheme can achieve. There is only so much risk that a government-sponsored scheme can reasonably take, and that is the position they are in, but the problem with that is that it is rather like half a leap across a chasm: very impressive but doomed to failure.

Q7 Chair: When you say there is only so much risk it can take, who is it who is saying that they cannot take any more risk?
Mr Heron: The Treasury is saying that it cannot take any greater risk on behalf of the taxpayer fundamentally.

Q8 Chair: Mr Heywood, do you want to come in on this and then I will come back to you?
Mr Heywood: I would agree with John Heron that the fundamental issue here is funding and the fundamental issue is funding in relation to shared ownership also. Yes, there are ways in which the Asset-backed Guarantee Scheme could be improved—the fee structure for instance—but I think, as we stand, there are clearly two areas where the Budget has left a gap. As David has pointed out, because of the funding issues, shared ownership and indeed low cost ownership generally remains depressed as does the rest of the mortgage market; it has not been singled out. The area which I think has missed out seriously in the Budget, and in spite of the Private Rented Sector Initiative announced since then, it has not really been addressed adequately, is the private rented sector because the funding crisis has artificially hit that. It was more reliant on some of the lenders who have not been able to access government schemes. It is universally acknowledged to need to expand because home ownership is falling and that slack has to be taken up somewhere. No-one expects government to have the money to continue to expand social housing beyond the next year or two. The eternal search, it appears to us, for institutional investment into the private rented sector announced recently, while it is a good thing to do, is unlikely to fill the gap which has been left by the cut-back in mortgage funding for the individual and smaller landlord, who remain the backbone of the private rented sector.

Q9 Chair: Just to pursue that, if there is a bias towards favouring home ownership as opposed to encouraging rental, what do you think the result is going to be?
Mr Heywood: I do not think there is in that sense a bias in favour of home ownership at the moment. I think there is a discussion for government to have—and I understand the CLG is beginning to do that internally—about where the balance of tenures is going. We have seen the beginnings of a fall-off in the level of home ownership. Clearly private renting is expanding and in many ways is more congruent with the changing social and economic circumstances in which the country finds itself. I think that thinking needs to catch up because, clearly, if we are going to see some settling, as we are in other countries in Europe in home ownership, then home ownership at the margins, low-cost ownership, where that sits is perhaps different from where it was thought to sit two or three years ago. I think these are quite complex and difficult questions. They are difficult particularly because politically traditionally the extension of home ownership has been seen as a key plank of both Governments' policies over the last 20 years.
Mr Heron: I think it is worth pointing out that there is a bias though in the manner in which policy has been implemented. I do not think the bias was intentional but the fact that the government has supported the largest lenders and has effectively left the smaller and specialist lenders to survive on their own merits has meant that those lenders that have supported specialist markets, particularly the private rented sector, and indeed the social rented sector through support for the housing associations, are left without access to funding and therefore cannot support those markets. Bias may not have been intended but bias is certainly the outcome.
Chair: I will come to you now Mr Stewart and in order to facilitate things can I also ask Anne if you could maybe direct your question at Mr Stewart who may be better placed to respond in any case.

Q10 Anne Main: We are currently finding ourselves in a situation where the levels of house building are absolutely dropping off a cliff, so we are told, so are there any signs of the recession bottoming out and what more could the housing sector and government do to encourage recovery?
Mr Stewart: There are some signs that house building is bottoming out but you get to a point where things are so low that they cannot go much

further. The National House Building Council (NHBC) produces monthly statistics which are very up-to-date, they are ahead of the CLG's own official stats, and they have been broadly stable over the last few months, but we are talking about very, very low levels so there is not really much further to fall. The CLG official stats are still falling and I suspect they have got further to fall, but that is because they are lagging behind a little bit. Of course starts are ahead and completions lag a long way behind so there is yet further to fall for completions.

Q11 Anne Main: Do you have any thoughts as to why? Does this accrual go way back to when we were not in the position we are in now when the thought was that house builders would just keep delivering at the level the Government was anticipating? Of course now many have stopped; would you like to give us any idea why you think they have stopped? Is it just because they cannot get the prices they want or they cannot get the funding? Obviously we know that it is not the demand because there are still people out there needing houses.
Mr Stewart: It is very simple: if you cannot sell a home, you do not build it. House builders cannot afford to just endlessly build up stocks of unsold property and work in progress clearly otherwise all the firms would go bust, so they have to temper how many they build in any period by the number that they can sell in that period. The root of it goes back to what has already been discussed, the mortgage famine, which has meant that many, many buyers have not been able to buy because they cannot get a mortgage at all or they can get one on terms which do not allow them to go ahead and buy. House builders' profits have been pretty severely hit by the recession so it is not a question of trying to hold up prices. Prices have come down by probably 20 or 25 per cent, using Nationwide and Halifax figures and talking to the house builders themselves, so I do not think it is a lack of willingness on the part of the house builders, it is just a practical business proposition that if you cannot sell something clearly you do not go on building more and more and more and piling up unsold properties.

Q12 Anne Main: I know it is slightly off at a tangent but some of the properties that have already been built have been offered to housing schemes and deemed not to be at a standard suitable for a housing scheme so we have a bit of logjam and maybe it is not the right properties that have been built. Do you have a view on that?
Mr Stewart: Sorry, you mean offered to housing associations?

Q13 Anne Main: Yes.
Mr Stewart: There has been an issue here. I was quizzed about this recently on TV. There are two quite distinct issues which came up in the interview I did previously. One is the issue of the space standards and Code for Sustainable Homes standards that are required for properties which are funded by the Homes and Communities Agency or are on public sector land. The housing association sector is very heavily subsidised so it seems reasonable that it can afford to have those higher standard requirements. In the private sector the key driver of course is affordability. There is nothing to stop a house builder building a 20 or 30 per cent larger dwelling but of course that would have implications (a) for the number of dwellings because in any acre you can only get so many dwellings of a certain kind, so if you build them bigger you get fewer of them and (b) it will have an impact on the price so if you build them 20 per cent bigger you would logically put up the price by 15 or 20 per cent which would mean that they would go into the next price bracket, and if you are building first-time buyer homes, for example, where prices in a normal market are very, very sensitive, you would just price them out of the range of first-time buyers. You are talking about two totally different markets, one to do with market-responsive affordability and one to do with subsidy and meeting social housing requirements, and the two have different standards because in one the Government have imposed space standards and Code Level 3 requirements and in the other sector it has not.

Q14 Chair: We are having the Minister later on and I would like to have your view on the suggestion that was being made—and I am trying to remember the name of the scheme now—where basically the encouragement was that locally built units would be bought up and that is just proving to be not feasible.
Mr Stewart: There was money put forward for that and my understanding—and I have not seen it officially announced what the results of that were but I do understand from talking to people in the HCA—is that most of that money has been spent and talking to house builders and looking at our own survey evidence, there is not a stock problem now in the private new homes sector. Most of the excess stock has now been cleared. There are pockets where individual products or in particular kinds of products in particular locations there is still a stock overhang but across the industry as a whole that is not really a problem anymore.

Q15 Anne Main: So what is going to make that stock overhang move forward? Is there anything else the Government could be doing to free this logjam up?
Mr Stewart: I am saying there is not really a stock overhang.

Q16 Anne Main: But pockets.
Mr Stewart: Just pockets but generally how can the Government help? The Government announced a scheme in the Budget which was the £400 million scheme which is now called Kickstart which we have been working very closely with the HCA to make it a workable scheme. It is very live at the moment. House builders are required to put in their bids for that scheme by this Friday I think it is. We are talking to the HCA every few weeks to refine that. The idea there is to get what are called "mothballed" sites or stalled sites up and running. You could say

that £400 million is not enough but the Government's finances are pretty constrained and so given those constraints £400 million is going to help.

Q17 Mr Betts: When we had this issue at the end of the 1980s/early 1990s when the housing market basically crashed and you could not sell across the board, when we got out the other end there was a major problem of lack of skills in the industry. Is that going to happen again? Is there anything we can do in the meantime to try and protect the situation so that we do not end up in two or three years' time with demand returning and no ability to actually deliver?
Mr Stewart: There is inevitably definitely going to be a capacity problem. It is not just skills; that is just one area of it. The whole house-building industry has shrunk very significantly. Many companies have closed regional offices. Many smaller companies must have gone out of business altogether. The whole industry has contracted to, who knows, perhaps half the size it was back in 2007 and the number of people employed has contracted accordingly. Some of those skills will be lost permanently as in the early 1990s. Some of those people will hopefully come back as the industry expands, but that is going to be an issue and the industry, with government help and help from the CITB construction skills, is going to have to look towards training people. One of the benefits we saw of what is now known as the Kickstart scheme is that if you could open up mothballed sites, okay a lot of people have already lost their jobs, but at least that would help in terms of the number of units that you can start up and the number of sites that you can start up. That would help bring jobs. House building at the mothballed sites could bring very quick benefits. The whole target of it is schemes which have got planning permission, which are stalled for some financial reason, and the idea for the HCA is to overcome that financial constraint and get those schemes up and running. That could happen very, very quickly.
Mr Orr: I think that there are a whole series of problems here which link together. The case that we made with the 2020 Group was that 100,000 new homes keeps 250,000 construction workers in jobs. Our latest assessment by colleagues in the Federation is that we reckon that the output of new homes this year across the whole market might be as few as 70,000. That is less than a third of the output that we really need. That leads to huge problems of unmet demand but, most frustratingly, it means retraining in exactly the kind of skills that you are talking about which left the industry in the early 1990s and did not come back. It took ten years to get the level of capacity back up. We are going to see that happening again because people will leave the industry. The industry for a long time had a very old age profile of people who were working there. It had begun to reduce but what we will see is people who have been in the industry for years and who are in their 50s who will not come back. If we cannot build new homes and we lose that construction capacity, and the skills, then it will take a long time for this to build up again. The £400 million Kickstart is extremely important because anything that gets new development moving again on sites that are easily developable is obviously going to be a major help, but I think all of us would agree that at root this comes back to the availability of mortgage finance because there needs to be product sold. Housing associations can build but unless there is a sales based cross-subsidy, unless there is a degree of shared ownership, and perhaps housing for market sale, the level of public investment needed to allow that is much, much higher. If we could get a flow of mortgage finance, even if it was just for shared ownership—this may be special pleading—where the demand is enormous, and bigger than it has ever been, then I think that would do more to kick start the mothballed scheme than the £400 million investment.

Q18 Mr Betts: Just one point about this problem of the future and how we are going to address it, given the skills shortage that is going to be there, it was there before and we were getting people in from Eastern Europe to help fill it, is this going to drive the industry into different forms and methods of construction? If that is the case, can we be sure, in doing that that, we do not repeat some of the horrible mistakes of the past where that led into inappropriate developments and often very poor materials as well?
Mr Heywood: I think that does raise quite a serious issue which John touched on neatly, the fact that what our present problems have shown is that in many cases we have built the wrong things in the wrong place. Unfortunately, the urge for density has meant that we have built a lot of new build flats in places where we should not which are now proving particularly difficult to shift. Many of those are in fact modern methods of construction, although by no means all, and certainly with modern methods of construction there were problems with mortgagability even in the good times. I think we do have to be quite careful that as we come out of the recession we do not simply, through artificial attempts to shape the market, start building the wrong things in the wrong place again. We need to actually be aware of what the market tells us is required and will actually shift because, as John says, in the longer term if you cannot sell it, you cannot build it.
Mr Stewart: There is I think a difference with the system of building that we saw in the past in that house builders are building primarily for a private market and they will build very cautiously. Warrantee providers will be very cautious and the lenders are very cautious about new systems. The industry is always slowly innovating. There are always new systems coming through, but I do not imagine that this is going to be solved by a sudden dramatic change in the way that we build homes. One of the key issues is that everything I am told from the house builders—and there is no hard government evidence for it—is that modern methods of construction tend to be more expensive, so there is a cost issue, and there always has been a cost issue. That does not mean to say that they do

not use modern methods. I think there is often a feeling that house builders have not innovated for years. It is a slow incremental process. It is not a case of let's build something completely different tomorrow than the way we build it today. It does not happen like that.

Q19 Dr John Pugh: Talking of new systems, can we move on to Section 106 agreements, the very traditional method of creating batches of affordable homes. I think you expressed some views in the past to say that this is a broken system and it is not working particularly well. It must be working particularly badly at the moment, must it not, because one assumes that there is very little development going on to generate Section 106 agreements and, secondly, even when you get into a discussion with a developer over Section 106 agreements his margins are such that he cannot really offer you very much. Given all that, and given the fact that it is a traditional tool for generating affordable housing that is now no longer useful, is there any alternative? Just to add a little more, can you give us some impression of how badly you think the non-functioning of Section 106 agreements has affected the housing market?
Mr Stewart: I am not sure I would say that the Section 106 system is itself broken because up until 2007 it kind of worked. There were stresses and strains. We need to think of it as a method of funding, that is all it is, it is a legal mechanism for funding affordable housing or infrastructure or whatever. I do not think in itself it was broken. What has happened is that there are a whole lot of things which have to be funded out of, essentially, the land value. Those things in Section 106, whether they be affordable housing or infrastructure, will be the Code requirements and energy requirements going forward to 2016. There are other local authority requirements and all of those have to be funded somehow. What has happened is that those regulatory impacts/policy impacts were getting to the point in 2007 where they were already having a very major impact on land values, to the point where some sites were not viable even in 2007.

Q20 Dr John Pugh: Could you just enlarge on that point?
Mr Stewart: Sure, I do not want to give a lesson in development economics, and maybe you already know it, but essentially what happens is if the government increases the cost base for the industry with a requirement, whether it is for building roads or providing affordable housing or funding infrastructure or putting in high levels of the Code, without a compensating increase into the sales value that you can get for those dwellings, so for example if you are funding offsite infrastructure, that does not enable purchasers to pay more for the dwellings, so if you increase those regulatory and policy costs, they have to come from somewhere and of course they come out of land values because in the way it is calculated land value is a residual.

Q21 Chair: Hang on a minute, in any normal industry they might come up with efficiency savings. Is it not a fact that house building costs in the domestic sector, if I can put it that way, have increased at a vastly faster rate than building in the commercial sector and the house-building industry seems to have not made much of an effort to become more efficient?
Mr Stewart: I am not aware of that cost differential, but I would not accept that house builders are not efficient. There is a key driver in private housing development and it is your quest to buy land. When you are a housing developer you only survive if you can buy land. If you cannot buy land, clearly you cannot build any houses and you cannot sell anything and you do not have a business. If you are to buy land, virtually all land is sold competitively, even public sector land is sold competitively, so there is always an incentive on a house builder to keep costs down in order to generate a higher land value to outbid the competitors, so the idea that house builders are inefficient and could cut their costs significantly, I am sorry, I just cannot accept that. If they could they would have done it because they would be able to outbid their competitors.

Q22 Chair: What if house builders were not developers but just built houses instead of the current model, which is exactly as you say and which does not seem to be delivering?
Mr Stewart: I do not think that would make any difference because the developers employ sub-contractors and effectively house builders. Most of the developers do not actually have a very large labour force of their own—they subcontract that out to contractors who are builders—and of course the contractors bid for that as well, so there is always a pressure on costs there. If you bid too high and your costs are too high of course you do not get the project and you do not have a business either. There are competitive pressures here which ensure that the house builders are efficient and that the contractors who do the work for them are efficient as well.

Q23 Dr John Pugh: Just going back to the original question.
Mr Stewart: I am sorry.

Q24 Dr John Pugh: I took you away as much as anybody. What I really wanted to know is if the Section 106 agreement is not doing the job, is there any tool around or any device that the government can use to make up for that deficiency as it currently exists?
Mr Stewart: There are some tools talked about. It depends whether you mean private or public. It is difficult to envisage an obvious private sector substitute for that land value, where would that money come from? It is a funding thing, so for example if the house builder cannot fund affordable housing requirements now because the land values are so low, how else would affordable housing be funded? If the state does not fund that directly, it is difficult to know where else you would find that money. There are some schemes being promoted

with the idea of funding local infrastructure. Tax increment financing is one scheme—and I am not an expert on that at all—that is talked about. Essentially it comes down to if those requirements, whatever they may be, whether they are affordable housing, infrastructure, higher levels of the Code, if they cannot be funded out of the development, essentially out of the land value, there has to be some other way found to fund them and it is not an easy one to answer, I quite agree. Until land values recover very significantly, we cannot go back to the old model, so the old model is broken because of what happened in the market. The old model was not inherently at fault but it just does not work any more because of what has happened in the market and what happened to house and land prices.

Q25 Neil Turner: We had Dr Williams of the IMLA at our previous session and he was commenting on the fact that lenders had renegotiated the cost of the loans to housing associations because they were losing money on the existing terms. Can you tell us whether or not that situation still exists, has it improved, and are associations now getting the loans that they need at a rate that they feel is okay?
Mr Heywood: Yes, interestingly, in spite of a lot of anxiety during 2008, new lending to housing associations actually went up quite significantly in 2008 over 2007. I think it was a combination of factors that meant that actually social housing lending, if you like, did disproportionately well in a very difficult market. I think it is partly the fact that regulation maintained itself, and there was confidence that the new TSA regime going forward would actually deliver on its legal requirement to ensure financial viability and that was important. Repricing, which may not be popular, was key in that it meant lenders' enhanced funding costs and the increased risk profile of housing associations was actually reflected realistically in pricing. It meant that there was at least one new entrant into the funding market of housing associations at a time when generally people had been moving out of mortgage markets. That is not to say that there are not going to be some difficulties going forward and there will be some changes, probably shorter maturities for lending for instance to housing associations, which will pose challenges and which we will have to look at, but nevertheless, the raw figures are reasonably encouraging.
Mr Orr: Perhaps I could give a slightly different perspective!
Mr Heywood: I thought you might!
Mr Orr: That is obviously the way it looks from the lenders' world. Of course the core fact in there is true—housing associations were able to continue to borrow new funds in the course of the last year. I think our frustration and our difficulty has not been about the borrowing of new funds, where we understand that prices have changed, and it is of course still worth mentioning that base rate is half a per cent and the cost of new borrowing in real terms is around seven per cent, so the gap between base rate and the cost of borrowing is six and a half per cent, that is quite a significant change from the levels of just two or three years ago, but even if you accept that the price of money in this market has changed, it remains a considerable frustration that lenders are seeking to reprice existing lending on almost any pretence whatsoever. I think this came as a surprise to the housing association world and I think we probably reacted to it in a rather naive way to begin with. I think a number of housing associations are now challenging some of the more flamboyant requests for repricing from some of the lenders and, as a result, there are more rational decisions being made. For too many of the lenders now the price of new borrowing is the new borrowing plus repricing the existing lending and, whether or not that is legitimate, one of the consequences of it is that there is less capacity for new development, and in an environment where capacity for development has been significantly shrunk as a result of the market difficulties that we were talking about earlier and the absence of a steady supply of mortgage finance, it means that if we are to continue to develop, then the proportion of public subsidy continues to increase, and this is cause and effect. If the cost of private money goes up but the price remains fixed then the gap has to be made up from somewhere else. That gap can come from reduced land costs or reduced build costs or additional public investment. I think the market is changing and that there is the beginning of a more mature renegotiation between borrowers and lenders, but there is still a considerable degree of anxiety about the extent to which lenders are seeking to reprice existing loan books in a way which has bordered on the unreasonable.

Mr Heywood: There is in a sense, I think, a degree of failure to come to terms with the change in the balance of the market. For many years it was effectively a borrowers' market and lenders were continuously being beaten down to levels of sometimes 20 basis points over Libor for instance and losing out on deals because somebody was going even lower. With funding at more like, shall we say, a couple of percent over Libor at the moment (Libor of course is elevated but that is a reflection of global risk really) we are in a situation where people can actually justify internally funding housing associations rather than going out and lending on straight commercial lending. That is crucial in a situation where banks are rebuilding their capital and trying to maintain sufficient liquidity. People cannot at the moment subsidise housing associations by lending at rates which do not reflect funding costs, and, remember, that can include rollover funding costs on existing loans. Whilst I would not attempt to justify individual negotiations one way or another, I think it is important to say they are negotiations and that in fact overall the results have been positive. At the end of the day, development has to be based on the genuine costs, and that includes the finance costs, and we live in a world where finance costs and funding costs have gone up.

Q26 Neil Turner: Mr Orr, you seemed to indicate that the housing associations were taking a little bit of time to come to terms with the new situation. Are you happy now that they have a strategic approach rather than just muddling through?
Mr Orr: I think, like every sector in the economy, the scale of the financial collapse and the impact that has had has taken us all a bit of time to understand and to be clear about. I think that we, along with the Homes and Communities Agency and the Tenant Services Authority, have worked quite creatively to ensure that we are engaging more strategically, and there is no question that the flexibility that the Homes and Communities Agency was able to bring to the market has been of considerable assistance. However, inevitably, for individual housing associations their boards are having to look at their long-term viability and are making decisions about present activity and the impact that that has on future viability. In this particularly difficult environment where the cost of money is going up in real terms, certainly in relative terms, it has meant that, in the absence of Section 106 and the problems of the lack of mortgage finance, some housing associations are making strategic decisions not to develop, even though if you were looking at a national strategy you would want there to be more development. This is really being caught between a rock and a hard place; boards wanting to meet their purpose and build new housing for people who are in housing need, but being deeply anxious about the long-term viability consequences of it.

Q27 Neil Turner: There was a suggestion that up to six housing associations were at risk. Have you any update on that?
Mr Orr: As far as we can tell, I have no expectation of seeing any housing association on the point of collapse, but it has been a difficult environment. People have been stretched trying to work their way through. I think the thing that is very important for the Government to understand from our sector's point of view is that there is a core business, which is a rented housing business, which means that there is a relatively secure income stream that protects that core business, but there has been a huge amount of capacity sucked out of housing association accounts over the last 12 or 18 months and the opportunity cost of that is very substantial. If you lose £100 million-worth of revenue capacity, that is in excess of £1 billion-worth of investment capacity. If you are not bringing that £1 billion-worth of investment capacity then the matching £1 billion that was coming from government disappears or has to be re-profiled and used differently. For us there is some anxiety that in a deflationary environment, if there is an expectation that rents should be cut (and there are some indications that the Treasury would want to see that happening in the event of there being deflation) the capacity consequences of that would be very considerable. Just to give you one example of it, housing associations invest just short of £200 million a year of revenue finance in a huge range of neighbourhood support services, things that make a really profound difference at a very local level. Two per cent deflation and a two per cent rent cut would take that amount of revenue support out of the sector completely. It does not mean to say that that work would dry up but it does mean to say that funding for doing it just becomes much, much more difficult. This is not just a question about day-to-day income streams, it is about the opportunity cost following lost capacity.
Chair: Can we move on to repossessions and Mr Clive Betts.

Q28 Mr Betts: What is the current estimate of repossessions that are actually taking place?
Mr Heywood: The current CML estimate for 2008 as a whole is 75,000, but I should say in light of the experience in the first quarter and the feedback that we get from our members, and more generally, we are going to look at that figure again, and there is the possibility that that will be revised and the likelihood is, if it is revised, that it will be revised downwards. We have exceptionally low mortgage rates at the moment partly to thank for that and the fact that the recession and unemployment has not yet kicked in. We also have high levels of lender forbearance, supported by the FSA guidance and the requirement to treat repossession as a last resort.

Q29 Mr Betts: We have clearly got a Code of Practice in force about how lenders should respond in these situations. Are we quite content that all lenders are following the terms of the Code of Practice? I think there is probably a bit of concern that perhaps the more established lenders might be okay and doing the business but sometimes lenders in the sub-prime second charge loans markets are perhaps a little more intent on trying to push for their money as quickly as possible?
Mr Heron: IMLA members typically are members that have been active in sub-prime markets and it is certainly true that, inevitably, when lending to individuals who have got an adverse credit history that there is going to be a higher incidence of arrears than you will see on lending where there is no adverse credit element at all. What we have seen over the last six to eight months, though, really is quite a degree of innovation in the development of practice amongst not just sub-prime lenders but lenders generally. It is not the case that lenders just do not get it; they absolutely do. I have never encountered the degree of thought that is going into the means of working with customers at present in order to ensure that more people can stay in their homes. It is absolutely true that repossession is only being looked at as the very last resort because if a repossession occurs in this environment it is likely that the lender will suffer a loss and it will be increasingly difficult for that lender to recoup the loss. The process therefore is driven towards doing everything that possibly can be done to keep the customer in the property. Certainly Codes of Practice are assisting, certainly the new protocol is assisting, but, most importantly, I think customers have also got the message in that the most important thing for an individual to do when they are encountering some difficulty in making their

payments is to make the earliest possible contact with the lender. In this respect, the Government's own work through the Homeowners Mortgage Support Scheme has been very valuable because even if that scheme itself does not get used, customers are much more conscious that talking to the lender is going to assist.

Q30 Mr Betts: Is there anything that can be done to either improve the codes of practice or improve observance of them?
Mr Heywood: I think we have had quite a number of changes in this area in any case which have actually improved the situation. The reduction of the period for claiming income support mortgage interest, for instance, was a pretty fundamental change. Whilst there are no statistics yet, I believe, available on how many extra people it has helped, certainly anecdotally we do hear from advice agencies and others that that has been of very significant assistance. Then we have the Homeowners Mortgage Support Scheme, the Mortgage Rescue Scheme, we have CML's guidance to lenders on forbearance and handling arrears and repossessions, but fundamentally—and I think this is really important because you might expect John and me to support lender practice coming from where we do—there is the FSA and a requirement on lenders to treat customers fairly, to treat repossession as a last resort, and they do have the sanctions to enforce that, in the last resort.

Q31 Mr Betts: In terms of the two schemes, the Mortgage Rescue Scheme and the Homeowners Mortgage Support Scheme, are they actually working? Are they delivering what they intended? We were told that with the Mortgage Rescue Scheme, I think, so far one person had got through to the other end of it and had actually had the practical help, though there are some more in the pipeline. Is there anything that can be done to strengthen these schemes and improve them, or are they actually going to deliver eventually?
Mr Heywood: I think there has to be a degree of realism as to how long it takes for the Mortgage Rescue Scheme to actually build up. I was involved in setting up the Scottish Mortgage Rescue Scheme several years ago. It got to its target, but it took a fair time. For a start, mortgage rescue is not suitable for everybody, we are all aware of that. Also, there are people who simply do not want mortgage rescue, though they might be eligible for it, so you have to build up a pool of people, you have to go through the process of actually communicating it out to those communities, and then it takes a while to build up. What, I think, has already happened with the Mortgage Rescue Scheme at least is that there have been something like 4,000 inquiries to local authorities, and the great thing about that is, even if not all those eventually become mortgage rescue cases, those people will almost certainly have been talking to their lenders, and if you can get borrowers talking to their lenders early rather than hiding from the problem, the incidence of it being possible to help them has to increase, so that is a good thing. I think with the Homeowners Mortgage Support Scheme, we should expect similar benefits, and again it is much too early to say what that is going to do, it was only launched on 21 April, but in terms of the inquiries-generation, I suspect it has already done a good deal.

Q32 Mr Betts: Have all local authorities got their act together on this? Do we still have some black spots around where local authorities are not really providing the advice and assistance—
Mr Orr: It is differential, the practice across the country varies. Some people got on to and understood the scheme very quickly indeed and others took a little bit longer to get there. I have two comments really. The first is I think Andrew is absolutely right to say that we should not assume that the only successful intervention is a full-scale mortgage rescue. I think the fact of the scheme has meant that a good number of people have been able to resolve a housing problem without having to get as far as mortgage rescue, but the second thing, and this is a very specific proposal really, is that at present the housing association which in the end provides the rescue, purchases the property or buys the equity share, according to the present arrangements, has to be one of a relatively small number of HomeBuy agents. We would argue that that should be open to any housing association to do. I think it would make it more flexible and potentially more local, and might allow a little greater speed in some of the transactions.

Q33 Emily Thornberry: I apologise for being late, but can I also ask about evictions of tenants in social housing, if that question has not already been asked, as I think it is probably important to understand that as well. How are housing associations responding to presumably an increase in non-payment of rent?
Mr Orr: I do not have the most up-to-date figures with me, I am afraid. The evidence as far as we have it is that, whilst there may be a small growth in the amount of arrears, I think people understand in this difficult environment how important it is that landlords are talking to their tenants, and *vice versa*, at the earliest possible level. I think generally over the last few years, arrears management has improved, so we are starting from a somewhat better base, and I cannot give you a specific answer as to whether or not there has been any significant change in either evictions or levels of arrears as a result of the economic circumstances, but we can find out.

Q34 Chair: Can I just ask about low-cost home ownership schemes? Do you think that those low-cost home ownership schemes are achieving their aims and/or are easily understood?
Mr Orr: They are achieving their aims. Shared ownership has been around for 30 years. There are 155,000 shared ownership mortgages out there, and there would have been more if the size of the pot in previous regimes had been bigger. There has been a degree of complexity about the shared ownership model, and about products that have come into the market and gone and come back in, and we are in

danger of seeing that happening with another product. I would ask this Committee to consider though that, of all the products that are in the market at the moment, shared ownership is the one that has been most effective in providing a housing solution for people who are not very well off but not very poor. The average income of people who have bought shared ownership over the last four years has been around £28,000, and none of the shared equity products in the market deliver that. That is fine because they are designed to do different things, but I think there has been quite a lot of talk about whether or not shared ownership should be phased out, and I think it would be very dangerous to do that, unless we are very clear about how we provide a product for those people.

Mr Heywood: I am not aware of anybody advocating that shared ownership be phased out. We have advocated that there should be a shift in the balance towards shared equity products and away from shared ownership, but shared ownership will always exist, I think.

Q35 Chair: Can you explain why you want a shift?

Mr Heywood: Certainly from a lender perspective, shared equity works a lot better; you can bolt on standard products. It is also less capital intensive, and that is very important at the moment, in terms of the regulatory capital that lenders have to hold compared to shared ownership, which is quite heavy. It is also easier if things do go wrong from the lender point of view, and its performance, lenders believe, generally is better in terms of default than shared ownership, though, I have to say, whilst the majority of lenders involved in shared ownership would say it has a higher incidence of mortgage default than the market generally, the losses are actually relatively modest, so it is a kind of slightly paradoxical position.

Mr Orr: I just think that no one has produced any systemic evidence that demonstrates that shared ownership has a higher level of mortgage default. As far as we can tell, it is broadly equivalent, but some of the biggest mortgage providers in this market will tell you that they do not count it because the incidence is so small.

Mr Heywood: Well, I can show you some evidence, David.

Q36 Chair: I think what we would like, Mr Heywood, is actually if you show us the evidence rather than simply Mr Orr because this obviously is a bone of contention. Can I just press you on the shared equity? There are arguments that there is a big hold-up in shared equity because mortgage lenders are not providing mortgages, and yet you are saying that it is very attractive to them.

Mr Heywood: Well, as far as I am aware, the main problem from the perspective of housing associations is actually with shared ownership rather than shared equity. I think there are a number of issues wrapped up in this actually and some of them are not directly about shared ownership. There is partly the issue that low-cost home ownership of all sorts has been hit because mortgage lending of all types is drastically down and, inevitably, in a declining economic situation, home ownership at the margins becomes slightly more problematic because the risks become higher, and the situations of those people are probably more precarious than for some of us. That said, you also have issues, as we have touched on already, that both shared ownership and shared equity sometimes relate to new-build flats which are in low demand. You have some correlation particularly with shared ownership where you have people with impaired credit histories, and people with impaired credit histories, regardless of whether it is shared ownership or mainstream mortgage lending, are tending to find it more difficult to get mortgages at the moment. However, there are specific shared ownership issues also.

Mr Heron: It may be very boring, but I am afraid shared ownership lending is a specialist product. I can support what Mr Heywood says, that there is a higher incidence of arrears on shared ownership mortgages, and we will provide the evidence, but that is not the point. The point is that specialist products in particular, like buy-to-let, like shared ownership, like mortgages for individuals who have had adverse credit, are extraordinarily difficult to fund in the present environment and that is because, I am afraid, all roads go back to the funding and the capital markets. If you cannot fund mortgages in the way that we have done for the last 30 or 40 years, which is where we are at present, and there has been no movement on that whatsoever, then it is going to be very difficult for certain classes of customer to get mortgages. I am afraid it is deadly simple. If there is one critical thing that the Government could do, it would be to look with greater urgency and with greater invention at this particular problem: how do you support mortgage funding?

Q37 Chair: We are going to have to draw this to a close, but I just wanted to go along each of you and get from you—I think Mr Heron might just have given his answer already—what one thing more you think the Government needs to do that it has not done yet?

Mr Stewart: Well, I came along prepared with one idea, but actually the conversation has made me think of another one, and perhaps I could touch on that one first because it is this mortgage-backed securities thing. My understanding from talking to people in the industry was that this actually was a runner, the announcement in the Budget, and it is up and running now and I understood that this was going to make a difference. What Mr Heron is saying is quite worrying if it is not going to work, so, if that is the case, then that must be the priority. Before today, the HomeBuy Direct scheme, which is a shared equity product which the Homes and Communities Agency jointly funds with the developer, it is very early days yet, but there is a scheme up and running and by later in June, we should know how well it is going, but we do not have any hard evidence yet. What has happened there is it has had a long gestation period and it is now beginning to gather momentum, and the concern of some of the house-builders I have been talking to is that, once it reaches a peak, then the money stops, so if there could be additional funding for that, assuming our experience by, say, the end of this month is that it is really working, so once it has got its momentum, to actually keep that momentum going into next year.

Q38 Chair: Mr Heron, I think you have already given your answer.
Mr Heron: Very briefly, just create a workable ABS scheme, and give all lenders equal access.
Mr Orr: If housing associations are to be able to continue to provide the very high-quality services, not just normal tenant services, but the neighbourhood support services, and be able to continue to develop, then I am sorry, but we cannot afford to have rent cuts if there is deflation. We need to have a stream of specialist funding available to support shared ownership mortgages. I do think that it is realistic to invite one or more of the institutions that are, in practice, owned by the public to be providing that.
Mr Heywood: Apart from mortgage funding, which I think is a given, it is absolutely key, I actually think the Government needs to have a fundamental review of where it thinks the balance of housing tenure is going. The policy needs to derive from that. I think one of the key areas that is going to have to be funded going forwards, possibly even more important than home ownership at the margin, is going to be the private rented sector. I do not think that issue has yet been nailed down.
Chair: Thank you all very much.

Witnesses: **Rt Hon Margaret Beckett MP**, Minister for Housing, **Mr Richard McCarthy**, Director General, Housing and Planning, Department for Communities and Local Government; **Sir Robert Kerslake**, Chief Executive, Homes and Communities Agency, and **Mr Peter Marsh**, Chief Executive, Tenant Services Authority, gave evidence.

Q39 Chair: I know Sir Bob was sitting in the back listening to most of that and I know the Minister was not, but I am not sure whether the other two of you were?
Mr McCarthy: No.

Q40 Chair: Then maybe Sir Bob will help you out. I want to start off really by asking how you would respond to arguments that were made that the Budget offered much more to helping homeowners rather than tenants, given that tenants are also struggling in the present economic climate. The point was also made by Mr Orr that the last thing housing associations want is a cut in their rental stream, so clearly there is a bit of a balance here, but I just want you to answer, first of all, the issue about whether too much emphasis has been given to home ownership and not enough to tenants, including tenants in the private sector.
Margaret Beckett: It is an interesting point. I do not think it is quite a fair one, but I sort of see how it has arisen. For example, a lot of the money from the Budget was for unlocking frozen sites. There is nothing that says that those would be necessarily for home ownership rather than social rent; it would be a matter of what sites are more viable. There was specifically the money for local authorities to carry out social rent and also, of course, the fact that the other changes that we are making mean that they will be able to apply for a housing grant on the same basis as anybody else in the future, RSLs or ALMOs, so there is something there not directly funded within the Budget, but a freedom that is created for them. The money for Decent Homes, which slightly preceded the Budget, the money for investment in energy efficiency, all of that, it seems to me, will benefit tenants. Of course, there was money too to assist with people who were at risk of repossession. Now, I accept that is home ownership, but it is not quite the same, it seems to me, as an implication that tenants are not being assisted because these are homeowners in very real difficulty, for reasons that we all understand.

Q41 Chair: Can I move on to a different issue, which is one that we raised last time and which we did not really get an answer to. A great deal of the money, which is very welcome, is not new money, it is money which has been brought forward from succeeding years. We were concerned as to what is going to happen in those succeeding years, given that the money will have already been spent and will not then be available. Can you update us any more about how that money is going to be replenished?
Margaret Beckett: Well, prior to the Budget, yes, that is absolutely correct, the money that we were making available was money that was brought forward, but of course the Budget money is new money and, as a result of the outcome of the balance that has been done, I think I am right in saying that the available money for 2010-11, which is the year when the gaps were arising, will be about £2.6 billion, which is roughly the same level as the spend for this year, so it is not a perfect situation, but it is not a disastrous one either.

Q42 Chair: Are you saying that there is still a gap in 2010-11, but not as big as it would have been?
Margaret Beckett: I think that is probably right, yes.
Mr McCarthy: Yes, we happen to have a peak in terms of the level of resources made available in the current year. The important point is there are still substantial funds to follow into the next year, and what we are trying to do is take that peak to stimulate maximum activity at the current time. So the additional money which, you will be aware, was new resources secured in the Budget, including some release of our End Year Flexibility, but primarily completely new resources, is spread between this year and next with a heavy focus on the current year,

but our main affordable programme peaks this year, falls next, but does not fall to such a low level as to mean we cannot maintain activity into the following year.

Q43 Chair: Sorry, maintain activity at the current rather low levels, or get it back to what it was intended to be in the first place?
Mr McCarthy: It is not so low that it does not mean we cannot maintain levels of activity, and one of the things that we have done is given the HCA some flexibility about how it balances the grant tranches that it gives to housing associations so that it can balance a programme. It can start things this year, make payments next year when they are completed, or in the following years, and also have some resources available, we hope, to start new projects next year.

Q44 Chair: Do you want to comment, Sir Bob?
Sir Robert Kerslake: I think it is right to say that, whilst there is this rise this year and a falling back next year, we still have a pretty substantial budget in the next year to be delivered and that we can balance our completions and starts for this year and next year to maintain activity going forward into next year, and I think we can do that. Clearly beyond that, there is a debate in terms of the next CSR, but for this year and for next year, there is still a pretty sizeable programme to be delivered.

Q45 Emily Thornberry: I may be misunderstanding it, so can I just ask: if, let us say, I were a local authority that had heard that there might be money available and were to say, "Right, we have all these different projects on the shelf, and we want to come to you and ask for it", would they need to spend all the money this year, or could they just put in a bid and have laid the first brick, and then they have the money bagsed and will be able to spend it the year after?
Sir Robert Kerslake: If this is in relation to the local authority scheme that is in the Budget, are you talking specifically about—

Q46 Emily Thornberry: I could be that, I could be an ALMO or I could be --
Sir Robert Kerslake: Yes, I think it is important to say that the additional funding we have this year, whilst it is weighted particularly on the Kickstart Scheme to this year, there is spending that can happen next year, and we are very much looking this year for starts on site, but with the expectation that they will progress through to delivery in the next year.

Q47 Emily Thornberry: So I just need my first brick laid?
Sir Robert Kerslake: The focus is on getting starts this year, and in the case of local authorities, the money is actually more weighted, in fact it is 70 per cent into next year, because there was a recognition that they were starting from scratch and, therefore, would need more time to build up. In the case of local authorities, they may not have even started the beginning by the end of this year, but of course the additional funding through the Budget has all to be spent in the next two years, so, one way or another, that is the basic ambition here, but your basic premise is right, that the focus is on getting starts this year and completions next.
Margaret Beckett: I know exactly what Bob means about the bulk of the build, but I am slightly nervous about your phraseology that all you need to do is lay one brick. The more bricks we can see laid as early as possible, the better, but I think the timescale—and Bob will correct me if I do not have this right—that we envisage for local authorities is bids for the first round to be in by July, with the hope that the decision on the first round will be made in September, and then bids for the second wave would be opened in October. Do I have that right?
Sir Robert Kerslake: That is exactly right, and the faster they are off the blocks, the more we would be encouraged to support them because the key emphasis is on delivery, so one brick might be pushing it a bit, but your basic emphasis on starting this year and finishing next year is right.

Q48 Emily Thornberry: That would apply to the ALMOs too?
Sir Robert Kerslake: That would apply to the ALMOs as well.

Q49 Anne Main: Do you think the low-cost ownership schemes are easily understood, as well as satisfying need?
Margaret Beckett: I think it varies in the sense that I think each individual scheme is of itself quite simple. If you look at the panoply of schemes, you might say it was somewhat complex, and I do not disguise from the Committee that there might be something to be said for trying to simplify it to a degree, but on the other hand, whilst we have programmes that are viable and for which people want to bid, one is reluctant to rule out that opportunity.

Q50 Anne Main: Do you think both the buyers and the lenders understand the schemes?
Margaret Beckett: I think many buyers are coming to this relatively new, and if they have good HomeBuy agents, then yes. There are about 17 lenders now, I would say and I think I have that figure right, who are prepared to offer mortgages on the scheme. We are continuing to talk to other lenders who are not at the moment saying, "Yes, we're prepared to lend for such schemes" in order to encourage them to do so.

Q51 Anne Main: So what simplifications that you alluded to would you be looking to then?
Margaret Beckett: I just think that, in a perfect world, one might have rather fewer schemes.

Q52 Anne Main: Any figure in mind? I think the Committee suggested three to you last time.

Margaret Beckett: I think that probably would be a little simpler than what we have now, but, as I say, I am a bit reluctant to remove options from people at this moment in time.

Q53 Anne Main: In which case then, how many people have actually benefitted from the HomeBuy Direct Scheme since it was set up in 2008? In a written answer (on 27 April at col 1119w), you did state that data would be available to us from early May, but so far there has not been that available data, so do you have the data to give to us today?
Margaret Beckett: The latest figures that I have for homes that are available is that, as I think the Committee will know, there were close on 19,000 LCHO homes available in 2008-09 and the latest figure I have for HBD is that over 12,000 are now available. Obviously, the first completions of sales, which take some time in themselves, I think the very first completion was two or three months in from the home being made available.

Q54 Anne Main: I actually asked how many people have benefitted from the HomeBuy Direct Scheme, not the homes available to be bought. Do you know how many people have actually gone through the system?
Margaret Beckett: I do not know how many households, I would say, rather than people because obviously it varies, not offhand.
Mr McCarthy: Just over 20 have currently completed, and of course many more are now going through the pipeline, and nearly 30,000 households have registered their interest in the scheme. It is a question of course of people securing a mortgage and making their own financial commitments and going through the legal processes to buy a home, but there is now a flow occurring of purchases.

Q55 Anne Main: Twenty is a rather small number compared with the inquiries and other things in the scheme, so why was HomeBuy Direct given £80 million in the Budget, in preference to other low-cost ownership schemes which may have perhaps delivered other things more quickly?
Margaret Beckett: Because the money in the Budget—we are getting to the stage where, as a result of the combination of the unsold stock which we have allowed housing associations to purchase and the other activity which has put developers' properties into the HomeBuy Direct programme, although I appreciate not all through to sale completion yet, we are approaching the stage where, if there is to be any more property available to meet that unmet need of registration, then there needs to be new build. Therefore we are investing funds to kick start stalled projects. It goes back to the point that was being made a moment ago about delivery, that the point of the money in the Budget was to create the capacity for there to be new build to back up the HomeBuy properties that are available.

Q56 Anne Main: Can I just ask you on the unsold stock specifically because I asked this of the previous panel, some of the unsold stock obviously is not up to the high standard requirements of many of the housing associations. Have you given any thought as to what is going to happen to possibly the unsold stock which, I think Mr Orr said, was built at such a density and was in the wrong places and the wrong sort of homes, so actually nobody can buy them, they are just sitting there.
Margaret Beckett: Well, we did not compel housing associations to buy any properties. We made funding available, because we were very mindful of the fact that one of the criticisms was that there was quite a narrow window of opportunity in the last recession, I think it was, for housing associations to buy up properties, I think I have been told 14 weeks or something like that, so they made very speedy and, with the benefit of hindsight, many of them felt, very unwise decisions. So this time, we said to them, "It is up to you what you buy"—and I will bring in Sir Bob in a moment, because they did it through the Agency—"It is up to you what you buy, but bear in mind that there was criticism before about a lot of the properties that were bought being unsuitable, with particular maintenance problems and so on, so it is you who decides".
Sir Robert Kerslake: I think actually we initially made £200 million available and we are actually nearer spending £250 million against a total allocation of £350 million on the Clearing House Scheme, now something like 9,000 properties will be provided, so I think the evidence is there of a scheme that has delivered a lot of stock as affordable housing. I would make two points. It is not simply about the standards of the properties, it is whether they are suitable for the tenants who might be moving in, so, typically, quite a lot of the unsold stock in inner-city areas was apartments, whereas the demand very often is for family housing. Similarly, what housing associations are keen to make sure is that, when they take on stock, they can manage it in a way where they are efficient in their maintenance, and taking on two or three properties in one block somewhere and then two or three in another is not helpful to them, so there is a whole number of reasons why they would take some stock rather than others. The Minister is absolutely right to say we have learnt from the previous experience, the street purchase scheme, in the current round. What happens to that stock if it is not taken up by housing associations? Well, quite a lot of it actually goes now into private rent, and there is a demand for private rent in a situation where people will not necessarily buy, so a number of the properties are now privately rented, and I think that is entirely appropriate in terms of the way forward.

Q57 Anne Main: You referred to apartments, everyone keeps referring to apartments and overbuilding of apartments and small units. Does the Government take any responsibility for having encouraged such high densities which have led developers down this route?
Mr McCarthy: Can I just clarify, if I may, Minister, the national density guideline is 30 homes per hectare. You will find many of these are much higher than that. The Government leaves that decision to

local authorities, as the local planning authority, and to developers in terms of the things they consider appropriate. What we did do was strengthen the hand of local government with the Planning Policy Statement 3, which is the planning policy that now exists for housing, which actually asks local authorities to understand need in their area, to actually engage with developers and to challenge them that they are producing schemes that do not meet local needs. On the other hand, developers can reasonably expect local authorities to have identified the land in their area that is needed to build the number of homes identified for that area, so I think PPS3 is a very important development of the Government's in recent years in terms of determining that issue. It was in part a reaction to some people finding they had built homes at their decision in the private sector, approved locally, which they felt actually were not necessarily the homes they could now sell.
Margaret Beckett: Could I just add one thing to that about the unsold stock that was bought by housing associations. I do not have them with me, I am afraid, but, if you look at the figures for the pattern across the different regions, only in London were there more flats than houses that had been bought by housing associations. Everywhere else, it was mostly family housing because I looked specifically, and I was quite encouraged to see that.
Chair: Perhaps we could have those figures, thank you.

Q58 Mr Hands: Just on HomeBuy, sorry, this figure you quoted, did you say just over 20 have benefitted?
Mr McCarthy: Yes, completions.

Q59 Mr Hands: Twenty completions. Sorry, is that the HomeBuy Direct Scheme, or is that the whole family?
Mr McCarthy: The HomeBuy Direct Scheme. There have been many more sales across the HomeBuy range.

Q60 Mr Hands: What is that figure?
Margaret Beckett: The latest figure for low-cost affordable housing, I think, is about 110,000.
Mr Hands: Yes, but in terms of HomeBuy, which was introduced when, April 2008?

Q61 Chair: There are several other HomeBuy --
Mr McCarthy: HomeBuy is a generic term for a range of products.
Sir Robert Kerslake: If you look at low-cost home ownership in 2008-09, there were something like 20,000 that we secured through low-cost home ownership, so there are a number of schemes, of which HomeBuy Direct is one, and it is the newest. I think the point I would make about this, it is an issue of timing here. The scheme has been underway for a relatively short period of time and all the evidence suggests (a) that there is a high level of interest from the house-builders (b) that they are getting a high level of interest from potential purchasers and (c) that the lenders, the five major lenders in particular, are willing to back it with mortgages, so all the evidence suggests that this is a scheme that will follow through in terms of completions, but we are at a relatively early stage, and therefore the numbers are low.

Q62 Chair: Just to pick up on the lenders, one of the points that was made by the previous witnesses was that it would be helpful if the numbers of lenders could be increased beyond the five.
Margaret Beckett: We agree with that.

Q63 Chair: And the housing associations involved.
Margaret Beckett: I think that is right, but according to my notes, already Nationwide, Woolwich and HSBC, as well as Halifax and Royal Bank of Scotland, are lenders who are willing to lend specifically on HomeBuy Direct.

Q64 Mr Betts: Could I just move on to the issue of long-term demand and supply. I think last time when we had our session, the Government indicated they were going to look at research being done by the National Housing and Planning Advice Unit about these matters. I think that unit has reported very clearly that housing demand is likely to carry on rising in the long term; whatever the immediate hiccoughs, that is the long-term situation. Is that the Government's view, that they still need to have a target of three million by 2020?
Margaret Beckett: It is certainly our view that the demand is not diminishing. In fact, every bit of work I have seen actually, from wherever it comes, because Shelter did their own report a while ago as well, everybody indicates that, at the very least, demand is staying at the levels which have previously been identified, and actually the likelihood is that demand is, if anything, growing, so yes, we do not believe that is changing. That means that, despite the difficulties of the present economic circumstances, the aspiration that we have has to remain very much key.

Q65 Mr Betts: How do we get to achieve the aspiration then, even though a target is an aspiration? Given that the private sector is clearly in the doldrums at present, and it may come out, we are going to have significant problems of skills in the industry and capacity if it does, but the public finances are likely to get worse, so whatever levels of social housing we have now, it is going to be very difficult to do very much to improve them, given the Section 106 situation, the problems across subsidising for housing association building, so where does that leave us in terms of getting social housing built under incredibly difficult circumstances?
Margaret Beckett: Well, it leaves us in circumstances where it is extremely important, as we have been trying to do, to maintain skills and capacity in construction so that we do not have the dramatic drop-off that we have seen in previous recessions because that obviously does make a difference. Also, it puts greater stress on what we are doing to try and encourage people to prepare for the upturn, so that again you do not suffer the same level of loss of skills or capacity and, hence, ability to build. This is partly

why we are talking to people like local authorities and others about how and where land can be made available, how and where people can look to new development, and we were, as I think the Committee knows, pretty much on course to meet our building trajectory before the recession hit, so we have to get back to that, but also we have to see whether we can do more, which is a lot more than anyone has done of recent times, and yes, we are looking very hard to see how that could be achieved, whether there are new players, whether there are new methods that can help to mean that we can meet some of those targets.

Q66 Mr Betts: The sort of ideas that there might be around the social housing sector, because I know models like housing companies were being developed in a number of places, but clearly partnership models are almost off the agenda at present. It seems the only thing that will work is government subsidy and local authority free land put together. Is that the reality of the situation? How long can we sustain that?
Margaret Beckett: I do not think it is as bad as that, but certainly that is a more key component than one would have wished it to be and would have thought it would have been a couple of years ago.
Sir Robert Kerslake: I think there are a number of things we can do, and I would not want to underestimate the challenge that you are putting to us here because it clearly is a big one from where things have fallen, but we could clearly work with schemes like the Kickstart Scheme to get private house-builders moving again, and try and restore some level of confidence in the industry. A big part of this, I think, is confidence and their judgment about the economy and the ability of people to buy. I think a second area that we can and will work hard on is where we can use public sector land generally to stimulate new house-build, both affordable and market sale. A third area which I am very interested in is to see whether we can encourage new entrants into the market, and this has been much talked about in the past, but I am keen to see whether a number of new players, people perhaps who focused previously more on the construction side, might come in and develop new housing. These are all emerging ideas rather than fully worked-through things, but I think that is the sort of territory we would need to look at in the future.

Q67 Mr Betts: But given the chronic shortage that existed before of housing to rent in the social sector, it is there, we all have it in our constituency surgeries, it has got worse in the last year, but it was there before, how are we going to deliver those social units? The Section 106 model is not going to be around for some time which delivered a lot of houses and housing associations are probably not going to be able to sell on part of their schemes to cross-subsidise for the foreseeable future, so how are we going to build social rented housing in the medium term at least?
Margaret Beckett: We have to maximise the resources we have available to us, and look to try to amalgamate those resources as time goes on, and as we move out of the recession.

Q68 Mr Betts: When we get bids in from local authorities for this funding, are we going to insist that local authorities put their land in for free? Is that going to be a requirement?
Sir Robert Kerslake: That is part of the deal. It is also worth saying that, whilst when we met last time, there was quite a concern about the appetite of housing associations to keep developing, I think the flexible approach to grants and to partnership has kept them in the game. I am feeling much more confident about their capacity than I was actually six months ago on this front, so I think they can and will continue to play their part, but in terms of the local authority scheme, the expectation is they put the land in for free, that is part of the deal.

Q69 Emily Thornberry: So would it be right to say that local authorities that have sold off public land are at a distinct disadvantage when trying to build more social housing for rent at this stage?
Sir Robert Kerslake: I think they are potentially at a disadvantage in two ways actually. One is that they would not have land available to go for this scheme of course, so that would be one thing they would not have. I guess also they would not have land which they could, if they wanted to go via the housing association route, make available to housing associations, so I think it is right to say that, if local authorities have land now, they are potentially in a position to be more powerful in driving forward affordable housing schemes at this stage.
Mr McCarthy: I think just to be careful that, where there have been stock transfers, local authorities will not necessarily have transferred undeveloped land, they will just have simply transferred, in most cases, the housing. They may have transferred land, and my experience would be that that would be for the very explicit purpose of that land being used for development. In other cases, local authorities have a history and a proud history of releasing land for development across the country, but I think you will be hard pressed to find a local authority that still does not have assets. Through the nature of things changing over time, the way services are delivered, actually they can still release some of those land-based assets into development, whether they were used previously for offices, for depots, or whatever. I think the asset strategies that local authorities have put in place have in many cases identified new sources of land for future development. An often relatively modest size can provide a very effective flow through of land into the housing system, which is then developed for affordable housing, completed and occupied, and so on.

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Q70 Emily Thornberry: I understand what you are saying, but I am saying that, if a local authority has had a policy of perhaps selling off the publicly owned land --
Mr McCarthy: It would have less available, yes.
Emily Thornberry: And, therefore, in the current circumstances, it would be at a distinct disadvantage.

Q71 Dr Pugh: Mr Marsh, a question for you now, you will be delighted to know. You probably wondered why you came, didn't you! The situation with housing associations, they are bumping along the bottom, are they not, in many respects? They have stocks of unsold houses, but probably the same stocks they had maybe a couple of months ago, but last time I think we were told there were six housing associations on the watch list and they were described as not in intensive care, but subject to more intensive regulatory scrutiny than is normally the case. What is the current position? Is it still six? Has it gone up or down?
Mr Marsh: Before I start commenting on the numbers, and I know people care about the numbers, can I just put the situation in context. I think the phrase "bumping along the bottom" does not actually reflect the situation that housing associations are facing. I share the position that Bob outlined a few moments ago that, when we look at the number of homes built in the last 12 months, actually housing associations in England are now the major players in development and, whilst they certainly have faced a number of risks since the TSA went live on December 1, including mark-to-market calls, including the shortfall of LCHO receipts, including impairment write-downs and including some shortage of funding, actually development supply has been maintained at levels that many commentators did not expect. I think it is important to put the picture in context, and in relation to new development, with land prices now in many places at half what they were a year ago and the long-term cost of funds still below the 7 per cent assumption that we had in the CSR settlement, I think it is important to recognise the opportunities as well as the threats.

Q72 Dr Pugh: But, on the downside, you have the fact that they were projecting receipts of £1.3 billion, which they are clearly not going to get through sales, are they?
Mr Marsh: Well, in our survey that we concluded in April, which was a survey for the period until 31 March, publicly reported on our website, we reported that the volume of LCHO homes that are unsold has fallen by 16 per cent since the previous survey published in January to 31 December, so the facts are that the number of LCHO homes that are unsold had fallen by—

Q73 Dr Pugh: They are still not going to make their £1.3 billion, are they?
Mr Marsh: If you can allow me to finish answering your question, in fact, in the last quarter, £400 million of sales receipts were earned by housing associations in addition to the £200 million-plus in the previous quarter, so we do foresee in the 12-month period that housing associations may fall short of their £1.2 billion by maybe 10-15 per cent, but I think 10-15 per cent is some way away from bumping along the bottom. To return to your original question, there were six housing associations on our more intensive regulatory scrutiny list and, since going live, the TSA Board has developed two forms of intermediate regulatory lists, intensive and enhanced. Despite much speculation, no associations have joined that intensive list since I last spoke to the Committee in December, and some associations have left that list.

Q74 Chair: How many?
Mr Marsh: The number has become so small that, if I tell you the number, people then start speculating on the names, so for reasons I shared with the Committee last time round, the need to protect the interests of independent bodies and the independent nature of regulation, I would rather not quote an actual number—

Q75 Dr Pugh: What is the difference between intensive and enhanced?
Mr Marsh: In terms of our approach, we review on an annual basis the viability of every association that owns more than 1,000 homes. On a quarterly basis, we are now reviewing the risk exposure of all those associations and their positioning with their lenders. An enhanced association would be an association that we are reviewing more regularly than quarterly, but less regularly than weekly, so intensive would be an association that we are reviewing on a fairly frequent basis.

Q76 Dr Pugh: I am getting the general impression, which I hope is a correct impression, that you are improving your stress-testing of these organisations.
Mr Marsh: Correct.

Q77 Dr Pugh: In terms of the availability of actual funds to the associations, what is the picture there? The Minister mentioned that a number of well-known banking firms will give money to the HomeBuy Scheme. What is the position with regard to the big social landlords and housing associations?
Mr Marsh: This is not a simple position, so bear with me while I explain where I think we are. The first thing I would say is since July last year, we have seen just under £1 billion, which is £985 million, being made available to housing associations through the capital markets. Those are bond markets, including an issuance by Places for People the week after the Select Committee meeting, and even the speculation about the state of the market at that time allowed that organisation to borrow at less than 7 per cent total cost of funds. Since then, we have had other issuances from Sanctuary, and the capital markets are an area where, we believe, there is more appetite to lend into associations, and we are working together with HCA on developing our approach to warming that market up further, so £1 billion has come through from that market. In terms of the

more traditional retail lenders, there are actually more lenders active today than there were a year ago. This is both good news and bad news. The reason why there are more lenders active today than there were a year ago is because the price of funds has gone up. We had traditionally an expectation in the housing association sector that one could achieve the borrowing of new funds at the rate of 15, 20, 30 basis points above LIBOR, but the days of 20 basis points above LIBOR at the moment seem to be rather rosier than the current position. It is not unusual for an association to be borrowing currently at rates of between 200 and 300 basis points above LIBOR. However, that said, when you take account of where the Bank of England base rate is, and the LIBOR dislocation has been reducing in recent weeks, the total cost of funds remains sub 7 per cent, often sub 6 per cent, sometimes sub 5.5 per cent, and in the context of a rental increase of around 5.5 per cent last year, the cost of funds in real terms remains not a barrier to new development, but many associations are rightly saying, "I will wait until that price comes down before I borrow new funds", so the pricing has definitely gone up. The number of players is now at around seven, and that includes and allows for Lloyds TSB and HBOS becoming one lender, so we have seen the re-entry of Nationwide into the market and we have seen Yorkshire Building Society and more recently, following the merger of Co-op and Britannia, that new institution coming back into the market. So there are some positive signs as well as some price issues that associations are having to face at the moment.

Q78 Mr Hands: Can I just come in on your interest rate management. Most of these loans that you are taking out, are they variable-rate loans or fixed-rate loans? It sounds like they are variable-rate loans.
Mr Marsh: Our global accounts for the period 31 March 2008 give a breakdown of the amount of sector debt that is variable and fixed rate. Approximately one third of the sector's current debt is variable, that is about £12.6 billion, so on that variable-rate debt where the margins are pre-agreed, clearly rates for that debt have come down. The remaining two-thirds has traditionally been fixed. One of the issues that associations are now having to consider is at what length of time they can draw debt down, and many of the retail banks in particular are offering debt at eight, ten or 15 years, rather than 25 years, so there are new requirements for more sophisticated Treasury Management, to manage shorter-term lending, compared to the traditional 25 to 30-year lending that was the norm.

Q79 Dr Pugh: You have covered most of what I wanted to ask you on this topic, but one thing you have not touched on, and you illustrated very well what is going on and your understanding of it, that is great, but does the TSA play any role in facilitating dialogue between lenders and housing associations?
Mr Marsh: We have an informal and a formal role. Following the Committee's evidence in December, we have an agreement with the CML about repricing in particularly distressed cases. I have to say that we have not had to use our statutory intervention powers to solve a financial viability issue with an association, so we have not had a distress case, but, had we had one, we had an agreement with the CML lenders that repricing would not be used as, if you like, a weapon to prevent a takeover or a merger taking place. Informally, we have conversations with the CML lenders and with individual lenders on a daily basis to understand their position and their pricing on individual loans, but ultimately the matter of signing a contract is one between an independent organisation and association and the lender, and it will always be that way.

Q80 Mr Hands: Can I just try and understand some of the risks you are facing. Would I be right in saying that the main risk for housing associations now would be any kind of deflation in rents? If you are locked into the finance costs, both fixed rate at, say, 7 per cent and variable at LIBOR plus 200 or 300, is the main risk any kind of deflationary collapse in rent levels, or are there other risks involved in your interest rate risk management?
Mr Marsh: There are other risks involved in relation to the overall housing association business beyond just interest rate risk management. There are, no doubt, risks in relation to rental reductions in 2010-11, and we are working closely with the Department who can direct the TSA on the setting of rents, as was the case in 2009-10 on our approach for 2010-11. We have a sophisticated analysis tool that allows us to flex the business plans of associations to understand what the impact would be of rents going up or rents going down, so you are absolutely right to raise that as a risk, and the degree of risk is obviously linked to the degree to which deflation takes place. Down the line, however, there are other risks as well. It is difficult to forecast what inflation might be in 2011 or 2012 and the levels of capital investment that may be available to support new supply. I suggest that those risks are ones that need to be firmly on our radar as well as the current rental threats this year.

Q81 Chair: Just in relation to rental increases, already the Government has helped councils to reduce the increase for their tenants, but there has been no such reduction for housing association tenants. Do you think it is tenable to allow the rents for housing association tenants to rise more than those of council tenants, given that many nominations to housing associations are actually from councils in the first place?
Mr Marsh: I recognise, in discussions that I have had with tenants up and down the country, that rents this year has been a very difficult issue. Whilst I can explain that the Government has the ability to intervene directly with local authority rents through the subsidy system, it does not have the ability to intervene directly with rents with housing associations, and I can explain that ultimately the rent regime that we enforce currently with housing associations is one of a maximum rental rise rather than a minimum rental rise, so it is not for the TSA to determine that rents should go up by 5.5 per cent, but merely to give a ceiling that rents should not go

up by more than 5.5 per cent. All those things can be explained, but at the end of the day, a tenant will compare the rent in one sector to another sector and say, "This does not feel as fair as we would like it to be". All I can say is I recognise that in relation to the current year, and we are working closely with the Government in relation to rental policy in future years. There is still a rental convergence policy which remains in place, and I have no doubt that we will continue to have fruitful discussions with our colleagues to my right about the interpretation of that in the years to come.
Margaret Beckett: I do not think there is anything to add really. Admirably explained. I am sure that, although, as Peter says quite rightly, the facts can be explained, I am equally sure that it does cause great dissatisfaction, and I understand that.
Emily Thornberry: Can I also just put on record how much satisfaction it causes council tenants that their rents have not gone up for the amount that they did, and how much it has been appreciated and how very popular it has been.
Chair: You do not need to answer that.

Q82 Mr Betts: The flow of funds into the mortgage market, obviously the Government and the Bank of England have done a lot to get money in; is it actually working and are we seeing any sign that mortgages are being made more easily available, particularly to first-time buyers, which I think a lot of the problem has been with?
Margaret Beckett: I cannot remember whether you were in the room a little while ago, Clive, when I indicated that people like HSBC and others had said that they are definitely prepared to lend on HomeBuy Direct projects, but it is a bit of a mixed picture at the present time. As you will know, the agreement that the Government made through the lenders group with various of the banks was for an increase in new mortgage lending, and obviously we are watching to see how those figures go. I think there is bound to be a bit of fluctuation month on month, and it is a bit hard to see a clear picture at this moment in time. Certainly, the Government has said to lenders that we expect to see an increase in new mortgage lending, and will continue to keep up the pressure for that to happen.
Mr McCarthy: The current signs are there is a bit more competition, particularly at higher loan to values, but only a little bit more at this stage. We are monitoring the exercise of the lending agreements that exist with a number of the banks, and the Government has just put in place arrangements that were announced in the Budget, to see if we can assist to unlock wholesale markets, but I am not in a position to answer in any detail on that today. It is really a matter for the Treasury to respond to that. Obviously, the higher the loan to value mortgage, the higher the cost the individual pays, so I think we are in a slightly uncertain period at the moment, but at the moment, there is some competition, and there are funds available to meet demand.

Q83 Mr Betts: What about working with officials in the Treasury on these matters? How far are you proceeding, say, with the Crosby Review? Last time we took evidence, we were told this was absolutely key to getting all these issues sorted out. I know it is mainly a Treasury responsibility, but clearly there must be an input from—
Margaret Beckett: That was the reference that Richard just made to the wholesale mortgage market, where the Treasury did follow through on the Crosby recommendations.
Mr McCarthy: The Government has made available now guarantees for wholesale schemes, so those have been announced and it is now a question of the market actually taking those opportunities up. The engagement and the issuance of the guarantees is a matter that rests with the Treasury, but we were heavily involved throughout the period of development, and what is significant is we worked very closely both at a ministerial and at an official level with Treasury in our engagement with lenders. I represent the Department on the Home Finance Forum, chaired by Lord Myners, to try to ensure there is a consistent message to lenders, both in terms of lending to the general mortgage market, but also supporting the RSL market as well, so we are trying to ensure lenders have a single message and a single conduit for engagement with the Government.

Q84 Chair: The message we were getting from the witnesses earlier though was that the Asset-backed Guarantee Scheme was not enough, and needed to be tweaked and more money put into it, so maybe you should re-engage your dialogue with the lenders and see if they will tell you face to face what they just said in the witness session.
Margaret Beckett: We will read their evidence with great interest.

Q85 Mr Betts: In terms of repossessions, I think CML told us that their estimate of 75,000 for the year might be a little over the top, and they might be revising that down in the light of experience. Would you concur with that?
Margaret Beckett: Well, as you know, it was their forecast, they are their figures. We very much hope that they are correct. The outturn that we saw last year was less than had been predicted and that is, in many ways, before some of the schemes that we had put forward had really had the opportunity to kick in. What I think we all very much hope is the case, and I think we probably did say to the Committee in the past that two of the key things we are trying to achieve in all the discussions and negotiations around avoiding repossession, except as a last resort: one was to get the individual homeowner to engage particularly with their lender, to seek advice and to be active rather than passive in waiting to see what happened, if they were having difficulties; and the second area that we tried very hard to work on was to work with the lenders to encourage them to recognise that, if, as is suggested is the case, it costs them on average something in the order of £37,000 to repossess a house, they might actually for rather less cost manage to avoid a repossession to

everybody's mutual advantage. What we all hope, I think, is that the combination of that climate of conversation and discussion and forward-thinking and of some of the specifics of the schemes we have put in place are meaning real forbearance, but only time obviously will tell.

Q86 Mr Betts: Are all lenders now complying with the code of practice or do you have any concerns that there are still some problems out there, particularly lenders in the sub-prime market, second charge loans, where perhaps historically they have not always been as helpful to people in mortgage difficulties?
Mr McCarthy: I think the confidence that we can give you is that the pre-action protocol that exists means that the people who may not be following all the codes of best practice actually will be then challenged in the court by the judge themselves, so I think we have strengthened the hand of, if you like, the legal system to ensure that happens and also, as you will be aware, we have put court desk coverage into the county courts to ensure that, when people do turn up, which they unfortunately still do, without any advice or legal assistance, they do get some advice at that critical point. The combination of that advice and the protocol does mean that lenders are both changing their practices and have changed them, or are challenged in the court and will find they have to return on another day for their repossession hearing to be heard.

Q87 John Cummings: Very quick and very easy, Minister: do you believe more should be done to help private tenants of repossessed landlords who often find themselves evicted with little notice?
Margaret Beckett: Yes, and we have already taken some steps to assist those tenants, again by a similar agreement with the courts, that people should be given more notice, but again one of the other things that we want to do is to encourage people, when they get any indication at all as tenants that their landlord has a problem, to be active and to contact the lender. We are talking to lenders about showing forbearance in those circumstances because, after all, if a tenant is continuing to pay the rent, there is an income flow and indeed, if the landlord has not been paid, there will be a better income flow with the landlord out of the way, so to speak, so we have substantially increased the period of notice that people should get. We are also talking to lenders about whether or not they would, and encourage them very much to, show greater forbearance, not just in the short-term to give people more notice, but actually not to put people out of their homes if it can possibly be avoided. We may need to make some legal changes to back that up and we are prepared to do that.

Q88 Chair: Sorry, how would the tenant know who the lender was because they would not be lending to them, would they, they would be lending to the landlord?
Mr McCarthy: Can we, first of all, break it down into two groups because it is really important actually. There are the tenants of buy-to-let landlords who have a buy-to-let mortgage, and we have been able to make the change in terms of the notice and they will receive notification in the property; they are required, I understand it, to receive notification. However, the point is that, as they are buy-to-let mortgages, then that is where we have been able to take action to extend the minimum notice period in the court. Also, there is a much more preferential arrangement which many lenders are now adopting and, if you look at the latest figures from the CML, it shows a sharper rise here, more than anywhere else, which is people are using the receiver of rent arrangements where the lender can introduce a receiver to act on behalf of the landlord to collect rent and to pay their mortgage for them, leaving the tenant intact in the property, and that arrangement falls away when the arrears are fully paid.

Q89 John Cummings: You say arrangement, but it is not a requirement?
Mr McCarthy: The lender can impose it as a requirement, so we have put in place a minimum notice period, and we are also trying to encourage best practice on buy-to-let mortgages of actually not using repossession in practice at all, but using the receiver of rent practice. But there is another category of concern, which is the tenants of people who own a property under a normal residential mortgage where they do not have the lender's permission to let that property out and actually, in effect, in the eyes of the law, they are trespassers and, therefore, they have few legal rights. Consequently, the action taken to increase the notice period for buy-to-let tenants does not apply to those tenants, and that is why the Minister recently announced that we are considering legislation to protect those tenants of those properties. It is really important to understand the two very different categories.
Margaret Beckett: Otherwise, they are completely out on a limb legally and they probably do not know anything about it.

Q90 Emily Thornberry: If you are going to change the law then, can you not also change the law so that, instead of it being best practice that the lender in a buy-to-let situation tells the property, so therefore the tenants know about it, can you not make it the law that they must do that before taking repossession action? Do you follow me? Then you could also have, if you are going to change the law, certain minimum requirements that you must tell the tenants and then you must give the tenants a certain amount of leeway to be able, therefore, to pay to, as you say, a third party who can then pay into—
Margaret Beckett: We are looking at some of these issues because I am very mindful of the fact that it must be an absolute nightmare to get two weeks' notice that suddenly your tenancy is no longer valid. It is a lot better to get seven weeks' notice, but seven weeks is only seven weeks, so we are considering what can sensibly and fairly be done in terms of all the interests involved to see that people have a proper period of notice.

Q91 Chair: Can we move on to the Thames Gateway, and I think this is probably a question for Sir Bob. We have been given a note by the London Thames Gateway Partnership and they are very concerned about the effect of the current economic situation on their ability to deliver housing and infrastructure and, in particular, are stressing the need to continue to get high-quality private-sector housing attracted to the area. How do you think their long-term housing prospects have been affected by the current economic situation?
Sir Robert Kerslake: I think the Thames Gateway has been affected in the same way as the whole of the housing market has been affected. I do not think there is anything that would mark it out as being uniquely different on this front. I think we have in many ways got things that we are able to do in the Gateway that we do not have necessarily available elsewhere, so we are pressing ahead with the funding that we have for the Thames Gateway programme which helps build infrastructure. Of course, their transport routes are going to be massively increased for domestic lines. So there are quite a lot of things, it seems to me, that will help the Gateway come out of the downturn as quickly if not quicker than other places. There is no question it will impact on housing delivery. What is important, I think, with the Gateway is to hold to the ambitions, as I think you have alluded to, of getting proper mixed-use development and the development of places along the Gateway, so improving the quality of the place. That is something I think we can do working collaboratively with the local authorities within the Gateway area so that we are well prepared when it comes to the upturn. So I think there are some challenges, but I do not think they are unique to the Gateway, nor do I think the Gateway is any way worse placed, in fact in some ways I think it is better placed, to respond when the upturn comes.

Q92 Chair: But you must be aware of the concerns that the partnership have, so have you been able to speak with them directly and reassure them that their concerns are misplaced?
Sir Robert Kerslake: When we are talking about the partnership here, are we talking about the Development Corporation or the strategic partnership?

Q93 Chair: No, we are talking about the Thames Gateway London Partnership, which is the organisation made up of the 11 local authorities, *et cetera*.
Sir Robert Kerslake: Yes, we have had direct contact with them about these issues, and we have looked at how we can maintain schemes, and indeed a number of the schemes that we unlocked last year were in the Gateway area, particularly in the London Gateway area, so we have quite a lot of dialogue with them now, and we are reviewing how we used the funding that we have to get maximum impact in the Gateway. I cannot, in a sense, take away the impact of the downturn that there is nationally, but I think, as I say, we are working very closely with all the partnerships in the Gateway at the moment.

Q94 Chair: Is one of the additional measures you are looking at bringing forward the National Affordable Housing Programme specifically to help public gap funding to support key developments in the Gateway?
Sir Robert Kerslake: As part of the announcements made on the Budget, there has been money brought forward across the National Affordable Housing Programme, and we are actively using that alongside other funds to unlock schemes. I would hope and expect that some of the schemes that come in through the Kickstart programme would potentially be Gateway schemes also. So we are using, in a sense, every tool we have in the box, and one of the values of having the HCA as the overarching agency responsible is that we are not just reliant on the specific Gateway programme, which proportionately is a relatively small sum of money, but it is the ability to use all the funding streams that we have to make an impact which I think is important here.

Q95 Mr Turner: It is quite interesting what you are saying there about all the various funding streams because there are quite a lot of funding streams that are particularly aimed towards regeneration of areas, such as the economic development, urban regeneration, market renewal, Pathfinders, New Deal for Communities, those kind of things. They are very, very important to the communities and to housing in general. Can you just give us some idea of how you are going to make sure that those are not being cut in the credit crunch problems that we have?
Sir Robert Kerslake: Yes, I think it is fair to say that, if we think housing schemes are challenged by the downturn, mixed-use regeneration schemes are even more so. That is because of the nature of the schemes, they tend to be in secondary areas, and because they require very typically kind of upfront investment and they are challenged both on the residential and the commercial side, so it is the case that we are experiencing some quite big challenges on those schemes. What we have been able to do is to some extent offset the impact on us of falling receipts, which we typically invested in regeneration schemes, by the money that has been brought forward into this year, and £80 million has been brought forward into our budget, and £100 million has been brought forward into the regional development agencies. What we have done is to look at the schemes across the whole country and to identify priority schemes where we think we can make the most impact through our public funding, so we are certainly maintaining the resources we have available. I would have to say that it is less than we have had before because of the receipts being offset by the brought-forward money, and we are trying to use it in the most focused way. What we are also doing is to see where we can complement the regeneration activity, if you like, with the use of our Affordable Housing Programme and indeed the Kickstart Programme, so sometimes, whilst we will not have the capacity through the regeneration budget to get something moving, we can do it through the Affordable Housing Programme or

through Kickstart. I do not underestimate the challenge, but I think we are doing quite a lot to get things to keep going basically on stalled schemes.

Q96 Mr Betts: This idea, and I saw it made mention of, in terms of the major retail development in Sheffield, that Hammerson's have stalled at present, and that is tax increment funding, which I think is used quite a bit in the States, although perhaps sometimes too often and a bit too freely, I do not know what your thoughts were about that, whether it is something that is a tool now that we ought to be considering on regeneration schemes?

Sir Robert Kerslake: Personally, it is something I worked on when I was in Sheffield as part of the Core Cities group, and I do think it has potential. One of the pilots through the Cities Initiative that the Government kicked off, which it was keen to exploit, I know Birmingham in particular has been keen to look at this and I think it is something we should continue to work on. There are clearly a lot of issues to resolve and clearly issues that the Treasury would have to make decisions on, but potentially what it does is to allow you to fund upfront infrastructure costs, which you could previously, in a very buoyant period with a very profitable scheme, look for the developer to cover, but which are much less easy to cover in the current market, and potentially what tax increment financing does is to allow you to fund those infrastructure costs upfront and then recover the costs downstream. It is not the panacea to all regeneration schemes, we must not see it as that, but it certainly seems to me to merit exploration.

Chair: Can I thank you all again. I think there have been some slight indications that matters might be improving ever so slightly, but clearly the scale of the housing need is even greater than it was before, and I think we are all very concerned that as much money as possible should be available and would certainly urge DCLG to go back and talk to Treasury asap and impress upon them the need to make sure that more money is coming through. Thank you all very much.

Letter from The Rt Hon Margaret Beckett MP, Minister for Housing and Planning, Department for Communities and Local Government to Dr Phyllis Starkey MP, Chair, Communities and Local Government Committee

HOUSING BUDGET PACKAGE DELIVERY PLANS

On the 7th May my Department responded to the Committee's Report on Housing and the Credit Crunch. In the response we gave some details of the £1 Billion housing package announced at Budget on the 22nd April. However, since publication of the response more detailed delivery arrangements have been developed for the new and extended programmes and I thought it would be useful for the Committee to provide a short written update.

The aims of the housing Budget package are to provide a fiscal stimulus for the economy, support and protect jobs in the construction industry, provide further support for those in fear of repossession, and encourage Local Authorities to build more social homes, whilst supporting our long-term supply ambitions. Details of the areas of this package for which CLG are responsible are set out below:

Kickstart Programme (£400m)

The Kickstart Housing Delivery Programme aims to unlock sites that have stalled, but where development could proceed immediately. Stalled sites are offered a contribution to infrastructure or development costs—complemented by support for affordable housing and HomeBuy Direct—for high quality housing projects that provide a mix of tenures.

Guidance on application has been issued and can be found on the HCA website. Bids will be accepted up to 8 June with the announcement of successful bidders in July. To ensure value for money a set of strict criteria for sites has been drawn up and includes:

- Sites must not be viable or able to be funded in the absence of HCA investment and this will be tested through due diligence and local intelligence.
- Sites must be able to start before 31 March 2010 and be completed by 31 March 2011.
- Schemes or the relevant phase should be housing led (at least 75% of net internal area).
- The minimum size of a scheme or relevant phase is 50 homes (or 30 homes in rural areas, defined as communities with a population under 10,000).
- HCA will consider smaller schemes if they achieve Code for Sustainable Homes levels 5 or 6.
- All else being equal priority will be given to those schemes intending to meet high environmental standards, measured by Code for Sustainable Homes Level 3, with those at Level 4 and above scoring more highly.
- Value for money will be considered for each intervention type—Investment Support, HomeBuy Direct and Affordable Housing—against the value for money parameters of the relevant programme.

— Value for money of the total Kickstart package sought for each site will also be considered with preference given to those schemes which offer best value for money on the basis of the Kickstart investment in the round.

The initiative is expected to deliver up to 9,000 new homes over the next two years.

Local Authority New Build (£100 Million)

It is expected that under this scheme LAs will build approximately 900 new social homes over two years. Guidance for LAs is published on the HCA website. To facilitate delivery, there are two deadlines for bids. The first is the end July with an announcement of successful bids in September. This is for LAs who are in a position to move quickly with existing detailed plans. There is then a second opportunity to bid with a deadline of end October with the successful bids announced in December. It is expected that the first starts will be in quarter 4 2009/10 and final completions in 2010–11. New social homes supported with grant must meet the Code for Sustainable Homes Level 3; schemes which can achieve Code Level 4 or higher are strongly encouraged and will be advantaged as part of the assessment process, subject to providing good value for money.

Extension to Mortgage Rescue (£80 Million)

The scheme is designed to help up to 6,000 of the most vulnerable households at risk of repossession remain in their home. The expansion in the Budget will help us achieve the target by allowing vulnerable households who have been adversely impacted by the housing market downturn to access appropriate support.

The updated guidance for Mortgage Rescue eligibility was issued on 5 May. This makes provision for households with negative equity, up to 120% Loan to Value, to be considered for the scheme. The guidance also increases the regional property price caps for the scheme. These changes have been introduced rapidly in response to early feedback about the scheme's operation. The additional funding, made available through CLG's End Year Flexibility, reflects the expectation following early feedback that more households will need support through Government Mortgage to Rent option than the Shared Equity option.

Local Authority repossessions prevention fund (£20 Million)

This fund is available to enable local authorities to extend small loans (up to a maximum of £5,000 per household) to families at risk of homelessness through repossession or eviction. The funding has been made available by HMT from CLG's accumulated End Year Flexibility and will be administered through the Homelessness Revenue Grant Programme, under Section 31 of the Local Government Act 2003.

It will be a "one off" payment to all local authorities in direct response to the current market conditions, to be allocated in June for immediate impact. The additional funding will have a primary focus to help prevent repossessions, in particular where households have problems with multiple debts, and to support delivery of the Mortgage Rescue Scheme, but will also be available to support tenants threatened with eviction in the private rented and social sectors. Advice to local authorities on its use was circulated on 13 May.

Social Housing Energy Saving Programme (£84 Million)

This funding is available to help social landlords insulate hard to treat cavity walls that would not otherwise be filled under the Decent Homes programme, by April 2011. It aims to tackle 130,000 homes, but will also enable 2,500 jobs to be supported or created, and £120 per year to be saved on bills for each house. In addition there will be up to 800kg CO2 per household saving each year.

Guidance for how to bid has been published and is available on the HCA website. Bidding ends on the 12th June with the successful bids announced in July. The work must be completed by end March 2011.

District Heating Schemes (£21 Million)

The aim of this fund is to provide gap funding to sites that can provide energy efficiency and low carbon infrastructure in the next two years in order to unlock housing sites. This could include new or extending existing district heating schemes, schemes to install microgeneration facilities and renewable heat schemes.

The scheme is run under the HCA's existing growth programme and delivery arrangements alongside growth and Community Infrastructure funding. Eligible growth local authorities were approached prior to the Budget and expressions of interest have already been submitted to the HCA and vetted for strategic fit by HCA Regional Directors and teams. Subject to legal clearance that this process is robust the HCA will seek full submissions from local authorities in two phases starting in May. Announcements of successful bids will take place in June and July respectively for the two phases and all funding will be allocated by end March 2010.

Longer term

In addition to this we are taking all possible measures to facilitate a house building recovery and to ensure that the sector grows strongly over the longer term. The Government will report at the 2009 Pre-Budget Report on progress and set out its strategy to support a timely and effective housing supply response through the recovery, in order to maximise delivery of high quality, energy efficient homes, supporting our long term housing supply and environmental objectives. This will cover measures to:

— ensure sufficient land for development, through housing allocations in local plans and further action on public sector land, supported by a responsive and efficient planning system;

— deliver effective and coordinated infrastructure provision;

— promote a strong and diverse house building sector;

— continue to ensure the increased long-term supply of social and affordable housing; and

— ensure a proportionate approach to land-value capture and cumulative regulation.

I hope the Committee finds this information useful. I will be happy to answer any questions you may have on this and any other issues relating to *Housing and Credit crunch* in my forthcoming appearance on the 1st June.

Margaret Beckett

Supplementary Memorandum from CLG

RESPONSE TO QUESTIONS AT MEETING ON 1 JUNE

RESPONSE

Figures of unsold stock purchased by housing associations broken down across different regions.

The table below shows the split of the allocations made for the purchase of unsold developer stock between flats and houses by region.

Developer stock units split by houses and flats based on allocations in 2008–09

	RENT		*LCHO*	
Sponsor LA Region	*Flats*	*Houses*	*Flats*	*Houses*
East Midlands	287	367	189	153
Eastern	510	572	443	208
London	249	18	551	2
North East	97	126	24	19
North West	212	287	100	71
South East	530	291	435	106
South West	761	599	212	197
West Midlands	685	387	468	127
Yorkshire & Humberside	162	226	34	44
Grand Total	3,493	2,873	2,456	927

The majority of units purchased are flats for both social rent and low cost home ownership but it must be remembered that the purchase of this stock was very much dependent on what was available from developers.

Furthermore, it would be expected that stock purchased for first time buyers would typically have a higher concentration of flats. In the case of stock purchased for social rent, the distribution is more even as would be anticipated.

Q41 & 42 RESPONSE

Could CLG set out for us the figures for the planned departmental spending that substantiates the answers given in response to questions 41 and 42?

Following the recent Budget, the indicative budget for the national affordable housing programme (NAHP) for 2010-11 stands at £2.6 Billion. The Budget provided new money for social housing in both 2009–10 and 2010–11, both through the NAHP and through the new housing kick-start programme. For the NAHP the new money consisted of £50 Million for grants from the HCA to local authorities for new social housing and £80 Million for mortgage rescue. From this, £75 Million additional funding has been added to the NAHP budget for 2010-11 (with the remainder in 2009–10).

Mrs Beckett also referred on 1 June to the overall balance of funding: given the large amount of investment scheduled for 2009–10 it was agreed to re-profile, £200 Million of funding for affordable housing in the 2009 Budget from 2009-10 to 2010-11 to smooth investment over both financial years. In all these changes bring the current NAHP indicative budget for 2010-11 to £2.6 Billion.

Further Supplementary Memorandum from CLG

RESPONSE TO CLG SELECT COMMITTEE FOLLOW-UP QUESTIONS

QUESTION 1

The Government's response to the Committee's original report on housing & the credit crunch referred to "the £1 Billion package announced in the 2009 Budget". That same figure is used in the press release issued from CLG at the time of the Budget and in the undated letter from Margaret Beckett to the Chair.

We can identify an extra £600m for housing from the Budget. The figures given in the letter add up to £705m. Please can you clarify the difference between these figures and the figure of £1bn used elsewhere?

Answer

At Budget 2009, a number of housing initiatives were announced totalling around £1 Billion. These included:

- £400 Million for Kickstart;
- £100 Million for local authority build (split 50/50 between capital grants and prudential borrowing);
- £80 Million for an extension to Mortgage Rescue; and
- £20 Million for a preventing repossessions fund
- £135 Million to maintain the Standard Interest Rate to calculate Support for Mortgage Interest (SMI);
- £90 Million to support an extension of the stamp duty holiday for all houses costing up to £175,000 until 31 December 2009; and
- £110 Million for the effects of Barnett consequentials (not separately identified in the Budget Report)

In addition the Budget Report identified £105 Million for social housing energy efficiency and community energy schemes.

The following table sets out these figures:

£m	*Programme*	*Budget Report Ref.*
400	Kickstart Programme	Para 5.76, pp 104-5
100	Local Authority New Build[1]	Para 5.76, pp 104-5
80	Extension to Mortgage Rescue Scheme	Para 5.69, pp 103-04
20	LA preventing repossessions fund	Para 5.69, pp 103-04
135	To maintain the Standard Interest Rate used to calculate Support for Mortgage Interest (SMI)	Para 5.69, pp 103-04
90	Stamp Duty Holiday Extension	Para 5.74, pp 104
110	Barnett consequentials	Not separately identified in the Budget Report
945	**HOUSING PACKAGE TOTAL**	
84	Social housing energy saving programme (cavity wall insulation)[2]	Para 7.17, pg 140
21	Community Energy Schemes[3]	Para 7.17, pg 140
105	**HOUSING ENVIRONMENT PACKAGE TOTAL**	

Notes

[1] Capital grants and borrowing cover (Local Authority Self Financed Expenditure) split evenly

[2] £100 Million in Budget Report is UK figure not England as stated in the Budget Report

[3] £25 Million in Budget Report is UK figure not England as stated in the Budget Report

Question 2

The Budget announced a £600 Million fund, and section 5.76 explains how £500 of it is going to be spent. We need to know what the remaining £100 Million will be spent on.

Answer

The £600 Million in the Budget relates to the £400 Million Kickstart and £100 Million LA build programmes in England and £87 Million for the effects of the Barnett consequentials (for England) with totals rounded.

Supplementary evidence from the National Housing Federation following the oral evidence session on 1 June 2009

Rent Arrears

At the recent evidence session of the CLG Select Committee inquiry into Housing and the Credit Crunch, you asked me whether rent arrears have increased significantly since the economic downturn began. Unfortunately, I did not have any figures on this with me on the day of the session but I agreed to investigate the issue and write to you.

Rent arrears figures for the sector are reported on annually by housing associations to the Tenants Services Authority at the end of the financial year as part of the Global Accounts. However, that means that the most recent figures that are available are as of 31 March 2008. They show that rent arrears increased from 3.6% in 2007 to 3.9% in 2008.

Official figures for the period 1 April 2008 to 31 March 2009 are audited before they are submitted to the TSA and will be likely to be available nearer the end of this year or early next year. Since most commentators judged the recession to have officially started in January 2009, after two quarters of consecutive negative growth in the second half of 2008, rent arrears figures are therefore not yet available for the period of economic downturn.

However, in judging the impact of the economic downturn, it is worth considering that 48% of housing association tenants have their full rent paid for from housing benefit (93% of whom have their benefit paid direct to their association) and 64% receive all or part of their rent from housing benefit (2004 figures). These tenants are therefore less likely to fall into arrears as a result of economic conditions because they have all or part of their rent paid for and this will inevitably lessen the impact of economic conditions on rent arrears figures.

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