

Housing Committee – 19 November 2015

Transcript of Item 6: The Future of the Affordable Rent Model in London

Tom Copley AM (Chair): That brings us to today's main item, which is the future of the Affordable Rent model in London. Can I welcome our guests for today; Neil Hadden, Chief Executive, Genesis Housing Association; Mark Gayfer, Finance Director, Octavia Housing Association; Rosalind Stevens, Member of the Board, Octavia Housing Association; Brendan Sarsfield, Group Chief Executive, Family Mosaic; and David Lunts, Executive Director - Housing and Land, Greater London Authority (GLA). I believe this is the second committee meeting that David has had to do today.

David Lunts (Executive Director - Housing and Land, GLA): Same seat too!

Tom Copley AM (Chair): Same seat. There you go: it will be yours from now on!

David Lunts (Executive Director - Housing and Land, GLA): Thank you.

Tom Copley AM (Chair): Can I kick off the session. If we start with Brendan first of all, could you tell us how you think the Affordable Rent model is working in London?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): It depends which way you are looking at it. First of all, it has been a success because it has kept submarket housing going when grants were actually slashed by 65% in 2011.

At Family Mosaic our rent arrears have gone up with the new programme but evictions are down so you could say tenants have coped. The average rent being charged under --

Tom Copley AM (Chair): When you say rent arrears are up but evictions are down, does that mean you are giving tenants more leeway?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Rent arrears are up by 0.1%.

Tom Copley AM (Chair): Only slightly.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): The average rent being charged in London is 65% of market rent. [Housing Associations] could have gone up to 80% so people have cushioned the effect themselves. At Family Mosaic we have actually not charged those rents. Our average rents are 39% of the market rent. We still charge the old social housing rents.

Interestingly - although rents are an issue - one of the growing problems which countering that are service charges. We are doing schemes with much higher density. The service charges associated with high-density homes are much higher than they used to be.

Affordable Rent is not a success if you are concerned that a higher percentage of tenants' incomes are going on rent. If we had charged 65% it would be over 50% of their income. Time will tell if it limits their movement into work. It is plausible to say that. We have got to remember 80% of nominations from the local authority are unemployed when we get them. Most get into work in the first few years. We will have to monitor what happens there. The Institute of Fiscal Studies suggests that higher rents can be a disincentive to get into work. At Family Mosaic we do think it will increase benefit dependency but we cannot prove that yet. The

other big issue is the higher the rent, the more you are affected by the benefit cap if you are unemployed so it is making more homes now, and in the future, unaffordable.

With the Affordable Rent model we talk about percentages of market rent, up to 80%. This is a London problem. This is not a problem outside London. The market rent in Islington is £450 per week and 80% of that is over £300 a week. In Lewisham it is £290 a week, so it is around £200 to charge there. It is the wrong model for London where rents differ so drastically. The income of our tenants - and we are housing the poorer tenants in London or those on low incomes - does not vary in the same way that market rents vary between boroughs.

Overall, it is a good product but it is not a good product for those on low incomes and benefits. It is better as an intermediate product. It works much better for people such key workers and people who are earning slightly more. That is what we advocated when it came in. However, finally, I cannot see anything better coming along to replace it. The only thing that can make it better is much [higher] grants. I do not expect the Chancellor [of the Exchequer, Rt Hon George Osborne MP] to be announcing that in the Comprehensive Spending Review (CSR).

Tom Copley AM (Chair): In your view, Affordable Rent should have been an intermediate tenure rather than something that was to replace social rents?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Definitely. It does not work for our client groups. In many ways it highlights the problem we have of central government - and the GLA - having the goal of more homes and local authorities wanting us to help them house people on very low incomes and the homeless. The two are not aligned. Time will tell whether that product will work or not. However, people in it are having to spend a much higher percentage of their income - over 50% - to live in it.

Tom Copley AM (Chair): Would you prefer a product that was focused on income or wages rather than a percentage of market rents?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Some of our colleagues are promoting that idea. There is some merit but I do worry about the disincentives to work within an income-related rental system. If your income goes up your rent goes up.

Tom Copley AM (Chair): 'Pay to Stay', of course, introduces this.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): It does but 'Pay to Stay' introduces it at a higher level beyond the benefit system. This would affect the benefit system. Basically, what you are doing - if you are introducing rents linked to income at a low level - is making it part of the welfare system and not the housing system.

Tom Copley AM (Chair): I am interested that you said you had gone across the board at 39%.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): We stuck with the old rent system.

Tom Copley AM (Chair): Was that partly reflected in the boroughs you operate in that made it easier than perhaps if you were operating in other boroughs? Did you compromise in terms of the number of units? How did you arrive at that while other housing associations (HAs) have gone to a higher level?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): I am not criticising anyone for taking a different strategy. In 2011 we could see welfare allowances for people were being cut and rents were being

pushed up. It felt like the two were pulling in opposite directions. We reasserted our charge or purpose to help those on low incomes. We felt that producing homes at higher rents may work, but it would be better for us - in least the short term - to start with low rents. The compromise we have had to make is that we are more dependent upon market sales to cross-subsidise our social housing. That means we are more market dependent and we are taking more risk. What this meant between 2011 and now is that we were a bit more conservative in how much we did in 2011/12. We have adjusted our competencies. We became good at doing sales. We are now back at doing the level of programme we were prior to 2011 but it has taken us a while to get back to that level. The compromise was less units at the end of the day.

Tom Copley AM (Chair): What financial challenges have you faced delivering the 2011-2015 programme, and how has it changed your business model? You have covered that actually.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): I have kind of answered it. If you can just imagine, when any of us produce a home for social rent now it is costing us £100,000. If we take the rent we are going to get and the grant - and you capitalise the rent because we have not got it all in yet - we end up with a net present value of minus £100,000 on our accounts. We are having to do housing for sale to compensate for that to try to make the model work. We have had to become commercial to deliver our charitable aim.

Tom Copley AM (Chair): That is obviously a riskier model.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): That is riskier. Firstly, that risk limits the amount of development you can do, rather than the amount of money you have got. Secondly, it makes us very cyclical. In the old days - when we used to get quite a bit of grant - we actually benefitted in the downturn when developers were not building. We could get land cheaper and things built more cheaply. We have become cyclical. We are the same as developers now: we can only develop when the market is OK. It can fall a bit but it is OK. If the market goes through a crash - which it will at some point - most of us will have to rethink where we stand at that point.

Tom Copley AM (Chair): Which means, of course, the crash will be even deeper?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): That is a huge challenge for David [Lunts] and the GLA. The Homes and Communities Agency (HCA) is thinking through the consequences of that for the construction industry, the number of people we might lose from the industry, and the momentum we will lose in providing the homes we need.

Tom Copley AM (Chair): I will come to David in a moment. Can I ask you finally what effect the Affordable Rent model has had on your surpluses?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): It has increased them. You have to understand how our accounts work to understand that. I said we lose £100,000 per unit. That is a technical term. What, in fact, it does do is increase my borrowing. If a home has cost me £300,000 to provide, I borrow £300,000. It does not show as a negative. If I make a surplus of £100,000 on housing for sale that goes in my income and expenditure account and shows a surplus. The more social housing I am trying to provide - and the more sales risk I am taking to provide it - the stronger my accounts look. It is not showing the downside. It only shows the upside. This is the big problem we have with our accounts and getting it across to politicians and to the public. We look financially stronger than we are because to deliver our social purpose we are taking a commercial risk. Only the commercial gains are showing and not the social losses.

Tom Copley AM (Chair): I will move along the table. If we go to Mark first. The same questions really: how do you think Affordable Rent is working? How is it impacting on your finances, and on your surpluses particularly?

Mark Gayfer (Finance Director, Octavia Housing Association): Perhaps, unsurprisingly, there is a high degree of commonality in the impact with what Brendan has just said.

To put Octavia in context, two-thirds of our housing is in very high value inner London areas.

Tom Copley AM (Chair): North Kensington?

Mark Gayfer (Finance Director, Octavia Housing Association): Kensington and Chelsea, and Westminster. The organisation has got a long history of 150 years.

Tom Copley AM (Chair): I was reading about Octavia Hill [19th century social reformer] the other day. An interesting woman.

Mark Gayfer (Finance Director, Octavia Housing Association): The ethos of the organisation is founded on principles which go back quite a long way about affordability for rented tenants and people on very low incomes.

With the Affordable Rent model what we have tried to do - like Family Mosaic - is to keep the level of affordable rents as low as reasonably possible within the financing constraints which we have. Whereas Brendan [Sarsfield] is charging, on average, 39% of market rents we are charging, on average, 42%. There is some variation. We have some outer London properties where that is closer to 65%. Within the high value areas it is well below that. For us - and for our tenants - that generally is working reasonably well. It has allowed us to continue to develop property against a backdrop of falling public investment in new housing.

In terms of the level of rent arrears which you were talking about, it is broadly the same as we have on other social housing. Principally, that is because it is broadly the same people who are coming to us so there is little difference in the levels of rent arrears or anything like that.

The financial challenge is that - again, Brendan has mentioned this - we have to borrow significantly higher sums now to invest in new social housing than we did previously. A number of us are bound by what are called borrowing covenants - lender's covenants - in the arrangements that we make with the banks. The additional borrowings are moving us very quickly towards that type of constraint. That hems us in and we are having to find interesting and innovative ways to deal with that. We are fine for the next five years or so but it is hemming us in.

Similarly, to generate the surpluses that are necessary to continue development we are also having to look more in the way of commercial development - housing for sale - which cross-subsidises the social housing. Again, I have to echo what Brendan has said. If you take the rental stream from the housing that is being provided at social affordable rent, in reality there is a fairly substantial subsidy being provided by HAs out of their other activities, principally housing for sale.

Finally, in terms of the Affordable Rent model - if I leave aside all of the other things that are going on - Affordable Rent has had a mildly negative impact on our surpluses. Higher levels of borrowing involve higher levels of interest payment which - especially in the early years of affordable rent - are not necessarily always covered out of rent after you have taken account of management and maintenance expenditure. It is not a huge impact.

Tom Copley AM (Chair): Have you found the same with service charges as Family Mosaic?

Mark Gayfer (Finance Director, Octavia Housing Association): Yes. We do quite a lot of work through the planning gain, section 106, arrangements. Those are set up principally for people who are buying their properties. We try to negotiate with them to get a more cost-effective solution in terms of the service charges that are coming through, but they do tend to be very high. At least some part of that is equipment that is needed to be put in place now to meet energy efficiency requirements planners are imposing. That does have a negative impact.

Tom Copley AM (Chair): Can I put the same questions to you, Neil?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): Thank you. Yes, by all means. Like Mark, I would echo very much what Brendan [Sarsfield] was saying earlier.

The Affordable Rent model - when it was introduced - was targeted at the wrong client group. It should have been - and I expected it to be - an intermediate rent model as 80% of market rents is not affordable by the majority of our tenants. When you look at what subsidy is required to produce the rent levels which are required you can see that the model does not really work.

Our Board has done some work when we were looking at the balance of the development programme we want to see going forward and we will come on to that later. If we were to charge 30% of market rent ie social rent - assuming that it costs £350,000 to build a two-bed flat in London which is including the land value - the net revenue over 30 years is only £73,700. It requires therefore a subsidy of £276,300. That is a tremendous sum. In the past about half of that might be paid for by HA grant or social housing grant and we would borrow the rest or use reserves. At 60% - ie around the deal we have struck with the GLA in terms of where we pitch rents for Affordable Rent purposes - at the same cost the net revenue is £164,500 over 30 years, leaving a subsidy requirement of £185,000. It is still a considerable amount. I am coming on to the issue of this in a minute. At 80% it starts to work better. The net revenue is £225,000 leaving a subsidy of £125,000.

If we were delivering at 60% of market rent - or, indeed, as Brendan [Sarsfield] was talking about, keeping rents around the social rent level - this is going to have a very large and immediate impact on our gearing. Our ability to borrow is going to evaporate very quickly. That is why we have to think about the balance of the programme that we can deliver in order to find the cross-subsidy to replace the grant - that does not exist - to the extent that it is required.

The other way in which we help to plug the gap is through a disposal programme. Like Octavia, we own some very high value properties in Westminster, Camden and Brent. Our total stock portfolio has an open market value of around £7 billion. One of the things we have been doing is looking at how we can get our hands on that value to help us build more homes to plug the gap that is there.

In terms of what impact does it have on us financially, it is very early days. Our affordable rent portfolio represents only 1.3% of our stock. Therefore you cannot really see much of an impact on a day-to-day basis, other than the more strategic things we have to do like cross-subsidising through undertaking other forms of activity like market rent, market sale or shared ownership and, of course, sale of assets.

Tom Copley AM (Chair): What effect has it had on your surpluses?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): Very little. Our surpluses have remained constant over the last two or three years.

Stephen Knight AM: Both Brendan [Sarsfield] and Neil talked about this gap between the cost of providing a home and the subsidy. I want to push a little bit on where this gap is coming from. Obviously, the cost of providing a home is partly land cost and partly build cost. To what extent has the price of land in London - that we all know has accelerated rapidly in the last 15 years - driven a large part of this problem or is it build inflation? What is the balance between them in terms of the typical cost now?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): The figures I quoted are based on around £500 a square metre on a 70 square metre flat which is not unreasonable when you look at the market. That includes the land value.

To answer your question, buying land in Zones 1 and 2 - and making schemes stack up for our customers - is nigh well impossible. Increasingly we are looking Zones 3, 4, 5, 6 and outside London because we work in counties outside of London.

Stephen Knight AM: You are not really looking at building anything new in Zones 1 and 2?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): We have tried. We have looked at schemes and we have decided not to go forward because they would not be affordable to our customers and we cannot afford to cross-subsidise them.

Stephen Knight AM: Brendan, is that similar?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Our average build cost per unit is slightly lower.

Stephen Knight AM: What is it?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): It is under £300,000. The reason why ours is lower is because perhaps we are doing a number of section 106 --

Stephen Knight AM: What proportion of that is build cost - the cost of construction - and what proportion of that is the land?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): It is a one-third/two-third split.

Stephen Knight AM: A third is land and two-thirds build or the other way around?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): No, that way around.

Stephen Knight AM: A third is land?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Sometimes build costs are going up and sometimes land costs are going up. Any developer will work on that philosophy.

David Lunts (Executive Director - Housing and Land, GLA): Usually they are both going up.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Usually they are both going up, yes.

We are not sitting here whinging about this deficit. What you have got to remember is we have adjusted to working like this. We have adjusted to taking greater risk. Neil [Hadden] and I are part of the G15 [group of the 15 biggest HAs in London]. The pipeline of the G15 at the moment is 93,000 homes, 70,000 of those are in London. With support from the GLA we have come through grants being slashed by 65%. We have adjusted the model completely, come through and we are out there building. What we are saying is if you want the Affordable Rent model it should not be for the poorest. We have got to find a way of making things affordable for the poorest and make something for the intermediate market too.

Stephen Knight AM: Presumably that third/two-thirds split would be where you are building in outer London. If you were building in inner London it would be very different, it would be more like 50/50 because of the land cost being so high. Am I right?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): You get higher density in London. The nearer you come in the higher the density.

Stephen Knight AM: The build cost goes up as well because of the density?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Yes.

Stephen Knight AM: Everything goes up, but that is driven by the land cost going up presumably.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Yes. The interesting thing about Zone 1 and Zone 2 is not rented for us, it is shared ownership. Prices have got so high in Zones 1 and 2 that if I am selling a shared ownership [property] that is worth £1 million and I am trying to sell 50% to someone, I am selling it to someone who can afford a £500,000 mortgage. That does not make sense. Shared ownership has a really important part to play in housing in London but we have to rethink how it works in Zones 1 and 2 because the values are so high.

Tom Copley AM (Chair): That could then spread to Zone 3.

Stephen Knight AM: The reason I am asking about land values is we had a session about land values in London. We were talking about rents really but I was asking about the effect that the massive inflation in land prices in London has had on the ability to deliver new homes. Of course, on one side of the equation the private sector says, "The higher the land value the more we can finance to build new homes". From a social builder perspective, presumably the cheaper the land the easier it is, although you are cross-subsidising so it is a complex picture.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): It is a complex picture. However, if I could make one point which is in the last few years developers have run rings around planners on section 106 deals.

Stephen Knight AM: Yes.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): It becomes a self-fulfilling prophecy when we do not know what percentage social housing should be on a site. If we do not know the developer assumes a low figure and then proves to you they cannot afford a higher figure in their model. If you were clearer and more definite about the percentage that it should be - and people stuck to that level across London - that would feed back into land prices. David [Lunts] might disagree with me.

Stephen Knight AM: Planning policy ought to determine the land value, should it not, rather than the other way around which is what is happening at the moment.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Yes. You would depress the land value by insisting on a percentage of social housing.

Tom Copley AM (Chair): We were looking at this on the Planning Committee the other day.

Nicky Gavron AM: Yes. We had a whole morning on viability [assessments].

Tom Copley AM (Chair): The point was made if planning was stronger and stricter it would have downward pressure on land values.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): That is my feeling. The struggle is the change. If you are buying land and you know, it would have downward pressure on that.

Tom Copley AM (Chair): I would like to move onto David. From your point of view, how do you think the Affordable Rent model is working? Is it generating more new build than would otherwise have been built?

David Lunts (Executive Director - Housing and Land, GLA): The answer is that it depends how you look at it in terms of how it is working. If you set out with the objectives - which I think the Government had back in 2010 or 2011, whenever it was introduced - you would say it wanted to do a number of things. It obviously wanted to make grant work a lot harder. It wanted to keep home building and affordable home building going. It wanted to increase leverage and gearing within the HA sector and a few other things. In those terms it has probably done pretty well. It has not been without its challenges. We always felt London was going to be more problematic for the Affordable Rent model than probably anywhere else. We have learnt a lot of lessons over the last four or five years and we might talk about those later.

I would say - as Brendan and others have said - it has not led to any significant decline in building which is very good. Some would say it has not only not led to a collapse in affordable home building but has also encouraged moves that were already afoot, frankly, in the HA world to undertake more commercial build for sale and indeed - more recently - build for market rent. We would say at City Hall that is quite welcome because that is adding additional supply across tenures from a sector that traditionally has been obviously much more preoccupied with building affordable homes. It certainly has increased the leverage and gearing - as we have already heard - in the sector. There are a number of pluses.

There are also challenges with it. We have heard some of those already. In particular, this issue about gearing means there are inevitable constraints rolling forward around the Affordable Rent model. Indeed, it has also provoked some real debate and some genuine issues around rent levels which, again, we have sought to address. Obviously, affordable rent is available for a tenure that can be up to 80% of market rent.

We have always taken the view at the GLA - since we have been responsible for the affordable rent programme - that 80% of market rent is really very inappropriate in most of London. That is why - as you have already heard - when the model was launched and we began the investment programme we said that we wanted rents to settle at an average of around 65% of market rent rather than 80%. That was better because in the 2011-2015 programme we actually set average rents across all of the programme at 61%.

What we have learned in the second round - the 2015-2018 programme - of affordable rent - is that - and this is picking up a point that has already been raised - there is perhaps a distinction to be drawn between those households that genuinely need a much more heavily subsidised rent, something much closer to social rent, and those that can afford to pay something closer to what - if we were using a different nomenclature - you might call an intermediate rent. That is why we introduced the idea of a discounted rent and a capped rent.

That basically means that one rent operates at a lower level – around about 50% of market rent and closer to social rents – and the other can operate at up to 80%. We issued some pretty clear guidance to HAs, in particular to boroughs, about how nomination arrangements should reflect those two different product lines.

I would say a couple of things in addition, if I may. I have got the figures here, if you are interested, on the allocations we have made in the programme against discount rents and capped rents. Capped rents – in other words the lower rents – are operating, on average, at 47% of market rent with a typical rent of about £178 a week against an average market rent of £378 a week. The discounted rent – that is the higher rent for those that typically might be in low paid employment but able to perhaps claim benefits as well – is operating at 64% of market rent. Typically the average rent would be around £207 a week. You can see that we tried to flex the product to deal with those things.

My final point on this would be that it has been a relative success at this stage. If we were operating a grant regime which was paying similar levels of grant to the grants we were paying back in the days of the social rent programme, 2008 to 2011, we would have probably produced about 3,000 homes. In the period since we have introduced affordable rent that figure – with the same amount of money – has been around 12,500 homes. You can see the difference. There is clearly a trade-off here between how many affordable homes you want and the level of grant you are willing to invest.

Tom Copley AM (Chair): I suppose the fact that you have now split it into capped and discounted is a recognition of some of the things we have heard around affordable rent itself not being targeted well. It acknowledges that you do need a lower level for people on low incomes and a higher level as an intermediate product.

David Lunts (Executive Director – Housing and Land, GLA): You do, that is absolutely right. There is a line of argument that I well understand and have some sympathy with – we have heard it already this afternoon – which says that that distinction should be quite a hard distinction. One should be explicitly an intermediate rent and the other should actually be something like a social rent.

The issue for us is that we do not set the rules for this. The money that comes to the Mayor and the GLA comes from the Government and the Government sets the rules and the parameters, broadly speaking. The Government was very clear in both the settlements for the GLA that this is a general needs product line. How you sort out the rents is up to you but it is not to be regarded – explicitly at least – as an intermediate rent product.

The other thing that is worth mentioning here – again, I think it has been mentioned already but it is very important – is the interplay between what is now a more complicated rent regime and changes for welfare payments. This interplay has also been something we have had to adapt to.

Tom Copley AM (Chair): We are going to come on to that later in the meeting.

On a practical level, if the Government were less insistent on this and you could specifically define an intermediate product, how would that differ from what you have done in terms of separating it out in this way?

David Lunts (Executive Director – Housing and Land, GLA): The most fundamental thing is that every local housing authority has obligations in law. They have housing waiting lists. That tends to be the dominant source of nominations, as we all know. Very few London boroughs hold intermediate waiting lists.

Tom Copley AM (Chair): Some do but not many, yes.

David Lunts (Executive Director - Housing and Land, GLA): “Very few” may not be fair but I do not think the majority do. Therefore, of course, from a borough point of view they are looking for nominations that will deal with their obligations, for the statutory homeless, those that are most vulnerable and also people that have been waiting for social housing for a very long time. You can see why there is some pressure to nominate from those waiting lists.

As I said, we issued a guidance that said we were minded to advise boroughs to be quite flexible and sensible about the nominations between the two rent models to ensure that they were not going to be nominating households that would struggle with the rent levels because they would be ineligible for Housing Benefit to cover the difference or - ideally - they would be in work and able to pay. We flexed it quite a lot.

We have also been very willing to move away from a rigid, “You must have half of your product as discount rent and half at capped rent”. For organisations like Family Mosaic - who have taken a slightly different view - we have said as long as you can operate within the broad grant rates that we are willing to negotiate so you can settle things locally as you chose. Affinity Sutton have actually moved to a rent regime which does - in a fairly complicated formula - set rents relative to incomes. We have been happy to support those things where we think it continues to offer sensible value for money.

Nicky Gavron AM: It was just one thing for clarification actually on Tom’s question. Did I hear right, Mark, that your surpluses have gone down whereas Family Mosaic’s have gone up?

Mark Gayfer (Finance Director, Octavia Housing Association): Marginally. It is not a huge amount because the impact of the Affordable Rent product, for us, means the level of borrowing and the additional interest we have to pay has outweighed the level of rental income less the management and maintenance charges. It may be that - because we are in central London - we end up having to pay more for the product that we are developing and therefore have to borrow more. These things happen. At the end of the day it is not a huge impact on our surpluses.

Nicky Gavron AM: To move on to the question, starting first with Neil, what evidence then is there that the households that are now taking affordable rent are different from social rent tenants or are they the same.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): It is not surprising - given what I said at the outset in terms of how the Affordable Rent model was targeted when it was introduced - that there is very little difference in tenant characteristics between our social rent households and our affordable rent households. It is not surprising because we go to local authorities for nominations and 95% of our affordable renters have been nominated by local authorities. Local authorities nominate people who would have been nominated for a social rent property.

If you want any more detail of the characteristics: 53% of our new social rent customers have children and 57% of our affordable rent customers have children. The head of household for new social rent households is 67% female, for affordable rent it is 63% female. I am not sure what that tells you because it is all about who is nominated by the local authority for a particular property.

Nicky Gavron AM: What about in work and not in work? Being able to pay, David’s [Lunts] point. David was saying the GLA has been very flexing who is actually able to pay the affordable rent.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): The employment rate is higher for people in affordable rent. It is marginal though. It is 47% versus 41% social rent customers.

Nicky Gavron AM: Has it changed?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): There is a 6% difference.

Nicky Gavron AM: Same difference, OK, or not much. Is there any evidence of arrears?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): Yes, arrears are higher for affordable rent households than social rent households. As at last month 70% of all general need social renters were in arrears. This compares to 79.55% of affordable rent households. The average arrears balance for affordable renters is £925 compared to £715 for social renters. The rents are higher so the arrears will be higher.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Nicky, there is a curve that new tenants tend to go on with rent arrears. It tends to happen early in their tenancies and then, as they have been there longer, you are recovering part of the debt from them or it levels off. New tenants tend to have higher arrears than existing tenants. There is always that slight differential you have to factor in this. I would not read too much into that at this stage.

Nicky Gavron AM: If we move on to you, what is your experience in terms of the householder?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): The tenants are the same. Eighty per cent of people are unemployed when they join us. Most people are homeless: they are at the lowest ebb in their lives. During their first five years many get into employment. We have employment initiatives to help them and, obviously, others do too. Overall we have, on average, 20% unemployment in our [housing] stock. The great thing about London is we have jobs. The rest of the country does not have them. The problem we have in London is that for the unskilled they are low paid, part-time and insecure. Our rent policy needs to reflect the needs of those people in social housing.

David Lunts (Executive Director - Housing and Land, GLA): Can I jump in because I think that is absolutely fair. One of the things that I should add to what I said before is that we are very clear that we do not allow any organisations using a grant for affordable rent to charge more than the Local Housing Allowance (LHA). For instance, you might be able to charge up to 80% of market rent, but not if that hits the LHA. That is very important because clearly that is the cap for benefits. One of the things that is undoubtedly going to be the case with affordable rents - shifting rent levels up in general - is that there is going to be more take-up of housing benefit for tenancy in those circumstances. That is the other factor. I would acknowledge it is not an ideal situation. It ought to be the case that so long as the new homes being rented operate in the way that is intended then Housing Benefit should - as they say - take a lot of the strain rather than it hitting people in their pockets.

Tom Copley AM (Chair): What if in the CSR the Chancellor decides - because he has got this gap now in tax credits - to fill that by cutting the LHA? Where is that going to leave HAs and, more importantly, the tenants?

David Lunts (Executive Director - Housing and Land, GLA): That could definitely come in. We are speculating, are we not? Were that to be the case then that would, obviously, have a significant impact. To be fair, when we set the policies around affordable rent all we could do was work within the parameters of known policy.

Tom Copley AM (Chair): This is not blaming you. This is saying what on earth is going to happen if the Chancellor drops this on you.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Tom, what is the direction of travel? I do not know what he is going to do but the direction of travel is to squeeze benefits. We have got to accept that. David [Lunts] does design programmes to fit today's rules. The challenge is we have to make assumptions over 30 years' worth of income. That is the risk we are taking.

We all started doing social rented housing. That is the only thing we used to do. Now we have started to do shared ownership, market rent and housing for sale. The ironic thing is that the hardest and riskiest product to provide now is social rented housing.

Nicky Gavron AM: Because the goalposts keep changing.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): They keep changing. It is much easier to predict what is happening in private market rents. We are here to do that. We are just saying it is risky, that is all.

Nicky Gavron AM: Maybe this is for David. You are saying it is going to increase the amount of welfare taking the strain. Has anyone computed how much more? You have said we have gone from 3,000 to 12,000 more homes than we would have had. Is that because benefit has taken the strain? Is that because the money has come from benefit rather than grant?

David Lunts (Executive Director - Housing and Land, GLA): What I was saying is we have a fixed amount of money to invest in affordable housing grant. Were we to have invested that over the last four years - at a similar grant level to the way we were investing over the previous three or four years - we would have probably delivered between 3,000 and 3,500 homes rather than 12,500.

Nicky Gavron AM: I understand that. What has been taking the strain?

David Lunts (Executive Director - Housing and Land, GLA): What is taking the strain is a number of things now. One is rents have increased, so on the income side there will be some more Housing Benefit being paid in. However - as we have heard - there is a lot more borrowing going in. There is a lot more subsidy going in through market sales and other programmes. Another thing that is happening - which I do not think we have mentioned yet - is that the other pilot affordable rent programme is that properties, when they become empty, can be re-let at affordable rents. That generates additional income. We have more or less got a one-for-one situation where every new affordable rent home has also generated a one-for-one conversion rate. That has obviously doubled the income coming through and uplift in affordable rents. All of those things have helped to keep the model working.

Nicky Gavron AM: So benefits will only be a small proportion of that at the moment?

David Lunts (Executive Director - Housing and Land, GLA): Yes.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): I disagree. A high percentage of our new tenants are on benefit. Having higher rents for those new tenants than you do, on average, for the rest of your tenants means that you are skewing the benefit bill. Local authorities and HAs are all being asked to reduce our rents across the board by 1% to help reduce the benefit bill. In fact, if we had been reducing the affordable rents by more, and leaving the social rents where they were - reduced the rents by the same amount overall but skewed it in that way - the benefit bill would have come down by more. I hope you are listening George [Osborne, Chancellor of the Exchequer].

Tom Copley AM (Chair): I am sure he is listening. I am sure he is tuned in.

Rosalind Stevens (Member of the Board, Octavia Housing Association): We found that the profile of our new tenants - using the core data - has not been significantly different from what we had before in terms of age, ethnicity, those in work and those out of work. That is because our affordable rents have been based on our initial starting position, that we do that on affordability based on income. When we first did it in 2011 we did some research on what "affordability" was. We used the measure of acceptable residual income, what is left after housing. Interestingly enough that came out at 35%, which was about the figure when the Government last did an estimate of affordability in 1993. That has been our benchmark throughout. We can say that our rent arrears across the piece has actually been 3.9% this last year.

The other thing that we might want to come on to is how we support our tenants and residents in these changing times. We have got a model that we stick to about what the rent level should be. However - recognising that the landscape and goalposts keep moving for our tenants - we have been very, very proactive in identifying the tenants that are most at risk, helping them with debt management advice, helping them to budget, and doing measures like energy efficiency improvements in the home to cut down on their heating costs and energy bills. We have been incredibly proactive with our most vulnerable tenants. We believe that is why we are OK now.

Looking to the future, we are faced with a future with a lot of uncertainty, particularly with the benefit cap coming down and things like changes to the Working Families Tax Credit which is so new that we have not modelled yet how that might impact. We are not quite sure where the slack for that is going to come from. We have got more or less the same people. I did check and we do not have a policy of re-letting - when we re-let - at affordable rent. We try to keep it at the social rent when we re-let. That, again, is our ethos of long-term affordable housing.

Something that has not come up yet - and that people do not think about so much in this discussion - is that we are always facing changes when we are setting up rents. Across our profile many of our tenants have been there for years and years. They are not all new. We have had these different regimes; secure rents, assured rents and now affordable rents. This has the same income pool - as just about all of our tenants (perhaps 6% are not) are earning below average income - paying different levels of rent within that range. That is something that is not discussed that much. When we are talking about our rents we are talking about the average across the piece.

Nicky Gavron AM: Interesting. Have I got this right, you have got tenants - all with the same level of income - paying vastly different rents?

Rosalind Stevens (Member of the Board, Octavia Housing Association): Yes, there is quite a big gap.

Mark Gayfer (Finance Director, Octavia Housing Association): The rules that apply for secure tenancies are different from those for assured tenancies and affordable rents. Now we have got these two different new types - discounted and so and so forth - coming in. It has made it a lot more complex to manage and more complex to understand for tenants as well.

Rosalind Stevens (Member of the Board, Octavia Housing Association): It is. I would also like to pick up on Brendan's [Sarsfield] point about the blanket Consumer Price Index (CPI) minus 1%. That hits our budget and our income streams, but it seems like that is going to reduce the benefit bill rather than benefitting the tenants as a whole across the piece. It could well be that the ones who are on the lower rents are benefitting disproportionately from that. Going back to what you said, Brendan [Sarsfield], if we were allowed to set our rents in the way we wanted to you could have a fairer spread keeping to that affordability principle.

Darren Johnson AM (Deputy Chair): What was attractive to you about bidding for the Mayor's 2015-2018 programme?

Mark Gayfer (Finance Director, Octavia Housing Association): I ought to start by saying that the figures we have in the briefing paper show Octavia with £18 million of grant. That is possibly slightly 'buffing' us up more than it should be. The position with Octavia is that we are the lead member of a partnership - called Connected Partnership - of three HAs. We distribute it.

Darren Johnson AM (Deputy Chair): I see. You distribute across the three but you are the lead bidder. OK, that is understood.

Mark Gayfer (Finance Director, Octavia Housing Association): For ourselves, we take around about a quarter of that.

That having been said, we were keen to bid for it. The reason for that is that there is a dramatic shortage of affordable housing in London. That is fairly well known. We have a reasonable degree of resources we can put behind developing more housing. The grant - even at these reduced levels - allows us to do more than we would otherwise be able to do. For us that was an attractive feature. Given that we were able to manage our rental policy to continue to charge what we considered to be affordable rents - similar to the social rent previously - we felt it was a win/win situation.

Darren Johnson AM (Deputy Chair): Neil Hadden, Genesis decided not to bid initially for any of the programme. Do you want to talk through your reasoning on that?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): That is not quite true. There is a nuance here. We did submit a bid for the 2015 - 2018 programme - according to my brief on 10 March 2014 - on the basis that our Board would approve it following all the local authority frameworks being agreed and signed. Of course, we know that that took a long time for local authority frameworks to be agreed. Our bid was referred and resubmitted three times to take account of amendments and withdrawals to schemes, because schemes were coming in and going out at that point in time. Our final revised submission was made on 27 August 2014. Mayoral approval was given on 5 December 2014.

We were given an allocation of £18.7 million, of which we found £10 million ourselves through Recycled Capital Grant Fund monies. Therefore we are only actually getting £8 million out of the fund administered by the GLA. In return we are producing 322 affordable rent units and 184 affordable home ownership units.

Darren Johnson AM (Deputy Chair): Your revised bid was because of changes at your end in terms of your programme?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): There was a lot of to-ing and fro-ing, understanding where local authorities were coming from at that point in time. Whether they were going to sign up to David's [Lunts] formula of discounted and capped rents and all of that, who they would be nominating, where the nominations were going to come from and all that sort of stuff. The market was moving quickly so some schemes were disappearing and we were finding other schemes to put in. That is the way of the world at the moment. Of course, we are now part and parcel of a continuous market engagement process. It is not like the old days when there was an annual bidding programme and that is the be all and end all. We can now bring in projects as and when they are ready to go.

Darren Johnson AM (Deputy Chair): Brendan, does Family Mosaic want to reflect on your experience of the bidding process?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): To share our strategy, in previous periods we bid blind. We are going to deliver X hundred units but we have not yet got control of all the land. When this bidding round came up we felt the market was going against us. Prices were levelling off but land prices were rising and build prices were rising. We decided only to bid for sites where we already controlled the land, and then go back on continuous engagement for more applications.

Darren Johnson AM (Deputy Chair): Similarly, you had this to-ing and fro-ing process as well as--

Brendan Sarsfield (Group Chief Executive, Family Mosaic): We have been back to David [Lunts] and got --

David Lunts (Executive Director - Housing and Land, GLA): Loads of money.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): -- loads of money. That is how we have managed the risk. It has not changed our appetite.

Darren Johnson AM (Deputy Chair): David talked through the rationale of capped and discounted rents in this programme. It would be useful to hear from each one of you about your experience of those and the likely impact they are going to have in terms of your ability to deliver.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): For us it is irrelevant because our rents are below both levels. We set our rents at a level where local authorities can nominate homeless families to us. We are getting the same grant levels as everyone else but we are letting them all to local authority nominations of homeless people.

Darren Johnson AM (Deputy Chair): That is because of securing investment income from elsewhere through your private sales and so on?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Yes, but also for us that is our goal. That is our charitable goal.

Darren Johnson AM (Deputy Chair): Octavia?

Mark Gayfer (Finance Director, Octavia Housing Association): A very similar position.

Darren Johnson AM (Deputy Chair): You are committed to social rent and that then means you have to find the money elsewhere to make up the shortfall.

Mark Gayfer (Finance Director, Octavia Housing Association): That type of approach.

Darren Johnson AM (Deputy Chair): Where is it coming from?

Mark Gayfer (Finance Director, Octavia Housing Association): Shared ownership, outright sales and staircasing receipts from previous shared ownership.

Darren Johnson AM (Deputy Chair): Finally, Genesis?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): The key thing for us is looking at the balance of the programme in order to secure the cross-subsidy that is required. We have been conscious of

our income streams being under threat. We need to maintain and preserve our organisations for the longer run. We have been around 50 years. Mark – not you personally – has been around 150 years.

Tom Copley AM (Chair): He is looking very well for it!

Neil Hadden (Chief Executive Officer, Genesis Housing Association): He does, does he not? We would like to be around for another 50 years or so. We cannot spend the money we have got straight away.

Darren Johnson AM (Deputy Chair): Are you pursuing a similar model as the other two, of committing to social rents?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): No. Our rents are, on average, around 65%. It is the blended model which the Mayor allowed when the discounted and capped rent models did not take off as they were expected to take off. We were happy to go in the middle ground. It was easier for everybody. I have to say that the rent regimes that we are administering are very, very complicated. For a customer coming in – trying to understand why their rent is at a particular level when their neighbour is something else and the person down the road is something else – it is a nightmare.

Tom Copley AM (Chair): Of course, target rent was to sort all that out.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): That was easy. You could understand that.

Darren Johnson AM (Deputy Chair): The blended rent model you have gone for and the rent level you have set has obviously made it easier to deliver new housing. How well do you reconcile that with your charitable goals of providing housing at social rent? What discussions have you had within the organisation about how to balance that.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): To go back to my first answer: we are still housing the same people because it is the same types of households being nominated by local authorities. The point was made earlier – I think by David [Lunts] – that the theory at the time – we will see what happens next week [upon the announcement of the terms of the CSR] – was that Housing Benefit will take the strain. It would not be our responsibility in that respect. We would still be housing the same people. We would be charging them more rent. They would have their rent paid for by benefit.

Something we should bring in to play here – as you are asking me how that matches with our social purpose and mission – is we are very keen that we do not muddle up mechanics with mission. The mission stays the same. Our mission is to help people who cannot afford to access housing through the market through a whole different range of price points. We do everything from care and support, emergency cold weather shelters, all the way through to outright sale and everything in between. We try to intervene at every stage in the market. There is a housing crisis out there. There is a need for more quantum of housing. Some of it we only do to help provide the cross-subsidy for the other end of the spectrum. There is a constant debate going on about the balance of the programme going forward. They are only very minor additions to our stock. We own or manage around 33,000 properties. Half of them are for general needs rent; another 3,500 is temporary housing and 3,500 care and support. The bigger proportion of our stock is very much for traditional HA customers. Now we have to talk about what mechanisms we can employ in order to provide more housing for that traditional client group.

Fiona Twycross AM: It is a question because the difference in the level of rent paid by different tenants with the same sort of income for effectively the same properties has come up a couple of times. I wondered exactly what the difference might be in terms of proportion or percentage?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): I brought figures from Islington and Lewisham. At 65% of market rent in Islington you are paying £290 a week. If you are paying a target rent - a social rent - it is £130 a week. In Lewisham, 65% of market rent is £190 and a target rent is £120.

Fiona Twycross AM: There are neighbours living next door to each other who are paying different amounts?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Yes.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): I have got some average figures rather than on a by-borough basis. Our average general needs social rents for a one-bedroom flat would be £111, for a two-bedroom flat it would be £124. For affordable rent, for one-bedroom the average weekly rent is £162, and for a two-bed £192. There is quite a difference.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): You have got to think of those figures within the context that our average tenants' income is just over £17,000 a year.

Fiona Twycross AM: Household income?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Yes. In the last three years we have got over 1,000 tenants into work. The average pay we have been able to get for them in that process is £19,000. This is low paid workers who face very high rents with a very high percentage going to rent.

Nicky Gavron AM: I wanted to ask Neil: you gave some figures about the affordable rent and social rent - the blended model. It was less than the numbers of shared ownership.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): Under the 2015-2018 programme?

Nicky Gavron AM: Yes. Could you just go over your approach?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): There are 322 affordable rent units and 184 affordable shared ownership units.

Nicky Gavron AM: Market sales and market rent.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): Of course, yes. They are not funded by the GLA, or indeed by the HCA.

Nicky Gavron AM: No, I just wondered what the proportion was.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): In total last year we developed 932 new homes. I have not got the exact split in front of me but it would be something like 40% of that for market tenures, either sale or market rent.

Nicky Gavron AM: Thanks.

Fiona Twycross AM: Obviously Nicky's questioning covered some of the impact of welfare. We are interested to know a bit about what the future changes are likely to have in terms of impact on tenants. I wondered if I could start with Brendan, to ask you what impact you think the changes to the benefit cap and reduction in social rent will have on your future ability to deliver new affordable homes?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): I can start with the reduction in social rent. We have to save £14 million per year by the fourth year permanently out of our business plan to nullify the loss. It is between 10% and 11% of our turnover on general needs housing. If we do not make those savings we lose £700 million of development capacity from our business plan because that is over 30 years. We are determined to make those savings so that we retain our development capacity. We have seen what has happened to local authorities. We may be stupid but we are not that stupid. We have got to make efficiency savings to carry on developing. We are going to try to do that. I am not sure we can take much more than that is what I would say.

What I would say on the benefit cap is that it is very interesting. For us - because our rents are lower than most - the new benefit of £23,000 is going to hit 300 of our existing tenants. We are going to have to work with them and support them through that. If people have got higher rents then it is going to affect a higher percentage of their tenants.

The Bedroom Tax [Spare Room Subsidy] and the £26,000 cap which came in a couple of years ago have been managed quite well by residents and ourselves. However, this is not linear: it is not like you cut them by £1,000 and X% fail. People are surviving but they are getting closer to the edge of the cliff. None of us know where that edge is. I am not going to say these cuts will push people over the edge, but at some point the cuts will push people over the edge. They will just walk away and give up. We have got to watch out for that. We have got to monitor that.

One thing I would like to say on that is that one of the ways we have been able to cope with the £26,000 cap and the Bedroom Tax is discretionary Housing Benefit payments. If those are cut I fear for what will happen, particularly to the Bedroom Tax tenants. It is important that we fight to try to keep local authorities in power of discretionary Housing Benefit payments.

The reduction in the cap is going to make - even for us at our low rents - it impossible for people who are unemployed, or potentially unemployed, with three or four children to afford to live in our larger homes. That applies to local authorities and the letting of their own homes too, not just us. There is a real shock for larger families in London coming as to what they can afford with the caps coming down. We will have to work together with our local authority partners to see what we can do. We cannot let to people whose tenancies are going to fail because they will be paying 70% of their income on rent and they cannot feed their children because the rent is at such a level. That is where we are getting to on the present cuts. The final thing to say on that is that therefore affects our thinking about building larger homes. We are more likely to build one-beds and two-beds because we know we can let those to homeless families rather than creating a problem for ourselves with larger homes.

Fiona Twycross AM: Basically, you will be building properties knowing that people will effectively be living in overcrowded accommodation?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): No, we will not let them be overcrowded.

Fiona Twycross AM: If you are building one or two and you are saying those would potentially be for families?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): The one-beds will not be, but the two-beds will be for small families. We will not overcrowd them.

Nicky Gavron AM: Even in outer London?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Obviously the further you go from the centre of London the easier it does get. I have some figures here. A two parent, three child family, who are unemployed, will be able to afford a rent of £108 assuming 50% of their income going on rent. That is a low rent in London. It is a low rent at the edge of London too. Our average rent is £120. For local authorities – as Southwark were telling me – it is £100. We are at the margins on this. Anything larger than a two parent, three child family is going to be very difficult going forward.

Fiona Twycross AM: Absolutely. I would appreciate views from the other HAs on this and how it would affect you and your tenants as well.

Rosalind Stevens (Member of the Board, Octavia Housing Association): I would like to stress actually that there is a wider mix. In Octavia we are very much focused on having mixed communities. We have talked a lot about people who are unemployed and we have also talked about people on benefits, forgetting that many of those are low income families are on In Work benefits. We do not know how that is going to impact the overall mix. We do know that we have got pressure on larger families because family sizes are increasing, particularly in our area of central London and Westminster. The families we are seeking to house are increasing in size. It has been part of our strategy – as part of our development – to try to get some larger homes. We are facing approximately a £5 million cut in our income over the next five years and maybe beyond because we do not know what is going to happen after five years. Then we are faced with a situation of – if I use the words of Octavia – “where are the poor to live?”. I know Westminster has a policy of rehousing families somewhere else. If we talk about stable communities that is very disruptive to families and support networks around them. We are trying to achieve our objectives of housing the most in need. We are constrained by our income to build the properties they need.

We have had 123 families affected by the Spare Room Subsidy. The way we set our rents what these families often find is that even though they downsize the one and two-bedroom places can be more expensive *pro rata* than the bigger properties that they have rented. They get a nasty shock there because they are not much better off, enough though they have downsized.

Nicky Gavron AM: Sorry, I thought it had to be guaranteed that they have the same rent.

Rosalind Stevens (Member of the Board, Octavia Housing Association): When they have asked to downsize to avoid the Bedroom Tax, with the way rents are set, the smaller properties *pro rata* are proportionally more expensive.

Mark Gayfer (Finance Director, Octavia Housing Association): To give you an example: the rent for a two-bedroom flat is not double the rent for an one-bedroom flat.

Rosalind Stevens (Member of the Board, Octavia Housing Association): And so on.

Fiona Twycross AM: No, absolutely.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): Starting with the rent cut that we are going to face from 1 April 2016, that takes £50 million out of our business plan in the first four years. If

that is extrapolated over the 30-year life of our business plan, that is £1.5 billion. Obviously, we do not talk that far ahead but it is a massive sum and it has an impact on our capacity going forward.

What are we doing about it? We are implementing £5 million worth of savings. We are trying to implement them as soon as possible, because the sooner we do that the bigger the impact going forward against that £50 million. That will mean that some of the 'nice to have' activities will not happen, or they will happen through us outsourcing the delivery of them through a social enterprises grant funded by us rather than our own staff doing it and therefore us having to pay the overheads of the staff. We are also looking at every vacancy that comes up to see whether or not we should fill it, so over time there will be an impact on the number of jobs within the organisation.

In terms of the impact of welfare reform, we have just over 15,000 general needs households. There are 679 of them that are affected by the Bedroom Tax - as I call it - or the Spare Room Subsidy, and 159 impacted by the benefit cap. For both of those we have seen the arrears rise. For those affected by the Bedroom Tax we have seen a 52% increase. For those affected by the benefit cap we have seen an 88% increase in arrears. We are going to be facing severe threats to our income streams over the next few years. That will have an impact on our ability to deliver new homes, as we have talked about earlier.

Fiona Twycross AM: Thank you. That is really helpful. We have had highlighted to us by officers an article from the *Financial Times* last week. Obviously, we have the CSR coming up and the recent reclassification by the Office for National Statistics (ONS) of HAs as a nationalised industry. You might have been surprised to establish that you had been reclassified overnight. We wondered if you could say a bit about what impact the reclassification may have, particularly with rumours of the potential privatisation of the sector as reported in the *Financial Times*.

Tom Copley AM (Chair): The debt, I think.

Mark Gayfer (Finance Director, Octavia Housing Association): The grant.

Tom Copley AM (Chair): The grant, that was it. Turning it into a repayable loan essentially rather than, "Here, have the money".

Neil Hadden (Chief Executive Officer, Genesis Housing Association): Legally the grant is an interest-free loan given by Government - via the Housing Corporation, HCA and maybe the GLA - to HAs. If it does not bear interest why would any investor want it?

Fiona Twycross AM: That is what we thought.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): There would have to be a change. How could we have retrospective changes to loan agreements going back 30, 25, 20, ten years? It just seems difficult and odd. No government really likes to have retrospective legislation, do they? It is difficult to see how that would happen. I think it is a kite being flown before the CSR. There have been mutterings, of course, about associations teetering on the edge of reclassification being brought onto the public balance sheet. My understanding is that it is only the private loans that we have that are impacted. It is not the governance, management or operations of HAs --

Tom Copley AM (Chair): Or assets?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): -- or assets that are now seen to be part of the public sector. The Government has come out very swiftly to say that it will introduce some

deregulatory measures as part of the Committee stage of the Housing and Planning Bill, with the aim of going back to the ONS to say, "All those controls that you said we have that have led you to the conclusion that we should be part of the public sector have now been taken away. Please reclassify HAs as private."

Fiona Twycross AM: That would resolve the issue for the Government --

Neil Hadden (Chief Executive Officer, Genesis Housing Association): Potentially.

Fiona Twycross AM: -- of the added public debt. To be honest, the public probably think it is fairly random in terms of reclassification. It does seem slightly random, to be honest. If they can do that and you can get declassified then presumably that gives you a little bit of added protection.

Mark Gayfer (Finance Director, Octavia Housing Association): In terms of what we should do our trade body - the National Housing Federation - has basically said, "Do nothing for the moment. It does not really have an impact."

Fiona Twycross AM: Thank you.

Tom Copley AM (Chair): Just on that, in terms of what the Government are saying the two key things were HCA appointments to [HA] boards in certain circumstances and disposal of assets. If the Government removes those does that bother you in any way? Is that going to have an impact on your ability to raise finance because lenders consider you to be more risky?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): Genesis has had a programme of disposing of assets for a number of years. It predates my arrival there. We think that it is right that HAs, particularly in a grant-free environment, should be more in control of their assets and adopt strategic asset management approaches that include the ability to dispose of assets, poorly performing assets or high-value assets, the proceeds of which can then be fed back into the development programme. I, for one, have been calling for the disposal consents regime to be changed. If it is abolished, even better.

In terms of appointments to our boards, the Chairman of the Regulation Committee of the HCA was at a conference I was speaking at last week. He said that that power had only been exercised once in the last six years and therefore nobody should get too exercised about that.

Tom Copley AM (Chair): Is that the general view? You are quite relaxed about it?

Mark Gayfer (Finance Director, Octavia Housing Association): We have slightly different views on disposals to Genesis, but generally we welcome the additional flexibility that would give. Certainly the issue about appointing board members has no practical impact on a well-run and well-maintained HA.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): It does not change our mission. What I worry about is interference in our mission really. The threat of someone trying to stop us doing disposals would be a problem. Historically the HCA has been supportive of it but I understand the threat there in the future. It is business as usual with us.

Tom Copley AM (Chair): Just before I bring Steve [O'Connell AM] in, it has been a very unstable period in terms of what Government has been coming out with. It says, "We will introduce affordable rent. We will let Housing Benefits take the strain." Then they renege on the rent increase and say there has to be a rent cut so you need to raise more finance privately, then there is the threat of more benefit cuts. If we continue to get

this instability, is this going to start threatening the viability of some HAs and particularly their finance-raising abilities if you become more risky prospects?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): I think there will be greater differentiation by the lenders on who they are going to lend to.

Tom Copley AM (Chair): You think that means the bigger HAs would probably be OK and the smaller ones will not, or is it more complex than that?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): No, it will be complex than that. It will be about risk and exposure to risk.

The other thing is that when we were clear what the rent agreement was going forward we could put that in our business plan and build to that. Now the Government is saying, "We have ripped that up. It is CPI minus 1% for four years and then you can go back to what it was before." Even if they do, we cannot put that figure in our business plan. We now have to hedge it. We now have to be more conservative in what we say we will and will not do, just in case they do something to us. That is not good for the country. It is not good for London. We want to invest in something where we will get the money back over 30 years, but tell us the rules for at least ten of those so we can get through it. That is all we need to know. Then we can take more risk. It is all about, "Do you want to help us deliver this or do you want to hinder us?"

Neil Hadden (Chief Executive Officer, Genesis Housing Association): Brendan is right, there will be greater differentiation within the sector and maybe that will not be a bad thing. I am a firm believer – as I mentioned earlier – that we are working in basically a grant-free environment. We have to stand on our own two feet. We have to create our own futures, and all those sorts of phrases. It is for us to demonstrate that we are viable entities going forward and that we can raise money, either bilaterally with banks or by going to capital markets and raising a bond. We do have an investment rating – we have an A2 rating – so currently we are a good bet as far as funders and investors are concerned, as long as we do what we say what we are going to do in our business plan.

I fully accept Brendan's point about the uncertainty. However, if we can be the masters of our own destiny by looking at development programmes that are not relying on grant, and maybe tweaking around the edges the client groups that we deal with, we will still be an investable quantity and we will be around for the next 50 years. Then, when a government comes in or public finances change so that grant is available to subsidise social or affordable rent, we will still be there ready to take it and deliver those homes.

Tom Copley AM (Chair): Rosalind, is that general?

Rosalind Stevens (Member of the Board, Octavia Housing Association): I would just like to say a little bit more about our assets. Given our history of 150 years, it is really important to remember that a lot of our assets were given to the society by philanthropists. They were private assets that are there for perpetuity. Although the market has changed a lot over the last years it is very important to us that we maintain that legacy, we protect that legacy and we pass that on for the next 150 years.

Steve O'Connell AM: My question has been partly answered. Stephen Knight [AM] here is going to talk to you, Neil [Hadden], about how your mission may or may not have to change but you have partly answered that by talking about mechanics against mission. Brendan, again, you have already talked about your mission remaining on course and stable despite the challenges that we have talked about. Would you concur with that view that we would take away from today?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): We are very clear on our core mission. That has to survive everything. The world changes around us and we have to manage what we can do within that.

Steve O'Connell AM: You are blown around but you are staying on course.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Exactly. What is interesting is the Government is now saying it wants us to be development machines. We can be, but many local authorities want us to be focused on helping the homeless. What we are trying to do is square those two things and they are not always 'squareable' really.

We are clear that our number one priority is to house the homeless. If we can be a development machine at the same time we will be. We have to try to keep both stakeholders happy. If the market changes we will always revert to housing the homeless. That is where we will be. Others may reach different conclusions and I respect that.

What is interesting is that in this world people are saying HAs are becoming too commercial. Those that are being commercial are doing it for a social purpose and that gets forgotten. Some cheap political shots are made based on that. In my time - 30 years in the sector - I still see that most are trying to deliver a social purpose. That is what they are trying to do.

In London, our biggest challenge is the difference between local authorities. There is a wider gap in what local authorities want than there is between the HAs trying to deliver things. The biggest difference of all is between central government and local government, and it is growing. We need a coherent housing strategy that local government and central government sign up to. If we had that - it is a bit like having a business plan that works - we would have a strategy that works. At the moment we have two different strategies pulling in two different directions and we are trying to square that in the middle.

Steve O'Connell AM: You are, in a way, having to reinvent yourself to continue with your core mission.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Yes, we are, of course.

Steve O'Connell AM: Leading on from that, you and all the associations supply other services above and beyond direct housing. Again, on the premise of the pressures - the uncertainties, that kind of stuff and reinventing yourself - do you feel that there might be a risk of you having to review all these wonderful services you are providing? Is there a view that you are looking at that and reviewing that?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): We all are. We have all told you about the sorts of cuts we have to make to deal with the minus 1%. They are all probably the same in percentage terms from our side, so the pain is probably the same across the board. Many of us have community foundations that we give money to and I think the money we give to them will come under pressure. Our ask of those foundations will be, "Deliver more for less". We have to get them to be more efficient in finding jobs for people. They have to create partnerships with local authorities and with other HAs to deliver it. Partnerships are the way that we will try to keep those things going.

The one area that is really under threat - and you will know this - is social care. The social care sector is close to collapse and last year we lost money in social care for the first time ever. We only aim for a 2% surplus and £60 million turnover but we lost money last year. Because of this 1% cut we cannot accept any loss on that part of our work anymore so we are becoming more hard-nosed about the financing of that. There is a big issue for London and the country in making sure social care is funded. I know it is not for today, but our ability to take risks in that field is affected by what is happening and the cuts in rented housing.

Steve O'Connell AM: Rosalind, you mentioned earlier some of the debt counselling services.

Rosalind Stevens (Member of the Board, Octavia Housing Association): Yes.

Steve O'Connell AM: Do you feel that is something you will have to review and look at going forward?

Rosalind Stevens (Member of the Board, Octavia Housing Association): I have a different view. I have a different take on that.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Absolutely. Good.

Rosalind Stevens (Member of the Board, Octavia Housing Association): First of all, I would say providing value for money is essential to all aspects of our work and I would not describe these as non-core services because these are what help us to maintain sustainable tenancies and maintain rent income streams coming in. They are absolutely essential to our business model.

I only mentioned a few of the things that we do. We also have an employment and training service and an apprenticeship and internship programme. We do an awful lot of care, which we did not talk about at the beginning. I do not know how many extra care schemes we have now but we do extra care schemes and sheltered schemes. Together with the Octavia Foundation, which is our charitable arm, we provide all sorts of support services to both our tenants and to non-tenants who reside in the boroughs in which we own our homes.

If we wanted to put a price on the social value that we contribute and what we are potentially saving on local services in terms of integrated care, that would be a sum worth calculating. It is a difficult cost-benefit exercise to do but we would not want to lose sight of that. If a tenant needs an adaptation to their property - and you pay only a small amount of money to put a rail in or something like that - that saves them having falls and then having to go into hospital and that sort of thing.

Obviously care is an area where we are likely to come under more pressure as local services are eroded and they fall by the wayside. That is something we have to keep a very close eye on in terms of our business plan. Support services to residents are something that we think is core. They are part of that core offering and what our mission is.

Steve O'Connell AM: I understand completely that a service supporting your tenants and helping them through difficult times is clearly in everyone's interest. Tom and I know an HA down in Lewisham that is helping bring into life a wonderful building.

Tom Copley AM (Chair): Yes. It is a brilliant scheme.

Steve O'Connell AM: They are also turning that into a community centre or hub. It is absolutely wonderful for Bellingham Estate, which is my old estate. We have been over and looked in and it is fantastic. That is going to be a massive benefit for that community but it is a slight distinction from the work that perhaps you are talking about, which is one-on-one debt counselling and support around that. My worry is potentially that schemes like the one we saw, Tom - which is almost once removed and partly more strategic, and which involve borrowing and other sorts of resources - might potentially come under some sort of threat. They are not here to speak to it, that HA.

Rosalind Stevens (Member of the Board, Octavia Housing Association): No, they are not. We do a lot of things, as you say, in partnership already. As the organisations with which we work face cuts obviously that is something we will have to look at. It is not something we are focused on or something we would particularly like to cut.

Steve O'Connell AM: No, of course not.

Rosalind Stevens (Member of the Board, Octavia Housing Association): We think that is the very last resort because that would, as you say, worsen our finances and make it more difficult to operate.

Steve O'Connell AM: I get that completely.

Tom Copley AM (Chair): People do sometimes forget about the extra things – not precisely 'extra', as you say – beyond just providing housing that housing associations do. I went along to the one-year anniversary of the Domestic Abuse Housing Alliance, which Peabody and Gentoo set up and other HAs are involved in. Is there a danger, if your rents are being cut by 1%, that things like that will end up having to be cut?

Mark Gayfer (Finance Director, Octavia Housing Association): There is a prioritisation that needs to go on. We are still in the early stages of that because the details of all the other changes are still up in the air to a degree. It will emerge over time.

Tom Copley AM (Chair): I am hoping that we will be able to get on the Committee agenda an examination of supported housing and some of the issues around that before the end of our term.

Rosalind Stevens (Member of the Board, Octavia Housing Association): Banging on about these two things – sustainable communities and stable communities – not shifting people and maintaining stable communities pays for itself because a lot of the things that we do, resident participation, is based on people volunteering. That is good for tenants anyway because it improves their skills, it makes them feel more included and it provides support for each other. When you start to break that down and you think only in terms of bricks and mortar instead of what HAs are about, you lose a considerable amount of value added. As I say, it would be great if somebody would start to build that in, factor that in and do an assessment of the value of the work that we contribute.

Tom Copley AM (Chair): That is a very good point.

Stephen Knight AM: My question is supposed to be directed at Neil in the first instance but I would be interested in other people's views as well. It is looking at proposals in the Housing and Planning Bill before Parliament at the moment around extending the right-to-buy discounts, albeit on a voluntary basis, and – perhaps almost as significant – the change in the definition of 'starter homes' within that Bill. As I understand it that means planning authorities cannot really distinguish in a planning negotiation between a starter home and an affordable rented home. Neil, will you continue to be able to provide submarket rented housing in the future under this kind of regime?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): "Yes" is the simple and easy answer to that. Although if we stayed as we are at the moment, as a standalone organisation, we would be reducing the amount of affordable rented housing we produce and concentrating more on shared ownership and homes for either market rent or outright sale.

However, you may have picked up in the last couple of weeks that we are in discussions with another HA to merge. That other association is Thames Valley Housing Association. The business plan for the new entity

would see the combined entity produce 3,000 homes a year, 1,800 of which would be for affordable tenures, a balance between shared ownership and subsidised rent.

Tom Copley AM (Chair): Is it possible for you to break that down?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): Yes. The current figures are 600, subsidised rent --

Tom Copley AM (Chair): Social and affordable?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): It would depend on the local authority because we will work outside London even more in the merged entity so it will be based on agreements with individual local authorities. It is 600 for subsidised rent, 1,200 for shared ownership and another 1,200 for market rent or market sale. Yes, we will continue to provide submarket rented housing but it has to be seen in the context of that overall development programme. That 600 will be a lot more than Genesis, and indeed Thames Valley, would be able to produce if they stayed as separate entities.

Stephen Knight AM: Thank you. Will the profile of where you are able to build them change?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): Possibly.

Stephen Knight AM: As we have discussed earlier, the chance of building new stuff in Zones 1 and 2 is diminishing all the time. Presumably your new stock will increasingly be in outer London or outside London. Is that right?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): A lot will depend on the availability of land at the right price.

Stephen Knight AM: I think that is a yes.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): It will also depend on local authorities' ability or willingness to work with us in looking at how we use the value in our existing portfolio. Other HAs, as indicated, do not necessarily follow this track. We would have no problem in selling high-value assets in a borough to help that borough do something elsewhere - i.e. regenerate an area - if that local authority wants to work with us and make that happen, maybe by making sites available, helping the Land Assembly, or transferring some existing assets of their own. If that came into play, we can see no reason why we should not continue to build more homes in Zones 1 and 2. In fact, we are having this sort of conversation with Westminster City Council. That is part of our thinking.

Stephen Knight AM: Do you have a feel for how many of your tenants are likely to take up the Right to Buy discounts?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): I was just coming on to that.

Stephen Knight AM: Sorry.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): Our modelling in the new business plan that we submitted to the HCA last month shows something like 250 right-to-buy sales each year for the next six years. After that, it tails off.

Tom Copley AM (Chair): Out of how many?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): Out of 15,000. It is quite a small proportion. Pay-to-Stay, similar sorts of figures, around 250 a year being moved on to that higher level of rent.

Stephen Knight AM: That is about £25 million in discount, is it not? Is that right? Are my sums right?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): If we get £100,000 with each --

Stephen Knight AM: With a £100,000 discount, that is --

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Our average value is £400,000.

Stephen Knight AM: The market value of your stock?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): A quarter of the value would be the discount, maximum, so whatever that is.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): The right-to-buy could be a good thing in two respects. First, it helps people meet their aspirations to become home owners. Secondly, it can provide us with the funding to build more homes than would be the case otherwise. Whether they are the same type of homes is still to be determined. In other words, it is very unlikely – for the reasons I have talked about earlier – that they would be for social rent. They are more likely to be for intermediate rent or for shared ownership, where we could – David might talk about this because the GLA has done some work on it – maybe expect two-for-one replacement if it was on a shared ownership basis. In some areas, that might work. It all depends on the economics of the schemes, locations and all of that.

Stephen Knight AM: But you are replacing socially rented homes for housing people in poverty, in a sense, with subsidised housing for fairly well-off people, most people would suggest.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): But going back to David's [Lunts] point, we are delivering 18,000 homes as against 3,000. They are at different rent levels. What we are talking about here is a different tenure type but there would be more housing. Is not one of the issues in London the scarcity of housing which is pushing up prices and pushing up rent levels? If there is more housing perhaps we can do something about reversing or at least stopping some of the massive increase going on.

Stephen Knight AM: How about the starter home model? Is that something you are interested in delivering?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): They are going to be quite an impediment on our ability to develop new homes. Brendan [Sarsfield] has said that developers have run rings around local authorities in the past. I think this is another ring that they will be able to use to avoid having to deliver affordable housing through section 106 schemes.

Stephen Knight AM: I understand the cap on how much developers can charge people for these so-called affordable starter homes is £450,000 in London.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): It is a 20% discount, is it not?

Stephen Knight AM: Yes, but there is a cap in London of £450,000. I just wonder how many starter couples in their thirties can afford £450,000 mortgages. Presumably we are talking about subsidised housing for junior bankers.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): Possibly the same sort of economics that Brendan [Sarsfield] talked about in terms of shared ownership.

Fiona Twycross AM: It is an insane amount of money, is it not? Yes.

Stephen Knight AM: It is a public subsidy to help junior bankers buy their first flat. That is essentially what we are talking about, is it not?

Steve O'Connell AM: I used to be a junior banker buying my first flat.

Tom Copley AM (Chair): They were a bit cheaper back then though.

Steve O'Connell AM: You say it like it is a bad thing.

Stephen Knight AM: Did you deserve a taxpayer subsidy in order to do so?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): This highlights that national solutions do not necessarily work in London.

Fiona Twycross AM: No.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): We really need London solutions. The welfare cap, starter homes --

Tom Copley AM (Chair): The planning changes as well.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): London is an international city. It just operates differently. We need our own rules. We need our own clear vision. We need our own rules. Then we can get on and sort out London's problems. A lot of the national issues pull in the wrong direction for us.

Tom Copley AM (Chair): I take Neil's [Hadden] point about building more homes. If those homes are simply fuelling demand for property speculation - as they would not necessarily be in the rest of the country - you might be taking two steps forward and one step back or even one step forward and one step back, depending on how much demand is sucked in. There is an issue not just with the quantity of homes, surely, but with the tenure of homes that are being built.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): A lot of people have said lots of clever things about tenure but other people have said, "Surely it is all about the quantum". Dame Kate Barker [independent reviewer and economist] in her report - going back to 2004, 2005 or so - really did talk about it being the quantum that counts. That will have an impact on the housing market as a whole.

Stephen Knight AM: Can I just come back to Neil a second? You talked about the benefits of the right-to-buy programme from a HA perspective. Presumably the downside of it is local authorities being forced to sell off their property to pay for it. In a sense, it is robbing Peter to pay Paul. From our perspective, the balanced impact of this on the social housing stock across both yourselves and councils would be an interesting thing to look at. It may well not have a negative impact on HAs if you are compensated, pound for

pound, for the value of the discount, but if that is all sucked out of local authorities' housing stocks then that has a devastating effect in many areas of London.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): I understand and respect that. It is not our choice that the Government has decided that is the way it is going to pay for the right-to-buy discount. The Government is adamant it is going to introduce Right to Buy one way or another.

Stephen Knight AM: There was talk from the HA sector about fighting this through the courts if necessary and then all of a sudden there was a voluntary deal. To what extent has the deal been done to protect the backs of the HAs while selling council housing down the river?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Stephen, can I just come in?

Stephen Knight AM: I say that rather provocatively but I think there is a --

Brendan Sarsfield (Group Chief Executive, Family Mosaic): I am happy to respond.

Stephen Knight AM: I would be interested in your views.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): I was Chair of the G15 at the point when it came out of the [Conservative Party] manifesto. Tom [Copley AM], I have written a reply to you on this. When it first came out, the G15 did approach London Councils and asked if we could work together on this. We were told they could not because they could not get all the boroughs to agree. Secondly, we approached the Labour Party. [Rt Hon] Harriet Harman [MP] - who was the leader of the Labour Party at the time - went publically and said she was pro the right-to-buy coming in. We did not look like we had many friends. We did have a number of Conservatives who said they were anti it but would not vote against it because it was in the Queen's Speech and in the manifesto. We were on our own, OK, and so a deal was done that was not about protecting us in the sense you present it.

By having a voluntary deal we still have some negotiation over how it develops in the future. With a statutory deal it would be, "Here is the Right to Buy" and we could control the rules outside the statute. They would have been able to then say, "We are going to reduce the amount of discount being repaid. We are going to change the rules like this" and we would have no say over it. By having a voluntary deal we still have some say in how it goes. We still have a second chance, if we fell out, to go forward to the courts. It just makes so much sense all around, in terms of protecting assets, to do it.

What has been disappointing is the inability of the local authorities to argue against selling their stock coherently. I have not heard much about that. I have heard a lot of local authorities saying, "We were wrong" but I have not heard them putting the argument coherently about why they should not be selling their stock. We desperately need a united London Councils on this. We need the Conservatives to work with Labour. We need a united voice on housing in London and not the separate voices that we have at the moment.

Tom Copley AM (Chair): A number of councils have said very clearly why selling high-value stock is bad. It impacts on their ability to deliver new development, it puts holes in their business plans.

Stephen Knight AM: It is not just London Councils being a cross-party organisation, it has to say what all 33 councils can agree to. It has to say non-confrontational --

Darren Johnson AM (Deputy Chair): The lowest common denominator.

Stephen Knight AM: It cannot say anything unless it has consensus. The Local Government Association is in exactly the same boat.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): It makes it weak.

Stephen Knight AM: Indeed it does, on this kind of issue. Yes.

Rosalind Stevens (Member of the Board, Octavia Housing Association): Could I just say something about section 106, going back to where you started on starter homes?

Stephen Knight AM: Yes.

Rosalind Stevens (Member of the Board, Octavia Housing Association): I just stress how important that has been for Octavia – given the location of our properties – to keep our core mission going. We have developed very good relationships over the years because people like the way that we develop our homes and the way that we manage our homes and our properties, bearing in mind that you have different types of tenure side by side. Going back to our whole mission and how we operate, for us – I do not know what the rest of you think about it – it is quite a blow if the stock of section 106 opportunities is going to be diminished.

Stephen Knight AM: David [Lunts], presumably the thought of new affordable rented properties in London through section 106 will completely dry up, with all the starter homes.

Mark Gayfer (Finance Director, Octavia Housing Association): We do not know. Certainly you are talking about Zones 1 and 2. Not all, but virtually all, our development in Zones 1 and 2 comes through section 106 opportunities and the prices that we pay for those are significantly below £450,000. If developers get the opportunity to sell properties at £450,000 rather than the price with which we can support affordable rents, why would they not do that?

Stephen Knight AM: That must be true of many parts of outer London as well, surely?

Mark Gayfer (Finance Director, Octavia Housing Association): Less so. Certainly in Zones 1 and 2. Yes, we are very concerned about the impact of starter homes on section 106 availability.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Just to be clear on the Right to Buy, if I may say, we are looking for “one for one” social rent replacement with social rent.

Stephen Knight AM: That is very good to hear.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): We will do it as near as we can to the host borough but what you are not going to get is that if I sell one, I then go and build one. I am going to buy a site for 50 units and all from a sub-region will go on that one site. Then I will try to buy another site in another borough. It is going to have to be a swings and roundabouts way of replacement, as close as we can to the host borough.

Mark Gayfer (Finance Director, Octavia Housing Association): That will be our aim as well but again, with the central London boroughs, replacing within the central London boroughs is nigh on impossible. The development sites that we can afford to develop with Right to Buy --

Stephen Knight AM: Presumably if Right to Buy tenants within some of the central London boroughs are exercising it – maybe none of them will because they will not be able to afford it – then you are going to get

market values at very high prices. In theory, if you sell a flat in Kensington you ought to have enough money to build a flat in Kensington.

Rosalind Stevens (Member of the Board, Octavia Housing Association): I am not sure to whom we are selling that when you think about the incomes of our residents, unless there is someone else externally buying that on their behalf.

Stephen Knight AM: My understanding is that a large amount of Right to Buy purchases are funded by richer children.

Rosalind Stevens (Member of the Board, Octavia Housing Association): When you think about the average value of our properties and the discount they are getting, I cannot see how they --

Mark Gayfer (Finance Director, Octavia Housing Association): The average value of our properties is £500,000 and there are some wide swings within there.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): The Royal Borough of Kensington and Chelsea is still selling under the Right to Buy. We will still lose stock in those boroughs because families are pooling together to buy them.

Stephen Knight AM: Rich relatives due to inherit.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): If we sell one in Kensington, we might be able to provide two-for-one in another borough at social rent.

Stephen Knight AM: You would be likely to do that, rather than replace one in Kensington with another?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): I am not going to be able to replace one in Kensington.

Stephen Knight AM: Unless you buy back, if you like, a leasehold property in a block.

Mark Gayfer (Finance Director, Octavia Housing Association): The idea is to increase the housing stock, and just going out into the market to buy another one would be very tricky.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): I do not think we are allowed to do that.

Stephen Knight AM: You are not allowed to buy back?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): The intention is that it has to be extra new stuff.

Neil Hadden (Chief Executive Officer, Genesis Housing Association): It is new stuff. In any case you would want to think about the management arrangements rather than just buying random properties here and there.

Stephen Knight AM: I was talking about buying back leasehold properties within blocks you control. That would be one way, I suppose, of using the money to transfer back into social tenancy.

Tom Copley AM (Chair): There is an issue here. You may have some right to acquire properties or some preserved Right to Buy but a lot of HAs have not really had to manage leaseholders, have they? Or have you?

Neil Hadden (Chief Executive Officer, Genesis Housing Association): We have a very large --

Tom Copley AM (Chair): You have? OK.

Mark Gayfer (Finance Director, Octavia Housing Association): We have some, yes.

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Quite a few of us got stock transfer.

Tom Copley AM (Chair): You do not think this is going to have an administrative impact in terms of having to manage a whole new load of leases?

Brendan Sarsfield (Group Chief Executive, Family Mosaic): Of course it will, as it has for local authorities. It creates management challenges but they are not a huge cost. We just have to get on with that, do we not?

Tom Copley AM (Chair): Absolutely. Of course, there will be tenants who discover suddenly, when they get their first major works bill, that there are downsides as well as upsides to being a leaseholder.

Stephen Knight AM: Shall I ask the final question to David, then? What do you think London's stock of HA homes will look like in ten years' time? Look into a crystal ball to 2025.

David Lunts (Executive Director - Housing and Land, Greater Land Authority): It is an interesting question, isn't it? Who knows? If I was going to hazard a guess, I would say that, first of all, there would be more of it. HAs built one in three homes in London last year. HAs are major builders now and - notwithstanding all of the issues that we have talked about and all of the obstacles that may be ahead - I am not sure that that is going to change very significantly. They will become more significant players in some respects because unlike commercial house builders, of course, HAs in the main are around for the long term and they are going to be owning the stock that they build.

Stephen Knight AM: Is that even net of Right to Buy losses?

David Lunts (Executive Director - Housing and Land, Greater Land Authority): Yes. As we have heard, I think Right to Buy losses will be replaced in London. I would be very disappointed if we did not at least manage one to one. There are challenges, which we have heard about, but I am pretty confident that will happen.

Number two, we will almost undoubtedly see a much more diverse portfolio of tenures and housing solutions and products. The sector has been very innovative over a number of years and I think that is going to continue. We will see HAs - not all of them but some of them - owning more market rental property and doing more in that intermediate market sector. I am sure we will see more of that.

Again - for reasons that are pretty obvious at the moment - it will be a challenge to see the development of submarket housing operating universally across London geographically. We are going to see more emphasis on the less expensive locations. That is probably inevitable because there will be a continued pressure to build numbers and there will be continued pressures around viability and sheer land availability as you get close to London. We will see some of outer London changing.

The other thing I might add is that we are going to see HAs even better at being in a leadership position in major housing and regeneration projects, which is another characteristic that has emerged over the last decade or so and longer in some cases. The housing challenge in London is a very complicated one but we are going to need to see, if anything, more investment from long-term, patient investors that are not subject to the volatility of the normal business cycle in quite the same way.

Although there are many challenges ahead - and we have rehearsed quite a lot of them - if you put all those things together - and I may be completely wrong because you may all get nationalised next month, though I do not think so - overwhelmingly there is good cause for optimism. HAs are not going anywhere in London.

The only other thing I might add is that there may well be fewer of them. As we have heard, there are merger discussions underway. Some of the pressures at the moment may well force the pace on that. However, we are going to continue to see HAs as major developers and well as managers of stock.

Tom Copley AM (Chair): Unless Members have any other questions, I thank our guests for their contributions.

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