



# **Cynulliad Cenedlaethol Cymru The National Assembly for Wales**

## **Y Pwyllgor Cymunedau, Cydraddoldeb a Llywodraeth Leol The Communities, Equality and Local Government Committee**

**Dydd Mercher, 7 Rhagfyr 2011  
Wednesday, 7 December 2011**

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These proceedings are reported in the language in which they were spoken in the committee.  
In addition, an English translation of Welsh speeches is included.

**Aelodau'r pwyllgor yn bresennol****Committee members in attendance**

Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Janet Finch-Saunders	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Ann Jones	Llafur (Cadeirydd y Pwyllgor) Labour (Committee Chair)
Gwyn R. Price	Llafur Labour
Kenneth Skates	Llafur Labour
Rhodri Glyn Thomas	Plaid Cymru The Party of Wales
Joyce Watson	Llafur Labour

**Eraill yn bresennol****Others in attendance**

Peter Hughes	Cymdeithas Adeiladu y Principality Principality Building Society
Peter Morton	Cyngor Benthycwyr Morgeisi Council of Mortgage Lenders

**Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol****National Assembly for Wales officials in attendance**

Sarah Bartlett	Dirprwy Glerc Deputy Clerk
Jonathan Baxter	Ymchwilydd Researcher
Marc Wyn Jones	Clerc Clerk
Bethan Roberts	Cynghorydd Cyfreithiol Legal Adviser

*Dechreuodd y cyfarfod am 10.01 a.m.*

*The meeting began at 10.01 a.m.*

**Cyflwyniad, Ymddiheuriadau a Dirprwyon  
Introductions, Apologies and Substitutions**

[1] **Ann Jones:** Good morning, everybody, and welcome to this meeting of the Communities, Equality and Local Government Committee. I ask those at the table to please switch off their mobile phones and any other equipment that they may have that would affect the translation and broadcasting equipment. The meeting operates bilingually—on the headsets provided, channel 1 is for the translation from Welsh into English, and channel 0 is the floor language. This is a formal public meeting, therefore the microphones will come on as if by magic—in fact, I think that there are two men working them behind me in the technical room.

[2] **Peter Black:** Like *The Wizard of Oz*.

[3] **Ann Jones:** Yes. Anyway, the microphones will just come on, so there is no need for us to touch them. We do not expect the fire alarm to sound this morning, but, if it does, we will take our instructions from the ushers. For your information, the assembly point is over by the Pierhead building.

[4] We have had apologies this morning from Bethan Jenkins, but there is no substitute. I ask Members if they have any interests to declare that are not already on the register of Members' interests. I see that there are none. Good.

10.02 a.m.

### **Ymchwiliad i Ddarpariaeth Tai Fforddiadwy Inquiry into the Provision of Affordable Housing**

[5] **Ann Jones:** This is the last evidence-gathering session of this inquiry. I formally welcome Peter Hughes, head of Principality Commercial, and Peter Morton, senior policy adviser for the Council of Mortgage Lenders. You are both very welcome, particularly you, Mr Morton, because I think that you have had a horrendous journey down here.

[6] **Mr Morton:** That is fine; no problem.

[7] **Ann Jones:** Thank you very much. We have had your paper: does either of you have any general opening statements to make, or are you happy to go straight to questions?

[8] **Mr Hughes:** We will go straight to questions.

[9] **Ann Jones:** Thanks very much. Joyce, do you want to take the first set of questions?

[10] **Joyce Watson:** I will. Good morning, and thank you for your paper. I am going to ask questions about the strategic direction. My first is this: do you believe that the strategic lead shown by the Welsh Government demonstrates a whole-market approach to increasing the housing supply?

[11] **Mr Hughes:** I will take that in the first instance. Our view is that, until a few years ago, there was a very strong emphasis on affordable and social housing in the Welsh Government, and, while not wishing to undermine the importance of those tenures, we had a view that there needed to be slightly more focus on whole-of-market housing, not least the ability to get house builders in the construction industry back to work. Latterly, we have seen a move in that direction, and we are also in dialogue with the Welsh Government about some products that might enable first-time buyers to access the mortgage market again, because, as the paper demonstrates, accessing mortgages without a large deposit has been very challenging over the past few years. So I think that there has been a move in that direction, and we are continuing to engage with the Welsh Government on how we can step up.

[12] Two weeks ago, the coalition Government in England issued some new objectives in terms of products for first-time buyers—new indemnity schemes, through which the Government would offer support. Once again, we are currently in dialogue with the Welsh Government regarding such initiatives.

[13] **Joyce Watson:** We have heard a lot of evidence and there has been a lot of talk about the intermediate rental market as a sustainable solution here. Do you think that that intermediate rental market is a sustainable solution to help with the supply of affordable housing?

[14] **Mr Hughes:** I believe that it is. Latterly, there has been more focus in the Assembly

on intermediate housing. One initiative that the Welsh Government supported over the summer was the Welsh housing partnership, which was an intermediate rental solution, with a coalition of four social housing providers providing about 150 homes with materially lower levels of grant than would have been the case had it been purely social housing. We are continuing to work with the Welsh Government to see whether that can be scaled, because we realise that it is still providing some level of grant and it relies on the provision of debt finance from the banking sector, which continues to be quite constrained for the reasons that are articulated in the note. So, yes, it is, but it is not entirely straightforward.

[15] **Ann Jones:** Peter, you wanted to ask a supplementary question.

[16] **Peter Black:** I would like to go back to what is happening in England in terms of the support for first-time buyers. Obviously, in the devolved context, Wales will always do things slightly differently, or completely differently. I am interested in your views on how sustainable and deliverable those initiatives are in terms of supporting first-time buyers to get that mortgage and guarantee. Is that the sort of thing that is workable?

[17] **Mr Morton:** We think that it is a sustainable model. The housing market overall is a complex picture. However, there was significant evidence to say that young families and households in particular were struggling to find the large deposits that have been required since the funding difficulties have kicked in. We think that this is a particularly good way around it. There has been comment regarding the question of whether Government funds should be used to, in effect, back up such a scheme and enable first-time buyers. A colleague of mine is doing some work on this at the moment. He is quite confident that the work will show categorically that the additional tax revenue that stems from the additional building, employment, fitting out of homes and all of the things that go with it will probably be greater than the degree of back-up that the Government subsidy would require. The Government subsidy is, in effect, only called on if the subsidy that is put in by the builder fails to be sufficient. So, in all ways, we see this as a particularly good scheme and one that we think will be sustainable for a good few years.

[18] **Peter Black:** The crisis that we went into in terms of the mortgage market was largely based on mortgages being given to people who could not really afford the high interest rates. Is that not effectively encouraging the same thing?

[19] **Mr Morton:** I am not certain that it is. There still has to be responsible lending and that should be the case no matter what. This was an issue about the size of the deposits and overcoming that. We would all encourage very responsible lending to remain as the way forward.

[20] **Mr Hughes:** Understandably, lenders have been pilloried in terms of their approach leading up to the credit crunch; however, the UK mortgage market has always performed extremely well. Underwriting standards in the UK have not been watered down in the same way that they have in other parts of the world. Therefore, there have been lower levels of repossessions and arrears. The UK mortgage market has performed well and, sometimes, that context is not well understood. The other reason why this is a more sustainable product is that one of the reasons lenders find it hard to lend above, say, 80 per cent loan to value is that they have to put more capital aside for lending above that level. Therefore, that becomes more expensive for the banks. That cost is then passed on to the borrower, and everyone loses in that dimension. One of the negotiations that have come out of the Government's recent scheme is around the fact that lenders will have to put less capital aside because there is Government support. So, it will hopefully be less expensive for first-time buyers to access mortgages. In terms of sustainability, what we like about this is that it certainly involves the borrower putting in a deposit, and it also involves the house builder recognising that the market remains a little dysfunctional and then having to put that money aside. It is a

collaboration in which everyone accepts that market conditions are quite challenging at the moment.

[21] **Peter Black:** Is this a scheme that would translate to Wales, given that we have slightly different circumstances here?

[22] **Mr Hughes:** Our view is that it does translate to Wales. We believe that a variant of this scheme could work effectively in Wales, and that it might not be as onerous for taxpayers in Wales. The key criterion is to be able to get house builders onside. Like a lot of lending initiatives, the greater the scale involved, the greater the ability of lenders to resource up and provide products, if they know that there will be a much bigger market for them.

[23] **Ann Jones:** That was quite a long supplementary, Peter.

[24] **Peter Black:** I am sorry about coming in with that; I thought that it was an important point.

[25] **Ann Jones:** I am only joking. We have time.

[26] **Joyce Watson:** I would like to explore one issue with the witnesses.

[27] You talk about providing capital. There has been evidence that parents will do anything for their kids, and that they have released equity in their own homes to provide capital for them. You can come back with a note on this issue if you cannot provide an answer now, but I wish to explore whether you have any evidence of cases where parents have released equity in their own properties and taken out mortgages that they might not be able to afford. You mentioned people not being a burden on the taxpayer. However, it would clearly be a burden on the taxpayer if parents were to release equity and were to find themselves in situations that they could not afford as time moves on. This situation becomes cyclical. It might not be a problem in relation to a particular package that has been sold at a particular moment, but it could become a problem and I think that evidence is starting to surface on that.

[28] **Mr Hughes:** I do not have any direct evidence that that is happening. It is true that lenders are providing products that enable parents to lend a hand. I believe that the Lloyds Banking Group has such a scheme. I have no evidence that that is causing any on-difficulties for the parents. I know that the CML and others in the lending industry are waiting for a new edition of the Mortgage Market Review, which will look at things like affordability and interest-only mortgages. I know that some stakeholders are concerned that interest-only mortgages could be a problem that is being stored up for the future, and that people are effectively borrowing without thinking that, at some point, they have to pay back the capital. The view in the banking sector is that that situation is potentially being overplayed. Nevertheless, it is an extremely warm issue, and you will see an increasing focus on it.

[29] **Joyce Watson:** I am going to move on now to planning. Do you think that the planning system within local authorities is sufficiently strong, and are these authorities providing a strategic lead, given that they play a major part in the provision of affordable homes?

[30] **Mr Hughes:** What we see varies depending on the authority. We would deem some authorities to be more proactive than others. We sometimes see challenges relating to resourcing within planning authorities, although some of that evidence is anecdotal. We tend to be cushioned from this information, so we hear it second-hand and are not necessarily directly influenced by it. Latterly, we have seen a greater willingness from planning authorities and the Welsh Government in starting to think about how injecting land into vehicles, by way of contribution, can reduce the cost of land, and about how they can perhaps

be more pliable in that context. The other thing to be considered—and I know that the people from the Home Builders Federation might lobby on this—is whether some of the sustainability standards might be overly ambitious. I know that we are talking about building regulations now, as opposed to planning, but in a time when everybody is under the cosh, sometimes it can be a deterrent that prevents people from building if the underlying costs are seen to be overly onerous. I cite fire sprinklers as an example. [ASSEMBLY MEMBERS: ‘Oh, careful.’]

10.15 a.m.

[31] The reason why I raise it is that, from a valuation perspective, this becomes quite difficult because you have products that are not necessarily being valued by the buyers because they do not attach any importance to them. If the buyer is not attaching any importance to it, it is very hard for that to be reflected in an evaluation, and that has an impact on the amount that can be lent. I only cite that as a potential example.

[32] **Joyce Watson:** You have cited fire sprinklers. We all support them here, and you have the person who has taken the legislation through chairing the meeting; I do not know whether you know that, but—

[33] **Mr Hughes:** Yes, we do—

[34] **Joyce Watson:** I am sure that you do. You say that the buyer will not value it. There will surely be a reduced premium. You are talking about a product—a house—that will not be burnt to the ground and, when talking about the public purse, as we did earlier, those people would not have to be rehoused in an emergency. I wonder whether you would like to come back to us having fully assessed and evaluated the cost of not having a fire sprinkler against having one, rather than just an assessment of the initial cost of installing it in the house.

[35] **Mr Hughes:** In this committee, or later?

[36] **Joyce Watson:** If you could send us a paper on that, it would help. We cannot take anecdotal evidence without it having been truly assessed in terms of the remit of this committee.

[37] **Mr Hughes:** I understand and respect the views. The only reason I raise it is that it is an example of something that is not valued. We cannot influence what the consumer—

[38] **Joyce Watson:** You say that it is not valued, but that is anecdotal, so we want to see some hard and fast evidence.

[39] **Ann Jones:** Let us move on because I can feel my blood pressure rising incredibly here, but I will write to you separately on that issue. Sorry; Mr Morton, did you want to comment?

[40] **Mr Morton:** Chair, I would like to come in on the planning issue with a slightly broader point. We have all seen land values drop very significantly and there is a real issue here in the context of land supply, particularly for affordable homes. We see that that is going to restrict, over the next few years, the potential for section 106 planning agreements, which have been the bedrock of many of the social housing schemes in recent times. That is one of the reasons that we have said—and it is backed by the Royal Town Planning Institute’s submission—that it is a good time to look at all aspects of public sector land to see whether something can be done because we think that land supply could ironically start to become a problem if people, in effect, refuse to sell at these prices and sit on land until such time as its value improves.

[41] **Ann Jones:** Fine, thanks. We are going to move on. I think you started to touch on the second part of the question, which is about alternatives to public subsidy and making best use of existing resources. I will take Mike first and then Peter on this issue.

[42] **Mike Hedges:** You mentioned public land, and local authorities, health authorities and other public bodies own a substantial amount of land in Wales. However, I know that an awful lot of land that is being released for housing is, at the moment, either partly built on, or not built on at all. Do you see any advantages in more public land being made available for house building?

[43] **Mr Morton:** It is probably going to vary area to area, but I suspect that one of the problems of the existing land is where it becomes moribund in effect because an owner or a property developer just sits on it and says that the climate is not right. I suppose that gives more credence to the fact that if there is land and there are potential schemes that come forward with public sector land, then that is an issue. The secondary issue is definitely one of 'what price land?' It is also a question of whether public sector land can be brought forward at the right sort of price to ease the supply of affordable homes. That is a big issue. In England, we have seen issues with 'build now, pay later' ideas for land. Those ideas could become an option, but I think that the price of land can be a difficult issue for the public sector. Having worked for local government for many years, I appreciate that local authorities are often trying to get the best land value that they can, and I am sure that health authorities are in the same boat. However, it is an important area with regard to the supply of land. Particularly with falling grant rates, I fear that if land also starts to become an issue, the supply chain could be drastically affected.

[44] **Mike Hedges:** Local authorities are going to have to sell an awful lot of land to pay for their schools initiatives. A lot of land is bound to become available for them to satisfy the criteria. In paragraph 40, you say that

[45] 'While we believe that community land trusts...may have a role to play...our experience to date on CLTs has been that any efficiencies gained through the planning process may evaporate in a delivery mechanism.'

[46] Can you explain that?

[47] **Mr Hughes:** As a Welsh lender, we in the Principality attach a lot of importance to supporting affordable housing initiatives. We have been in dialogue with several community land trust initiatives with a view to trying to get an initiative off the ground, albeit probably not over the past 12 or 18 months. The trusts can frequently be comprised of volunteer groups, which have the right ambition and spirit to develop initiatives in their communities. We very much salute and support that spirit. However, the challenge then is that because a group might not necessarily have skills in planning or project management, some of the benefits that they have, where the local authority might grant them concessions, such as being granted planning permission on a particular site in the community, can be lost. The group may not necessarily have the machinery to take a scheme forward through the planning route. We have tried to support a few schemes of that ilk, but they have not come to anything, largely because of governance issues and other challenges.

[48] **Peter Black:** When the Minister gave evidence to this committee, he said that co-operative housing is needed because it addresses the needs of people who aspire to home ownership but are not able to break into the traditional mortgage-lending market. Do you have any views on that, and do you and your members have experience of supporting co-operative housing initiatives in that way?

[49] **Mr Hughes:** There is little evidence on the ground in the United Kingdom of co-operative housing approaches. The lending community is wary of the various forms of co-operative structures and mutual home-ownership structures that are being considered. We see those as being enormously complex, and we are wary of creating the new miss-selling concept of the future. If I am not able to explain a product to a consumer even though I work in the financial services sector, then that is not a good place in which to be. Some of the solutions that we have found seem to be enormously complex. If things like negative equity begin to emerge, that can be tortuously difficult to unlock in a co-operative structure.

[50] We believe that a larger scale of co-operative or mutual opportunities may be possible. I am thinking, for example, of the John Lewis Partnership or Bupa style of ownership. The society is looking at a couple of those initiatives at the moment. We hope to bring those forward over the next year or so. We need to understand a little more about the Minister's thinking, and we have offered to engage separately with him as part of a group on this issue. It is an area in which we should exercise caution, because we need to avoid any new miss-selling concepts.

[51] **Peter Black:** There is a danger that the focus on co-operative housing means that we take our eye of the ball with regard to total housing supply.

[52] **Mr Hughes:** I guess that it is always a danger. We have fed into the agenda for the housing Bill, and it seems extremely ambitious. We understand why the Welsh Government may want to have strong ambitions, but, in saying that, there is a lot to try to pack in. It is a danger, but we are seeing the Welsh Government trying to engage with the private sector on more traditional forms. I would not want to be critical or suggest that that is a risk.

[53] **Mr Morton:** In troubled economic times, we look at as many initiatives as we possibly can, and there is certainly some scope. We would add the caution that has been given by Community Housing Cymru and the Chartered Institute of Housing, which is that co-operatives, as a new form of tenure, are not really a panacea for the major part of the problem. You must be careful about initiative overload, otherwise you spend too much time creating the opportunities rather than trying to produce the maximum number of homes. We believe that there is potential, as Peter has indicated, in the restructuring of finance to housing associations. There are opportunities there. We are happy to work with the Minister's team to take those up and investigate them fully.

[54] **Mr Hughes:** The other aspect to consider is that, in a constrained lending market, lenders are challenged. Without defending or going into all that, the reality is that lenders are being challenged on several fronts at the moment. Any initiative or new product that does not seem to be straightforward is hard for lenders to invest time in, as opposed to the tried-and-tested products, when they have to deliver to quite a significant agenda at the moment.

[55] **Peter Black:** I will move on to another subject and put you in a position of being financial consultants to the committee, if I may. There has been talk for some time about trying to raise private finance to support social housing. The latest model being looked at is a bond being issued that would then generate some capital, and you would have the income stream to repay the bond at the end of the period. I am interested in knowing whether you feel that that is a sustainable way of raising finance and whether you think the Government is in a position to do that in Wales at this stage.

[56] **Mr Hughes:** One problem, as picked up in the paper, is that the lending sector is constrained. The supreme irony is that the capital market and pension funds have abundant amounts to invest. They see social housing or various forms of housing as a good way for them to invest money. Traditionally, the terms tend to be index linked—rents tend to be index linked upwards—the credit rating for the sector is extremely strong and, bearing in mind that

banks are struggling to lend for the long term, tapping capital markets that could provide much longer-term sources of funding is a realistic and sensible way forward for the housing associations and the Welsh Government to promote.

[57] Going back to your first question, there might be angles where a John Lewis or Bupa-style initiative could be folded into a capital market solution, thereby looking at some very long-term funding for housing. Housing is a long-term asset, and it dictates a long-term view being provided by Welsh Government and funders alike.

[58] **Peter Black:** Would Welsh bonds be particularly complex and time consuming to set up or are we in a position to do that fairly quickly?

[59] **Mr Hughes:** I do not see it as being overly complex. Welsh housing associations' credit historically has been strong. There has never been a failure in the Welsh sector. Traditionally, Welsh Governments have policed them conservatively so that no-one has too much debt. I would imagine that it would be something that should be easily deliverable.

10.30 a.m.

[60] **Mr Morton:** There has certainly been growing evidence of a shift towards the bond market in England, and housing associations are coming together in consortia to get the size required to access the bond market. The only word of slight caution is that the bond market is starting to look a little bit more sceptically at housing, primarily because of its concern about rents and welfare reform, which we will probably come on to shortly.

[61] **Ann Jones:** Yes. That is timely, because Gwyn now has questions on welfare reform.

[62] **Gwyn R. Price:** Do you have a view on the impact of welfare reform on the revenue streams of social landlords and the potential of this to affect the supply of affordable housing?

[63] **Mr Morton:** It is fair to say that we have been concerned since the original welfare reform White Paper. Although we had a broad assurance that lenders' revenue streams would be protected and that the scheme would be designed in that way—and those assurances continue to be given—we are, nevertheless, concerned about the impact of the way in which welfare reform and universal credit is being set up, and the fact that tenants, in effect, will be paid monthly in arrears and will not have the same access to direct rent payments as they have now.

[64] We have an amendment next week in the House of Lords through which we and, I think, 16 other organisations, have put forward a proposal, which is to be moved by Lord Best, that tenants should retain a right to choose to have their rent paid directly to their landlord. We agree, as do tenants' groups and national tenants' organisations, with the view of tenants that they know best and that they can be trusted to take that decision.

[65] On the issue of how it affects finance, the long-term financing of the housing association sector, particularly with private finance, has been built on some foundations of substantial capital grants, which are falling, and direct rent payments, which may not be there. That will certainly increase the risk and, with an increasing risk, it will almost certainly be an issue where money could become more expensive.

[66] On the bond market investors, we called a meeting between the Department for Work and Pensions representatives and bond market investors a few weeks ago, and they set out a range of concerns. The ceasing of direct payment is certainly one of those concerns. The difficulty is that unless we can get some commitment from Government on what will be replacing it and what will be the safeguards, we will now run into a demonstration project test

area for a year come this summer, and the financial markets will be left in a position where they will not know the future for probably another 18 months. That is quite risky in the context of bond finance, because, although it is readily available and there is a lot of choice in the bond market, it could be an issue if the bond market decides that it is no longer going to play as strongly in the housing sector. In any event, we have some evidence from the bond investors themselves that, in future, they will be much more discerning about where and how they pitch their bond investments. That could mean that we see a bigger price differential between some of the very big housing associations, which may still be able to get good bond issues, and some of the smaller organisations who attempt to go to the market and who may not see that as being so competitively priced.

[67] There is a range of other issues surrounding welfare benefit that we are concerned about. We have given our support to an amendment this week about the degree to which tenants will be penalised for underoccupying property. We believe that they should not be penalised until they have at least more than one bedroom in excess. So, the present proposals are quite punitive and could have a significant impact on housing association revenue streams.

[68] **Gwyn R. Price:** We have taken evidence from Community Housing Cymru that stated that 90 per cent of tenants prefer to have their housing benefit paid directly to their landlord, and the Welsh Tenants' Federation said that it believed that tenants did not support it. Which one do you agree with?

[69] **Mr Morton:** I am not sure whether I have ever come across a scenario where 90 per cent would not want it. It is fair to say that a substantial percentage would always want it, and that is the issue for us. Tenants should have the choice. If they elect not to do it and they want to take that responsibility, that is fine. The choice should extend to those who have had their rent paid for a long time, but decide to take responsibility back. That is fine, too, but let them have the choice.

[70] **Ann Jones:** Do you see situations arising, where benefits are paid directly to the claimant rather than to the landlord, and where landlords have borrowed from a building society or mortgage lender, of landlords defaulting because their tenants will not pay the rent? Does that cause more problems? Is that why landlords are more likely to want direct payment?

[71] **Mr Hughes:** Taking it in the round, it is going to be much more challenging for housing associations to deal with what is potentially going to be an increasing level of arrears. When these types of scenarios have been piloted in the past, the output has been increased arrears and payment difficulties. Some of that could be combated by housing associations—

[72] **Ann Jones:** I am not necessarily concerned about registered social landlords; I am more concerned about the private rented sector, where you see absentee landlords coming in, buying up cheaper properties and putting people in sub-standard accommodation, but having the housing benefit paid directly to them, probably with a top-up as well. If the housing benefit is not paid directly to the landlord, and they have a mortgage on a property, is that why these organisations are joining up to say that they do not want to see benefits being paid directly to the claimant?

[73] **Mr Hughes:** I think that we will increasingly see private sector landlords being more discerning in the type of tenants that they have. Admittedly, it is anecdotal, but we have received strong feedback from several sources that that is likely to happen, because they would not want to take that risk.

[74] **Ann Jones:** We are rapidly running out of time, but Rhodri Glyn and Ken have

questions on partnership working across sectors. Do you want to ask the first one, Rhodri?

[75] **Rhodri Glyn Thomas:** Beth yw rôl benthycwyr? A ydych yn meddwl bod gan fenthycwyr gyfrifoldeb i weithio gydag eraill yn y sector tai er mwyn sicrhau bod digon o dai fforddiadwy ar gael? Os ydych yn credu bod gan fenthycwyr rôl wrth wneud hynny, sut ydych yn gweld y partneriaethau hynny'n datblygu?

**Rhodri Glyn Thomas:** What is the role of lenders? Do you believe that lenders have a responsibility to work with others in the housing sector to ensure that there is enough affordable housing available? If you believe that lenders do have a role, how do you see those partnerships developing?

[76] **Mr Hughes:** Partnership working has dramatically improved over the last two to three years. As an example, we have a quarterly forum between the Welsh Government and lenders, which looks particularly at social housing lending, but it tends to be wider than that. The respective understanding that we have of each other's positions has never been better. The lenders met with the Minister for housing a couple of weeks ago. We have a good understanding of the agenda and we participate in all of the programme boards, so we have an understanding of the WLGA. As an example of partnership working at the moment, there is a group on section 106 lending for affordable housing, where the local authority might want to impose quite tight restrictions to avoid properties being lost to the open market. The lending community has taken the initiative in leading that group, alongside the WLGA, Community Housing Cymru and Welsh Government planning officials. That collaboration is happening. We could always do better, but it will continue to improve. We understand our role. The Principality accepts that housing in Wales is why we were formed, so we engage actively with the sector, and we get support from the CML as well.

[77] **Rhodri Glyn Thomas:** Yr wyf yn derbyn ei fod yn gweithio i raddau gyda chytundebau adran 106, er ei fod yn gallu bod yn broblem pan fo awdurdod lleol yn caniatáu hawl cynllunio a hawl adeiladu i rywun oherwydd ei gynllun lleol. Yr wyf yn gwybod bod problemau yn codi yn sir Gaerfyrddin o ran cael morgais pan fo'r hawl cynllunio wedi ei ganiatáu dan amodau lleol. A oes mwy y gallwch ei wneud er mwyn sicrhau bod tai fforddiadwy ar gael i bobl yng Nghymru? Gellid dadlau bod y math o amodau mae benthycwyr yn eu gosod yn awr yn golygu bod yn rhaid sicrhau 20 y cant o flaendal cyn eich bod yn ystyried rhoi morgais a bod cyfraddau llog morgaesi yn uchel er gwaetha'r ffaith bod cyfraddau llog yn gyffredinol cyn ised ag y buont erioed.

**Rhodri Glyn Thomas:** I accept that it works to some extent with section 106 agreements, although it can be problematic when the local authority allows planning permission and building consent based on its local plan. I know that there are problems in Carmarthenshire in terms of securing a mortgage when planning permission has been granted under local conditions. Can you do more to ensure that affordable housing is available to people in Wales? It could be argued that lenders' conditions now mean that a 20 per cent deposit has to be secured before you will consider giving a mortgage and that interest rates on mortgages are high despite the fact that interest rates are generally as low as they have ever been.

[78] **Mr Hughes:** I will pick up on that. There are a few strands to that question. First, on affordable housing lending, the challenge is that not many lenders are willing to lend, at the moment, in that space. There is a whole raft of reasons why not; it is partly because the market is quite constrained. We take the view in Principality that we have an obligation to lend for affordable housing in our community, but we do not believe that we cannot do all of that alone. There is a danger that, if we cannot induce other lenders to lend, that is disadvantageous to the borrower, because if the borrower has no choice of mortgage provider and if, for whatever reason, that mortgage provider has a change of policy, the borrower has a property that he cannot sell. So, there is a need for us to bring more lenders in. We believe that reforming the section 106 agreements and making them simpler will help induce lenders.

We also believe that, through products such as shared equity and shared ownership or where there are new, established forms of leases in place, which have been agreed across a panel of lenders, moving to a more uniform type of proposition would attract more lenders. There is a danger in being the only lender in town; that is not a good place for us as an organisation and it is particularly not a good place for the borrower, because the borrower needs choice.

[79] **Rhodri Glyn Thomas:** If you are a borrower, having one mortgage available is better than having no mortgages available.

[80] **Mr Hughes:** Indeed, yes.

[81] **Rhodri Glyn Thomas:** However, the question is whose responsibility it is, at the end of the day. You say ‘It depends; we as Principality can’t move forward as a single lender.’ Who will get all these lenders together and work with them to ensure that they are working towards ensuring that affordable housing is available and that it is accessible to the people who need it?

[82] **Mr Hughes:** I believe that that is happening—whether it is happening on as big a scale as it needs to is debatable. You also raised a question on interest rates. We kind of touched on that a little earlier. One of the issues for lenders lending in this space is that the capital requirements are extremely onerous and, therefore, the cost of lending, whether it is on a section 106 agreement or above 80 per cent of the loan to value, is much more than it would be if it were a conventional under 75 per cent or under 80 per cent mortgage. The other piece is that structural changes in the mortgage market mean that some of the smaller building societies are, effectively, restricted from having big parts of their mortgage books in affordable housing. Without naming individual organisations, that is much more challenging, so it again restricts the choice of lenders that might be prepared to lend. It is not straightforward, because the mortgage market is constrained and, ultimately, the CML cannot force lenders to lend, although lenders need to lend, because that is their business. We will need to work this out over quite a long period of time, but uniformity in product and in documentation will help to encourage lenders back to lend in Wales. We do not want to create an environment that is seen as quite difficult.

10.45 a.m.

[83] **Rhodri Glyn Thomas:** What if I put it to you that lenders did very well during the good years so should take some responsibility, at this time, to share the pain, and help people to get into the housing market?

[84] **Mr Hughes:** I am not going to sit here to defend the indefensible. Everyone will have their views on the role of lenders leading up to the financial crisis. In terms of the mortgage market, as I mentioned earlier, I think that some of the views about irresponsible lending are being overplayed, and the UK mortgage market has performed extremely well. If the lenders have done well in the past, that is something that I cannot change, but what I can say is that the landscape for lenders is now very different. There is new legislation, an increase in capital requirements, and we are also getting conflicting messages. For example, politicians in central Government are keen that lenders should lend, lend, lend, whereas regulators and some of the other agencies, such as the Bank of England, are saying the exact opposite—that they want caution. So, I do not expect anybody to be crying into their beer for the lenders at the moment, but it is not an easy agenda, balancing the various priorities. I do not know if you want to add to that, Peter.

[85] **Mr Morton:** If I may, Chair, I think that there are two points to make. First, we have seen with the work that we have done on section 106 agreements that, if you can get a consistent set of objectives, or documentation—something that lenders can easily

understand—that helps enormously. There are lots of examples—I know that Peter has some specific ones involving the Principality—of lenders spending a long time looking at complex documents, and sometimes at a whole range of them. There are more documents and deals than they can ever fund, and that is not cost-effective. So, coming back to the idea about new initiatives, it is important to have some consistency on that that is acceptable to lenders, and we have been talking to the Minister about that.

[86] The second point, on the question of lending for affordable housing, is not to forget that many of the lenders fund housing associations' businesses through that sort of funding mechanism. It is a well-established fact, openly available in the global accounts, that the funding is now on such competitive rates that virtually all the lenders in that market are making a loss on their loan books. They have long-standing things, but this is the other side of the lending business that is not always seen, I think that it is fair to say.

[87] **Ann Jones:** We need to move on. Ken has the next question.

[88] **Kenneth Skates:** I would like to ask two questions, if that is okay. The first is with regard to private sector empty homes. What role should mortgage lenders be playing in bringing more of these homes back into use?

[89] **Mr Morton:** I will kick off. Certainly, we are conscious of the work of housing associations that we fund in this area. Most funders are very happy to see the money that they have lent to housing associations be deployed for those types of initiatives. That is the key issue, realistically, because other than that, one-off issues with other landlords are probably a different thing, and a whole range of different packages would come into play. However, the mainstream activity would be for local authorities and housing associations to have concerted efforts in their patch. Generally speaking, the mainstream money that is lent to housing associations could be accessed to fund those types of initiatives.

[90] **Kenneth Skates:** What are your views on the Government's recent announcement of £5 million for recyclable loans to bring empty homes back into use? Do you expect that to deliver a large number of homes?

[91] **Mr Hughes:** The emphasis on empty homes is a very logical stance from the Welsh Government. I know that one local authority in north Wales has talked about having 6,000 or 7,000 empty homes, so any initiative that tries to unlock that has to be very worthy.

[92] **Kenneth Skates:** Could I just ask briefly—

[93] **Ann Jones:** We need to finish in three minutes and we have another section to do.

[94] **Kenneth Skates:** I wanted to ask about keeping people in their homes at the present time. I have some concerns about one product—the switching from repayment to interest-only mortgages, which some people may see as a way of making their mortgage affordable. Is there not a problem, in that stricter criteria for switching means that it is no longer possible for people to do that?

[95] **Mr Hughes:** One of the reasons why the number of repossessions and arrears has been low is that lenders are conscious of some of the negative aspects of the past, but they are also wanting to be responsible—we will look at every means possible of keeping borrowers in their home. So, a lot of work has been done collaboratively with agencies such as Shelter and Citizens Advice. The change from capital and interest to interest only is a classic dilemma for lenders, because you do not want to store up a problem for the future. Equally, it is a very logical way of giving temporary relief to a borrower who is in financial distress. That is therefore a difficult set of priorities for lenders to balance, but, by and large, they have found

the right balance over the past few years.

[96] **Ann Jones:** We are going to move on to the last section, which is innovation and new ways of working. Janet, will you deal with those?

[97] **Janet Finch-Saunders:** The WLGA has commended Conwy County Borough Council for the way it has put money aside for mortgage indemnities. Is this something that other local authorities could look at? Secondly, what sort of ideas and new and innovative ways would you like to see coming forward in the housing Bill?

[98] **Mr Hughes:** First, we commend Conwy council for that initiative. We are aware of the local authority assisted mortgage scheme. To put my Principality hat on for a moment, our view is that, ideally—this goes back to the section 106 agreements—if it were on a greater scale, so that more local authorities were supporting that initiative, it would be much easier for us to commit a lot more resource to it and make it a much bigger product.

[99] Picking up on Peter's point about section 106 agreements, we have approved over 50 of them in the past 18 months. In over 40 of them, we have not lent a single penny. So, there is a lot of work involved in just going around in big circles doing nothing, but the local authority mortgage scheme is something that is extremely worthy, and if we could get more local authorities engaged in that, that would be terrific. That would make it into a pan-Wales initiative. I understand that there are some local difficulties in some authorities, and that elections might be seen to be an impediment to certain decisions, but I do think that the thing has legs.

[100] I also believe that some form of insurance product, similar to what the Government has announced in the last couple of weeks, is something that the Welsh Government could look at. It is something that, potentially, has very limited risk for Welsh Government and, actually, it would help construction to get back to work. This would mean that we could deliver Wales-only solutions. There are quite a few initiatives there, but let us not forget initiatives such as the Welsh housing partnership, which was a rental sector initiative, in which there was a lot of collaboration. We have had Welsh RSLs going into consortia in a way they have never done before. Innovative thinking is happening and, speaking again with a Principality hat on, we are looking at lots of other initiatives at the moment with Welsh Government, and I would be disappointed if some of those did not come to anything.

[101] **Ann Jones:** Mr Morton, do you have anything to add? I see that you do not. Are you happy, Janet? I see that you are.

[102] I thank both of the witnesses for coming to today's evidence session. A copy of the transcript will be sent to you for you to check for accuracy. That was the last evidence-gathering session of this inquiry, so we shall start to look at the evidence that we have received in the new term.

10.54 a.m.

**Cytuno ar Ffordd ymlaen ar gyfer Gwaith Craffu Cyfnod 1 ar Fil Is-ddeddfau  
Llywodraeth Leol  
Agreement of Approach for Stage 1 Scrutiny of Local Government  
Byelaws Bill**

[103] **Ann Jones:** Under this item, I want committee members to signal whether they are content to issue a general call for evidence, to invite written submissions from organisations and individuals, and to invite stakeholders to give oral evidence at the first few meetings of

next term. Are Members content with that? I see that you are. Thank you very much.

**Papurau i'w Nodi**  
**Papers to Note**

[104] **Ann Jones:** There are papers to note. I take it that nobody has anything to raise from them. I see that you do not. That just leaves me to say that the meeting is now closed and to wish everybody nadolig llawen a blwyddyn newydd dda—merry Christmas and a happy new year.

*Daeth y cyfarfod i ben am 10.54 a.m.*  
*The meeting ended at 10.54 a.m.*