



Communities, Equality and Local Government Committee

**Inquiry into the provision of affordable housing, across all
tenures, in Wales**

Evidence by CIH Cymru

October 2011



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Introduction

The Chartered Institute of Housing is the only professional organisation representing all those working in housing. Its purpose is to maximise the contribution that housing professionals make to the well being of communities.

In Wales, we aim to provide a professional and impartial voice for housing across all sectors to emphasise the particular context of housing in Wales and to work with organisations to identify housing solutions. We are committed to working with our members, the Welsh Assembly Government and all our other partners to deliver safe, warm and affordable homes for all. We welcome the opportunity to provide evidence to the Communities, Equalities and Local Government Committee's Inquiry into Affordable Housing.

General Comments

We welcome the focus of the inquiry on the provision of affordable housing. Providing good quality affordable housing is a central part of delivering a comprehensive national housing strategy, it cannot be divorced from wider concerns about housing supply, the quality of our homes and the extent to which we are to meet the needs of everyone, including the most vulnerable people. The supply of good quality affordable housing is a pre-requisite for a strong and vibrant economy, for the health and well being of individuals and for the stability of communities. It follows that an undersupply of affordable housing will have adverse consequences in these policy areas and a detrimental impact on people and communities across Wales.

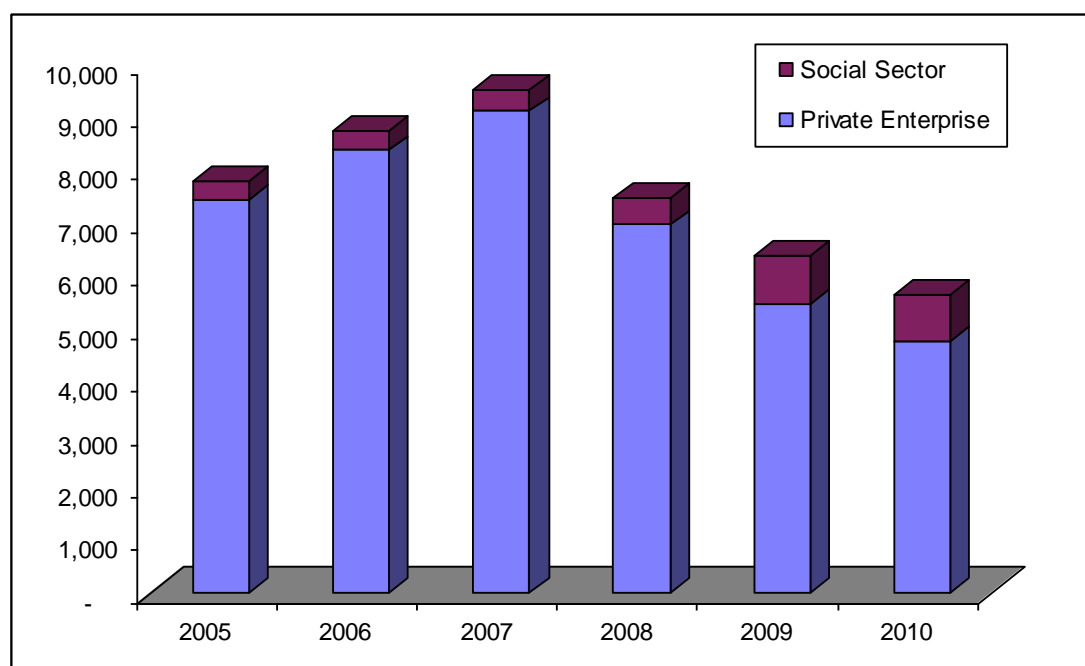
Yet, the affordability of homes in Wales remains a key challenge in 2011 with a significant number of wards in Wales experiencing house prices well in excess of 8 times local incomes, even at the first time buyer end of the market ¹. It is clear that the downturn in the market and a decrease in house prices over recent years has not done anything to address the affordability gap. Moreover, a new factor in this

¹ *Meeting Housing Need*, Victoria Hiscocks, Welsh Housing Review 2011 (CIH Cymru)

agenda has emerged in what has been deemed ‘the deposit barrier’² to homeownership, where by stricter lending criteria is significantly limiting access to owner occupation. These trends are putting a growing pressure on social housing and the private rented sector to meet housing need, and also means that when we consider ‘affordable housing’ we need to include all tenures as the committee has suggested.

Research commissioned by the Welsh Government in 2010³ suggested that Wales needs on average an additional 14,200 homes per year over the next fifteen years in order to meet future housing need and demand (9,200 in the market sector and 5,100 in the non-market sector). However we compared these estimates to the number of homes that we have actually been building in Wales (see figure 1. showing annual completions since 2005) it is clear that even in the more prosperous years ‘pre credit crunch’ when we were building over 10,000 homes per year, this was still no where near the required amount.

Fig. 1 Annual completions in Wales since 2005.



²The Deposit Barrier to Homeownership, Steve Wilcox, UK Housing Review 2011

³ [Housing Need and Demand in Wales 2006 to 2026](#); Cambridge Centre for Housing and Planning Research, Alan Holmans and Sarah Monk

We welcome the fact that the inquiry is considering affordable housing across all tenures, as this is very much in line with CIH Cymru's approach to tackling housing issues. We have for some time been advocating a 'whole system' approach to delivering housing solutions which recognises the role that all tenures and sectors can play and also takes into account the interactions between various sectors. We are pleased to see this approach reflected in the terms of reference for this inquiry.

Key messages:

- There is a housing shortage in Wales which is set to worsen, with demand for affordable housing outstripping supply
- Despite declining house prices, access to home ownership is impossible for a growing number of people and significant areas of Wales remain unaffordable
- Both the provision of new housing and the reuse of existing stock must be explored if the fundamental problem of a housing shortage is to be addressed
- This can only be delivered through a cross sectoral, whole system approach to modelling a more flexible housing system

The effectiveness of public subsidy in delivering affordable housing, in particular SHG

There is considerable evidence to demonstrate the positive impact that public investment in housing can deliver. During the *One Wales* term the social housing sector exceeded its target of delivering 6500 homes by 23% at a time of significant economic downturn. As well as helping to maintain the construction sector through a very difficult period, this programme also helped create employment and training opportunities across Wales and provided crucial support to related supply chains both directly and indirectly. These benefits were on top of delivering much needed affordable housing to meet housing need in communities across Wales. However, it

is important to note that this significant achievement would not have been possible without the use of Social Housing Grant and the additional investment that was allocated via the Strategic Capital Investment Fund.

Of course, we are currently in a very different environment to that under the One Wales Government with housing capital now severely restricted. CIH Cymru noted with disappointment the significant reduction in this funding in the recent budget which will place additional challenges on the housing sector in delivering affordable housing going forward. In these circumstances it is important to look at what other forms of public subsidy aside from Social Housing Grant might be utilised to support the delivering of affordable housing.

Land

The cost of land is a considerable factor in the delivery of affordable housing and whilst land value has fallen in response to the economic downturn, the 'hope value' that landowners attach to their asset and their consequent reluctance to release it, remains a major challenge. Use of public sector land for affordable housing has long been cited as part of the solution to this particular problem and could potentially be a key form of public subsidy. A protocol launched in 2006 set out a commitment by the Welsh Assembly Government and Assembly Sponsored Public Bodies (ASPBs) to consider how surplus land - and other land being brought forward for development - could make best use of public assets for achieving housing priorities. This was followed by a commitment in the *One Wales Agenda* to 'improve radically the supply of publicly-owned land, including land in the ownership of the Assembly government, for local, affordable housing.' Despite these clear commitments from two successive governments this has not been successfully implemented to date on any sort of scale. The new 2011 Labour administration provided a clear manifesto commitment to make public land available for housing and it is essential that this is translated into action if we are to deliver anywhere near the number of affordable homes that Wales requires. It is important that this commitment is taken forward across Government departments who have land within their ownership. An analysis

of barriers to releasing public land should be undertaken leading to specific actions to significantly increase supply across all departments and

Developing skills and capacity

Delivering affordable housing is not just about funding development and build costs, but about ensuring that housing (and other) professionals have the right skills and capacity to be able to effectively take this agenda forward. Whilst opportunities for delivering affordable housing through the planning system have reduced significantly in the last few years, that is not to say that they have diminished completely. Moreover, there is a considerable argument to be made for ensuring local authority housing and planning departments are ready to make the most of any opportunities that might arise should the market begin to improve.

CIH Cymru has long advocated the local strategic housing enabling role and the importance of having a well resourced and highly skilled strategic housing function cannot be overstated. We acknowledge the recent work in raising awareness of this role across local authorities in Wales which has been undertaken by WLGA in conjunction with Sue Essex. We would however suggest that the committee considers the way in which the Welsh Government might further support this function and the benefits that investing in strategic skills and capacity might deliver.

For example CIH Cymru in 2009 received Social Housing Management Grant to deliver a series of intensive seminars around 'skills for affordable housing' for strategic and affordable housing officers. This training covered skills such as negotiation skills and development viability appraisal in an effort to equip housing professionals with the technical expertise to work more effectively. As new staff enter this area, it is essential that high quality skills training is available and we would urge the Welsh Government to work in partnership with professional bodies to develop and deliver this. CIH Cymru is already making an impact in this area through the joint Housing and Planning network that we run with our colleagues in

the RTPI, bringing housing and planning professionals together to share good practice and facilitate joint working. Housing Pact Cymru, CIH Cymru's ask and offer to the Government at this year's elections, recommended that that the Government *'invest in a cross professional skills programme in housing, planning, community development and regeneration'* and we would consequently urge the committee to give serious consideration to skills and capacity as part of their inquiry.

The role of Housing Benefit as public subsidy

Housing benefit is often overlooked as a housing subsidy, however with its primary policy objective of ensuring that low income households have access to accommodation that reasonably meets their needs, it is in fact a key consideration when discussing the effectiveness of public subsidy in delivering affordable housing.

CIH Cymru would take this opportunity to highlight some of the concerns of our members about the impact of the current Welfare Reform agenda on their businesses and the people they work with and for. The range of reforms and their likely impact on some of the most vulnerable in society are well documented and can be accessed in more detail in other CIH publications⁴. However, in relation to the impact on delivery of affordable housing we are not convinced that the necessary steps have been taken to examine the important inter-relationships that exists between housing benefits, rents and new supply.

Housing providers and the lending community are both clear that changes to housing benefit, in particular in the social sector, will have important effects on business plans and the ability to service existing debt as well as service new borrowing. The off balance sheet borrowing undertaken by housing associations is of particular importance given its pivotal role in providing for the building of new affordable housing. Changes to housing benefit will have implications across other

⁴ <http://www.cih.org/housingbenefit/services.htm>

areas of public expenditure, including the impact and effectiveness of capital investment in new homes, that need to be fully understood and quantified.

Defining 'affordable' housing

Until recently, measures of affordability of homeownership focused on the incomes which households required to access the market. This was the basis for CIH Cymru's analysis of housing market affordability in Wales in 2005⁵ and 2006⁶ which highlighted the significant and increasing affordability problem in Wales as house price to income ratios rose to record levels. Since this research, the affordability issue has certainly risen up the public and political agenda.

Whilst access to home ownership has often characterised discussions on affordability, it has always been an issue for other forms of tenure – indeed it is becoming an increasing problem across both the private and social rented sector because welfare reform meaning reducing the level of housing benefits and in the case of the private rented sector concerns about rents rising faster than incomes.

The Welsh Government has so far shown little enthusiasm for the 80% market rents model for affordable housing being developed in England and CIH shares concerns that such a model not only undermines the concept of affordability but is politically, culturally and socially unacceptable as a model for Wales. However it would be naive to think that such policy developments in England do not have an impact on the Wales housing system both through 'policy creep' and by virtue of the fact that housing markets transcend administrative boundaries.

From CIH Cymru's perspective the important issue is to define affordability in a Welsh context and proactively fashion policy interventions. We believe that an important step in that process is for the Welsh Government to lead the

⁵ [Young, working and homeless](#) CIH Cymru Key Information Briefing, 2005

⁶ [Young working and still homeless](#), CIH Cymru Key Information Briefing 2006

Needs to be part of a bigger discussion in Wales about the role / purpose of social housing as part of a wider debate on affordability

The housing advantage

The impact of housing investment in delivering wider benefits - jobs, training, regeneration, improved health and wellbeing etc – although long understood has never been more relevant. The evidence to support this is increasingly extensive and robust and includes the WERU report produced by Community Housing Cymru,⁷ *The cost of poor housing in Wales*⁸, produced by Shelter Cymru and BRE and the evaluations carried out on impact of the i2i Can do toolkit⁹ over the first two years of its operation. Moreover, a recent Value Wales evaluation of the ‘multiplier’ outcomes for public investment in three case studies concluded that the best results had been achieved through the housing.

There is also evidence that a greater number of job and traineeships are created through housing than other construction investment for example transport where a higher proportion of the spend goes on plant and materials and less on employment. CIH Cymru is therefore a strong advocate of taking a wider assessment of the value of public investment in housing that takes into account the positive economic, social and environmental impacts

Whether alternatives to public subsidy are being fully exploited

⁷ http://www.chcymru.org.uk/chc_dev_final//publications/weru-report.cfm

⁸ <http://www.sheltercymru.org.uk/media/press-release-display.aspx?Parentid=4&year=2011&newsid=26>

⁹ http://www.whq.org.uk/i2i/about_resources.php

Making public subsidy go further

CIH Cymru would not necessarily agree with the principle of seeking 'alternatives' to public subsidy because (as we have noted earlier) of the crucial part that affordable housing plays in not only meeting housing need and building sustainable communities but in delivering on a wide range of other government policy areas including health, education and economic regeneration. We would advocate the maximum possible investment in housing because there is a strong case that spending on housing can deliver added value across so many other agendas. We do however agree that it is important to consider how public subsidy might be used more effectively in order to achieve the maximum impact, and recommend that the committee also starts from this premise.

Accessing other forms of subsidy

The housing sector in Wales has been exploring how it can make public subsidy go further for some time. We would commend the work being undertaken by Community Housing Cymru who are working hard with their members to explore a range of mechanisms for achieving this objective. The recently launched Welsh Housing Partnership is a clear example of a number of organisations coming together with a view to increasing the provision of quality affordable homes with a lower level of public subsidy. The key issue is however that accessing innovative funding can only reasonably be expected to compliment public investment and not replace it.

The importance of direct investment in affordable housing in accessing other public / private investment is also an important consideration. A decrease in capital programmes runs the risk of incurring an opportunity cost through a subsequent failure to lever in of public investment for example through energy efficiency schemes such as HEES and Arbed . Accessing European resources if as anticipated

housing projects become eligible for funding in the future could also be undermined if public investment is not available as match funding.

Whilst the opportunities for planning gain have reduced as noted earlier, this is still an option that should be explored where possible. Unfortunately, affordable housing Affordable housing is often the only thing that can be negotiated on S106 agreements with projects for education and highways taking a priority. It is essential that local government makes affordable housing a strategic priority if the housing opportunities from this route are to be maximised.

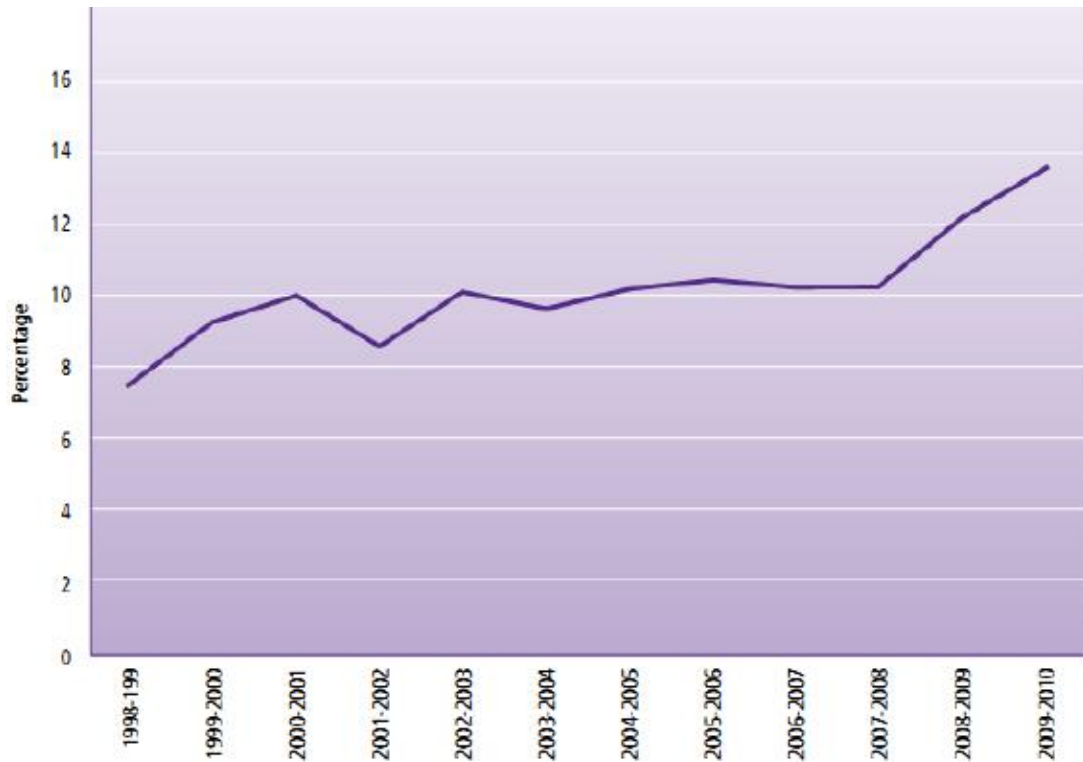
Direct public investment will not only continue to be necessary but there are very strong arguments for it to be restored to at least 2009-10 levels. This is not however and argument for simply returning to better times. The housing sector as a whole will need to take responsibility for narrowing the gap between the supply and demand for affordable housing and this involves a far more joined up and cross sector approach long advocated by CIH Cymru. This should include exploring innovative funding, utilising public land, bringing empty properties into use and developing new mutual forms of delivery

The role of the Private Rented Sector

In the past the private rented sector has been undervalued and overlooked , mainly playing a residual role for those who cant access social housing or owner occupation. There is now however an increasing expectation that it will cater for demand in the wider housing market, meeting a variety and diversity of needs and becoming the tenure of first choice for some households, fulfilling need that cannot be met by either the owner occupied or social rented sector. CIH Cymru has been reinforcing the message that the PRS is part of a 'whole system' solution to meeting housing need and there is an expectation that the PRS will have to play an increasingly important role in the future. This is evidence from the increase in the proportion of stock in the PRS over recent years (see figure 2) a trend which looks set to continue,

with some commentators estimating that it will rise to 30% of the market over the next few years.

Figure 2. Increase in the Private Rented Sector in Wales.



It is clear that in any strategy to provide affordable housing a good quality private rented sector must play a key role and we need to ensure that it can fulfil this role. This means providing private rented homes which are of a high quality, are managed well and offer a secure, long term option for those wishing to access it. CIH Cymru is currently doing some work to consider how we take a strategic approach to delivering this ambition, building on the report produced by the Communities and Culture Committee under the previous Government. This will look at what legislative options might be presented under the Housing Bill to address quality and security as well as how else we might improve the PRS offer in Wales, for example through growing social letting agencies using the expertise of the RSL sector in managing and maintaining properties.

Learning from other parts of the UK

The challenges that Wales faces in relation to affordable housing are not unique, but are common to all four corners of the UK. Whilst the policy, regulatory and political environment might vary across the regions, there is nevertheless an opportunity to learn from good practice and innovation from other areas. We would particularly commend some of the work that has been undertaken by our colleagues in CIH Scotland in a new briefing which has attempted to understand the new reality of how social rented and other affordable housing will be funded in the future.

For housing providers who still want to develop, this will mean a change from current business models to provide a mix of homes including market and mid market rent or shared equity, which the Scottish Government anticipates will cross subsidise the provision of social rented housing. New governance structures may also be required to set up special purpose vehicles to manage new funding arrangements. Bond and pension fund markets are to be explored, but all of these new funding models come with an element of risk and whether they can work or not will depend on how much risk an individual organisation is prepared to be exposed to and how they manage that risk. For some of the models, the Scottish Government may be prepared to take on some of the risk through Government backed guarantee schemes, but in most cases the risk will be with the provider. The Scottish Housing Regulator will also be developing its thinking around acceptable levels of risk in the new funding process. Some of the models that have been explored in the briefing include:

- Pension funds and special purpose vehicles
- Mortgage Indemnity Guarantee
- Mid market rent initiatives (MMR) including National Housing Trust
- Bond finance
- JESSICA funding

<http://www.cih.org/scotland/policy/affordablehousing-briefing-July11.pdf>

Whether the Welsh Government, local authorities and RSLs and effectively utilising their powers to both increase the supply of, and access to affordable housing

We would refer to the release of land alluded to earlier as a significant area where the Welsh Government could further utilise its power. We have also called for a National Housing Delivery plan which we feel would be a useful way of bringing all the components and sectors together to develop a strategic approach for increasing the supply of affordable housing (see question 5).

National government is not the only public body with a land supply; local authorities are key players in this and have the capacity to dispose of their land at less than best consideration in order to bring forward affordable housing. In difficult economic times, local authorities are understandably under pressure to achieve best value from their assets, but it is important that they see this as part of 'the bigger picture'; the significant added value that housing investment can bring (see The Housing Advantage) alongside the cost of not meeting local housing need (not least through increased homelessness) should provide a clear mandate for local authorities to make use of their land for housing where appropriate. This also applies to those LSVTs who have inherited developable pockets of land post transfer, where there is a large amount of potential to work in partnership to bring forward housing on these sites.

Another area for local authorities to consider is their approach to bringing empty homes back in to use. Local authorities have extensive powers in this area but there is inconsistency across Wales in the extent to which these powers are utilised and the level of resources being committed to tackling empty homes. We are looking forward to hearing details of the new national empty homes initiative that was announced in the Programme for Government as this was something CIH Cymru has

championed for a number of years. Our references to the strategic housing role, relationships with planning and the corporate commitment to affordable housing are also pertinent to the way in which local authorities are effectively using their powers.

In terms of access to affordable housing, we would highlight the very important role of providing good quality housing information and advice. Most local authorities now have very comprehensive housing options services and it is essential that these are maintained and not put under pressure by spending cuts. Housing options advice should ideally include the full range of housing options including private renting and owning and should not be 'crisis driven', although there is a risk services retreating to this under current pressures.

The RSL sector, as stated previously, has been very successful at finding new ways to use the tools at their disposal to increase affordable housing, but there is of course still scope, and indeed a large drive, to continue to do more, including using their own reserves and land where possible. There are interesting opportunities in the LSVT sector where land has transferred over to the new organisation and there is an appetite to build.

Overall, it is CIH Cymru's view that housing providers are generally committed to seeking out innovation and developing new models in order to meet Wales' housing need and on our part we will do everything we can to support the sector to achieve this.

Whether there is sufficient collaborative working between local authorities, RSLs, financial institutions and homebuilders

Over recent years there has been a growing recognition that no one sector can deliver on its own and that collaboration is the key to being able to achieve anything in the current climate. In CIH Cymru's view there is in general a high degree of collaboration between local authorities and their RSL partners, although the quality of this relationship might vary across Wales, and there is always a case to be made for trying to improve ways of working.

The current challenge it seems is around private sector partners who, in response to the external environment have become much more risk averse and have retreated from the affordable housing market to focus on what they perceive as more 'mainstream' activities. CIH Cymru members have informed us that engaging with lenders and house builders is now more difficult than ever, and that this does present a barrier to delivering affordable housing in the current climate.

CIH Cymru is currently working with the WLGA and the CML to develop new guidance for local authority housing and planning officers on mortgage lending for affordable housing. This aims to set out some parameters that lenders are currently prepared to work within in lending on S106 and other affordable housing products. This aims to overcome some recent challenges whereby potential owners have been unable to secure mortgages on certain properties due to overly restrictive criteria around occupancy clauses and future sales. This will hopefully achieve the balance of helping properties to remain affordable in perpetuity and satisfying the requirements of lenders who perceive this sector as a higher lending risk. This has been a good example of engaging lenders in the affordable housing agenda and maintaining their engagement in the future will be critical.

Local authorities have a critical role not simply in terms of their strategic housing role but in maximising opportunities to collaborate with each other and develop

effective partnerships with other sectors. This includes regional market assessments, sharing strategic resources and empty homes management initiatives.

Whether innovative methods of delivering affordable housing such as Community Land Trusts or co-operatives could be promoted more effectively by the Welsh Government.

The key issue raised by this question is the need for innovation, not just from Government but from all the partners who work across the housing sector. Innovation is the key message here.

CLTs and cooperatives are both very interesting models that have potential to add to the range of tools and solutions in Wales, and could present particular opportunities in rural areas for example. Wales has a rich tradition of co-operation, and in recent years has led the way in new models of community housing.

The Community Housing Mutual sector now represents thousands of homes and has significantly changed the landscape of housing in Wales. These organisations, along with the many other social landlords who are taking more mutual approaches are succeeding in offering greater opportunities for local decision making, wider regeneration activities and for tenants to have a greater say in the way their organisation is run. The current policy, financial and social climate makes mutual and co-operative options an attractive solution in addressing housing needs, community ownership and neighbourhood / community management.

CIH Cymru is also very interested in the opportunities that cooperative models might present for the delivery of new affordable housing – whether this be for social rented housing or for helping people in to homeownership or intermediate tiers. There are already a considerable number of models and approaches that have been

tried and tested and there is scope to give further consideration to what might work in Wales. It is important the full range of models. Including self build, self-help housing and cooperative and mutual owning and rented are explored. CIH Cymru was pleased to recently receive an invitation to attend a Welsh Government working group to explore this agenda and look forward to contributing to this growing body of work alongside our partners.

We recognise however that co-operative and mutual housing is not a panacea for the housing problems currently faced in Wales. Whilst it provides an interesting alternative model that is worthy of further consideration by the housing sector and local and national government, this should be part of a patchwork approach to meeting housing need across the whole housing sector.

CIH Cymru's view is that going forward we will need a comprehensive approach to affordable housing which utilises the full range of tools at our disposal. A key recommendation of Housing Pact Cymru was for the development of a 'national affordable housing delivery plan' to map out all the different elements that could contribute to increasing the supply of affordable homes. We feel that this could include

- Bringing empty Homes
- Intermediate rental products
- Maximising the use of public land
- Enabling local authorities who have ambitions to build to do so
- A strategic approach to the Private Rented Sector
- Traditional social housing funded through grant
- RSLs maximising the use of their RSLs
- Maximising the use of the planning system
- Innovative financing models such as bonds and pension schemes

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