



**The National Assembly for Wales Communities, Equality and Local Government
Committee-Inquiry into the provision of affordable housing**

Community Housing Cymru

Community Housing Cymru (CHC) is the representative body for housing associations and community mutuels in Wales, which are all not-for profit organisations. Our members provide over 127,386 homes and related housing services across Wales. In 2010/11, our members directly employed 6,500 people and spent over 800 million in the Welsh economy¹. Members work closely with local government, third sector organisations and the Welsh Government to provide a range of services in communities across Wales.

Last year CHC formed a group structure with Care and Repair Cymru and the new Centre for Regeneration Excellence in Wales, in order to jointly champion not for profit housing, care and regeneration.

Current Housing need

Recent statistics² show that there are over 90,000 people on social housing waiting lists in Wales and an estimated 284,000 additional homes are required in Wales between 2006 and 2026, which includes 101,000 homes from the social rented sector, to meet newly arising need and demand. First time buyers need higher deposits to secure a mortgage, which they often cannot access, and thus this increases the pressures on social housing.

Prices still remain too high in relation to average earnings for most first time buyers. This is a direct result of the supply side crisis. The rate of home ownership has declined in recent years due to the level of house prices, the need for larger deposits and stricter lending criteria set by banks, and there is a real risk of further falls in home ownership rates and we are already seeing rents rising in the private rented sector due to increased demand.

Housing associations have a track record for delivery - **they exceeded the One Wales target of building 6,500 additional affordable housing units in the third assembly term by 23%, building over 2,000 homes last year.** At the same time, private sector construction has been reduced from approximately 10,000 homes before the credit crunch to about 5,000 homes per annum.

After a period where housing association supply has been on the increase, we need to ensure that we protect supply during the most challenging funding environment for a generation. In 2007, the sector pledged to increase borrowing and investment by at least £112m in return for an independent policy review of its regulation, led by former Finance Minister Sue Essex. Four years on the sector has actually delivered over £300m of additional investment. **This would not have been possible without the Essex Review, particularly the regulatory freedom and the resources it brought.**

¹ Welsh Economy Research Unit: The housing associations of Wales. Measuring the impact IV

² Alan Holmans and Sarah Monk: Housing demand and need in Wales 2006 to 2026

Despite resources becoming scarce, it is essential that the regulatory system in Wales continues to focus on outcomes. It is vital that the regulatory regime remains flexible, responsive and risk based with a focus on outcomes, financially viable with a strong emphasis on good governance.

A Target for policy focus

CHC welcomes the pledge from Welsh Government to increase the supply of affordable housing in the programme of Government, but we regret the lack of a specific supply-based target. A tangible target is even more important at a time when social housing grant is being cut by up to 60% over the next four years, combined with the proposed benefit cuts from Westminster and loan re-pricing by the high street banks squeezing the viability of development. The Community Housing Cymru members have indicated their readiness to invest a quarter of a billion pounds to boost investment in the supply of social housing and care and regeneration projects in Wales. The investment will be dependent on a continued constructive partnership with the Welsh Government over the 2011-15 period.

CHC would like to see a tangible specific supply-based target set, in partnership with Welsh Government and other key partners so that we can plan together to overcome cuts in public subsidy.

Alternatives to public subsidy

A study by the Welsh Economic Research Unit has shown that while the number of additional homes brought into use by non-SHG dropped significantly between 09/10 and 10/11 (399 in 09/10; 213 in 10/11), the number of homes brought into use by Social Housing Grant saw an increase of around 8% (1,740 in 09/10; 1,883 in 10/11) over the same period³. With the cut in SHG of up to 60% over the next four years, it is imperative that we look for new sources of funding if we are to meet the current supply crisis in Wales. However it's important to note at this point that a cut in Social Housing Grant does have a direct effect on rent levels and whilst 65% of the sector's tenants are not affected by a rise in rents as they receive Housing Benefit, 35% of our tenants are affected. We are in discussions with Welsh Government and are working continually to maximise the opportunities available to replenish the substantial deficit of grant available to build affordable homes.

During 2010, CHC and partners explored the possibility of setting up a Welsh Housing Investment Trust (WHIT) to investigate the option to create a Special Purpose Vehicle which would raise funds from the capital markets with individual associations subscribing for equity. That proposal was not progressed due to a range of technical reasons although there is still much enthusiasm regarding the use of a special purpose vehicle if it can deliver cheaper and smarter financing.

³ Welsh Economy Research Unit: The housing associations of Wales. Measuring the impact IV

1. The Welsh Housing Partnership

The Welsh Housing Partnership has since been established and is now in pilot phase. This innovative venture comprises of Coastal Group, Hendre Group, Seren Group and Cymdeithas Tai Clwyd who will work together to buy affordable homes for people to rent under one banner, the Welsh Housing Partnership. The aim of the Welsh Housing Partnership is to increase the supply of quality affordable homes to families who can't afford to buy their own homes. The Partnership will offer long term quality rental packages to tenants keen to rent one of these affordable homes in north or south Wales. In this pilot scheme, supported by the Welsh Government and Principality Building Society, the Welsh Housing Partnership aims to buy around 150 homes to rent during its first year.

The £16m project has been financed through a combination of £3m of Welsh Government grant funding, a £12m loan from Principality Building Society's Commercial Division and £1m of equity finance from the investors in the Welsh Housing Partnership.

2. Diversification

Setting up subsidiaries

One other very positive consequence derived from freedoms granted to the sector in the wake of the Essex Review has been the increase in subsidiaries set up by the RSLs to undertake activity that the RSL can't undertake itself. This has allowed our members to diversify the services they provide and create income that supplements their core activities by Gift Aiding surplus back to the parent company.

One such member is North Wales Housing Association who is tackling the reduction in levels of social housing grant, by establishing a commercial subsidiary called Domus Cambria. Its primary purpose is to generate income for North Wales Housing through development activities that cannot be undertaken through NWH directly on account of its charitable status. Profits will be gift-aided to NWH to enable them to continue to provide homes and services for those in need.

Non social housing grant schemes providing intermediate rent units and homes for sale are likely to be the initial core activities for the company. Their first development will be on site within the next 6 weeks - 35 two bed apartments for sale to over 55s in Llandudno.

Welsh Housing Bond

We are close to setting up a Welsh Housing Bond in Wales and hope to have something in place for 2012. CHC recently commissioned a study into innovative methods of raising finance in response to the Welsh Government's decision to reduce SHG by 35% over the next 3 years to around £70m per annum at a time when other pressures on the economy will increase the demand for additional social housing development. An external consultant, along with Finance Directors from housing associations, recommended areas for further exploration including:

- deploying unused borrowing facilities and capacity;
- accessing new sources of commercial funding;

- securing wider public funding support;
- development of partnerships with local authorities
- greater delivery of public services including health and social care.

Please refer to **Annex A** for a copy of the study recommendations⁴.

3. Publicly owned land

Making a clear and quantified commitment to make publicly owned land available for affordable housing at reasonable cost or no cost can act as a key form of public subsidy. The Welsh Government, Health Authorities and Local Authorities have a part to play in this and it will require leadership and determination from Government to free up housing providers to create quality, affordable homes, where they are most needed. The Public Sector's existing partnerships with RSLs are the key to creating volume in house building in conjunction with a supportive and innovative planning framework. An element of subsidy, either through land or capital grant will be the trigger for developing more affordable housing and stimulating growth in housing construction with the additional benefits this brings to the Welsh economy. CHC welcomes the commitment in the Labour manifesto to make public land available for affordable housing and it is important that this is translated into action. **We are of the opinion that there are no EU procurement impediments to a new partnership between public authorities and the third sector to make this happen.**

4. A Sustainable rents policy

The rent setting policy for social housing rents in Wales has evolved over a number of years and CHC believes that any rent setting policy needs to drive quality and sustainable housing supply to ensure transparency and provide reassurance for tenants that landlords are sustainable. This will also incentivise better housing standards in times of austerity. CHC recognises the uncertainty associated with the current system and the disparity between the rent setting policy for local authorities and that of housing associations. We also see the merits, for both local authorities and housing associations, of convergence with a target rent which still offers flexibility to set rents locally for individual properties.

It was clear from the work undertaken as part of the Essex Review that collectively the HA sector has the capacity to support additional borrowing to fund affordable housing. The key issue, however, was the lack of income to repay that additional borrowing. It was established that a relatively small increase in rents across all rents would generate that income. Based upon the research & financial modelling undertaken at that time (based on CHC's 2008 Global Accounts data) an average increase of £3/wk on all HA rents would generate sufficient income to support the cost of developing approximately 1000 homes without Social Housing Grant.

To give an example, one of our members Cynon Taf Community Housing Group has one of the lowest gearing ratios in Wales, and they have unencumbered assets against which they could borrow. However, the cap on their income (rents) which are the lowest in Wales currently mean that they cannot service any more debt. **This is an inefficient use of their assets, but the**

⁴ David Swallow-REPORT INTO INNOVATIVE FUNDING OPTIONS TO SUPPORT NEW SOCIAL HOUSING DEVELOPMENT

proposed rent setting formulae merely exacerbates this problem. Given on-going HRA reform and negotiations with Treasury, it will be important moving forward, to be clear about whether a national framework for rents between the sectors is an achievable and indeed desirable outcome, when matched against the strategic outcomes expected from Welsh Government

5. Collaborative Working

Promoting innovation in collaborative activities improves service outcomes and makes scarce resources stretch further. Relationships between RSLs and Local Authorities have been mixed with some working extremely well whilst others only improving slightly. There has been some concern relating to the changing role of the local authority due to stock transfers, from a housing management function to a strategic role in developing assessment of need and supply, and whether there is the capacity within the local authority to deliver on such a role.

However, it has been argued that the role of Local Authorities has also been strengthened so that they decide priorities for new development locally, and they are made more accountable for their decisions by the requirement to produce annual Affordable Housing Development Statements.

Good practice examples

a. GENuS consortium

GENuS consortium comprises Monmouthshire Housing, Seren Group, Melin Homes, Tai Calon and Newport Housing Trust.

Since 2005 the consortium has built over 1000 new homes, bought almost 100 properties for rent, built more than 120 new homes without using public money, spent £175m on new affordable housing, secured loan facilities for £75m, invested almost £50m in bringing homes up to the Welsh Housing Quality Standard, saved more than £2.5 m in efficiencies which were invested straight back into our communities.

ILM scheme has given work experience to more than 100 people, with a further 50 through Future Jobs Fund, 2,800 jobs employed through partners or suppliers, and 30 apprenticeships with local business with a further 4 recruited in September.

Monmouthshire Housing alone since transfer has reduced CO2 emissions through heating and insulation by almost 5,000 tonnes this has to be added to a further 2,300 from other GENuS partners. MHA tenants will save almost £800k per annum as a result and partner's tenants will save £422,000 per annum.

Plans for the future include investment of £105m in affordable housing, build 1,200 new homes and spend well over £100m on meeting the Welsh Housing Quality Standard.

b. Can Do Lettings Agency

A good example of a local authority and housing association working well together is the Can Do Lettings Agency, which is part of Cadwyn Housing Association. This social lettings agency lets private properties to alleviate social housing waiting lists and is working closely with not only local authorities but also private landlords in managing and maintaining these properties at Local Housing Allowance rent levels. RSLs are operating this type of project in both North and South Wales. For example, Pennaf HA's subsidiary Offa is currently operating a scheme similar to Cadwyn's Can Do Lettings Agency.

c. Gwalia HA and Value Wales

Gwalia HA has worked in collaboration with Value Wales to introduce an e-procurement system into Gwalia. Gwalia previously had a paper based purchasing system and wanted to move to an electronic system. Funding was obtained via a Knowledge Transfer Partnership (KTP) in collaboration with the University of Glamorgan to fund a Procurement Officer who could investigate the market in this area and present a Business Case for an electronic system. The system Gwalia chose was the XchangeWales e-procurement system and they became the 'Pathfinder' organisation. Gwalia worked with Value Wales and their developers Procsolve to develop the system from March 2008 to our GO LIVE date of 1st February 2009. They were the first organisation in Wales to have the system and subsequently it has been rolled out to many local authorities, NHT Trusts, Police Authorities, schools etc.

As a direct result of the collaboration Gwalia has transformed its procurement activity both internally and also it has put them on a national stage. In real terms there have been a number of benefits. The main benefit being that Gwalia drastically streamlined their processes and process savings are indicated in the region of £678,000 (this is based on the number of orders processed via the system and the National Audit Office figure of £31.50 savings per transaction). In addition to this there is an additional saving for every electronic invoice processed and this equates to over £200,000. Gwalia no longer needed a team of staff processing pieces of paper and following them around the building. The Procurement department was restructured and Gwalia now have a leaner structure saving the organisation approx. £40k pa on staffing costs. Staff were retrained into more strategic procurement functions again adding more value to the procurement function with Gwalia. Another benefit of the system is the quality of the management information derived from the system and the opportunity it gives you to re-establish relationships with suppliers.

d. Stock transfer associations

Large Scale Voluntary Transfer organisations generate millions in additional non-grant resources on the back of dowry received in stock transfer. For example this year's total for dowry payments is £108m which will see over £430m in private sector investment. The total investment is therefore around £540m. This contributes hugely to the increase in supply of quality affordable homes, positive regeneration outcomes, local trading /enterprise growth, development of apprenticeship programmes, support for social enterprise and massive impacts on the energy efficiency of housing stock lifting many tenants out of fuel poverty.

For further collaborative success in Wales we believe that the Essex work group conclusions should be implemented fully.

6. Empty Homes

It is imperative that housing providers and their partners work more effectively to make better use of existing stock such as the 26,000 empty properties and ensure that innovative funding initiatives are fully exploited,

The Homestep + Project is a collaboration between Rhondda Cynon Taff County Borough Council and Cynon Taf Community Housing Group. This project is targeted at first time buyers and empty homes. It uses a revolving pot of money with initial grant from the Heads of the Valleys SRA. Purchasers must be first time buyers who could not purchase without subsidy, and the property has to have been empty for twelve months or more. Money is used to purchase the property and undertake repairs to bring homes up to a reasonable standard that would attract a mortgage. The individual obtains a mortgage of 70% of market value (which substitutes for deposit), the grant meets the shortfall between market value and costs of acquiring empty plus the works and on resale/equity increase the 30% is repaid into the revolving pot to finance more purchases. This project combines a number of policy objectives, including widening the range of tenure choices, reducing demand on social housing registers by providing more appropriated tenure, and bringing empty properties into use.

7. Community Land Trusts (CLTs) and co-operatives

Community Land Trusts can be an effective way of delivering affordable housing, and a number of RSLs are considering this method. For example, Castle Caereinion CLT has recently teamed up with Mid Wales Housing Association, Community Land Trust, Powys County Council and the Rural Housing Enabler to develop local affordable housing solutions. The development is anticipated to consist of 6 family houses and will be built on land at Swallows Meadow in Castle Caereinion which will be donated to the community by Powys County Council who acquired the land through a planning Section 106 Agreement some years ago. There is a specific commitment in One Wales to promote the expansion of Community Land Trusts throughout Wales and CHC would encourage this.

CLTs can offer a solution to help provide a route to affordable housing and inject new investment and opportunity by becoming an integral part of the community in which they are situated. Organisations such as 'Land for People' need to be utilised as they give support and advice to communities in Wales and they are assisting the current development of several CLT projects in Wales.

There is the potential in Wales to explore the cooperative housing model for the delivery of new affordable housing. In the UK, 0.6 per cent of homes are provided by cooperatives. In contrast, for example, Sweden has had a distinct cooperative housing tenure since 1920 and 18 per cent of homes are provided by cooperatives. Whilst there is potential in Wales to explore the cooperative housing model, it is not a solution in itself to meeting housing need across the whole housing sector in Wales.

8. Right to Buy

Right to Buy has resulted in a significant reduction in the amount of social housing available for rent in Wales by people in housing need. In some areas, particularly in rural communities, very few properties remain in the social housing stock. The number of vacancies in social housing has also continued to decrease as greater pressure is placed on the decreasing social housing stock. There is a risk that Right to Buy sales may impact on local authorities' efforts to deliver affordable housing in partnership with the Welsh Government. In areas of housing pressure, it is especially important to preserve social housing stock in order to meet the demands of people on modest incomes who are in housing need.

As noted in the explanatory memorandum to the housing (Wales) measure 2011, whilst the power to apply for suspension of the Right to Buy cannot itself create new affordable housing it can ensure that social housing provision is not reduced in areas of housing pressure, while other action is taken to expand it so that it is more closely aligned to demand in a local housing authority area.

Other Key Issues affecting or affected by the supply crisis:

Welfare Reform Bill

The Welfare Reform Bill poses significant threats for tenants and RSLs in Wales. The reforms, which we believe will lead to higher rent arrears, increased homelessness and wider long-term social and economic problems, will have a direct impact on frontline housing and support services. Direct payments in particular could seriously threaten landlord revenue streams and their capacity to invest in new housing supply and wider community regeneration programmes. **Direct payment has reassured lenders that their investment in the sector is a relatively safe option - CML has already indicated that borrowing costs for the sector will rise by at least 1 percent if direct payments to tenants go ahead.**

The capacity of the sector to invest in new housing supply is also being threatened by proposals for housing benefit reform. Direct payment of housing benefit to landlords has been critical in enabling the sector to secure private finance from lenders who regard their investment as a relatively safe option.

In Wales, 40,000 social housing tenants are deemed to be under-occupying their property by having one or more spare room. The under-occupation proposal will see tenants receive a cut to the amount of benefit they receive. So where are these tenants going to go? Is there an abundance of one and two bed properties they can relocate to, and why shouldn't tenants have the right to have a home they can grow into? We believe this measure is punitive, poorly targeted and will do little to address the problems of overcrowding.

The combination of HB changes, lack of supply and lack of mortgage lending means that landlords have a pool of people willing to pay more than those on low incomes. One of our members Cadwyn Housing Association runs the Nightingale House hostel, which provides safe, temporary accommodation for homeless families. Statistics from Nightingale House have

revealed that 20% of those who come through their door are working families who are made homeless because they can't afford the rent increases in the private sector. The Welfare Reform Bill therefore has implications for the potential mass increase in HMO's in the private rented sector and it is imperative that the Housing Bill addresses this potential problem.

The Ageing Population- the need for greater integration between Health & Housing

Demographic and global trends mean that demands on services, particularly care and support, are growing and local service providers are finding this demand very challenging. Housing associations and Care & Repair agencies already provide a wide range of support for older and vulnerable people including supported housing, sheltered housing, retirement homes, homes with 'Extracare' facilities, and homes with adaptations. A number of associations are currently providing Residential Homes, Nursing Homes and Homes for Dementia Care. These are all provided without public subsidy.

CHC commissioned 'Kafka Brigade UK' to identify opportunities for the housing sector to support health outcomes within communities in Wales. The report gave a number of recommendations for the housing sector including not for profit nursing care and early discharge into sheltered and extra care schemes. For a full copy of the report please contact kevin-howells@chcymru.org.uk.

Financial Inclusion - Moneyline Cymru

Moneyline Cymru was set up in 2009 to tackle doorstep and illegal money lending via outlets in Cardiff, Bridgend, Newport, Cwmbran and Pontypridd. It is funded by 16 Welsh housing associations, the Department of Work and Pensions and a portfolio of social investors. Moneyline Cymru has provided over 6,000 loans to those who would otherwise have no option but to borrow from high interest doorstep lenders or illegal money lenders. The Welsh Illegal Money Lending Unit estimate that over 25,000 people in Wales borrow from illegal money lenders. Moneyline Cymru customers have opened over 3,000 savings accounts and save on a regular basis. This group of customers have never saved before but to date have cumulatively saved over £250,000. Moneyline Cymru is also working in partnership with Community Housing Cymru and the Big Lottery to provide money advice from each of the outlets.

We are concerned that with direct payments and other aspects of welfare reform that there will be a further tsunami of financial exclusion in Wales- and that urgent action is needed.

Conclusions

Wales is already dealing with a crisis in housing supply; this will only get worse with planned cuts to Social Housing Grant. Whilst there is not an obvious silver bullet we believe a plan can be achieved-this requires a meaningful target and action across rents, innovation, diversification, collaboration, public land and empty properties. For a truly holistic approach policy makers need to appreciate that housing need exists and can be exacerbated by issues such as demographic pressure and financial exclusion. CHC Group is committed to working



with all our partners in developing new not for profit solutions to the challenges facing Wales in Housing, Care and Regeneration.

Annex A

REPORT INTO INNOVATIVE FUNDING OPTIONS TO SUPPORT NEW SOCIAL HOUSING DEVELOPMENT-David Swallow

Conclusions of the report

Securing wider public funding support than Social Housing Grant

There are opportunities to access public support more creatively where Associations' current activities contribute to other Welsh Government policies such as regeneration, energy, health and social services by pursuing funds proscribed for these areas. Some further desk-top analysis should be undertaken into the potential for accessing other departmental budgets than those designated for housing, the contribution Associations make to those departmental outcomes and the options for developing a shared investment approach with public funders. This could then be followed by Community Housing Cymru leading a strategic discussion on this topic with the Welsh Government and particularly the new Minister for Housing and Regeneration.

Development partnerships with public authorities

Associations should investigate the potential for working in partnership with public bodies, combining funding resources, to develop surplus public land without initial asset transfer costs. In addition to facilitating more housing development, partnering with public bodies in this way could make a contribution to the Government's 'more with less' agenda. CHC should take this proposal forward for discussion with the WLGA, the Welsh Government and its Efficiency and Innovation Board.

Deploying unused borrowing facilities and capacity

There appears to be significant available borrowing capacity within the sector in Wales, and some associations have substantial unused lending facilities, whilst others have reached their borrowing limits. From an overall perspective this could be seen externally to imply the sector is not responding sufficiently to address the current crisis in housing provision. Finance Forum should be asked to investigate and recommend suitable mechanisms whereby willing Associations could share or inter-change existing borrowing facilities to increase housing provision. Further examination is needed as to whether acceptable arrangements could be put in place whereby existing unused borrowing facilities could be accessed for the use of other Associations.

Accessing new sources of commercial funding

The current reliance on bank finance represents a substantial future funding threat to the sector but there is strong appetite and activity from the capital markets to invest in housing through Bond and Collaborative Funding Structures. However the minimum lot size for such investments will require Associations to contract jointly. The Finance Forum should be empowered to pursue discussions with potential investors on behalf of the sector to bring forward appropriate investment opportunities for participation. There is considerable activity in the market already underway developing more flexible Bond and Collaborative Funding products. The study group is in direct contact with a number of these organisations and these conversations need to be

continued. A small group representing Welsh Associations needs to be empowered to work up detailed proposals especially in view of the minimum financial lot size that will be required and the need for collaborative action.

Greater delivery of public services

Associations have considerable resource and expertise which could be utilised to take on wider direct delivery of public services, relevant to their role as social landlords and possibly in partnership with third sector providers, who have service capability but insufficient financial strength or wider experience. The opportunity for Associations to respond in this way to the transformation in public services over the next few years is potentially very powerful but will also necessitate structural and operational change which needs careful analysis. National Council should appoint an internal sector study group to undertake an evaluation of the opportunities and challenges and make recommendations on how this could be pursued.

CHC
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