

## **Evidence to Communities, Equalities and Local Government Committee into the provision of affordable housing across all tenures in Wales**

### **Introduction**

1. There is increasing recognition that a failure to meet housing need in Wales will have significant impact on our ability to address important policy areas including social inclusion, social justice, health and well being, community safety, regeneration, educational achievement and economic prosperity. An adequate supply of good quality affordable housing is therefore fundamental to achieving a wide range of Welsh Government, Local Government and community priorities and improved outcomes.

2. Housing has a crucial role to play in economic, social and environmental regeneration. There is substantial evidence of the important role housing investment plays in generating direct and indirect employment and training opportunities. It also has a significant impact on the local economy and labour market and can play a particularly important role in securing the sustainability of communities and local services in rural Wales.

3. It is clear that there is a historic and growing under supply of housing in Wales and across the UK and this is impacting on the supply of homes that are affordable. At a time when demand and need for housing exceeds supply it is inevitable that vulnerable households and those on lowest incomes will experience the greatest difficulty in securing a home. Ultimately a lack of affordable homes will increase homelessness and increase pressure on a wide range of public services including health care, social care, housing support, child protection and criminal justice. Addressing the need for good quality affordable housing is therefore priority for Local Government.

4. A University of Cambridge study (Holmans & Monk 2009) has projected that between 2006 and 2026 the need for housing will increase by 14,200 dwellings per year - 9,200 in the market sector and 5,100 in the non market sector. In addition there was estimated to be a backlog need for 9,500 homes in 2006 and given the reduction in supply over recent years, it is inevitable that this figure has increased.

5. There has been a failure to increase housing supply in Wales to meet the growing need for a significant time. Between 2000 - 2005 the annual increase in housing supply has been 8,000 – 9,000 homes, with a steady decline to 5,505 in 2010 -11, the lowest level since the Second World War. It appears unlikely that housing supply will rise significantly above this level for some time given current economic and housing market conditions. Housing registers for social housing are lengthening, with between 4 – 5 people

registered for every vacancy and homelessness is rising rapidly with an increase of 16% in 2010/11.

6. Our ability to rely on past mechanisms for providing affordable housing - public investment and subsidy through the planning system - is very limited. The challenge of meeting the need for affordable housing is therefore considerable and will require close collaboration and a diverse package of responses, including making the most effective use of existing homes.

### **Affordable homes**

7. The term 'affordable homes' is used to describe a wide spectrum of subsidised housing, from social rented homes at one end of the spectrum to properties that are marginally below, and sometimes above open market costs at the other. This raises important questions about the degree to which such housing is affordable to lower income households. The term 'affordable housing' is also used to describe housing that is affordable for the initial purchaser, but is subsequently resold at full market value.

8. At a time when resources are under extreme pressure it is important that there is clarity about the term 'affordable housing' and the related policy objectives in order that limited resources are used to maximum effect.

9. For the purposes of planning the term 'affordable homes' is defined in the 'Planning Policy Wales Technical Advice note 2: Planning and affordable housing' as housing which is '*accessible to those who cannot afford market housing both on first occupation and for subsequent occupation*'. The term includes '*social rented housing provided by local authorities and registered social landlords and intermediate housing where prices or rents are above those of social rent but below market housing prices or rents*'. Clearly this definition covers a wide range of housing options, not all of which will be affordable for low income households. The definition also fails to incorporate wider aspects of affordability in terms of service charges and access to transport and services.

10. Public investment and subsidy is declining rapidly with a reduction of 30% in Social Housing Grant (SHG) in 2011/12 to £69.5m, a reduction to £60m in 2012/13 and a further reduction to £48m in 2013/14. This has prompted attempts by Authorities and RSL's to 'stretch SHG' by supporting intermediate housing with lower levels of grant. This focus on producing 'affordable housing' which requires less SHG will inevitably reduce the number of additional social rented homes delivered and this will have a real impact on households in greatest housing need.

11. At a time when subsidy for affordable housing is increasingly scarce it is important that there is greater clarity about the term "affordable homes". This raises questions about the extent to which public subsidy should focus on

housing need or housing aspiration, and how long the subsidised home remains affordable.

### **Essex Review of Affordable Housing**

12. The Essex review of affordable housing (Essex et al 2008) identified a range of barriers to the delivery of affordable housing and made a number of significant recommendations. Good progress has been made in implementing many of the proposed changes but new challenges and opportunities continue to emerge.

13. The review focused on a number of issues including the need for greater clarity in the respective roles of the Welsh Government, Local Government, Registered Social Landlords (RSL's) and the private sector; more robust regulation of RSL's; securing additional finance and making better use of existing resources such as land and the social housing asset base; the need to review the social housing rent regime and the Housing Revenue Account subsidy system and the development of a more robust evidence base. There is no doubt that the increased pace in affordable housing delivery which led to the 'One Wales' target of 6,500 being achieved in 3 years is evidence of the progress that has been made over recent years in delivering affordable homes.

### **Inquiry Questions:**

14. The Essex Review contained some very clear messages which continue to be relevant. Perhaps the most important one is the need for **effective collaborative working between local Authorities, RSL's, financial institutions and homebuilders. (Inquiry question 4)**

15. Key stakeholders including Local Authorities, RSL's, developers and lenders are increasingly working together to explore opportunities to deliver affordable homes. Inevitably the effectiveness of such partnerships is variable across Wales, but there is wide recognition that collaboration across sectors and boundaries is essential if we are to meet the need for affordable homes to rent and to buy.

16. From April 2011 notional Social Housing Grant (SHG) is distributed to Local Authorities using a formula based approach and Authorities now set expenditure priorities for a significant proportion of the SHG programme. This arrangement recognises the strategic housing role of Local Government and provides a useful framework for consolidating partnerships with RSL's, developers and other partners, particularly in relation to SHG funded schemes. A good example of close collaboration between Local Authorities and the RSL sector is the recent co location of two Local Authority housing strategy teams and a housing association.

17. Authorities are also working closely with RSL's to deliver non SHG funded housing developments and in most parts of Wales are able to ensure that RSL developments address local strategic housing priorities. One Authority for example has contributed land at no cost and has worked with RSL partners and developers to provide a significant number of homes without SHG funding.

18. The Welsh Housing Partnership is piloting an innovative approach which uses private funding and 18% SHG to purchase existing homes for a period of up to 10 years for letting by housing associations at sub market rents. The transferability of this model will depend on the extent to which the homes meet local strategic housing priorities and the rents are affordable to low income households. These will be important questions when considering whether WHP it is an appropriate use of limited SHG funding or whether it is a model which potentially can deliver housing without the need for SHG.

19. Local Authorities also work closely with private developers, particularly in relation to the delivery of affordable homes through the planning system. The planning system is a major enabler of affordable housing with over 25% of affordable homes delivered in Wales 2007-10 through this mechanism of cross subsidy. The key tool is Section 106 of the Town and Country Planning Act which enables Local Authorities to agree payments or 'in kind' obligations such as affordable housing with developers, to mitigate any unacceptable impacts of a development. However given the current difficulties in the housing and financial markets there are concerns about the future contribution that s106 agreements can make to the delivery of affordable housing.

20. Housing market uncertainty and restricted lending is leading to a drop in housing and land values across many parts of Wales. This is having an impact on the economic viability of private sector housing development which in turn is leading to a reduction in the level of affordable housing delivered through the planning system. The housing market remains buoyant in some parts of Wales, but is sluggish across much of the country and this is raising growing concerns about the ability of Local Authorities in the current climate to deliver affordable housing through this model of cross subsidy.

21. From 2014 the new Community Infrastructure Levy (CIL) will become the main mechanism for providing local infrastructure through the planning system. However CIL does not include affordable housing and there is an expectation that Local Authorities will negotiate separately for affordable housing to be delivered through s106 agreements. There are concerns that these new arrangements will reduce the subsidy that developers provide for affordable housing through the planning system, particularly on sites where economic viability is marginal.

22. The close partnership between Local Authorities, RSL's and developers has ensured that when funding has been available, for example from the

Welsh Government Strategic Capital Investment Fund (SCIF), it can be used quickly and effectively. SCIF funding was used to purchase properties from developers with stalled sites and resulted in a rapid increase in supply of social and affordable homes. It also successfully kick started stalled developments and protected skills and jobs and the speedy injection of capital investment also had a wider impact on the local economy and labour market.

23. Local Authorities and other partners are developing links with lenders in an effort to address the impact that the restricted lending is having on the housing market generally and on the supply of affordable homes which remain affordable in perpetuity. In the current financial climate lenders are particularly resistant to covenants which restrict future sale of affordable homes.

24. The WLGA is working with Welsh Government and the Council of Mortgage lenders (CML) to develop a good practice note and standardised covenants in an effort to facilitate lending on affordable homes for sale which ensures properties remain affordable in perpetuity. Local Authorities are also helping to address lender concerns by developing registers of potential eligible purchasers for affordable homes.

25. There are a wide range of examples of innovative collaboration between partners and a strong commitment to work together, however the key issues continue to be land values, the economic viability of housing development, lending practices and shrinking public investment.

**The Essex review also underlined the need to make the most effective use of existing powers, resources including SHG and public subsidy, (Inquiry Question 1) in order to increase the supply of and access to affordable housing (Inquiry Question 3).**

26. Public subsidy has historically played a key role in the provision of sub market housing. It is inevitable therefore that the significant reduction in Social Housing Grant over coming years will have a serious impact on the delivery of affordable homes. In response Local Authorities and their partners have been exploring ways in which the reduced SHG can be 'stretched' through funding schemes at less than the standard SHG rate of 58%.

27. A number of approaches are being used which largely focus on providing intermediate housing for households who have average rather than lower incomes. This includes the Welsh Government intermediate rental product 'Rent First' and low cost home ownership products including Welsh Government 'Homebuy'. RSL's have also developed a range of alternative models for intermediate housing and Low Cost Home Ownership. Opportunities to develop mixed housing sites where market and intermediate housing can cross subsidise social homes are also being explored. However this model of cross subsidisation is increasingly difficult given problems of economic viability.

28. These approaches which focus on stretching the reduced level of subsidy will increase the supply of sub market homes for households on average incomes, but will also impact on the number of social rented homes which can be provided. This will make it more important than ever that the most effective use is made of existing social housing and raises some important questions about the role of social housing in Wales and the extent to which access to should be focused on those in greatest need.

29. The availability of land is a key factor in the delivery of affordable homes and represents anything between 25 -75% of the overall cost. Publicly owned land in parts of Wales where land values remain relatively high can be used to cross subsidise the delivery of affordable homes, however in areas where land values are now low the opportunities are more limited. Authorities in areas where land values have remained more stable land continue to be able to use publicly owned land to subsidise development costs or invest in an equity stake. Between 2007 and 2010 around 18% of all additional affordable homes in Wales (1,190) were delivered on land made available by Local Authorities. The degree to which this will continue to be possible will depend on changes in land values and competing demands within Local Authorities for capital investment.

30. The Welsh Government protocol for the disposal of public land for affordable housing has resulted in some land being released for affordable housing, however progress has been relatively slow. A number of appropriate sites have been released but others have not proceeded due to the valuation of the land. There may well be opportunities to make more use of publicly owned land, however with severe pressures on capital investment there will inevitably be many competing demands.

31. Local Authority building programmes have historically made a significant contribution to the supply of social homes in Wales, even after taking into account the sale of 44% of homes through the 'Right to Buy'. However current financing arrangements for council housing has largely prevented Councils from building new homes. In April 2012 the Housing Revenue Account (HRA) arrangements in England will be dismantled and, subject to having borrowing headroom, Authorities will be in a position to re invest rents in existing and new stock.

32. Agreement has not yet been reached regarding the future of the HRA subsidy arrangements in Wales and discussions are underway with the Treasury. A resolution of these discussions and the ending of the HRAs arrangements in Wales will enable councils with stock to reinvest rental income in existing and new affordable homes. The scale of this will depend on the settlement reached with Treasury and the borrowing headroom available.

33. The rental income of social landlords has an important role to play in levering in additional borrowing for affordable homes. The Welsh Government

has recently consulted on a new rent policy for social housing in Wales which is based on the principles of convergence of council housing and RSL rents, delivering greater consistency across Wales and affordability. Welsh Government is proposing that the relatively low social housing rents will continue to increase at more than inflation in order to create additional investment for new affordable homes. This approach has the potential to increase the borrowing of social landlords, but until the HRA subsidy system is dismantled in Wales Local Authorities will be required to return any increased rental income to the Treasury.

34. Social housing tenants have the potential to provide a potential source of additional funding to increase the supply of affordable homes. However in the current financial climate it is important that a balance to be struck between maintaining affordable social rents and the objective of securing additional funding to build affordable homes.

35. RSL borrowing is being affected by the current economic climate with costs of borrowing starting to rise, particularly when there is a perceived increase of risk. The UK Government welfare reform agenda is expected to impact on rental income streams and it is likely that this will increase the cost of RSL borrowing. There is a potential danger that this perceived risk to rental income will also encourage RSL's to review access to social housing and reduce levels of access to households most affected by the Welfare Reform changes.

36. Given the increase in homelessness and rising housing need it is important that households who have most difficulty in accessing market housing have access to the limited supply of social housing. A number of Local Authorities and RSL's have established local or regional common housing registers to ensure access to all social housing is consistent and focused on those in greatest need. It is clearly important that social landlords balance the need to provide homes for the rising number of low income and vulnerable households in housing need with the need for communities to be sustainable.

37. Local Authorities are subject to a Code of Guidance on Allocations and to legislation which requires they give 'reasonable preference' to households in defined categories of housing need. This legislation does not apply to the RSL sector and there is no RSL Code of Guidance on allocations. We suggest greater consistency across social housing in terms of expectations could play an important part in ensuring equitable access to the limited supply of social rented homes.

38. Guidance is soon to be issued relating to the introduction of the power for Local Authorities to suspend the 'right to buy' and the 'right to acquire' in areas of housing pressure. This new power is welcome despite the relatively low level of sales under the right to buy/acquire which totalled 375 in 2010/11. Given the growing demand for social rented homes it is also

important that voluntary sales of social homes are kept to a minimum unless it is clear receipts are being used to invest in replacement stock. The number of voluntary sales of social rented homes by Local Authorities is extremely low, but sales by RSL's are somewhat higher.

39. Discussions about the supply of affordable homes often tends to focus on increasing new supply, however it is also important to explore the potential to make more effective use of existing homes. Social landlords have reduced the number of voids to a very low level (1.7%) but there are a significant number of properties in the private sector that have been empty for more than 6 months, with estimates varying between 18,000 – 26,000. Every Authority in Wales has a strategy in place in relation to empty homes however the work involved is time consuming and also requires Authorities to have access to finance for grants, loans and purchase costs. The potential for establishing a recyclable loans fund to support this work is currently being explored and this could provide a real impetus to the work of bringing empty homes back into use.

40. We also urge the Welsh Government to consider enabling Local Authorities to charge more than 100% council tax on empty and second homes in order to dis-incentivise homes being left empty or being used as second homes. This could also generate additional income which could potentially be ring fenced to bring empty homes back into use and increase affordable housing supply. A WLGA survey of Authorities has estimated that council tax charged at 125% on second homes alone would raise between £4-£6m per year. If Authorities were given powers to charge a similar level of council tax for properties left empty for more than a year this figure would increase.

41. In the light of the significant reductions in the SHG programme it is essential most effective use is made of this funding. The level of top slicing from the grant programme has been reduced since 2011, however £8m per annum continues to be top sliced to provide for physical adaptations to RSL properties. This represents over 13% of the Social Housing Grant programme in 2012/13, rising to 16% in 2013/14. Local Authorities fund adaptations to their properties from the HRA or the Revenue Support Grant (RSG) and if RSL's similarly funded adaptations from income, this would ensure that the limited SHG programme could be focused on increasing the supply of affordable homes.

42. Subsidies which facilitate the delivery of affordable homes are extremely low and will clearly fail to deliver anything near to the figures suggested by the Holmans report (2009). **There is an undisputed need for additional financial investment and this raises the question of whether there is potential to explore further opportunities for leveraging in investment (Inquiry Question 2).**



43. We have discussed above the potential for Authorities, RSL's and Welsh Government to use publicly owned land as a mechanism for subsidising the delivery of affordable homes. In particular we have pointed to potential offered by the Welsh Government land release protocol and suggest that release of Welsh Government and related public land holdings is explored more fully and perhaps a register compiled and published.

44. Some Authorities are exploring the potential for underwriting small scale affordable housing developments. In one example an Authority has underwritten a series of small developments of affordable homes by a private developer as part of a regeneration scheme. The Authority agreed to purchase any properties which the developer could not sell but was not required to step in as all properties were sold to households the local register for intermediate housing. This is a good example of how public bodies can share the risk with other partners and facilitate developments which would otherwise not take place.

45. A further example of risk sharing is the Local Authorities Mortgage Scheme (LAMS) which involves Authorities guaranteeing a proportion of a mortgage (20%) to enable first time buyers to access a mortgage of 70% with a 5% deposit. The scheme which has been taken up by 3 Authorities in Wales so far and it is expected that other Authorities may follow. This model is not specifically aimed at affordable or sub market housing, but will clearly ease pressure on waiting lists and the private rented sector. Some Authorities in Wales are exploring alternative models for first time buyer mortgage guarantees which better target at local households.

46. The current arrangements for council housing financing make it difficult for Authorities to build new homes. However a small number of Authorities are currently exploring the potential to develop homes outside the HRA using prudential borrowing powers. At a wider level Local Government is currently considering vehicles which could increase access to capital investment for a range of purposes including affordable housing. In particular the potential for a Local Government bond and prudential borrowing are currently being explored.

**The Inquiry has asked specifically whether innovative methods of delivering housing such as Community Land Trusts or co operatives could be promoted more effectively by the Welsh Government**

47. We support the exploration of any new approaches which have the capacity to deliver affordable homes which are sustainable and address local strategic priorities. There has been some experience in Wales of Community Land Trusts and of co operative forms of housing, some of which have a chequered history. It will be important to draw lessons from these previous experiences to identify how best they can be supported and promoted.

48. There are some signs that co operative housing could attract sources of institutional investment which are currently not be exploited. It is important

that this is explored as this might provide the opportunity to not only increase the supply of affordable homes but also introduce greater choice and flexibility to the housing market in Wales.

**References**

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Sue Finch  
WLGA Housing Policy Officer  
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