

Senedd Cymru

Local Government and Housing Committee

Consultation: Inquiry into Social Housing Supply

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Introduction

Thank you for the opportunity to submit written evidence to the Committee's Inquiry into Social Housing Supply.

The UK Collaborative Centre for Housing Evidence (CaCHE) was established in August 2017. It is a consortium of eight partners in higher education and non-academic institutions, led by the University of Glasgow and funded by the Economic and Social Research Council (ESRC) and the Arts and Humanities Research Council (AHRC). Our aim is to advance knowledge and understanding in the UK housing sector and promote evidence-based policy and practice. Details of what we do, our current research themes and our library of publications are all available on our website:

<https://housingevidence.ac.uk/>

In late 2018 CaCHE published a series of **Papers on Social Housing** in Scotland, Northern Ireland and Wales as well as papers on social housing governance and the funding of new social and affordable housing. In April 2021 CaCHE also published **Housing in Wales: Evidence for Government 2021-2026**. Drawing on CaCHE research this identified 12 key priorities under 6 themes, of which the first was the need for increased investment in the supply of additional affordable (and particularly social) housing. A sister paper on **Housing in Scotland** was published at the same time. All these papers are available from the CaCHE website. Current research on

possible responses to the current challenges facing the Scottish affordable housing supply programme (funded by the Joseph Rowntree Foundation) has been interwoven into this evidence where relevant (also see the annex to this evidence on background to the Scottish programme).

The Social Housing Sector in Context

Social housing in the UK has been transformed over the last half century. There has been a significant absolute and proportionate decline in the scale of the sector (where additions to the stock have been more than offset by disposals, particularly through the Right-To-Buy – RTB¹). At the same time the profile of the sector, in terms of both tenants and landlords has changed, with not-for-profit housing associations (Registered Social landlords – RSLs) becoming the main providers of social housing. However, in many localities local councils remain important providers of social housing (11 out of 22 local councils in Wales still have a landlord function) and local authorities are building again, often using relatively new financial models and different types of delivery vehicles. Since devolution in 1999 housing policy in Wales has, in a number of respects, diverged from other parts of the UK (and particularly England) and specific policies and programmes have been pursued in respect of social and affordable housing, including the ending of RTB.

The latest published data from **statswales** suggests that in March 2022 there were 234,000 local authority and housing association (RSL) owned homes in Wales. This is 15.9% of the total housing stock, with almost 10% in housing association ownership. In March 2001, there were 242,900 social homes in Wales (19% of the Welsh housing stock, with almost 15% in local authority ownership). So over more than twenty years, whilst the total housing stock has increased by more than 15%, the Welsh social housing stock has declined both proportionately and absolutely.

In the light of these changes and the overall long-term decline in the social housing sector across the UK, numerous independent studies have argued for an increase in the delivery of additional social and affordable housing. Social housing is seen as the most affordable form of housing (a broader concept, including some forms of relatively low-cost home ownership), although there are overlaps between social and affordable housing. In this written evidence it is not possible to synthesise the wealth of recent research, but we would refer Committee to the report on Wales published 5 years ago, the **Independent Review of Affordable Housing Supply** (Welsh Government, 2019). We also note that the new First Minister in his recent leadership manifesto indicated his intention to establish a Task Group on this issue which we welcome.

The supply of social housing in Wales as elsewhere, is an important, and pressing issue. However, it is important that it is not viewed in isolation. It is a complex problem and one that we believe requires a whole system approach to understand the

¹ The abolition of new build RTB in Scotland 7 years in advance of total abolition was critical to restarting council house building.

structures, relationships, and potential points of leverage, where policy and practice interventions can deliver effective change.

Social Housing Needs and Supply in Wales: Recent Trends

We note that the Committee's terms of reference include examining the progress towards meeting the Welsh Government target of 20,000 low carbon homes for rent over the period 2021-2026 and the extent to which current and projected levels of social housebuilding are likely to meet housing need.

In terms of housing need, Welsh Government estimates published in August 2020, based on 2019 household projections, estimated that, under the central estimate the need for additional affordable housing, was a need for an additional 3,500 homes p.a. over the five years from 2019-20 to 2023-24. Other evidence has suggested slightly higher figures for Wales (e.g. Bramley, 2018). Of course, the estimated additional annual need may have increased since the last official assessment, given affordability in the market sector has probably worsened. There is also a wealth of data in Wales on aspects of housing need, for example homelessness data, information about households on local housing registers and evidence from Local Housing Market Assessments (LHMAs). We simply note that any housing supply targets should be informed by the collection and analysis of robust data to inform up-to-date estimates of housing need.

The latest Welsh Government Affordable Housing Provision statistics (published November 2023) indicate that 3,212 additional affordable homes were provided across Wales in 2022-23. This is a marked increase on 2021-22. Over the two-year period this is a total of 5,775 additional affordable homes, against the 20,000 target. However, overall, the number of additional affordable homes delivered over the last two years has not returned to the levels pre Covid-19.

The 2022-23 figures include 2,252 additional homes provided by housing associations (70% - including a relatively small provision of shared ownership), 20% by local authorities, and the remainder by other (private sector) providers. The majority was social rented housing, with a relatively minor provision of housing let at intermediate rents.

The evidence from the most recent analysis of affordable housing provision in Wales has shown a growth in the scale of delivery over the last decade and the number of additional affordable homes provided in 2022-23 was the second highest in the last 15 years (the number of affordable homes delivered in 2020-21 was a little higher).

Statswales also publish data on annual new housing starts and completions on a quarterly/annual basis, disaggregated by tenure. Looking at the two years 2021-22 to 2022-23 over 80% of more than 11,000 new dwellings completed were through private enterprise, with housing associations completing less than 2,000 new dwellings and local authorities under 300 new dwellings.

New build is only part of the provision of additional affordable/social housing, with acquisitions and conversions also contributing. Welsh Government have introduced the Transitional Accommodation Capital Programme (TACP), providing grant funding to housing associations and local authorities for the acquisition/development of existing properties (including non-residential properties). This offers opportunities for increasing and speeding up delivery of additional social housing. Whilst it will be critical to ensure acquisitions/conversions do not compromise on quality, this sort of programme offers opportunities to increase social/affordable supply more quickly. However, currently, overall rates of additional social housing provision in Wales since 2021 suggest that it will be very challenging to meet the 20,000 target by 2026.

Challenges Faced by Social Landlords in Increasing Housing Supply

In this section, we highlight some of the challenges we see facing social landlords in Wales, which we develop a little more fully in subsequent sections of this paper². We believe these challenges include:

- Securing the necessary levels of investment (public and private) for increasing the provision of social housing in Wales. Scotland has recently announced a short life Housing Investment Task Force to look at a range of ways of supplementing investment for social and affordable housing.
- The capacity of the sector (and the wider construction industry) to develop, manage and deliver an expanded social housing programme.
- The competing priorities facing social housing organisations, within and beyond government housing programmes, between investing in additional provision and investing in the existing social housing stock. This includes tackling the decarbonisation of the existing social housing stock.
- Land and planning constraints.

Securing the Levels of Investment needed in Social Housing.

Earlier, we highlighted some of the evidence of the need for social housing in Wales and highlighted the 20,000 additional social homes target for 2021-2026, and the progress made in the first two years.

The Welsh Government's budget for 2024-25 has allocated £370m for social housing grant to support additional provision through housing associations, as well as an additional £14.4m to local authorities through the Local Government settlement. There are also commitments to decarbonisation (including £70m for 2024-25 for the Optimised Retrofit Programme) and £18m this year for the WHQS2 programme. These are welcome levels of public investment in challenging economic times. However, there are questions as to the extent to which overall levels of investment (public and private) are sufficient to deliver the required levels of social housing, whether levels of public investment provide both housing quality and the best value

² Due to word length limits, this list is not comprehensive. Space constraints mean we do not talk about RAAC or go in to much detail about the potential for innovative private investment and other innovative financing ideas to support affordable housing supply.

for money, and the extent to which public subsidies are being stretched to maximise output of additional social housing. We would point out that over the last 2-3 years inflation has significantly impacted upon the costs of housing development. Although the annual rate of inflation is now falling, over the last few years social landlords have been faced with significant increases in material and energy costs, labour costs and the costs of borrowing. The Welsh Government social rent and service charge standard (previously rent policy) gives Ministers the power to determine the annual uplift in social sector rents when CPI is outside of the 1%-3% range. However, annual uplifts have been below inflation levels, increasing the pressure on the budgets of social landlords.

We noted above that data from **statswales** shows housing associations (RSLs) delivered 70% of the additional homes provided in 2022-23, 87% of which were newly built. The number of additional homes delivered by associations in 2022-23 was 11% more than in 2021-22, but 22% fewer units than in 2020-21. Local authorities delivered 20% of the additional affordable homes in 2022-23, the majority of which were in just 5 local authorities: Cardiff, Carmarthenshire, Swansea, Powys and the Isle of Anglesey. Other Welsh authorities provided relatively small numbers of additional council homes, either through newbuild or acquisition (or a combination of the two).

The ability of social landlords to deliver additional social and affordable housing will, of course, be shaped by the availability of public subsidies. Statswales data for 2022-23 indicate that over 72% of additional affordable housing delivered received capital grant funding. This was higher than in the previous three financial years (only 61.6% of those homes delivered in 2019-2 were capital grant funded).

We are aware that the 2019 Independent Review of Affordable Housing Supply (Welsh Government, 2019) proposed a new flexible grant funding regime which would test the contribution of private finance and alternative finance models, in order to stretch grant resources and maximise output and demonstrate value for money. Whilst we understand a revised grant system has been introduced, we are not aware of any evaluation which has been undertaken to test how this is working in the current environment.

Issues of Capacity

The social housing sector in Wales is relatively small. There are only 30-35 regulated housing associations in Wales (and we are aware of a number of potential mergers which may reduce this number). This includes 11 Large Scale Voluntary Transfers (LSVTs), some of which are in the early years of developing new housing programmes. Others are relatively small organisations. There are only 11 Welsh local authorities which retain ownership of social housing, and again many of these are in the early stages of returning to a housing development role. The delivery of additional social housing is likely to be dependent upon a relatively small number of developing social landlords, and in some instances, there will need for increased collaboration, partnership working and innovation both for development and funding.

The issue of increasing housing supply is also dependent upon the capacity and skills of the construction industry. It has been estimated that around one in twenty jobs in Wales are in this sector and construction (and housing) make valuable contributions to economic development in Wales, through multiplier effects of investment as well as the benefits of preventative spending. However, there will always be issues of competition between housing development and non-housing forms of development, and housing (perhaps particularly social housing) may not always be the most attractive option for the development industry.

It is also worth highlighting the potential contribution which scaling up the contribution of off-site manufacturing and Modern Methods of Construction (MMC). These issues were considered in the Independent Review of Affordable Housing Supply (Welsh Government, 2019) and CaCHE has published its own research on MMC (Serin and Payne, 2023). That research concluded that the wider adoption of MMC required a broader investigation of the whole housing development process. We are interested to note proposals in Wales for the creation of an arms-length not-for-profit company (Unnos), which would not only support MMC, but also the development of Welsh supply chains, assist local construction SMEs and play a strategic role in land assembly. Such an initiative could build upon work already being done by individual social landlords in Wales and also give significant stimulus to future social housing supply.

Finally, we highlight the issues of skills, training, and professional development. Does Wales have the necessary skilled workforce - in housing (particularly housing development), in construction and in land use planning, both now and into the future? If not, what actions are being taken to address the skills deficits?

Competing Priorities

One of the major challenges faced by social landlords (and the housing sector more generally) is the competing priorities between investing in the existing social housing stock and providing the new homes which are needed. There are a number of different aspects to the policy agenda for remediating or improving the existing social housing stock. These include:

- Welsh Housing Quality Standard (WHQS) 2023
- The residential decarbonisation agenda.
- Fire safety measures.

Welsh Government published its WHQS 2023 standards in October last year. When WHQS was first introduced (2002) there were serious levels of disrepair in the Welsh housing stock. Whilst the original deadline for achieving WHQS was not met, by March 2022 (and allowing for “acceptable fails”) almost all of the Welsh social housing stock was WHQS compliant.

WHQS 2023 builds upon the original standard (and retains many of the individual elements) but as well as continuing the ongoing improvement of the stock, also aims to accelerate the decarbonisation of the Welsh social housing stock and support

efforts to reach net zero. The timetable for achieving WHQS 2023 is 31st March 2034.

We have noted above that monies have been allocated in the Welsh Government budget for 2024-25 for investment in WHQS 2023³. It will be critical that there is continued long term funding to support the delivery of the programme.

In a number of ways, the social housing sector has been in the vanguard of policies and innovative solutions to address the decarbonisation agenda in Wales (perhaps reflecting that until recently the housing agenda has been within the portfolio of the Minister for Climate Change). However, we recognise the potential competing priorities, particularly given the timescales for achieving WHQS 2023 and the targets for decarbonisation and reaching net zero, as well as the potential risks of inadequate or short-term funding leading to poor decisions.

Land and Planning Constraints

There are a number of critical issues under this heading, and we are only able to touch upon a small number of these.

We note that the **Independent Review of Affordable Housing Supply** recommended the establishment of an arms-length body to act as a focus for land assembly and management to help accelerate housing development. Whilst we understand there is now a land division with the Housing and Regeneration Directorate of Welsh Government, and that since political devolution such arms-length bodies have been out of fashion, there may be a case for this. We referred above (under issues of capacity) to the suggestion of a publicly owned company, accountable to Welsh Government, which as well as supporting residential development and construction, could play a strategic role in land assembly in Wales.

A second issue is around land value capture. Land values are an important aspect of housing delivery. Whilst it is critical that land values are sufficient to outweigh development costs and provide a return for landowners and developers, there may also be a case for enhanced land values to be shared with the wider community. Land values vary significantly across Wales, with some of the most valuable in areas like Cardiff, Newport, Monmouthshire, and the Vale of Glamorgan (as well as some tourist/holiday hotspots). Research for Welsh Government (2020) has provided an estimate of the total value of residential land in Wales (£113.4 billion) and an initial assessment of the viability of a local land value tax.

We have referred above to concerns around the capacity of the planning system in Wales and we want to turn our attention now to look at the delivery of additional affordable housing through planning obligations. Evidence from **statswales** shows that in 2022-23 30% of all additional affordable housing across Wales was delivered through planning obligations. In proportionate terms this was up slightly on the previous three years. Over the last four years just under 4,500 additional homes have been delivered under this mechanism. However, we note the commentary from

³ The capital budget in Scotland for housing has fallen by around a third over the last two fiscal statements (2023-24 and 2024-25).

statswales that the delivery is consistently lower than the number granted planning permission.

We also note with concern evidence from the Home Builders' Federation (HBF, 2023) of the levels of unused s106 contributions across England and Wales. Specifically in relation to Wales (and based on returns from 14 local authorities) they highlight over £71million in unspent contributions; an average of £5.1 million per Welsh authority. Whilst not all of this would be for additional affordable housing, their evidence does suggest there is capacity to increase investment in the affordable housing supply in some Welsh local authorities, using developer contributions.

Encouraging the Involvement of Local Communities in the Development Process

We applaud the concern for the engagement of local communities in the development process, which we assume could be through the Local Development Plan process and (for existing social housing tenants) through appropriate mechanisms put in place by their landlords.

In terms of the tenant voice, we argued in our Housing in Wales: Evidence for Government 2021-26 paper that Welsh Government should do more to facilitate tenant engagement both locally and at a national level. Notwithstanding the valuable work of TPAS Cymru, more needs to be done to ensure the voices of tenants and residents are heard in shaping housing policy and practice in Wales. Relatedly, we would also highlight the need to encourage more positive attitudes towards social housing. Research for CIH Cymru (Scully, 2020) showed significant public recognition of the need for social housing in Wales, but also showed some distinctly negative perceptions of the tenure.

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Annex Scottish Affordable Housing Supply Programme: Outcomes, Performance and Current Challenges

The Affordable Housing Supply Programme (AHSP) has delivered new social and affordable housing in Scotland since 2011 and is now in its third Parliamentary programme. However, after two sets of targets were achieved, the current one, stretching over the current parliamentary term and the next one, is now in serious difficulties. Here we briefly set out the programme, its achievement, current problems and what might be done, and also asks what lessons might be learned relevant to Wales.

The AHSP began 2011 after the election of a majority SNP government as a five-year plan to supply 30,000 social and affordable homes (60% general needs social housing, plus affordable mid-market rent (grant-funded) and low-cost home ownership). Social housing was characterised by comparatively deep grants to housing associations and councils as well as substantial but less generous grants to mid-market rent providers (usually housing associations), topped up by internal resources, private loans and in the case of councils through PWLB loans. The second programme, 2016-21, slightly extended by Covid-19, delivered 50,000 units with now 70% social housing and a slight affordable shift away from owning to renting.

The national targets were informed by affordable needs studies (Powell et al, 2015; Dunning et al, 2020). An Audit Scotland (2020) review of the programme indicated that it successfully met its targets but was not well connected to local need and meeting local outcomes, in part because of the top-down allocation of funds and the slightly opaque way resources were converted into specific projects on the ground. Nonetheless per head, Scotland was building most social housing in the UK for almost all of this period (Gibb, 2021).

As a result of the long-term housing strategy produced at the end of 2020, Housing to 2040, Scotland then embarked on a two-term programme to deliver 110,000 unios by 2031-32, still with 70% of the programme devoted to social general needs housing provided by associations and councils. Throughout this current Parliament and the previous, the Scottish Government allocated £3.5 billion (nominal) to each 5-year period as its contribution to the programme's funding.

However, in a worsening context of a temporary accommodation crisis, rising homelessness and affordability difficulties, with four local authorities declaring a hosing emergency⁴, the programme is running into major difficulties with forward indicators of approvals and starts now falling well behind the required 10,000 per annum figures. This is for several reasons:

- Rising developments costs outstripping increases in benchmark grant levels
- Increasing borrowing costs and rising inflation for material and labour within the construction sector

⁴ Argyll & Bute, Edinburgh, Glasgow and Fife

- For financial years 2023-4 and 2024-5, significant budget cuts to the housing capital programme – cumulatively by more than a third
- Housing providers are in some cases withdrawing from development, and in addition face competing claims on their rental income eg stock investment and retrofit for net zero,

CaCHE is involved in research for Joseph Rowntree Foundation seeking to support the programme and offer immediate, medium term and longer terms ways to enhance affordable and social housing supply⁵. We recently gave evidence to the Scottish Parliament Local government committee (February 27, 2024) and suggested the following:

First, combining this evidence with our own analysis of the AHSP process and the place of the supply programme in terms of budget priorities, we conclude that there needs to be a number of important review processes to inform revising how need is measured, resources are allocated and housing fits into budget priorities, in order to improve actual outcomes on the ground. These include but are not limited to: a new study of social provider financial capacity, a new national affordable need study, but one connected to much clearer local outcomes and bottom up or localised housing needs and demand assessment; greater discretion to allow underspends to be carried over to the next financial year; and, a transparent reviews of benchmark grant levels, the distribution of funds to local authorities and an updating of the funding specific to Glasgow and Edinburgh.

In addition to these process-focused evidencing reforms, there is clearly pressing need for change. Below we illustrate some of the early ideas, with the focus is on how to get as much from the existing programme that meets need by providing more homes, and distinguishing immediate or short run ideas, from medium and longer term proposals (more radical or systemic in outlook, such as altering the devolved fiscal framework to allow more borrowing by the Scottish Parliament specific for social housing as repayable via rents social infrastructure):

- Political choices to switch grant funding into social housing from affordable and to raise grant per unit – to secure units rather than the target.
- Develop a state-backed guarantee low-cost lending model for affordable rent (and also for acquisitions from the PRS for Temporary Accommodation?).
- Encourage reforms to provide more low-cost land into the system and facilitate larger site collaborations e.g. Inter public sector land prices reduced where it is for social housing.
- Institutional reform ideas include e.g. a national housing and land agency, supporting a pipeline of larger sites, including new master-planned partnership-based settlements and new towns.
- A flavour of our more radical long term thinking would include land market interventions and tax reform.⁶

⁵ We anticipate this will be published in May or June 2024.

⁶ See also Gibb, K 2024 commentary in the Herald:

<https://www.heraldscotland.com/politics/viewpoint/24217163.housing-challenges-must-tackled-election/>

Meanwhile, the Government has set up a delivery board for Housing to 2040 and accelerated its mid-term review, including examining the AHSP, and it has recently launched a housing investment task force.

What does this all imply for the Welsh Senedd contemplating a long-term supply programme? First, design a robust and resilient programme that can ride out significant external shocks. This will require cross-party and sector wide commitment to the programme based on unambiguous evidence about unmet need. Second, provide adequate public funding that can work in different market contexts and allow providers choice given the competing demands on their rental income. Third, design specific interventions and structures that facilitate the programme's delivery mindful of the wider housing system and the interplay between different tenures, submarkets and wider reserved matters like social security and UK borrowing conditions.

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