

CELG(4)-09-11 : Paper 4

WRITTEN EVIDENCE TO THE COMMUNITIES, EQUALITY & LOCAL GOVERNMENT COMMITTEE INQUIRY INTO THE PROVISION OF AFFORDABLE HOUSING, ACROSS ALL TENURES, IN WALES.

Introduction

1. This paper provides written evidence from the Minister for Housing, Regeneration and Heritage for the Committee's inquiry into the provision of affordable housing, across all tenures, in Wales.
2. The terms of reference for the inquiry are:
 - The effectiveness of public subsidy in delivering affordable housing, in particular Social Housing Grant;
 - Whether alternatives to public subsidy are being fully exploited;
 - Whether the Welsh Government, local authorities and RSLs are effectively utilising their powers to increase both the supply of, and access to, affordable housing;
 - Whether there is sufficient collaborative working between local authorities, RSLs, financial institutions and homebuilders;
 - Whether innovative methods of delivering affordable housing such as Community Land Trusts or co-operatives could be promoted more effectively by the Welsh Government.

Context

3. The National Housing Strategy "Improving Lives and Communities – Homes in Wales" published in April 2010 has three priorities: providing more housing of the right type and offering more choice; improving the quality of homes and communities, and improving housing-related services and support, particularly for vulnerable people and minority groups. The Strategy was developed with the Welsh housing sector and its delivery is supported through them.
4. The Government's Manifesto and the Programme for Government reflects these key priorities. Again, the delivery of these commitments is supported through an approach based on collaboration and co-production with the housing sector. This arose from the recommendations in the 2008 Essex report on delivering affordable housing.
5. Using the Essex recommendations as a platform, the Welsh Government, housing associations and local authorities have worked hard to increase supply. Between 1 April 2007 and 31 March 2011, a cumulative total of 9,091 additional affordable housing units were delivered across Wales. This total exceeded the original 'One Wales' target of 6,500 for 2011 by 40 per cent. Over this period of time over £570 million in Social Housing Grant has been allocated to support affordable housing schemes in Wales.
6. However, the financial environment is now very different. Substantial cuts in capital budgets arising from the UK spending review, have led to budget reductions of over

38% meaning housing capital funding reductions from £69 million in 2011/12 to £48 million in 2013/14 compared to a previous annual budget of approximately £100 million. However demand continues to grow. We also know that the financial impact of the recent UK Government changes to housing benefit mean that the vast majority of claimants will be worse off. Expectation is that private sector rents will reduce however if that is not the case there will be considerable social and demographic impacts.

7. The Social Research report 'Housing Need and Demand in Wales 2006 to 2026' commissioned by the Welsh Government in 2010, provides an estimate of future need and demand for housing in Wales to 2026. This estimates that an additional 5,100 non market homes per year are required to meet anticipated need. Non-market housing in this context includes traditional social housing, owner-occupiers buying through Right to Buy and private rented sector where tenants receive housing benefit. The report also estimated that there was a current backlog of unmet housing need of approximately 9,500 households.
8. The First Minister recently announced the Welsh Government's 5 year legislative programme which included a Housing Bill to protect our most vulnerable citizens and help to improve their health and wellbeing. The Bill will enable the Welsh Government to meet our Manifesto commitments, in areas such as tackling homelessness and improving standards and tenants' rights in the private rented sector. The housing sector is fully engaged in our developing thinking about what else needs to be done to tackle the major housing issues we face and this includes increasing the supply of affordable homes and possible content of the Housing Bill.
9. The need to increase supply and the large reductions in our budgets mean that we have to look at new and innovative ways of funding and delivering housing. We will of course be monitoring the outcomes of these new approaches and will look at the issue of an affordable housing target in the future.

The effectiveness of public subsidy in delivering affordable housing, in particular Social Housing Grant

Social Housing Grant

10. Since 2007, the Welsh Government has allocated over £570 million in Social Housing Grant (SHG) to support affordable housing schemes across Wales. This has provided safe and secure housing that is accessible and affordable to people in housing need in Wales.
11. SHG is the primary source of subsidy for the provision of affordable housing in Wales. Affordable housing is also delivered without subsidy such as that provided on a shared equity basis by house builders or by housing associations building without grant. SHG can be used for a variety of different types of housing provision including different tenures i.e. social rent, intermediate rent and low cost home ownership and different types of housing need e.g. housing for families, older persons and supported housing for people with specific needs.
12. SHG is provided to housing associations as regulated Registered Social Landlords; however where and how the money is spent is determined by strategic local housing

authorities. This ensures that grant funding is targeted at schemes that meet the specific housing needs and priorities of individual local authorities. Successful development also requires close partnerships with the house building industry and these relationships within the housing sector are strong in Wales.

13. SHG has provided funding for specific housing programmes such as the Extracare Programme, the Mortgage Rescue Programme, the Drug and Substance Misuse Programme and Hospital Resettlement Programmes. Additional funding has been made to support affordable housing funded via SHG from the Strategic Capital Investment Fund.
14. Schemes that are funded with SHG are required to demonstrate that they provide value for money and fit with Welsh Government Acceptable Cost Guidance criteria. This ensures that schemes are being developed effectively and at the lowest cost possible.
15. The majority of schemes are funded using a fixed grant rate of 58% which provides properties at a social rent. However, we also provide grant support for intermediate rent (25%) and low cost home ownership (30% or 50%) at lower levels of grant. This grant can also be leverage for affordable housing delivered without subsidy.
16. The remainder of schemes costs are met by housing associations that will look to private finance for the remaining funding. In simple terms an investment of £50 million of SHG will support schemes to a total cost of £86 million. This level of subsidy allows rents of traditional social housing to be maintained at an affordable level.
17. The investment of public funding in affordable housing schemes can often be the catalyst for attracting other sources of funding or supporting linked projects. This can range from the provision of local community centres, or other community facilities to releasing stalled sites in the private housing sector.

Other sources of subsidy

18. Subsidy is also provided via the release of public land. In 2010/11 eight Welsh Government sites were released for affordable housing or sold and the proceeds used to fund affordable housing. We want to see more surplus Welsh Government land released and ensure that all of it is considered for affordable housing. We are targeting to release at least four more sites for affordable housing in 2011/12 as well as working with Local Authorities, the Forestry Commission and the Church of Wales, for example to pursue more land for affordable housing.
19. The recent creation of the Welsh Housing Partnership will provide further intermediate rental housing. This £16million project is being financed through a combination of £3million of Welsh Government grant funding, a £12million loan from the Principality Building Society's Commercial Division and a combined £1million from the four housing associations involved. This partnership is an example of joining forces to work together to share knowledge, experience and risk but most importantly to provide around 150 quality affordable rented homes to people living in Wales.

20. Some Welsh local authorities are again exploring offering mortgages to residents through the Local Authority Mortgage Scheme (LAMS). This is run by participating local authorities for applicants who can afford mortgage payments but not the typical 25% deposit. It is for each local authority to determine whether to participate in LAMS and to identify which lenders would operate their scheme. The Welsh Government is also exploring the use of an insurance captive with the housebuilders which could also potentially provide applicants with a mortgage without such a large deposit being required.
21. Innovative land models are also currently being developed to increase affordable housing in Wales using land as the potential subsidy. A consortium of organisations are working on a new model to utilise potential RSL land, for example, to increase supply, as well as other potential models coming forward.
22. Housing is an integral part of regeneration; its regenerative potential is significant. In the housing sector we are seeing investment that transforms communities and creates new jobs. Better homes lead to improved health and more support for the most vulnerable people in our society. Subsequently this means that investment in housing often acts as leverage to subsidy from other areas such as regeneration or heritage.
23. As an example of this, we have worked with Denbighshire County Council to develop a housing master plan to tackle problem Homes in Multiple Occupation (HMO) in west Rhyl. At the same time, we are also working closely with the local authority and local registered social landlords to purchase empty, derelict or sub-standard HMOs for redevelopment. Over 60 properties have been bought to date and will be brought forward through the Empty to Affordable programme.

Whether alternatives to public subsidy are being fully exploited

24. Housing associations work closely with local authorities to provide affordable housing without public subsidy and from their own resources. Community Housing Cymru who represents housing associations has made a commitment to provide 1500 additional homes without grant over the next four years.
25. Alternative funding options are being explored including using public land and assets as leverage but it is difficult to make the funding work for traditional social housing, primarily because rents need to stay at a certain level which is difficult without subsidy. Generally it is easier to use new non-subsidised options for other forms of affordable housing. However section 106s do provide a level of affordable homes on land sites subject to individual local authority local development plan requirements and the viability of the scheme.
26. The private rented sector (PRS) accounts for around 12-14% of the housing stock and provides approximately 136,000 homes for people across Wales. A strong PRS offering quality accommodation is an essential part of a well functioning housing market. In Wales the PRS performs a critical role in supporting economic mobility, provides flexibility and choice to those who choose not to enter into home ownership and provides housing to many of the most vulnerable in society.

27. The Welsh Government is committed to the development and maintenance of a PRS in Wales with well-managed homes that are in good condition. Fulfilling this ambition may involve increased regulation and we are currently considering what additional legislation might be applicable for the sector.

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

28. Many RSLs are currently utilising their assets to release funds to increase the supply of affordable homes and Community Housing Cymru is leading work on continuing to explore new funding options to provide more affordable homes. Some RSLs have also utilised the private rented sector to provide more accommodation to meet housing need, however with welfare benefit changes the viability of this option is becoming more difficult.

29. We recognise that a major opportunity for bringing more affordable housing forward is by tackling empty properties. Data collected for the National Strategic Indicators for 2010-11 show that there were 21,970 private sector dwellings that had been vacant for more than 6 months at 1st April 2010. Of this total 954 were brought back into use during the year through direct action by local authorities. This is a Manifesto commitment and I am determined that we will tackle it. Discussions with local authorities indicate that the issue is not availability of powers, but using them. In addition, money and skills appear to be the major stumbling block. I am currently working with the housing sector to implement a new initiative to tackle problems with long term empty properties. Part of this is the potential establishment of a dedicated loans scheme to provide additional recyclable funding for local authorities.

30. I am continuing to work to remove Wales from the current arrangements around the Housing Revenue Account Subsidy system (HRAS) which will provide local authorities with more flexibility to develop new affordable homes. Welsh Government is also working closely with Carmarthenshire Council to develop a pilot agreement that would enable the authority to exclude a new development of bungalows from the HRAS. Once an Agreement is in place, this would enable all rental income to be retained by the authority. A full review of the HRAS commenced in December 2009 and discussions with HM Treasury are continuing.

31. The Welsh Government has provided a robust policy framework for the delivery of affordable housing through the planning system. This is set out in *Planning Policy Wales*, supplemented by the 'housing' TANs 1 and 2 – *Joint Housing Land Availability Studies* and *Planning and Affordable Housing*. As part of the evidence base for local development plans, local authorities should assess the need for all types of housing, both market and affordable.

32. There is an opportunity to review other housing services for opportunities to work regionally and/or collaboratively and a wide range of potential areas have been identified, including: empty homes management, regional common housing register partnerships and the development of regional loan schemes. We are working with the

WLGA to prioritise the key areas for regional working and produce an action plan by March 2012.

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

33. There is a great deal of collaborative working going on across the sector with some excellent projects being taken forward in partnership. The Welsh Housing Partnership is an excellent example of this. However we are not complacent and as the demand for affordable housing continues to grow we will need to do more together.
34. I am keen to explore how the local authority collaborative agenda can benefit housing and there are clear areas where this can work well for affordable housing; working together on empty properties for example. I have had very productive conversations with the WLGA on how we take the collaborative agenda forward and I hope that by next spring we will have a framework in place that sets out how we will do this.
35. I think there is also more we can do with private house builders and I have set up a private sector steering group to look at how we might break down barriers to increasing the supply of housing overall. The Welsh Government has taken a number of steps to support the house building industry in recent years through recession, for example through enabling RSLs to buy stalled private sector sites and by supporting jobs and training through new RSL developments. The massive reductions in our capital funding mean that pursuing the same approach is no longer possible. The lack of funding also raises some important issues about where you focus scarce resources.
36. We are working closely with the Council of Mortgage Lenders, WLGA, CHC and Local Planning Authorities (LPA) to provide guidance around issues of section 106 agreements attached to planning permissions that restrict affordability and occupation. We are aware that some restrictions are making mortgage availability difficult and a task and finish group has drafted guidance and minimum standards for use by LPA.
37. The RSLs and local authorities are working closely to tackle the rising numbers of homeless and address the impact of welfare benefit reform. We know the changes are already having a negative impact.

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

38. We are actively examining innovative ways of building additional housing by looking at different ways of accessing finance and the creative use of land. Work has already started to look at ways in which we can develop co-operative forms of housing in Wales as a viable option for people to access affordable housing. We have gathered housing and co-operative experts together to look at ways of funding and measures of success for co-operative models in addition to bringing forward a number of pilot projects.

39. We have actively supported the promotion of CLT activity in Wales and have engaged with the CLT movement to be part of the wider co-operative approach to housing we are currently considering. If, during work to develop new innovative products such as CLTs or co-operatives barriers are identified which could be removed through new legislation, this could be considered for possible inclusion in the Housing Bill

Next Steps/Conclusion

40. There is a great deal of work going on to increase the supply of affordable housing in Wales, building on the firm foundations laid by the Essex Report in 2008. Outcomes from that work include:

- the development of the Welsh Housing Partnership to provide more intermediate affordable homes
- the delivery of over 9,000 new homes against the target of 6,500
- a review of the rent regime to make it fairer
- a review of the HRAS system to give Welsh local authorities a fairer financial settlement and flexibility to do more to meet the housing needs of their area

41. But more needs to be done to help increase supply and this will not be easy because of the difficult financial settlement facing us. It will not be possible to do everything without spreading resources so thinly that there is little impact. Consequently decisions will need to be taken on where and how we spend scarce resources.

42. The work with the sector to develop a Housing White Paper for the spring of 2012 will provide an opportunity to explore what needs to be done and find possible new solutions. If necessary I am prepared to use the opportunity of a Housing Bill to do more.

43. I look forward to hearing the Committee's views which will help inform our thinking over the coming months.