



Local Government and Housing Committee

Evidence Paper on Housing Supply

27/08/2024

This evidence paper sets out the Welsh Government's approach to social housing in Wales and provides an update for members of the Local Government and Housing Committee. The evidence is outlined in the nine areas of the Committee's terms of reference for their inquiry into social housing.

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1. Progress towards meeting the target of 20,000 low carbon social homes for rent; and the extent to which current and projected levels of social housebuilding are likely to meet housing need.

1. The 20,000 homes target for this term of Government is purposefully challenging with a narrower definition than the target for the previous term of government which included homes delivered through Help to Buy - Wales and Rent to Own - Wales. The current target focuses on homes for rent in the social sector and includes social rent, intermediate rent, shared ownership, acquisitions and leases where the term is for more than a year.
2. Welsh Government estimates of housing need, published in August 2020, showed a projected additional annual need (under the central estimate) of 7,400 homes, split into 3,900 additional market housing units (52% of the additional housing need) and 3,500 additional affordable housing units (48% of the additional housing need) over each of the next five years (2019/20 to 2023/24). The target was set to deliver over and above the number of affordable homes our estimates of annual housing need¹ for affordable housing told us we needed. This demonstrates our drive and commitment to deliver more affordable homes in Wales.
3. However, these estimates of housing need were calculated prior to key global events, including the Covid-19 Pandemic and the Ukraine war. For example, households in temporary accommodation have increased by over 150% since June 2019 (from 2,229 to 5,700 during July 2023 to September 2023). Out of the 5,700 households in temporary accommodation², 1,668 were families with children. As current estimates of housing need only ran until 2023/24, work is currently ongoing to explore options for future housing need estimates. The methodology to undertake Local Housing Market Assessments (LHMAs) has also been updated to assist local authorities in assessing housing need for their area.

¹ [Estimates of housing need: 2019-based | GOV.WALES](#)

² [Households accommodated temporarily by accommodation type and household type \(Post 2015-16\). \(gov.wales\)](#)

- 4.** The latest Affordable Housing in Wales³ statistics were published on the 7 November 2023. They showed 3,212 affordable homes were delivered towards the target in 2022-23 a 25% increase on the previous year (2,563 in 2021-22). This brings the total for 2021-22 and 2022-23 to 5,775. This is our second highest total since records began. The 2023-24 statistics will be published in Autumn 2024. When setting the 20,000 target, it was expected that progress would ‘ramp up’ over the course of the Senedd term recognising that increases in investment take some time to feed through to delivery.
- 5.** Record levels of funding have been allocated to housing supply in this Senedd term, with over £1.4bn invested so far. This includes record levels of funding to the Social Housing Grant with £250m in 2021-22 (doubling the budget from 2020-21), £300m in 2022-23, £361m in 2023-24 and a budget allocation of £330m in 2024-25. However, the increased budget has been impacted by high levels of inflation and the costs of building materials increasing significantly since the start of the Senedd term.
- 6.** My officials work closely with the sector to understand the delivery programme. Our delivery partners provide regular information on the current pipeline to my officials, this data indicates that there is a strong pipeline of homes for rent in the social sector in the programme within this term of government. However, there are some significant risks that due to the headwinds impacting development, completion of some homes will fall into a future year.
- 7.** To support our focus on delivering more homes as quickly as possible to meet our housing need, we established the Transitional Accommodation Capital Programme (TACP). In its first two years, the programme received £163m to deliver more homes. We have allocated an additional £50m for TACP in 2024-25. Sector partners have been asked to identify opportunities up to £100m to ensure a robust pipeline.
- 8.** It is the responsibility of Local Authorities to undertake a periodical review of housing need, discharged through the Local Housing Market Assessment (LHMA) process. To support them in doing this, Welsh Government has published a new approach to undertaking LHMA in Wales.

³ [Affordable housing provision | GOV.WALES](#)

- 9.** LHMA's are vital in determining local housing requirements, form a key part of Local Development Plans (LDPs) and play a vital part in delivering market and affordable housing and in meeting housing need. The quality of the outputs from the assessments are particularly important to the evidence base for LDPs, informing the LDP targets for the number of affordable and market homes the authority aims to deliver over the plan period to meet housing need. LDPs must also set out how and where the authority intends to provide the affordable homes to meet the target they have established.
- 10.** Local authorities were required to undertake a LHMA using the new methodology by 31 March 2024 and submit a report to Welsh Government. Every local authority has submitted a report, although some are in draft form. Support continues to be provided to both those who have draft reports and those who are in the process of finalising them.

2. The challenges faced by social landlords in increasing supply.

- 11.** There are significant challenges facing the whole housing sector in increasing supply. The impacts of the pandemic, war in Ukraine, the cost of living crisis, broader economic uncertainty and interest rate rises, driving up costs and reducing capacity.
- 12.** In the past few years the housebuilding sector has faced supply chain disruption, inflation in material costs, labour shortages as well as high interest rates, all constraining delivery and growth in the sector.
- 13.** These issues make delivery of the 20,000 homes target even more challenging. Costs of building materials are still significantly higher than at the start of the Senedd term. The ongoing shortage of skills and workers within the construction industry proves to be one of the biggest barriers the housing sector faces, as reported by sector representatives. These challenges have clearly had a huge impact on the housebuilding industry right across the UK.
- 14.** Welsh Government has worked closely with the sector to identify and address the barriers to delivery. This has included provision of additional funding for material costs increases to maintain and secure previously invested funds and action to address the impact of phosphates.
- 15.** The levels of phosphorus in River Special Areas of Conservation has been a particular barrier to developing homes during this target term. However, Welsh Government's Team Wales approach to improving river health has been a particular success. Working closely with our partners through the River Summits, we have developed an Action Plan to improve river health. Positive progress is being made towards unlocking developments without changing our commitment to the environment. For example, with partners we have sped up Natural Resources Wales (NRW) Review of Permits so that Local Planning Authorities can make planning decisions sooner. Welsh Government, Community Housing Cymru (CHC) and the Welsh Local Government Association (WLGA) shared information about affordable led housing sites with NRW, for them to consider when setting priorities and timescales for the review of permits exercise. NRW is now starting to release

permits on a phased basis. These new permits have allowed significant development to progress.

- 16.** Local Partnerships were also commissioned to undertake detailed work into wastewater treatment works where development has/will not be freed up through the permit review process, including leading targeted deep dive case studies for agreed sites. Of the 68 affordable housing led sites identified by RSLs and LAs as delayed by phosphates, the majority of these are now able to proceed with just one still delayed due to phosphates.

3. How housing standards and decarbonisation affect the delivery of new social housing.

- 17.** It is recognised that living well in a good quality home brings a wide range of benefits supporting the government's wider agenda for improving outcomes in health, wellbeing and prosperity and the transition to net zero. Good quality, inclusive and accessible homes are the bedrock of communities and form the basis for individuals and families to flourish in all aspects of their lives.
- 18.** In 2021, we launched the Welsh Development Quality Requirements 2021 (WDQR 2021)⁴. WDQR 2021 requires social landlords to build new homes which are significantly more energy efficient, through pioneering fabric and energy standards which included a shift away from the use of fossil fuels. WDQR 2021 ensures that homes are large enough for everyday living by stipulating minimum space requirements and in addition meet the Lifetime Homes standard. This accessibility standard (whilst not to full wheelchair standard) ensures a home capable of accommodating an accessible ground floor shower or a stairs capable of taking a lift, more circulation space, wider access doors and convenient external access paths making homes flexible and responsive to the changing needs of households. The standard reflects additional space requirements of modern day living and the pandemic has since reinforced the importance of living within a home with sufficient space for flexibility, privacy and dignity.
- 19.** In 2023, we introduced a new Welsh Housing Quality Standard (WHQS)⁵ which saw the biggest changes to housing standards for existing social homes in more than 20 years to better reflect changes in the way people live, work and feel about their homes.
- 20.** Welsh Government has prioritised high quality requirements for social housing centred on flexibility, space and sustainability. It ensures that social housing leads the way in reducing carbon emissions, reducing energy costs for tenants and favours good design so people can live well within their homes now and in the future. Homes and their surroundings built and maintained to the required standards will be healthy places to live, flexible to

⁴ [Welsh Development Quality Requirements 2021 \(WDQR 2021\)](#)

⁵ [Welsh Housing Quality Standard](#)

future needs, visually attractive and both environmentally and ecologically sustainable.

- 21.** Compliance with housing quality standards will require continued investment but will deliver benefits for people living in Wales by supporting manufacturing supply chains, modern methods of construction and skills training. These will be essential for the future, whilst at the same time providing tenants with higher quality and better performing homes, with much lower running costs. The cost of achieving the standard, is offset by the fact that homes that comply with WDQR 2021 or WHQS 2023 will not need to be retrofitted in the future to meet our 2050 targets. Through investment in higher quality standards, we are asking tenants and social landlords to work together with government in reducing energy used and improving the environment we live in, to reach our net zero goals.

4. The opportunities and risks in increasing government borrowing and institutional investment.

- 22.** Use of borrowing powers are considered as part of the Welsh Government annual budgeting process. Welsh Ministers have always adopted the approach that capital borrowing supports overall capital spending as opposed to funding specific capital projects. In that regard, the case for increased funding for a specific area is not predicated on the use of borrowing powers but on a broader assessment of government priorities, and the value for money and opportunity cost of any given expenditure over another.
- 23.** The budgetary flexibilities of £150million per annum up to a total limit of £1billion currently available to us limits our ability to respond quickly to emerging needs, and in ways which maximise value for money, and leaves Wales dependent on decisions and timings dictated by the UK Government.
- 24.** We are constantly looking for innovative opportunities to raise finance to support the building of more social homes. We know there are opportunities to utilise other funding sources and local authorities are being encouraged to utilise their Recycled Capital Grant to support social housing supply in Wales. Different options are being considered that have potential to leverage in additional finance from existing and new lenders to the sector. These options include provision of blended finance, bonds, use of guarantees and working with “for profit” vehicles. Also being considered are the use of retrofit credits and tax incentives. Key to the success of any of the above is scale with investors willing to lower the price of finance for larger placements.
- 25.** Additional Financial Transaction Capital has been provided to RSLs as loan funding. £79.21m was provided in 2023-24 and 2024-25 to deliver 220 additional low carbon homes for rent in the social sector and bring 22 voids back into use in this term of government; it will also accelerate the delivery of 7 new build sites (delivering a minimum of 86 social rent homes) in the next term of government and contribute towards decarbonisation works on existing homes. The loan is interest yielding; and, in some cases, will lower Social Housing Grant (SHG) requirements on existing social housing schemes.

26. Through the Land for Housing scheme in 2023-24 alone, loans of £39.8m were awarded to RSLs to facilitate the delivery of up to 2,254 homes (of which 82% will be affordable (1,848)). A total of £89m has been invested into the Land for Housing scheme since inception in 2014-15. This funding is recycled when loans are repaid to provide new loans. To date, £287m of loans have been made, which will facilitate the delivery of up to 8,000 new homes, of which 81% will be affordable. To date, interest charged on the loans for affordable housing has been at 0% with a commercial rate charged for market housing units.

27. I have asked local authorities to consider how the Second Homes Premium Tax, the Empty Homes Tax or financial contributions towards affordable housing from planning obligations can best be used to deliver more social homes in Wales.

5. How effectively the planning system is supporting social housebuilding.

- 28.** Planning Policy Wales is clear on the importance of providing affordable homes through the planning system. The need for the delivery of social housing to be a priority is also clearly articulated in our national development plan, Future Wales.
- 29.** Local Development Plans (LDPs) are the cornerstone of the Welsh planning system. Planning Policy Wales requires local planning authorities, through their LDPs, to ensure the delivery of high-quality new homes in the right locations to meet their need for housing.
- 30.** There is 100% LDP coverage with every local planning authority in Wales now having an adopted LDP, which includes policies on the delivery of social housing to meet the needs of their local communities and planning decisions are required to be taken in line with those plans.
- 31.** LDPs set out a locally derived requirement for housing, including a specific target for affordable housing based on the LHMA and other evidence. Due to the growing levels of unmet need for affordable housing local planning authorities have been instructed to identify affordable housing led housing sites where at least 50% of the homes will be affordable as part of the current round of LDP reviews⁶.
- 32.** For example, the current Monmouthshire LDP review proposes signals their intent to promote a commitment to deliver 50% affordable homes on sites to meet need. These policies and allocation of sites will be set out in their forthcoming 'Deposit Plan' consultation later this year.
- 33.** The LDP process is transparent and involves considerable engagement with local communities, businesses, key stakeholders and neighbouring authorities to ensure all concerns and aspirations are considered.
- 34.** We have recently undertaken an in-depth analysis of some of the perceived planning barriers to the delivery of social housing schemes highlighted by examples provided by RSLs as part of the delivery of the 20,000 homes target.

⁶ [Increasing supply of affordable homes through planning: July 2019 | GOV.WALES](#)

This work is ongoing but is already revealing that there are several complex issues such as SUDS which are outside of the town and country planning system. This work has also highlighted some of the poor-quality planning applications which have been submitted for social housing. We have asked the Design Commission for Wales to offer support to RSLs to improve the overall quality of planning applications and associated evidence. There is also some evidence that the availability of planning professionals and associated disciplines such as ecologists, highways development control and lawyers is impacting on the timeliness of planning decisions.

35. The planning function in local planning authorities have been subject to significant cuts due to austerity. Planning application fees do not currently cover the actual cost of processing applications in most cases. A review of planning application fees to cover inflation and start the journey to full cost recovery is underway. As part of this commitment a conversation is taking place with local authorities about retention of planning fees within the planning service and performance monitoring and improvement. Corporate Joint Committees also have an important role to play by providing critical mass especially in specialist areas such as built heritage, ecology or urban design etc.

6. How to improve the strategic management of public and private land for social housebuilding, including compulsory purchase.

- 36.** LDPs must take into consideration the outputs of the LHMA's which provide detailed local evidence of housing need. It is the role of the LDP to make suitable sites available to accommodate local need.
- 37.** Planning Policy Wales (PPW) requires all LDPs to have trajectory of housing delivery. This trajectory should show the strategic delivery of housing on all sites in the LDP. PPW requires that issues of deliverability and viability are addressed at the earliest stages and that the trajectory should provide clarity and certainty of delivery.
- 38.** It is recognised that not all land included in LDPs will be available for development. This is particularly the case where land is being held for speculative rather than productive purposes. The value of land increases throughout the planning process. Initially land will have hope value, the expectation that land will gain planning permission for housing in the future. Value will progressively increase when sites are included in LDP's receive outline planning permission and full consent.
- 39.** For land to become available for development the landowner must be content with the return otherwise they may continue to hold the land in the expectation of higher values in the future. The availability of land for development is a major determinant of housing supply. Where land is not being brought forward, the local planning authority has the option to pursue compulsory purchase and currently hope value (the value potential planning permission adds to land subject to a compulsory purchase) can be taken into account when calculating compensation for landowners. In the case of land for affordable housing, the Levelling-up and Regeneration Act includes provisions that would allow hope value to be set aside.

- 40.** In response to the recommendations of the Independent Review of Affordable Housing Supply in Wales 2019⁷, Land Division was established to work across the Welsh Government and the wider public sector to unlock the potential of public assets to stimulate a more active approach to using and developing land in the public interest. It is using its sites to support the delivery of increased social housing in Wales. Its initial focus has been to increase land supply and its two initial market acquisitions have ensured a public sector partnership approach to the delivery of new homes and supporting town centre regeneration. It has also transferred some of its sites to RSL's and LA's to take forward the developments. Where an asset cannot be developed as it is unsuitable for housing, we look at alternative uses to contribute to wider government policy aims. This could include options for generating renewable energy, restoring and enhancing biodiversity, or contributing towards the new National Forest.
- 41.** The Land and Buildings Development Fund specifically targets public sector asset holders to help them advance stalled and difficult assets for the advancement of social and affordable home construction. Last year the fund supported c£5m capital works and purchased empty properties worth £21.5m.
- 42.** Ystadau Cymru was established by Welsh Government to enable and influence collaborative asset management across public sector organisations to release efficiency savings, and to develop tools to enable and facilitate this collaboration. It seeks to support and facilitate opportunities to take a more strategic approach to property and property management across geographical and organisational boundaries, supporting government policy priorities.

⁷ [independent-review-of-affordable-housing-supply-report_0.pdf \(gov.wales\)](#)

7. The potential for increasing income from land value capture mechanisms to invest in social housing.

- 43.** There are currently no formal mechanisms to capture the uplift in land value or betterment that occurs as part of the planning process. A proportion of the value uplift will in practice be captured through other mechanisms including S106 contributions, principally affordable housing contributions, and capital gains tax receipts. Further details can be obtained from the House of Commons Housing and Local Government Committee Report⁸.
- 44.** As with all tax matters, the boundary between devolved and non-devolved matters is complex. One area where we are keen to make progress is in relation to the introduction of a vacant site levy to deter land being held for speculative purposes.

⁸ <https://publications.parliament.uk/pa/cm201719/cmselect/cmcomloc/766/76605.htm>

8. The Welsh construction sector's capacity to build new low-carbon social homes; the potential for acquisitions of existing homes and remodelling of existing buildings.

- 45.** The contractor market in Wales has experienced a reduction in size, with some firms ceasing operations. This loss of capacity has been noted by public housing clients, who find it increasingly challenging to find contractors with the necessary scale and capabilities to undertake new home construction projects.
- 46.** Encouraging larger national contractors and attracting new entrants, especially local SMEs, to participate in the construction process has proven challenging. This lack of diversification in the contractor pool limits innovation, competition, and the sector's ability to efficiently meet the growing demand for low-carbon social housing in Wales.
- 47.** Welsh Government are committed to help change the thinking, and therefore behaviours, governing the commissioning and procurement of new social housing. By promoting a more diverse and competitive marketplace the industry can overcome current challenges and pave the way for sustainable, affordable housing solutions tailored to meet the needs of Welsh communities.
- 48.** Working through 'Constructing Excellence in Wales' Welsh Government aim to deliver a set of recommendations for improving contracting and procurement of social housing, including encouraging more contractors and subcontractors in the sector, underpinned by an understanding of the current context and best evidence.
- 49.** It is clear that government cannot solely rely on the "traditional" way to deliver homes which is why innovative housing solutions have been mainstreamed into the Social Housing Grant funding programme.
- 50.** In Wales the capacity of the construction sector to build new low-carbon social homes is closely linked with the adoption of Modern Methods of Construction (MMC), particularly by small to medium-sized businesses

specialising in timber panelised solutions. These firms collectively contribute around 2,600 homes annually to both the Welsh and English markets, demonstrating a commitment to sustainable construction practices.

- 51.** The timber panelised firms in Wales typically follow a labour-led production model, emphasising in-house training and relatively low skills requirements. While these businesses play a crucial role in advancing low-carbon social housing, they face various challenges such as obtaining planning permissions, warranties and insurances which can be complex and lead to project delays. Additionally, resistance to change among contractors, limited understanding of MMC, and a shortage of key production and design skills attribute to ongoing challenges. In February 2020 Welsh Government published “A Modern Methods of Construction Strategy for Social Housing”. The Key objectives of the MMC Welsh Strategy Plan focus on the above challenges. In February 2021 an implementation plan was initiated requiring all social housing under schemes to embrace and implement MMC principle.
- 52.** The Welsh Government's support for MMC initiatives through programs like the Innovative Housing Programme (IHP) and the Social Housing Grant (SHG) has been crucial in driving innovation and the adoption of MMC solutions. The emphasis has been on encouraging timber solutions and off-site manufacturing processes to enhance efficiency and sustainability in construction practices.
- 53.** By encouraging recycled low carbon products and developing the balance between on-site and off-site activities there is an opportunity around MMC implementation in Wales.
- 54.** The market insights research has been commissioned to determine the potential and capacity of offsite modern methods of construction. Emerging findings include:
- The need to make visible the demand projections for affordable housing – i.e. development pipeline visibility.
 - Registered Social Landlords to agree common performance standards for new affordable homes - to increase the quality and productivity of new homes and enable economies of repetition to be delivered by supply chains.
 - Agree the use of standardised house designs, such as the Design to Net Zero Pattern Book, which again facilitates certainty around quality and productivity.

- 55.** This work is also looking to address the current barriers to the expansion of MMC around planning, warranties, insurances, and general resistance to change.
- 56.** Whilst focus is on building new homes, acquisitions are important in helping to meet the needs of our most vulnerable groups. There is also a need to provide good-quality transitional accommodation options while supporting individuals and families to find a permanent home.
- 57.** The Transitional Accommodation Capital Programme (TACP) was established to support the acquisition of properties, remodelling existing accommodation, converting buildings into good quality accommodation, and the innovative use of modern methods of construction and modular accommodation. In 2022/23, LAs and RSLs were provided £76.4m to bring 903 more homes into use. Building on this success the programme re-opened to new applications for 2023-24. A total of £87.2m was provided to bring 788 homes into use.
- 58.** A proportion of the homes delivered through TACP will count towards the 20,000 homes for rent in the social sector target. Building on the success of the programme for the last two years, £50m has been allocated to TACP for 2024/25. However, stakeholders have been asked to over-programme to an indicative value of £100m to ensure a strong pipeline.
- 59.** The Land and Buildings Development Fund is able to assist with derisking land and buildings to advance development of affordable homes. Specifically, it is able to meet the costs associated with “abnormal” items e.g. removal of asbestos, which can be a barrier to conversion of buildings or capping of old mine works for land development.

9. How local communities can be effectively engaged in social housing developments in their areas.

- 60.** Part of the new approach to undertake LHMA's, local authorities are expected to undertake consultation on their assessment of local housing need. This can include engagement with local communities and in relation to specific housing need requirements, are encouraged to engage with members of their community or community representative organisations to ensure needs are captured. The evidence from LHMA's help local authorities should inform their prospectus for the Social Housing Grant.
- 61.** Furthermore, at the start of LDP preparations, each Local Planning Authority (LPA) will prepare a Delivery Agreement (DA) incorporating a Community Involvement Scheme (CIS). This will ensure the community are effectively engaged throughout the plan preparation process. Communities also have the ability to influence schemes through pre application community consultation and formal consultation on planning applications when they are submitted.
- 62.** In rural areas, our Rural Housing Enabler (RHE) programme provide a vital link between the community and the local partners to support the delivery of much needed homes in rural areas. Part of their role includes undertaking community engagement events to understand local housing need. A broader Community Housing Enabler role has also been supported as part of the Second Homes and Affordability Pilot in Dwyfor. This role is vital in gathering evidence of community need but also community engagement in the area. Work is ongoing to build learning from this role into the role of RHEs going forward.
- 63.** Finally, co-operative and community-led housing can play an important role in addressing the housing need in Wales. Co-operative housing principles enable people to take more control of how their housing is delivered and managed. We have ensured our support for the sector remains allowing all community-led housing groups to draw on the expertise of the Communities Creating Homes programme, delivered by Cwmpas on Welsh Government's behalf.