



Affordable Housing Review

Call for Evidence:
Community
Housing Cymru's
Response





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Independent Affordable Housing Supply Review

About Us

Community Housing Cymru (CHC) is the representative body for housing associations and community mutual in Wales, which are all not-for-profit organisations. Our members provide 158,000 homes and related housing services across Wales.

CHC launched its twenty-year 'Housing Horizons' vision for Welsh housing associations in November 2017. Our vision is a Wales where good housing is a basic right for all, and the vision's commitments include a pledge to build 75,000 new homes by 2036.

We embark on this vision from a solid foundation. In 2016/17, our members directly employed 8,731 people and contributed almost £2bn (directly and indirectly) in the economy, with 84% of this spend retained in Wales. Housing associations built 2,207 new homes in 2016/17.

Our members work closely with local government, third sector organisations and the Welsh Government to provide a range of services in communities across Wales.

CHC's objectives are to:

- Be the leading voice of the social housing sector
- Promote the social housing sector in Wales
- Promote the relief of financial hardship through the sector's provision of low cost social housing
- Provide services, education, training, information, advice and support to members
- Encourage and facilitate the provision, construction, improvement and management of low cost social housing by housing associations in Wales



Building our response

In developing our response, we have worked closely with all of our members to consult on their views, to develop policy and to create a response which delivers on the sector's Housing Horizons vision of building a Wales where good housing is a basic right for all.

Following the request for volunteers for each work stream from the Review, we sought nominations from each of our member housing associations and were overwhelmed, with more than 70 names coming forward across nine work stream areas. We were pleased to be able to nominate 21 of these to the work streams, giving consideration to the geography, size and type of housing associations that would be represented, to ensure a wide range of views was presented to the panel.

Alongside this, we created our own reference groups which have acted as sounding boards and task & finish groups for our own policy development in response to the Call for Evidence, and as conduits back to our work stream volunteers. These reference groups are made up of all those who volunteered their time, and worked on specific areas of policy which are closely related, as follows:

- Reference Group 1:
 - Work Stream #1 : Understanding Housing Need
 - Work Stream #2 : Grant and Intervention Rates
 - Work Stream #3 : Rent Policy
 - Work Stream #8 : Capacity of public sector and RSLs

- Reference Group 2:
 - Work Stream #4: Standards / Development Quality Requirements (DQR)
 - Work Stream #6: Construction supply chain including modern methods of construction
 - Work Stream #7: Public Sector Land

- Reference Group 3:
 - Work Stream #10: Leveraging the investment potential in stock transfer and LA organisations

These Reference Groups met immediately after the Call for Evidence was issued to establish principles under each of the areas they were considering, collaborating virtually to refine and develop these principles further, before final meetings to sign off our overall response to the Call for Evidence. We have engaged more than 200 people from across the sector, both virtually and in person, including:

- Reference Group 1 – 24 people
- Reference Group 2 – 15 people
- Reference Group 3 – 11 people
- Affordable Housing Review Webinar, 10th August – viewed by 44 people



- South Wales Board Member Networking Event, 4th September – attended by 35 people
- ‘Building Our Response’ Thought Leadership Event, 5th September – attended by 64 people
- North Wales Board Member Networking Event, 12th September – attended by 17 people

We believe that the real opportunity presented by this Review stems from the fact it is looking at the policy environment in the round, rather than individual policy areas in isolation. From the outset, we have sought to develop a response that addresses the whole system of delivering affordable housing, and there is significant interaction between the proposals we have developed under each of the work streams. For example, our proposals on a flexible rent policy are dependent on an effective and substantially more flexible grant regime, likewise our proposals on standards and DQR.

If we are to deliver the ambition of housing associations, and a build a Wales where good housing is a basic right for all, building 75,000 homes by 2036, we cannot afford a ‘pick and mix’ approach to policy, and in creating their recommendations, we hope that the panel seek to develop a whole system approach.

Throughout our work in responding to this Call for Evidence, we have applied three tests to our own proposals:

- Will our proposals result in the development of more homes across Wales?
- Will those homes be genuinely affordable?
- Will those homes be high quality and fit for the future?

As well as the work with our members, we have also applied significant external challenge to our response.

While housing associations aren’t not bound by the Well-being of Future Generations (Wales) Act, they have a long standing commitment to sustainable development, and we are working closely with the Future Generations Commissioner for Wales to develop a framework for housing associations to build on their work in this area to voluntarily meet the Commissioner’s seven well-being goals and the five ways of working. As part of this work, the Future Generations Commissioner, Sophie Howe, met with CHC on 11th September to challenge our response and help us refine it further.

Further to this, we have also sought challenge from Public Health Wales and commercial members of CHC who have expertise throughout the development process.



Executive Summary

Housing associations in Wales have an ambition to deliver 75,000 homes by 2036 in pursuit of our vision of a Wales where good housing is a basic right for all. In the ten years since the Essex Review in 2008, Welsh Housing Associations have taken advantage of a positive operating environment to deliver more homes and make a significant economic contribution.

The world around us has changed significantly since 2008, and the housing crisis has deepened in Wales. To deliver a Wales where good housing is a basic right for all, the policy environment must now evolve and adapt or risk embedding the housing crisis for future generations.

In our response to this Review, we outline our conclusions and recommendations to maximise the potential of housing associations and deliver on this vision. We are delighted that Welsh Government has taken the bold step of commissioning this Review, and we hope that the panel and the government find our recommendations constructive, ambitious and offering genuine solutions.

Two clear themes have emerged in our work with members on this review; the need for greater flexibility and the desire for greater collaboration. These are the central principles on which many of our proposals are based.

Our conclusions:

- The number of homes being built in Wales each year falls short of both academic projections of housing need, and has led to a considerable backlog of unmet need.
- There is an unbreakable link between rent policy, the standards to which we build, and the funding received to build them. It is vital that the Review considers the link between the three in any recommendations they make.
- Housing Associations endeavour to keep their rents as low as possible, while balancing affordability for tenants and the viability of their business.
- The current model of distributing grant on a formula basis to local authorities does not allow provision to fully match housing need.
- Fixed grant rates are not maximising the delivery of affordable homes in Wales, and do not sufficiently recognise the reality of developing in some markets.
- The planning system remains a significant barrier to capacity and the delivery of affordable homes.
- Skills shortages in development and construction offer significant challenges and have the potential to lead to increased costs and competition.



Our recommendations:

- Housing associations should be given greater flexibility in setting rents to allow them to develop their own rent policies which set rents locally and affordably.
- Greater flexibility and longer term planning is required in the distribution of grant, to allow housing associations to balance the risks of certain markets and more complex sites and maximise delivery.
- Zoning arrangements for development should be held at a regional level, linked to the City and Growth Deal regions.
- Development Quality Requirements should offer flexibility to allow housing associations to innovate and build homes fit for the future.
- Minimum space standards should be enforced across all sectors through the planning system.
- There is significant potential in the delivery of Modern Methods of Construction to increase the pace and scale of building affordable homes, but collaboration and standardization is required.
- Public sector bodies should offer greater transparency on land availability, and show greater flexibility and partnership working to deliver more affordable homes on public sector land.
- Greater collaboration between housing associations should be encouraged to overcome skills challenges and extend the financial capacity of the sector.
- Long term certainty of the Dowry Gap funding for stock transfer organisations could unleash their potential and deliver at least 3,000 extra homes.



Our response

We welcome this opportunity to respond to the Independent Panel's Call for Evidence, and we are delighted that Welsh Government has commissioned this Review. When we launched our Housing Horizons vision in 2017, we called for a review of housing policy in Wales to enable housing associations to deliver their ambition of a Wales where good housing is a basic right for all. In considering the key issues that affect the supply of affordable homes, we believe this Review offers a unique opportunity to deliver that vision.

The last time housing policy was reviewed in this depth was during the 'Essex Review' in 2008, which laid the foundations for the housing association sector we now know. During this time, the sector has seen significant growth, both in scale and ambition. Since 2008, the Welsh housing association sector has:

- Directly spent £9bn, including £4.1bn on construction, repairs and maintenance
- Provided 20,457 additional affordable homes
- Employed 5,400 additional staff

In our response to this Review, we outline our conclusions and recommendations to maximise the potential of housing associations and deliver on this vision. We are delighted that Welsh Government has taken the bold step of commissioning this Review, and we hope that the panel and the government find our recommendations constructive, ambitious and offering genuine solutions.



1. Understanding Housing Need

Understanding both housing need and demand is vital to delivering a functioning and effective housing market. Over the next two decades, Wales is projected to undergo major demographic changes which will impact heavily on the housing, care and support sectors.

Our population is set to continue growing. In 2036 it is projected that there will be an additional 227,000 people aged over 65 in Wales. However, projections estimate 96,000 fewer working aged individuals in the same year, compared to the current population.

Future changes to the sizes of households will impact on the demand for certain property sizes. It is projected that we will see a move away from three person families towards two person and one person households. Such changes will have far reaching implications for housing associations in Wales and the homes they develop and adapt.¹

In 2015, the then Public Policy Institute for Wales published *Future Need and Demand in Housing in Wales*², with the late Alan Holmans formulating a new estimate of the need and demand for housing in Wales over the period 2011 – 2031. The report presents two estimates:

- ‘The Principal Projection’ based on Welsh Government’s projections for the growth in the number of households
- ‘The Alternative Projection’ based a on a project developed by Dr. Holmans who argued that Welsh Government had underestimated its own projections

The Principal Projection estimates that between 2011 and 2031, Wales needs a further 174,000 homes i.e. 8,700 homes per year; 5,200 a year (60%) would be required in the market sector with 3,500 required in the social sector.

The Alternative Projection figures are 38% higher, with Dr. Holmans projecting the need for 66,000 homes additional to the Principal Projection, a total of 240,000 between 2011 and 2031. 7,000 (58%) of these would be in the market sector and 5,000 in the social sector each year.

The publication of two separate projections has been an unhelpful distraction to both policy making and housing delivery, and further analysis is needed to settle on a nationwide understanding of the housing that we need to deliver. This is essential to ensuring that planners, politicians and those delivering affordable housing are all working towards the same goal, and public support for building affordable homes is maintained and in some places strengthened.

¹ Community Housing Cymru & Savills, *Housing Horizons – Establishing the Challenge* (<https://bit.ly/2wPfoHE>)

² Public Policy Institute for Wales, *Future Need and Demand in Housing in Wales* (<https://bit.ly/2wGp5GC>)



a) Do you believe that the current tenure mix of properties being built is correct? Is the balance right between market, social rent, intermediate rent etc., or should it change in the future?

There is currently a demonstrable under-supply of homes in every part of the housing market in Wales, and to some extent market failure in many local markets throughout the country. Since 2011, 43,435 new build homes have been completed in Wales³. The table below demonstrates the shortfall compared to both the Principal and Alternative Projections of need in Wales:

Year	# completed	Principal Projection	Shortfall	Alternative Projection	Shortfall
2011/12	5,575	8,700	35.9%	12,000	53.5%
2012/13	5,451	8,700	37.3%	12,000	54.6%
2013/14	5,843	8,700	32.8%	12,000	51.3%
2014/15	6,170	8,700	29.0%	12,000	48.6%
2015/16	6,900	8,700	20.7%	12,000	42.5%
2016/17	6,833	8,700	21.5%	12,000	43.1%
2017/18	6,663	8,700	23.4%	12,000	44.5%
TOTAL	43,435	60,900	28.7%	84,000	48.3%

These figures paint a worrying picture, and there are some discrepancies in the statistics - Community Housing Cymru's research shows that housing associations have built 9,545 homes over this time period, these statistics only pick up 6,665 of those. However, the overall picture is of some concern and demonstrates the need for clear intervention in the market.

Housing associations are committed to building affordable homes for all those in need, and when we developed our Housing Horizons vision, our members were clear that social housing will always be at the core of what they offer. Of the 75,000 homes outlined in our ambition, 65,000 would be for social rent. This would be 93% of the homes identified as needed by the Principal Projection of housing need, or 65% of the Alternative Projection, and would go a significant way toward delivering the homes Wales needs over the twenty years.

However, there is a significant opportunity for housing associations to develop homes for other markets beyond social rent, and there is a clear desire from many organisations to do so. Over the last ten years, housing associations in Wales have provided 2,350 low cost home ownership opportunities across the country as well as innovating in markets such as student lettings and establishing social lettings agencies.⁴ Diversification remains a small part of what housing associations do, but as independent social businesses, it allows housing

³ Stats Wales, *New dwellings completed by period and tenure* (<https://bit.ly/2dZxFrQ>)

⁴ Community Housing Cymru & Beaufort Research, *Socio-economic impact of the Housing Association and Community Mutual sector in Wales 2016/17* (<https://bit.ly/2NQnwNN>)



associations to generate further investment, which makes the public money we receive go further and allows us to generate surpluses which are reinvested in our core purpose of providing affordable homes.

With the well-documented issues of developing in some geographies in Wales, housing associations are uniquely placed to develop across the whole housing market. However, this must be responsive to different geographies, economic circumstances and the local need, and the way in which grant is distributed is vital to achieving this. **The current model of distributing grant on a formula basis to local authorities does not allow provision to match need.**

Our members also highlighted issue with products such as Rent to Own, which has been co-developed by the sector and has proven popular in some areas in Wales. However, local economic circumstances dictate that products such as this are not always viable or in demand in every geography, and our members agreed that these schemes need to be driven by better data on local demand.

In many instances the delivery of non-social housing products will require collaboration both with other housing associations and their subsidiaries, and with private developers and other partners. In our response to Work Stream 8, we set out a number of examples of successful collaborations between housing associations and other partners, and we would be happy to provide further evidence on other examples to the panel.

b) How should Welsh Government ensure that both housing need and demand is considered / met?

Welsh Government's national strategy, *Prosperity for All*, recognises housing as one of six government priorities. If they are to meet both housing need and demand it is imperative that housing remains a top government priority throughout and beyond this Assembly term. The Welsh Government has been supportive of housing associations in recent years and have developed a favourable policy environment which has allowed the sector to grow, delivering 20,457 homes over the last decade.

In 2016, Community Housing Cymru signed a groundbreaking tripartite pact with the Welsh Local Government Association and Welsh Government to deliver the Welsh Government's 20,000 affordable homes target. The pact⁵ commits housing associations and local authorities to delivering 13,500 of the 20,000 homes alongside a number of other commitments from government and social housing providers, and it vital that the good work that has taken place in the first half of this Assembly term continues as we work to deliver on the pact and the 20,000 home target.

However, achievement of that target will not be end to the housing crisis in Wales and we must not rest on our laurels. As our response to question a) in this particular work stream demonstrates, there is much work to do beyond this term of government. We therefore hope this Review outlines a long-term strategy that secures political consensus on how we

⁵ Housing pact between Welsh Government, CHC and WLGA (<https://bit.ly/2NQWupn>)



build the homes needed to tackle the housing crisis in Wales and ensure good housing is a basic right for all.

We will comment further on the distribution methods and the rates at which grant is given to housing associations in the later work streams, but we would stress that investment in housing is key to meeting need and demand. Welsh Government have committed £1.5bn of funding to housing in this Assembly term, but current budgets indicate that investment in housing will drop towards the end of the term. It is important that consistent funding levels are maintained to ensure supply remains constant. In Scotland, where funding for new homes dropped and grant rates were significantly reduced in the early 2010s, build rates in the social housing sector dropped by more than 30%⁶.

c) How should Welsh Government use existing housing needs data to better inform policy making and programme delivery? Does the data tell us what the issues are / what are the gaps?

As discussed in our introduction to this chapter, the existence of both a Principal and Alternative projection of national housing need and demand has been an unhelpful distraction for policy makers and those involved in the delivery of new homes. It is vital that a clearer understanding of need is agreed at a national level. It is our view that Dr. Holmans' Alternative Projection has a clear rationale for its divergence from the Principal Projection, based on longer term trends rather than two data points (i.e. the 2001 and 2011 census). However, three years on from the publication of *Future Need and Demand in Housing in Wales*, we would question the value of another wholesale review of these figures and believe there are a number of steps that can be taken at a local level which would improve delivery.

In discussions with our members, there was agreement that housing associations' understanding of local need is strong in relation to acute need. While there are some errors and duplication with waiting lists, they give a strong indication of the local need for social rented housing. However, there was a clear feeling amongst our members that local data on need and demand for intermediate and market products is weak and could be improved.

Members also agreed that there needs to be a better understanding of the types of homes we will need in the future. Population Assessments required under the Social Services and Well-being (Wales) Act 2014 provide an opportunity to better inform our understanding of housing need. These assessments of current and future care and support needs of the local population could better inform discussions on what type of homes the sector needs to build and where. A number of housing associations reported frustrations with the Local Housing Market Assessments (LHMA) not being granular enough in the data they provide, and the need for greater join up between LHMA, Population Assessments and the Wellbeing Assessments required under the Well-being of Future Generations (Wales) Act.

The need for a more sophisticated overlay of health data and housing demand is essential to painting a truer picture of demand and need. There are some areas of Wales where demand

⁶ Scottish Government, *Housing Statistics for Scotland – Social Sector New Build* (<https://bit.ly/2M1y0b6>)



for social housing may be low, but specialist accommodation e.g. Extra Care is in high demand due to the demographic challenges of those areas. Collaboration between health, housing and social care to better understand this need could lead to better planning of services and in some instances improve the viability of communities through the remodelling of existing stock and the more appropriate targeting of both capital and revenue funding streams.

d) How frequently should Welsh Government be updating estimates of need and demand and should the data be more granular so we have a closer sense of whether planned provision is truly affordable for residents?

We agree that data should be more granular to assist housing associations and partners to better respond to need and demand in an area. However, we do not have a particular view on the timing of updated data other than to say it should leave sufficient time and provide sufficient detail to provide credibility in local planning processes i.e. LDP/SDP.

e) How far does the planned provision deal with the backlog of unmet need?

The ambition of housing associations is to develop 75,000 homes by 2036; this is a significant increase on current building rates, nearly doubling the current rate of supply. However, this is around 93% of the future homes identified as needed by the Principal Projection of housing need, or 65% of the Alternative Projection, and there will clearly need to be significant contributions from both the private sector and local authorities if we are to hit future need and the backlog of unmet need.

Throughout our response, we will also make a number of recommendations which would add significantly to the capacity of the housing association sector to build homes, including long term certainty of Dowry Gap funding, and greater collaboration in the housing association sector. We would urge the panel to explore those proposals which do add capacity in further depth as the unmet need for housing in Wales continues to grow.



2. Grant allocation and Intervention rates

Government investment is vital to the overall viability of delivering affordable housing. Social Housing Grant (SHG) is the primary form of grant funding for housing associations in Wales, but there are a number of other important funding streams which go into the building of homes, including Housing Finance Grant (HFG) and initiative-based funding such as that for the Innovative Housing Programme (IHP).

The intervention rates at which grant are paid and the conditions attached to the receipt of grant inevitably have a knock on impact on the cost of renting a home, and it is important that the Review considers how any changes to the allocation and intervention rates associated with grant would affect rent levels.

Any changes to grant rate must also be viewed in the context of the standards to which we build and the associated costs. Many housing associations face increasing construction costs due to the weakness of the Pound and uncertainty over Brexit. Throughout our consultation on this Review, many have also raised concerns in relation to the Acceptable Cost Guidance for Social Housing Grant (ACG). While most feel that ACG accurately reflects local market conditions, many were disappointed that the publication of the levels of ACG permitted had led to many contractors chasing the upper limits of the ACGs, further driving up costs for housing associations.

a) How could the grant regime best achieve value for money and efficiency and deliver more affordable housing from current resources?

Housing associations are committed to delivering value for money for any public funding received, and continue to stretch public funding to deliver more for our tenants and the people of Wales. Every £1 of funding received by a housing associations generates £6.01 of output into the wider economy, and over the last ten years have delivered 5974 homes – 29% of the overall total – without Social Housing Grant⁷.

However, when we asked members if the current regime delivers value for money, there was a strong feeling that fixed grant rates often mean that we are not maximising the number of affordable homes that can be delivered for the overall quantum of funding available. The current regime does not sufficiently recognise local economic circumstances and the pressure on rent levels in some areas, and does not give adequate regard to the complexity and cost of developing on some sites.

While positive moves have been made towards the longer term planning of grant, there is still frustration in the sector that an annualised system of Government accounting prevents genuine long term planning. A system with flexibility built in over a longer term period of time would allow housing associations to plan for the longer term and balance the costs of complexity or economic circumstances against other sites. For some association, particular smaller ones and those working in single authorities or regions, this might not always be

⁷ Community Housing Cymru & Beaufort Research, *Socio-economic impact of the Housing Association and Community Mutual sector in Wales 2016/17* (<https://bit.ly/2NQnwNN>)



possible and the system must flex sufficiently to allow those associations to continue to access sufficient grant rate in their area.

A flexible grant system could see the introduction of bands of grant rates which the sector could access. However, members were clear that they did not want to see a race to the bottom and we would note the impact in Scotland of a significant drop in grant rates and grant funding, where building rates dropped by more than 30%.⁸

Another area where housing associations and Welsh Government could work together to improve the efficiency and value for money of the current grant regime is on the process of distribution. The current spend profile across the year is heavily skewed towards the final quarter and creates a rush for funding at the end of the financial year. While longer term planning and flexibility would be a step change in how we plan and deliver homes, and improve this, housing associations would benefit for the automation of the grant submission, approval and award process. This could lead to the creation of an online portal which provides real time information on awards and grant paid out, speeding up processes and making cash flow management and the monitoring of a wide range of grants easier for both associations and Welsh Government.

Further to this, there is significant concern in the housing association sector about the current allocation system for grant via local authorities. During our consultation on Work Stream 1, on housing need, many felt the link between housing need and grant allocation was not sufficiently clear and that there was a clear need for that link to be restored. The Review should consider how efficient the current distribution system is in maximising output and value for money.

The professionalism and commitment of Welsh Government officials working on grant distribution was praised throughout our work on this stream. However, we believe additional capacity and resource would be needed by the Welsh Government to deliver on some of our recommendations. This investment in staff would ultimately deliver significant value for money and additional output over the medium and long term.

b) Should criteria be introduced which links grant allocations to measures of efficiency, KPIs and delivery capability? For example, should there be some form of bidding and eligibility framework to encourage those willing to develop at lower levels of grant to bid under a partnership or framework agreement, either alone or in consortia?

We do not believe that competitive bidding would be appropriate for the distribution of grants, and some housing associations are nervous that any such system would lead to grant rates being driven down and the viability of some areas and sites being driven down. However, a flexible system could look to link grant rates to things such as the energy performance of a building or the wider economic impact of certain schemes. Housing Associations feel that the current grant system penalises and disincentives innovation because of the lack of flexibility and the link with an inflexible standards system. To

⁸ Scottish Government, *Housing Statistics for Scotland – Social Sector New Build* (<https://bit.ly/2M1y0b6>)



encourage innovation in areas such as carbon reduction, Welsh Government could offer “bolt-on” grants in addition to Social Housing Grant to achieve other policy outcomes.

We also believe that linking grant rates to efficiencies may have unintended consequences for organisations working in deprived areas where local economic factors or market constraints make such efficiencies more difficult. A flexible grant system must not just be about driving grant rates down. Where economic factors and market constraints result in low-rent levels, there is a significant challenge for the viability of some schemes and there must be opportunities for grant levels to flex upwards where a housing need has been demonstrated.

Throughout our work on the Review, housing associations have demonstrated a clear appetite for greater collaboration, both within the sector and with external partners. We have already seen good progress on work around the North Wales Growth Deal which has the potential to deliver hundreds of homes additional to those currently in the business plans of the associations involved.

Further to this, we believe that Welsh Government should give consideration to how they might fund joint ventures between housing associations, and between housing associations and external partners, where these are delivering affordable homes. The current ‘on-lending’ restrictions in many housing associations’ loan agreements could restrict some housing associations’ ability to lend to a joint venture, where grant funding may facilitate significant additional development.

c) Should the zoning system continue or is there a better way of delivering affordable housing?

We believe that the current zoning system, whereby housing associations are zoned to individual local authorities, with oversight from Welsh Government, has a number of benefits but could be significantly improved. While the current system allows local authorities and housing associations to build strong relationships, many feel that its operation discourages new entrants and thus disruption and innovation.

A number of members raised concerns with the speed of zoning applications, with both Local Authority and Welsh Government processes appearing inconsistent. However, many associations did highlight examples of good practice from some local authorities, particularly in North Wales, who have welcomed new entrants into the market.

A wholly ‘free market’ approach would not be desirable, and would likely to lead to perverse behaviours including the chasing of grant, driving up the costs of land and development and reducing the impact of Grant. However, we believe there could be a compromise in the shape of a regional approach to zoning. Should the UK Government successfully deliver a Mid Wales Growth Deal, every local authority in Wales will be part of either a City Deal or Growth Deal area, and we believe that zoning on this basis would bring the potential for greater collaboration and more innovation.



d) What alternative structures of finance, including private sector finance, could be used to better support the development of more affordable housing in Wales?

Private borrowing is essential to ensuring housing associations can build affordable homes. Our most recent Global Accounts publication⁹ shows that housing associations in Wales currently hold £2.7bn of borrowing from both traditional banks and institutional lenders and a further £565m of undrawn facilities.¹⁰ CHChas worked closely with the sector and Welsh Government in recent years to explore alternative funding streams, including the successful Housing Finance Grant product.

There are a number of potential additional funding streams which housing associations have indicated a willingness to explore further.

In 2017, on behalf of our members, we appointed The Housing Finance Corporation (THFC) to investigate establishing a collective borrowing vehicle for Welsh housing associations. Our early engagement identified the European Investment Bank (EIB) as an attractive option. With the potential for hundreds of millions of pounds to be made available to housing associations to match the long-term HFG funding from Welsh Government at rates of interest much more competitive than anything else available on the market. After good early progress, the triggering of Article 50 led to a number of insurmountable barriers being put in place and ultimately the deal did not proceed. However, should the uncertainty over the UK's role in, and access to, the EIB be resolved satisfactorily, the EIB may still present an attractive option to housing associations.

While uncertainty remains over the future relationship with the EU, Welsh Government has a role to play in exploring funding from other Governments and institutions. The Affordable Housing Finance model, supported by UK Government, is one such model which Welsh housing associations have accessed in the past and there may be a role for Welsh Government in lobbying for a further tranche of such funding.

Further to this, we believe there could be greater exploration of the role of pension funds in investing in affordable housing. When this option has been explored previously, the relatively low returns on affordable housing have acted as disincentive to investment. However, with investors being advised to “brace for an era of substantially lower investment returns”¹¹, the certainty of investment in housing could provide an attractive long term option. There has already been some progress in local government, with the Greater Manchester Pension Fund investing £247m in housing in Manchester, and Universities with a £100m investment in supported housing.^{12 13}

⁹ Community Housing Cymru & Welsh Government, *The 2017 Financial Statements of Welsh Housing Associations* (<https://bit.ly/2MQahjL>)

¹⁰ Community Housing Cymru & Welsh Government, *The 2017 Financial Statements of Welsh Housing Associations* (<https://bit.ly/2MQahjL>)

¹¹ McKinsey, *Bracing for a new era of lower investment returns* (<https://mck.co/2oMfCdq>)

¹² Social Housing, *Greater Manchester Pension Fund invests in build-to-rent development* (<https://bit.ly/2wOCgpT>)

¹³ Universities Superannuation Scheme, *USS and Morgan Sindall Investments launch new supported living fund* (<https://bit.ly/2xfynJV>)



In our response to Work Stream 5, we will reference the opportunities for greater collaboration between Local Authorities and Housing Associations, and we believe there is an opportunity for Local Authorities to use their own borrowing capacity to provide an affordable finance option to housing associations. Welsh Government has a key role in establishing the legal and political framework for local authorities to do so, and could look closely at Warrington Council as a leader in this regard, having lent £460m to local housing associations as of January 2018.¹⁴

The Development Bank for Wales may also offer opportunities for investment in housing. While current rates are likely to be higher than the lending associations would traditionally access for social housing, this funding may provide an option as associations look to diversify.

¹⁴ Social Housing, *Warrington council approaches £0.5bn of HA loans with Johnnie Johnson deal* (<https://bit.ly/2p3Tc7B>)



3. Rent Policy

Rent policy is one of the most important parts of the equation on how housing associations build affordable homes. The rent charged on a property is a fundamental part of the relationship between landlord and tenant, and access to a good quality, affordable home can increase disposable incomes, prevent material deprivation for those who live in the home, and improve work incentives. Rental income is also the main funding stream received by housing associations and is vital to their ongoing viability and their ability to build affordable homes. **Housing Associations endeavour to keep their rents as low as possible, while balancing affordability for tenants and the viability of their business.**

This work stream links closely with a number of the other work streams, but in particular proposals on the funding received to build a home (i.e. grant and intervention rates) and the cost of building a home (i.e. DQR and modern methods of construction), and any changes proposed to rent policy must give due consideration to the impact on these areas.

The current rent formula has been in place since 2014, alongside an agreement between Welsh Government and the social housing sector for annual rental uplifts of CPI + 1.5% (+ £2). This agreement comes to an end as of 31st March 2019, and with this Review falling alongside the Heriot Watt University review of rent policy, it is the right time to look more fundamentally at how rent policy operates in the social housing sector.

To deliver our ambition of a Wales where good housing is a basic right for all, we believe rent levels should:

- Be set locally at a level that is affordable for tenants
- Protect lender confidence
- Maintain the confidence of government in the sector
- Offer value for money

Throughout our response to the questions set out by the panel, we will outline our position on how this could be achieved. This follows significant consultation with the housing association sector over several years both prior to and during this Review.

It should also be noted that the Review will not make its substantive recommendations until after the end of the current rent policy. Therefore, we would urge the Welsh Government to confirm an interim settlement for 2019/20 at the earliest possible opportunity to give certainty to housing associations and their tenants. In this context, we note that the UK Government has confirmed that the social housing rent policy will return to a settlement of CPI + 1% from 2020.

Any recommendations to change rent policy must also consider the time required by housing associations to consult with tenants on implementing any new policy.



a) Should the Welsh Government continue to have a Rent Policy or should social landlords be responsible and have freedom to set and uplift their own rents?

We believe the most effective way to meet the four principles outlined above and deliver on the vision of a Wales where good housing is a basic right for all, would be to grant housing associations the flexibility and freedom to set their own rents. This would allow housing associations to balance their business needs with affordability for tenants and ensure that they have a steady and secure income stream. The certainty provided by this model for boards and lenders would better enable housing associations to meet the need and demand for homes in the communities in which they work whilst addressing issues of quality and affordability.

As independent private bodies that exist for public good, housing associations are led by their mission and social purpose to provide housing and support those in need, and we recognise the pressures of low wages and welfare reform on household income, as well as the need for further reassurance around affordability for tenants. Affordability for tenants is at the heart of our vision of good housing, and we believe that a flexible approach is preferable to the current policy in terms of affordability for several reasons:

- The late confirmation of the rent settlement each year, despite a long-term agreement from government, causes uncertainty and incentivises rent increases which maximise the target rent level to 'bank' rent-rises in case of further future uncertainty. While the current approach technically enables flexibility within a central envelope, the late announcement also restricts the already limited flexibility which exists. A longer term and more flexible approach would support decision making that balances affordability for tenants with sustainability for the business.
- The current policy is overly complex, with the envelope calculation including several elements of detailed data on average weekly rents, SAP ratings and locational indices. The complexity results in limited transparency for tenants and reduced accountability for landlords. Where these measures add value by considering local factors, they are contradicted by the dampening effect which again limits flexibility for the organisation to respond to immediate changes.
- The current approach operates independently of welfare reforms and is blind to the risks they pose to affordability to tenants and the collectability of rent. In practice, its inflexibility means that housing associations are limited in their ability to respond to mitigate these risks.
- The current regime is redistributive. The current policy seeks the equitable distribution of income across the whole of Wales. However, the redistributive effect of the policy can result in an economic downturn in one area resulting in an increase of target rent in another.

We believe greater flexibility has the potential to overcome these challenges, and suggest that a flexible rent policy could bring the following benefits:



A sustainable and flexible approach: Housing associations would set a local rent policy. The rent policy would be put in place over a longer term time period (the exact period at the discretion of the housing association) to support the delivery of the associations' business plan and social goals.

An open and transparent approach: In putting together a rent policy, associations would demonstrate:

- How they have considered the affordability of tenants and the collectability of rents. It is proposed that to support housing associations that advice and signposting on defining affordability is developed by the sector.
- That they have stress tested the impact of changes to rent levels on the viability of the business.
- How they have involved tenants in the development of their rent regime.
- Welsh Government should publish an annual reporting of increases/decreases in the rents of all housing associations on an annual basis, as is the case in Scotland. This could form part of the ongoing work on data transparency with the sector following the Public Accounts Committee inquiry.¹⁵

An accountable approach: Boards would be responsible for setting rent policy within housing associations and the regulatory framework, with its strong focus on strong governance would support and challenge the effectiveness of this. We also propose that regulatory oversight of the rent setting process and due consideration of affordability could offer further accountability and reassurance.

Rent flexibility could also operate within parameters set by a new performance standard within the Welsh Government Regulatory Framework for Housing Associations Registered in Wales. This should include a requirement for housing associations to evidence how they have demonstrated affordability and transparency and stress-tested their rent setting approach.

Any divergence from the rent policy set out would require housing associations to consult with tenants fully on the impact of the changes.

A fair approach: With full rent flexibility, housing associations would be free to adjust rents to reflect local market conditions and need. This would allow subsidy to be focussed on the tenants and communities that need it the most. For example, a housing association could set lower local rents in areas where demand is low to support tenants, alleviate poverty and escape welfare dependency. This would enable housing associations to offer a wide range of rents that meet local housing need, respond to different housing markets, considers the type and quality of the property and reflects the changing requirements of communities.

Housing associations, as socially responsible charitable businesses are committed to providing affordable housing. It is contrary to their core purpose to set rents at a level that are unaffordable to tenants. For example, in Scotland, where rent flexibility exists this

¹⁵ National Assembly for Wales, *Inquiry into the regulatory oversight of Housing Associations* (<https://bit.ly/2vHkwahr>)



approach has not led to significant increases in rent levels across the sector. On the contrary, average planned rent increases have decreased in recent years.¹⁶

An affordable approach: Ensuring the continued and long term affordability of housing association homes for tenants has been at the heart of discussions about rent setting across the housing association sector. There are a number of models that may be employed by associations to achieve this. We are aware, for example, that some associations have already considered the Joseph Rowntree Foundation Living Rents model as a model of affordability.¹⁷ However, we do not think it would be sensible for the Review to recommend one model, as the current model shows that a national model cannot flex sufficiently to local needs.

We note with interest that the Scottish Federation of Housing Associations have worked closely with their members to launch a rent setting tool which assists members in their decision making in this area, and we believe that while the model or tool itself may vary, there is a clear role for CHC in bringing the sector together with tenant representatives, lenders and others to develop a credible affordability framework.

b) Should the Welsh Government Rent Policy consider affordability of rents for tenants or should this be the responsibility of individual social landlords?

As set out above, we believe that the most effective way to give consideration to affordability is to offer housing associations flexibility over how they set their rents. If this model were to be adopted, there would remain a clear role for government in ensuring affordability for tenants, but we believe this would be best achieved through the Welsh Government Regulatory Framework for Housing Associations Registered in Wales. The insertion of a new performance standard in relation to rent setting would give Welsh Government sufficient oversight of the rent setting processes and enable them to act were a housing association not to be following a clearly agreed affordability framework and rent setting process.

We also believe that Welsh Government's proposals on data transparency which followed the Public Accounts Committee's Inquiry into housing association regulation in 2017 present a useful opportunity to ensure that transparency over rent setting is built in to existing work. This would allow tenants the opportunity to understand their rent rises in the context of the whole sector and ask relevant questions of their own landlord. This greater transparency would in turn drive greater scrutiny and involvement for tenants of housing associations where the current system can lead to confusion over who is responsible.

¹⁶ Scottish Housing Regulator, *National Report on the Scottish Social Housing Charter: Headling Findings 2015-16* (<https://bit.ly/2M5uXPo>)

¹⁷ Joseph Rowntree Foundation, Savills and the National Housing Federation, *Living Rents – A new development framework for Affordable Housing* (<https://bit.ly/2xb08nj>)



c) How can a Welsh Government Rent Policy encourage social landlords to maximise affordability for tenants, given in some areas market rents are currently lower than social rents?

Ensuring that homes are affordable for tenants is in the interests of both housing associations and their tenants, but we feel the discussion on affordability must look beyond rent policy alone and consider the whole cost of living in a housing association home. Investment in Welsh Housing Quality Standard, schemes such as Arbed, and the ongoing commitment of the sector to meeting near zero carbon standards helps to reduce fuel poverty and tackle climate change, and subsequently reduces the overall cost of running the home.

Case Study: Cartrefi Conwy SAP Improvements

Since the transfer of their stock in 2008, Cartrefi Conwy has invested more than £65m in improving the condition of their properties, bringing them up to WHQS and investing in energy efficiency measures including external wall insulation, double glazing and boilers. This has seen the average Standard Assessment Procedure (SAP) rating of their property improve to 71.15, equal to Energy Performance Certificate (EPC) level C.

In 2017, Cartrefi Conwy undertook an exercise to compare the energy performance of their properties with local private rented market. Of the 111 properties in the PRS with available EPCs, the average SAP rating was 55.6, nearly 15 points lower than Cartrefi Conwy's.

On average, an increase of 1 SAP point, is equivalent to a reduction of £50.84 in running costs. Based on the average data, Cartrefi Conwy's properties can therefore demonstrate savings to their tenants of:

- £15 per week
- £65 per month
- £780 per year

At the same time, Cartrefi Conwy's rents were between 3% and 28% lower than the Local Housing Allowance rate in the area, with the Local Housing Allowance rate falling significantly below the true 30th percentile in many parts of the county.

This is an important consideration when we look at the link between rent, grant and standards in particular. Investment in zero carbon technologies and building to near-zero carbon standards as set out in our Housing Horizons vision could bring about a significant reduction in the fuel bills of tenants, and therefore reduce the overall cost of living in the home. However, this requires up-front investment and therefore granting flexibility over standards, grant and rent would allow housing associations to better balance these



investments. In some cases, this may require a slightly higher rent, but with a significantly reduced overall cost of living in the home.

Energy is just one consideration of this kind, but is perhaps the most pertinent given the 10.5% increase in the cheapest available energy tariff over the last two years¹⁸, and the fact 23% of households in Wales are in fuel poverty¹⁹.

¹⁸ Ofgem, *Retail price comparison and tariff type* (<https://bit.ly/2NITprz>)

¹⁹ Welsh Government, *Fuel Poverty* (<https://bit.ly/2CpWlrZ>)



4. Standards / Development Quality Requirements

Welsh Housing Associations are committed to building high quality homes which support people throughout their life course, and this is a vital tenet of our Housing Horizons vision where good housing is a basic right for all. In our vision we also set out our ambition to build all new homes to near-zero carbon standards by 2020 and ensure all existing homes reach this standard by 2036.

Currently, all new homes funded through Social Housing Grant or Housing Finance Grant must meet the Development Quality Requirements (DQR), which since 2001 has also included Lifetime Homes (LTH) Standards. These standards far exceed Building Regulations and the standards built to by private developers, and bring subsequent cost implications for those developing affordable housing.

a) What standards, if any, beyond building regulations should there be for affordable homes in the next decade?

There are a wide range of views in the housing association sector on DQR and Lifetime Homes. However, there is widespread agreement that both standards contain some superfluous elements which add significant cost to the building of affordable homes in Wales. Flexibility is a key theme throughout our response, and we believe given the intrinsic link between the other areas where we are proposing greater flexibility – i.e. grant and rent – it would be appropriate to consider a new, more flexible framework of standards.

The devolution of building regulations in full presents Welsh Government with an opportunity to develop a framework, including minimum standards, for all sectors. At present, housing associations build to significantly higher standards, and thus higher costs, than the private sector. The sector takes great pride in the higher standards we build to, but there is a question over the value for money offered by some elements of additionality, and it would be sensible to seek a broad consensus across sectors of where value is added.

Members pointed to elements such as downstairs showers, separate staircases and garden sheds as just some of the elements which add extra costs and have questionable value for money. However, there was recognition that space standards are important and while there should be some flexibility, there should not be a race to the bottom on the size of the homes we build. The present system allows local authorities to enforce minimum space standards across sectors through the planning system, but enforcement and standards vary.

Homes acquired by housing associations through s.106 agreements are a significant part of tackling the housing crisis, but the homes built by private developers are often built to different standards and sizes. We are aware of one local authority which is currently approving two bed homes in the private sector at 51m² – significantly below DQR – which are then sold to housing associations at 55% of the Acceptable Cost Guidance. This is in stark contrast to another local authority which ensures private developers build their s.106 properties to DQR space standards, and are then sold at 40% of ACG. This is creating inequity in the system, both for developing housing associations, and for prospective and current tenants. We believe that Welsh Government should review this, and seek to ensure equity across the country and between different sectors.



While we would not want to see a significant watering down of space standards, some flexibility can improve the viability of schemes. The Loftus Garden Village development featured in our case study in Work Stream 8 is an example of this. The homes built on this development are compliant with the main principles of DQR, but around 10% smaller than DQR space standards, resulting in a saving of c. £7,000 per home.

A number of housing associations also questioned the flexibility and modernity of the current standards system to reflect modern ways of living. For example, should we be giving greater consideration to electric vehicle charging points in our homes? Given the number of sensors available on the market now for detecting damp and boiler breakdown, should we be seeking to include the 'internet of things' within our homes? At present, the additional costs and complexity of several intertwined pieces of regulation on standards is a disincentive to explore genuine innovations such as these.

Finally, housing associations also raised the need for a greater focus on quality through the Building Regulations, to ensure that the final product meets the standards we are working towards. Modern Methods of Construction bring the potential for improvements in this regard, but we cannot afford to take our eye off the ball on traditional methods to ensure quality is delivered for all tenants.

b) Can the additional cost of the current Development Quality Requirements be justified, or are there more cost effective alternative means of delivering choice and flexibility?

Members agreed that evidence on the value for money of the current standards system was scant. The most powerful data available on the standards of the homes housing associations build is from tenants, and where this data has been collected, they did not necessarily recognise the value in some of the standards. (See case study below.)

Further to this, on many private developments where affordable housing is 'pepper-potted' throughout the estate, those built to higher standards are clearly identifiable from the exterior of the building. In some instances, housing associations report that this has added to the stigma attached to social housing tenants. We believe there is a clear role for the planning system in considering the impact of this on communities and levelling up standards and expectations between private and social housing.

There is a strong feeling amongst housing associations that some elements of the Lifetime Homes standard do not reflect the way the majority of people live in their homes. Given the extra costs brought about by some of these elements, the question must be asked as to whether it would offer better value for money with little negative impact on tenants were some of these not included.

At the heart of our vision of good housing as a basic right for all is the recognition that accessibility to our homes is important, and flexibility around Lifetime Homes would not be about a reduction in accessibility. Part M of the Building Regulations already contains significant requirements on accessibility, and we believe provide a sufficient baseline from which we can adapt and improve in specific circumstances. It would undoubtedly be more cost-effective to adapt on a needs basis and for specific impairments rather than building a



one-size-fits-all model. A flexible standards framework needn't reduce our ability to achieve this true accessibility, and it could create additional capacity to be more responsive to need.

Many members also voiced their concern that with the welfare system now penalising tenants for under-occupying their homes, Lifetime Homes standards could effectively be building in a reduction in welfare payments for tenants who remain in larger homes throughout their lives.



Case Study: Coastal Housing Tenant Data

As part of their ongoing engagement with tenants Coastal Housing explored tenants' attitudes to the standards to which their homes are built. They found that tenants are largely unaware of the DQR standard, but responses showed high satisfaction with the quality of the homes developed to DQR standards.

The main findings from this research included:

- Some s.106 properties not built to DQR standards have been just as easy to let as their funded equivalents. In a recent example in Swansea, the rear gardens were not turfed which gave Coastal's caretaking team the option to pave gardens between shared flats, thus reducing service charges and potential management issues.
- Satisfaction with DQR standards homes is overwhelmingly positive, with some issues related to overheating, a lack of kitchen cupboard space, and the aesthetics of some building materials. e.g. One comment that rain-screen cladding 'looks like Lego'
- Some s.106 properties have been replicas of the units being built for sale by the developer, making them indistinguishable from the other homes on the same site, a common problem with DQR properties.
- Winding staircases allowed more efficient use of floor areas within homes. The current standard prevents the use of winding staircases, increasing space requirements and cost.
- There is considerable anecdotal evidence that properties built post-2000 (post DQR) are easier to let due to their higher space standards. Flats in converted Victorian houses and older terraced homes are seen as less desirable, colder and more likely to suffer from noise issues.



c) Should all new grant funded homes or homes built on Welsh Government land to be designed to be zero carbon (EPC A*) or energy positive?

Housing associations in Wales have a significant ambition to build near zero carbon homes. However, it is important to recognise that the grant received to build affordable homes is intended to act as subsidy to deliver a sub-market rental product, and is not currently sufficient to absorb the build and maintenance cost of both significantly higher standards and zero carbon technology.

Greater emphasis on the delivery of Part L of the Building Regulations, alongside a more flexible framework of standards which allows housing associations to build what tenants really value, would increase the viability of our bold ambition on reducing carbon emissions and tackling fuel poverty. We know that technology that is widely available already in the new build process can reduce tenants' bills by up to 80%. Where this technology brings extra cost, there is a case that this is reflected through slightly higher rent, as the overall cost of living the home would be significantly reduced.

As the cost of technology decreases in coming years, there is significant potential to mainstream innovative models of housing. In order to do this successfully, we must learn from the early projects that have been part of the Innovative Housing Programme and look to mainstream this funding to unlock further potential.

We welcome Welsh Government's recent addition of Decarbonisation as sixth priority in *Prosperity for All*, and we note the ongoing work around reducing carbon emissions, including the consultation on *A Low Carbon Pathway for Wales*. This consultation proposes a major retrofitting programme, and while this Review is looking specifically at the supply of new affordable homes, there is serious consideration needed around the existing stock which bring significant challenges for our zero carbon ambition.

Any retrofit programme must bring significant investment if we are to achieve zero carbon in existing homes. However, there must be recognition that this won't be possible in all dwellings, particularly some of the non-traditional post-war builds and some of the older stock which is commonplace throughout Wales. It must also be noted that a major retrofitting programme will have implications for funding and skills in construction, maintenance and repair, and this needs to be balanced with the ambition to build new homes.

d) How should Welsh Government ensure all new grant funded homes or homes built on WG land create sustainable places and quality homes?

Our vision of a Wales where good housing is a basic right for all extends beyond the ambition to build 75,000 homes and emphasises the need for quality homes that are built in the right place.

To create sustainable places, the emphasis must be on building genuinely mixed tenure communities, with homes people aspire to live in. We believe that the primary tool is delivering this should be the planning system, rather than conditions on grant or land purchase. However, as the foremost anchor institutions in many communities in Wales,



housing associations are committed to building sustainable communities and will be key agents in delivering them, applying the principles of good place making throughout.

In Work Stream 7, we reference the opportunities for housing associations to play a key role in delivering larger strategic sites. Beyond the opportunities for collaboration, we think that local authorities should look to involve housing associations at the earliest possible stage in the development of such sites. The sector's commitment to place making and sustainability means we are uniquely positioned to assist in the delivery of sustainable developments.

At the heart of sustainable communities, there must be an emphasis on economic resilience, and housing associations are committed to building this throughout their work. Our ambition is to increase our investment by housing associations in the Welsh economy from 84p to 95p in every £1 spent. Housing associations continue to work in the wider community to ensure the sustainability of local economies, including through procurement via Value Wales and the Welsh Procurement Alliance. A number of associations are exploring how to play a more significant role in the Foundational Economy.

Following the Challenge Session we ran with the Future Generations Commissioner as part of building our response to this Call for Evidence, we will also be looking to support our members with Future Generations framework for housing associations. This will seek to maximise housing associations' role in delivering sustainable communities and working towards the seven wellbeing goals and the five ways of working outlined by the Future Generations Commissioner.



5. Local Authority Building

Local Authorities currently build only a small number of affordable homes, but we recognise that a number of authorities have significant development ambitions, and very much welcome this. When we signed the tripartite pact with the Welsh Government and Welsh Local Government Association in 2016, we agreed to provide 12,500 homes towards the Welsh Government's 20,000 homes target during this Assembly term, while local authorities agreed to provide 1,000. This represents a significant growth on their previous level of building going into the pact, and we believe this ambition should be supported.

Collaboration between housing associations is a key theme throughout our response to this Call for Evidence, but we believe that collaboration between housing associations and local authorities is another way to increase the pace and scale at which local authorities are contributing to tackling the housing crisis. Given many of the barriers we have identified in response to Work Stream 8, on capacity, particularly around skills, there is the potential for a number of unique opportunities for housing associations to support and enable local authorities as they seek to increase their building.

Local Authorities also clearly have a much wider role to play through their work in planning, local economic strategy and beyond, much of which we have referenced elsewhere in our response.

a) What in your view needs to be changed or improved, in relation to regulation / finance / planning / policy, to enable local authorities to deliver new homes at pace and scale?

We believe there is significant potential for housing associations and local authorities to work more closely together to deliver the homes Wales needs. The need for greater collaboration is a key theme throughout this response, and we believe that there is the potential to use the capacity held by local authorities more effectively by collaborating with other organisations.

While some Local Authorities have chosen to set up local housing companies and others pursue development in-house, most are still in the early stages of considering how they will help Welsh Government in their pursuit of the 20,000 homes target and beyond. Both the use of independent local housing companies and the in-house model are likely to require Local Authorities to build up significant development expertise, and given the capacity challenges we have heard about consistently in our work around the Review, we believe that a number partnership models, including the potential for local authorities to commission housing association development teams, or to partner on modern methods of construction to achieve scale in this regard, would be a more effective model.



There is also potential to apply a more effective partnership model to procurement and other key services. There is already good practice in this regard in North Wales, where four associations have worked together in the joint procurement of materials.

Case Study: North Wales Materials Procurement Collaboration

Cartrefi Cymunedol Gwynedd's previous procurement was due to expire in early 2016, and they sought to build on existing discussions around collaboration with other north Wales associations to assess the appetite for a joint procurement exercise. This led to four associations (Cartrefi Cymunedol Gwynedd, Cartrefi Conwy, Grwp Cynefin and North Wales Housing) establishing a joint procurement framework.

The total pooled spending of the associations via the framework is £3.5m, and included the consolidation of materials specifications across all four housing associations, and has led to savings of more than £100,000 for the lead organisation alone. By purchasing through the Value Wales ePayments system, the collaboration has also generated more than £250,000 worth of rebates back into the framework.

Further to this, there has significant additional social value delivered through the framework as a result of the core requirements place on the supplier through the framework agreement, including:

- a contribution of 0.5% of the cumulative total framework spend per annum towards delivering community benefits²
- paid work placements of up to 26 weeks at National Living Wage or above for those not in employment
- recruitment to local management trainee schemes, undertaking qualifications at level 3 and above

Models such as this relatively simple collaboration have the potential for local authority involvement and would bring significant benefits to both housing associations and local authorities, supporting local economies and saving money for the public purse. Housing associations have long been committed to procurement which builds in benefits for their local communities through initiatives such as the i2i toolkit, but the ambition of local authorities and collaboration in this area has the potential to extend the impact of this.



b) What is the role of non stock owning local authorities in housing supply? What support could Welsh Government give / what are the key factors and practical issues?

As we outline in our response to Work Stream 10, stock transfer organisations have been a hugely successful partnership of private and public sector and they have made a significant and lasting impact in the local authorities in which they work. However, non stock owning authorities retain an important role in setting the strategic direction of housing in the area. It is vital that housing remains a key strategic priority for these authorities and they continue to maintain good relationships with all local housing associations. We also believe it is vital that other areas of strategic priority, such as planning and procurement, within local authorities are working closely with both housing associations and the housing strategy teams to deliver their housebuilding ambitions. Local Authorities are a vital partner in delivering the homes we need right across the country and it is imperative that all departments play an enabling role in this.

c) The latest business plans for the stock retaining local authorities show an unused borrowing capacity of over £100m. What support could Welsh Government provide for this to be used to deliver new housing supply?

The borrowing powers of local authorities have the potential to increase the pace and scale of the building of affordable homes in Wales. As outlined in Work Stream 2, there is significant potential for local authorities to on-lend to housing associations at competitive rates, and we believe the model adopted by Warrington Council provides a useful legal and political framework to do so. With potentially attractive interest rates and fewer covenants attached than traditional lenders, it would allow housing associations to diversify their funding further.

While the current £100m of capacity is not an insignificant figure, it is only around 3% of the current £2.7bn of borrowing held by Welsh housing associations²⁰, and it is essential that this is invested wisely to give taxpayers the greatest impact possible for their money. We believe that there is the potential for housing associations to work with local authorities to stretch this funding further and deliver more homes than if Local Authorities were to work in isolation using this borrowing.

As well as through on-lending agreements, added value could also be delivered through joint ventures between housing associations and local authorities, which could unlock further capacity within their business plans of both sets of organisations.

²⁰ Community Housing Cymru & Welsh Government, *The 2017 Financial Statements of Welsh Housing Associations* (<https://bit.ly/2MQahjL>)



6. Construction supply chain including Modern Methods of Construction

The construction supply chain faces significant pressures in the current environment, with an ageing workforce, rising costs and uncertainty over our future relationship with our biggest trading bloc. The construction sector in Wales reports a high proportion of unfilled or hard-to-fill vacancies due to skills shortages²¹ and other factors. A combination of an ageing workforce and major infrastructure projects in the pipeline are likely to increase demand for skilled workers further. These pressures, allied with the lack of genuine disruption in the construction industry in decades and the low productivity highlighted by the Farmer Review²², means we need to give detailed consideration to the types of homes we build and how we build them.

a) How can modern methods of construction, including off-site manufacturing, contribute towards speeding up the delivery of affordable housing, without reducing quality?

Modern Methods of Construction (MMC) is a wide ranging term which encompasses a huge range of building types and methods, including off site manufacturing. There are significant benefits of speed and quality to be gained through a number of these methods which could assist housing associations in delivering at pace and scale.

Our initial discussions with members found a number of concerns which have arisen in their exploration of some of these methods. In particular, members are concerned about the way in which mortgage lenders and other funders may treat homes built through MMC. The security attached to existing homes is vital in providing the assurance mortgage lenders need to lend to housing associations, and the finance industry is yet to fully embrace some models. This is also having an impact on insurers' view of homes built through MMC, and is worth consideration from the Review panel and Welsh Government should they support a move in this direction. It is worth noting that a number of housing associations in England are using modern methods, and these problems are not insurmountable.

However, housing associations are very keen to explore the possibilities of building homes through MMC. They were clear that MMC must provide additionality and if it is adopted en masse, consideration must be given to the wider construction supply chain and the impact on traditional contractors.

The projects funded through the Innovative Housing Programme contained a number of homes delivered through modern methods, and it is vital that Welsh Government and housing associations now share the learning from developing those models to understand the deliverability of these on a large scale.

There are two others aspects of MMC which have prevented the large scale adoption of these methods so far; the first is cost. The cost of some MMC is yet to reach a level which brings significant value for money; this is mainly due to the lack of scale that most companies delivering MMC have yet to achieve. Therefore, should the quality and longevity

²¹ Welsh Government, *Brexit and Fair Movement of People* (<https://bit.ly/2x9Z8B5>)

²² Mark Farmer, *Modernise or Die: The Farmer Review of the UK Construction Model* (<https://bit.ly/2dlXYoC>)



the homes built through MMC prove suitable for funders and insurers, this is another area with potential for collaboration between housing associations. The first round of funding for Innovative Housing Programme invest revenue funding in research into the viability of a factory delivering MMC homes in Wales, led by a consortium of housing associations. While this research is at an early stage, there may be exciting opportunities for Welsh Government and/or housing associations in the same way there has been in England.

Accord Housing Group, based in the West Midlands, is one such opportunity Welsh Government may seek to learn from. Accord's *LoCal Homes* subsidiary delivers timber frame homes from a manufacturing facility in Walsall which is run on social enterprise principles. The facility has been successful in delivering low carbon homes for its parent company, Accord, and for other housing associations across England. At our thought leadership event, which took place as part of our consultation on this response, Accord outlined how their model could be replicated in Wales with significant interest from Welsh housing associations.

The second issue to consider is around local supply chain. Housing associations in Wales recognise the value of local investment and in our Housing Horizons vision, we have an ambition that 95p of every £1 spent by housing associations is retained in Wales. While there are a small number of companies in Wales delivering modern methods, there is no industry as such, and this raises concerns about the ability of the industry to adapt to increased demands. Due diligence of those already in the industry and their ability to deliver will be required if we are to pursue this policy seriously.

There should be a "Welsh first, not Welsh only" approach to procurement in this area, with the intention of building a stronger Welsh supply chain over time. If we are to build a home grown supply chain from the current modest beginnings, there may be higher costs along the way; grant regimes and funders must be aware of this and buy into it.

Members have also commented that a number of existing methods involve using the current skills off-site, and while this would bring some health and safety benefits and possibly overcome difficulties with weather conditions etc. it would not be a game changer. There is clear agreement in the sector that if we are supportive of MMC, it must be a true manufacturing process which overcomes the current skills challenges and offers greater pace and quality.

b) How could Welsh Government best support local authorities and RSLs to ensure homes are built in sufficient numbers using modern methods of construction to drive down the cost of production?

To achieve the sufficient scale to drive down the cost of production, it is clear that housing associations and local authorities will need to collaborate. This will require at least some standardisation of the homes we build via MMC, and there is a clear role for government in facilitating some of these discussions at a national level. Standardisation, or a 'pattern book' would could unlock significant potential by helping to achieve scale and collaboration, and it also has potential to return higher quality and make the achievement of zero carbon more realistic.



Further to this, the model outlined in the case study in response to a) is scalable and deliverable at a local level and pending the outcome of research into the viability of an MMC facility in Wales, Welsh Government should seriously consider how it might support a similar venture.

We also think that Welsh Government has a big role to play, alongside CHC, in sharing good practice and the facilitation of knowledge sharing in this area.

c) What other parts of the housing supply chain could be supported and improved to enable the delivery of more housing? What barriers are preventing this currently?

While introducing Modern Methods of Construction at a greater scale may overcome many of the skills challenges faced by the construction industry, housing associations are still concerned about the capacity around groundworks. There is an acute shortage of tradespeople in this part of the industry which could still slow development.

Furthermore, the capacity of utilities companies is an important consideration if we are to increase the supply of housing across the country. A number of members have reported frustrations with utilities companies previously over connections and drainage in particular, and we are working closely with Dwr Cymru to overcome these. However, similar issues exist in broadband supply and occasionally gas and electric, and there is a role for Welsh Government and local government in securing the cooperation of utilities companies to allow housing associations to deliver at pace and scale.



7. Public Sector Land

Access to affordable land is essential to the supply of affordable homes, and as the biggest variable cost in development, dictates the viability of many schemes. A recent report by the IPPR said that the UK's "dysfunctional land market and soaring land values have helped drive growing wealth inequality, create the conditions for a broken housing market, and are a root cause for an unproductive and unstable economy"²³.

Given the level of land held by the public sector, it is essential that we consider how the public sector can bring forward more of its own land for housebuilding and facilitate more affordable and better quality sites being brought forward across the country.

There has been growing concern in the housing association sector over policies in relation to land supply in recent months, and this could be damaging to the ambition to deliver new homes in the long run. Policies including the disapplication of paragraph 6.2 of TAN-1 could lead to higher land prices and the availability of fewer viable sites, and this is a major concern.

In addition to this, the proposed Vacant Land Tax is a significant opportunity for Welsh Government, but current lack of clarity over the policy direction of this proposed tax is causing uncertainty. It is important to understand that housing associations require a 'bank' of land to plan and deliver houses over the long term as any other developer does, and any tax on 'land banking' which acts as a disincentive for housing associations from building land banks could be detrimental to the pipeline of affordable homes.

a) What in your view is the most effective mechanism for bringing forward public sector land for house building to enable the delivery of affordable homes?

We recommend that Welsh Government revisit its public land disposal strategy with its own 20,000 home target and future ambitions around house building in mind. The Delivering More Homes for Wales report stated that "the scale of public land coming forward for housing is constrained by the expectation of maximising capital receipts and competing policy objectives"²⁴.

In our joint briefing with the Federation of Master Builders and the Home Builders' Federation in 2017, *Planning for 20,000 Homes*²⁵, we set out a number of policy recommendations which we believe would improve accessibility to affordable public sector land which remain relevant today. These include giving greater consideration to the social value of the land being sold by public sector authorities, and highlighted the NHS (Wales) Estate Code as an example of good practice in this regard. Public sector authorities also need to be clear in their disposal policies to ensure that land put to market must comply with the broader policy objectives of that authority i.e. local affordable housing targets.

²³ IPPR, *The Invisible Land: The hidden force driving the UK's unequal economy and broken housing market* (<https://bit.ly/2oKDs9f>)

²⁴ Welsh Government Housing Supply Task Force, *Delivering More Homes for Wales* (<https://bit.ly/2CrywzQ>)

²⁵ Community Housing Cymru, Federation of Master Builders, Home Builders Federation, *Planning for 20,000 Homes* (<https://bit.ly/2vf1JJH>)



In the experience of our members, one of the main issues in purchasing public sector land is the inconsistency between public sector organisations. As illustrated in the case studies set out later in this work stream, there are good examples of practice, but the principles which make these successful are not consistently applied which can lead to frustration and a lack of faith in the process.

A number of housing associations have raised also the identification of available public sector land as an issue; some of this relates back to the LDP process and the identification of suitable sites which we have touched on in Work Stream 8. We are aware that there is some good practice emerging in the Cwm Taf Health Board area and in Denbighshire Council in regard to land identification and mapping which is assisting developers, and we would welcome the nationwide roll-out of such an approach elsewhere. All public sector bodies have land ownership mapped on a GIS system, and this infrastructure provides an opportunity for the greater transparency which would unlock further homebuilding.

However, we have consistently heard concerns about the ability of the public sector to 'package' viable sites for development. The lack of a central agency such as the Welsh Development Agency or Land Authority for Wales is a concern for the sector in Wales and leads to some sites identified in LDPs not being suitable. There is a clear role for Welsh Government in de-risking complex sites to ensure their viability for affordable housing.

Where larger sites exist, housing associations are willing to collaborate to unlock the viability and share the risk with other housing associations, local authorities and private developers. The North Wales Growth Deal is an example of where this is already happening, and the potential models being explored in that instance could be replicable across Wales.

Housing associations were also keen to explore the possibility of longer term revenue funding to secure land from public sector organisations. For many public sector organisations, funding cuts have had a significant impact on their revenue and the sale of land does not necessarily ease this. However, a model whereby a housing association took a long term lease on public sector land in return for a long term revenue receipt has the potential to be mutually beneficial and is worth further exploration.

b) What are the best examples, in Wales or elsewhere, of public sector land being used to deliver imaginative / innovative housing developments which transform communities?

In our response to Work Stream 8, we outline a number of case studies which demonstrate good collaborative working, including approaches which have delivered significant results on public sector land. In particular, Loftus Garden Village and the Beech Tree Gardens case studies are relevant in this context.



c) What standards for homes and communities should Welsh Government require for housing developments on public sector land?

Flexibility is required in the standards applied to homes built on public sector land, as we have suggested in Work Stream 4 on Standards and DQR. A flexible framework would allow housing associations and partners to assess the viability of a site and work within the constraints of that site and the price to develop schemes which meet local demand. This could include mixed tenure developments with social housing, homes for sale and intermediate products.



8. Capacity of public sector and RSLs

Understanding the capacity of housing associations is vital to ensuring we are able to deliver on our ambition. We also think this work stream has a clear role in assessing the appetite of associations and the ability of government and local government to deliver and facilitate the delivery of affordable homes across Wales.

Throughout our response, we have also discussed opportunities to build further capacity in the sector and we will reference these in response to this work stream.

a) What organisational efficiency, skills and financial capacity constraints exist within RSLs and local authorities?

Housing associations have a strong track record of delivery in Wales and have consistently worked to offer greater efficiencies and value for money in doing so. Our response to Work Stream 10 points to some of the efficiencies that have been offered through the Stock Transfer organisations, but many more exist across the whole sector, including the change of inflation measures from RPI to CPI in rent setting prior to the current settlement.

When discussing the barriers that exist within housing associations to further development, one theme that was consistently raised was the issue of recruitment and skills gaps in development teams. The Farmer Review of the UK Construction Model identified this as a significant issue across the UK:

“...the pure physical capacity of the construction industry to deliver for its clients appears to be in serious long-term decline.... a combination of an ageing workforce, low levels of new entrants and an overlay of deep and recurring recessions which induce accelerated shrinkage, now threatens the very sustainability of the industry.”²⁶

This is reflected in the feedback from our members across almost all trades in the development of new homes, and is a worrying barrier to capacity that exists outside of housing associations also. In the long term, this will lead to housing associations competing for the same resources, which will drive up salaries and costs for individual organisations and the sector as a whole. Many felt that a number of significant infrastructure projects and local policy changes were likely to worsen the impact of this, including Wylfa Newydd and the removal of the Severn tolls.

Given the likely increase in costs the skills shortage, it is in the interests of the sector as a whole to work collectively to address this, and a number of housing associations indicated their willingness to explore collaboration to overcome these skills challenges. This could be achieved in a number of ways, including considering the sharing of development teams or contracting arrangements. This has the potential to overcome some of the skills shortage, but with 700,000 people needed across the UK construction industry to replace natural leakage and those retiring²⁷, this does not address the sheer weight of numbers that would

²⁶ Mark Farmer, *Modernise or Die: The Farmer Review of the UK Construction Model* (<https://bit.ly/2dlXYoC>)

²⁷ Arcadis, *People & Money: Fundamental to Unlocking the Housing Crisis* (<https://bit.ly/2No7FsC>)



be needed to plug skills gaps in the industry, and that is before the uncertainty of Brexit and the impact on foreign workers is considered. Therefore, we would point to our recommendations in Work Stream 6 on modern methods of construction as a further potential solution to some of these capacity challenges.

Another challenge to capacity that was discussed as part of our work on the Review was the risk appetite of boards. Our ambition to deliver 75,000 homes over the next twenty years is an almost doubling of the current rate of production by housing associations and while our own modelling shows that there is sufficient financial capacity in the sector in the right policy environment, this will require boards to consider their risk appetite and how they can maximise their own building ambitions. We recognise this challenge, but we are working closely with housing association boards and the Welsh Government to continually raise standards of governance through our Code of Governance and wider governance package, and this includes helping boards to understand and manage risk.

b) How can Welsh Government help address capacity constraints?

There is a significant role for Welsh Government in addressing skills shortages which may thwart capacity, including the facilitation of improved links between the Regional Skills Partnerships and housing associations. Investment in skills in the construction industry would, in the long term, alleviate some of the pressures associated with skills shortages but in the short to medium term, alternatives which add significant capacity should be considered including the use of modern methods of construction.

Further to this, one of the most significant barriers to capacity identified by our members was the planning system. We will articulate these barriers further in response to d) but there is a clear role for government in ensuring the planning system facilitates the building of affordable homes more efficiently than it does currently.

c) What measures can the sector take, including partnerships and collaborative working models, to share skills and combine resources in pursuit of increased supply?

As outlined in answer to a) we believe there is significant desire within some organisations to pursue collaboration as a way of increasing supply. This may take a number of forms, including sharing skills to overcome skills shortages, contracting arrangement, or the possibility of joint ventures.

Collaboration must not only be about housing associations working with other housing associations, there is also significant potential for collaboration with local authorities and private developers, as outlined in Work Streams 1 and 5.



d) What other barriers, such as regulatory, infrastructure, services, if any, exist which impact on the capacity of these organisations to deliver more affordable homes at pace?

Housing associations identified a series of external barriers which may impact on the capacity of sector to deliver both government targets and future ambitions. They are broadly divided between issues with the planning system and local economic or infrastructure issues.

In relation to planning, members were initially concerned that this was not explicitly within the terms of reference for the Review. However, we believe that both this work stream and that on Public Sector Land must consider the impact of the planning system in the delivery of affordable homes, and we are working closely with Welsh Government on their further work around the planning system.

The concerns with the planning system were broadly linked to two themes; Local Development Plans (LDPs) and the recent developments around TAN-1. In relation to LDPs, members reported that the slow adoption of LDPs and lack of political buy-in in some areas were leading to issues with both the speed and effectiveness of the planning system. Further, we are aware that planning departments have been subject to significant cuts over recent years due to the pressures local authorities face, and there was concern that in some local authorities this has led to less join up with Housing Strategy departments and the strategic recognition of planning reducing in some authorities.

The recent disapplication of paragraph of 6.2 of TAN1 has also raised major concerns in the sector, effectively serving to remove a category of site which would be available to develop in local authorities which have not identified sufficient land supply. There is a strong chance that development could be stifled and land prices increased as a result.

Outside of the planning system, members identified a number of barriers to capacity in relation to local infrastructure and economic circumstances. A number of members operating in the south Wales valleys and rural areas in particular raised concerns about the connectivity of roads and rail links between the communities in which they build and more affluent areas where jobs are concentrated. Building sustainable communities is an essential part of what housing associations do, but this must be supported by wider investment in infrastructure and jobs.



e) What are the best examples of collaboration being used to collectively deliver affordable housing schemes?

The following case studies outline a number of examples of collaboration between housing associations, and between housing associations and other partners, including local authorities, Welsh Government and private developers. This is not an exhaustive list, but many of these case studies also demonstrate the potential for flexibility in standards, tenure type and funding that we have reference throughout. There are numerous other case studies we could have used and we would be pleased to share further information with the panel.

Case Study: Loftus Garden Village

Pobl Group's Loftus Garden Village is based on the site of the former Royal Ordnance Factory and STC and Pirelli Cables Factory in Newport, and was delivered in partnership with Welsh Government, Newport City Council and Lovell. The land for the site was owned by Welsh Government and after long negotiations sold at a reduction on the agreed value - £2.15m against a value of £3.15m. This effective £1m subsidy allowed Pobl to deliver the site without any Social Housing Grant, and ensured the high proportion of affordable homes.

The site features 250 high quality arts and crafts style homes – ranging from one bedroom apartments to four bedroom family homes – for open market sale, shared ownership, social and intermediate rent on a 16 acre brownfield site near the city centre. The development includes:

- 60% affordable housing
- 32 social rented homes
- A housing co-operative of 19 homes at the heart of the village

The homes were built to be compliant with the main principles of DQR standards, but at around 10% smaller than the current DQR space standards. This resulted in a c. £7,000 reduction in cost per home. It was recently awarded Best Residential Development at the Wales Property Awards.



Case Study: The Welsh Housing Partnership

The Welsh Housing Partnership is an innovative partnership of four housing associations in Wales: Pobl Group, Coastal Housing Group, Hendre and Grŵp Cynefin. The Partnership was developed with support from Welsh Government and the Principality Building Society to:

- Increase the supply of quality affordable rented homes
- Establish an ethical rental model, offering long term quality rentals to tenants
- Make efficient use of public finances
- Create financial capacity for the housing associations by holding the funding in a separate company

The Partnership is funded through 25% of equity funding, invested by the four housing associations, with the remaining 75% of funding coming from private finance. By operating as a separate joint venture, it does not affect the financial capacity of the individual housing associations and ensures that all homes delivered through the model are additional to their ongoing internal development programmes.

Since its inception in 2011, it has delivered 1159 homes throughout Wales at intermediate rent levels, to support households on low to middle incomes who demonstrate an unmet housing need. The acquisition of homes is driven by the individual associations who have strong local knowledge of the need and types of housing required in the areas in which they operate, with the overall Partnership administered by one of the partner associations.

In 2017, a refinancing exercise attracted long term funding from the capital markets which will allow the Partnership to set leases over a longer period in line with the objectives of establishing a long term ethical rental model.



Case Study: Beech Tree Gardens

Beech Tree Gardens in Caerphilly is an example of a Local Authority and a Registered Local Authority working in partnership to deliver affordable housing.

The development comprises 34 homes, including 16 homes for sale and 18 homes for rent, close to the centre of Caerphilly, and is a true partnership between Caerphilly County Borough Council and the United Welsh Group. The agreement will enable more homes to be constructed on land which is currently owned by Caerphilly County Borough Council.

The scheme saw development on land owned by Caerphilly County Borough Council, with profits from the market sale properties being used to help fund the construction of the affordable rented homes.

The homes for sale, which were sold under United Welsh 'Harmoni Homes' brand, provided a capital land receipt for the Council. The Local Authority further benefits from an annual revenue return, from the rental income on the homes, where United Welsh provide a guaranteed minimum return (based on a pre-agreed yield).

This innovative housing model facilitated an uplift in percentage of affordable housing on the site, from the 35% planning policy requirement to 53%. This level of affordable housing would typically attract circa £1.3m to deliver in this locality; the actual grant received to deliver the scheme was £350,000.

In addition to delivering much needed affordable housing with minimum grant, this collaborative approach enabled us to maximise training opportunities for people; the scheme delivered 200 training 'weeks' and created opportunities for 20 people to gain training and / or experience of working on site.



9. Use of existing powers

Throughout our response, we have outlined areas where we think there is room for improvement in the way housing associations and public bodies exercise their legal and financial powers. We welcome the focus from the Panel on looking at how we can maximise output from the current legal, political and financial framework and believe it is important that we consider this as part of the Review.

a) How do we maximise the use of existing legal powers (of Local Authority, RSLs, Welsh Government / Welsh Ministers etc) to deliver affordable housing?

In order to maximise the existing legal powers, we believe it is important that local authorities and Welsh Government have sufficient resource and capacity to deliver to the maximum of their powers. While some of the issues raised with the execution of local authority powers such as planning require systemic improvements, in our experience, issues have arisen just as frequently due to reduced resource in planning departments, and the Panel must consider this. A number of our policy suggestions, including around flexibility on grant, could be delivered within the existing framework, but would likely require more resource to deliver.

b) Are there areas where you believe they are not being used to full effect, and what would be your suggestions?

As outlined in Work Streams 2 and 5, we believe there is significant opportunity for greater collaboration between local authorities and housing associations, including joint ventures and on-lending to maximise the output from local authorities' borrowing capacity. We believe further exploration of the mechanism to deliver such partnerships within the existing policy framework is required.

Further to this, we have also discussed the potential for joint ventures between housing associations, and the additional capacity this may deliver in terms of skills, finance and the number of homes the sector can deliver. The current grant conditions do not allow a non-Registered Social Landlord to receive Social Housing Grant. However, we believe in very specific circumstances, such as where a joint venture made up of housing associations, or led by a housing association, the current policy framework should be flexible.

Throughout our response we have also made reference to planning on several occasions, and we believe it is in the gift of Welsh Government and local authorities to deliver improvements by maximising the use of some of their existing powers. In Work Stream 4 we highlighted the need for greater consistency in the application of space standards by local authorities through the planning system, and we believe there is a clear role for Welsh Government in driving this.

Section 106 agreements are another area of the planning system where existing powers could be maximised, and greater consistency is required. In our joint publication with the



Home Builders Federation and the Federation of Master Builders, *Planning for 20,000 Homes*, we called for a review of section 106 practices and we believe this could consider:

- Whether s.106 agreements should include a clause that affordable housing requirements fall away if the site is sold to a housing association. Local Planning Authorities (LPAs) often levy the same level of financial contributions towards off-site improvements on affordable housing development proposals that they levy on private house building developers, which renders the delivery of affordable housing very challenging and often impossible to achieve on projects which need to meet Welsh Government Acceptable Cost Guidelines (ACG).
- How to achieve a level of consistency in the application of s.106; housing associations report inconsistency from site to site, adding a layer of complexity to the planning process.
- How to bring housing associations into s.106 negotiations at a much earlier stage, enhancing the likelihood of a greater proportion of affordable housing being included.²⁸

Further to this, we believe a review of the effectiveness and use of Compulsory Purchase Orders would give greater insight into how these could be used effectively to facilitate the supply of affordable homes.

c) Should more be done to ensure existing empty homes are brought back into use to increase affordable housing supply?

Estimates of empty homes in Wales vary between 20,000 and 23,000, and it is widely accepted that there are many reasons a home be left empty. Many of these homes are in a significant state of disrepair and can often be a blight on the local community, but there is significant potential to bring many of these homes back into use.

The Housing (Wales) Act 2014 gave local authorities in Wales the power to increase council tax on long term empty homes, and this is one tool we believe could be used more effectively to incentivise the use of empty homes. Where this is ineffective, Welsh Government should also consider how it can assist local authorities in the greater use of Compulsory Purchase Orders.

Housing associations have worked closely with local authorities in recent years on this issue, and with the sector's proven track record on maintenance and development, are well placed to assist local authorities. The Empty Homes Wales project run by United Welsh is an example of a housing association working with homeowners to overcome barriers they may face in bringing their property back into use, and there is significant potential with the right funding and powers for housing associations to increase their work in this area.

²⁸ Community Housing Cymru, Federation of Master Builders, Home Builders Federation, *Planning for 20,000 Homes* (<https://bit.ly/2vf1JJH>)



10. Leveraging the investment potential in stock transfer and LA organisations

The Large Scale Voluntary Transfer (LSVT) model has been perhaps the most successful private-public partnership model of public service delivery across the UK, and has made a unique contribution to the delivery of affordable housing in Wales.

Since the first transfer of housing stock from a local authority in 2003, Stock Transfer organisations have been a significant part of Welsh housing policy, and have made a huge and lasting positive impact on the communities in which they work. With half of Wales' local authorities transferring their stock between 2003 and 2011, the eleven LSVTs own and manage around 65,000 homes – 43% of housing association stock – in Wales.

Dowry Gap funding has been key to unlock their achievements to date, and if we are to unleash their potential as organisations, particularly in developing new homes, long term certainty over this funding is vital.

Both Dowry Gap funding and the Major Repairs Allowance are vital funding streams for housing providers in Wales, with £108m invested each year in the eleven stock retaining local authorities and the eleven stock transfer organisations. It has been vital to assisting these organisations in working towards achieving the Welsh Housing Quality Standard and dealing with the multiple issues encountered by the nature of the ageing stock they manage. Our response to this work stream will focus on the work of the Stock Transfer organisations, but it is important that any recommendations to change this funding stream consider the impact on both sets of organisations in receipt of the funding, and that changes are equitable for both, and truly deliver on the review's ambition to unleash the potential of these organisations.

In 2001, prior to any stock transfer in Wales, the National Assembly for Wales' Local Government and Housing Committee stated that there was no definitive estimate of the backlog of improvement and repairs for the 200,000 council houses in Wales at the time, but "most estimates are in the range £750 million to £1 billion".²⁹ It is now widely accepted that these estimates were very conservative with more than £1.2bn invested in reaching WHQS by the stock transfers to date, and in excess of £2.5bn likely to be invested over the remainder of their business plans in maintaining this.

The Dowry Gap funding, which is currently actively received by ten of the eleven stock transfer organisations, is recognition of the negative or nil value attached to the stock received upon transfer to the new associations. As well as enabling LSVTs to properly fund the improvements required to reach Welsh Housing Quality Standard, it has also ensured that they can meet the significant extra costs that are presented due to the nature and complexity of some of the stock which was transferred, and the additional community that was required in some areas. The funding remains a vital funding stream in the business plans of all those in receipt of it, and any removal or reduction of the funding is likely to result in a material event of default in the loan agreements of these organisations. The impact of this would be far reaching beyond the organisations directly affected, and would likely affect the credibility of the sector as a whole, particularly with lenders. While each of the stock

²⁹ The National Assembly for Wales – Local Government and Housing Committee, *Policy Review of Housing Stock Transfer*, 2000 (<https://bit.ly/2LzZpRq>)



transfers will be at different stages in their business plan, they all have significant ambitions beyond the achievement of WHQS as they mature as organisations.

The ambition of the stock transfer organisations to use their capacity to develop new homes was a significant and important part of the housing association sector's ambition to develop 75,000 affordable homes by 2036 as part of our Housing Horizons vision. However, the current model of a rolling two year funding guarantee can create uncertainty in the business plans of these organisations, and if we are to deliver on the terms of reference of the Review, and unleash the potential of stock transfer organisations and increase the supply of affordable homes in Wales, it is essential that longer term certainty over Dowry Gap funding is given. A number of other government funding streams, including Housing Finance Grant, have set a precedent for such long term guarantees.

a) What is Major Repairs Allowance and Dowry delivering currently in terms of output and value for money?

In terms of both output and impact, the Large Scale Voluntary Transfer (LSVT) model has been perhaps the most successful private-public partnership model of public service delivery across the UK, and Dowry Gap funding has been vital to enabling the numerous achievements during that time. The Dowry Gap funding has been essential in delivering the 98.93% compliance of stock transfer organisations with Welsh Housing Quality Standard to date³⁰, and will ensure that all eleven organisations will meet the standard by December 2020.

The Stock Transfer organisations are significant employers in the communities in which they operate, employing an estimated 3,500 employees between them, and supporting employment in the local community with around £1.4m invested in this activity in 2016/17. Further to this, the use of models such as i2i's CanDo toolkit, with its focus on targeted recruitment and training, and Value Wales, driving best practice in procurement, the stock transfers have also brought significant investment and opportunity in their communities. Those organisations who participate in the Value Wales toolkit can all demonstrate a local multiplier effect of £1.69 for every £1 spent, with most achieving upwards of £1.85 on each £1 invested.

Throughout their existence, the stock transfers have sought to provide excellent Value for Money to both their tenants and to Welsh Government in return for the public funding they have received. The overall quantum of £108m for MRA and dowry has remained static for a significant period of time, meaning that the Dowry Gap funding has in fact decreased significantly in real terms over the period. This also comes at a time when repair and maintenance costs have increased by an estimated 24%³¹ across the construction industry in the UK. Had the overall quantum of funding risen in line with inflation since the last Stock Transfer in 2011, it would be worth between £118m and £131m currently, dependent on the measure of inflation used. Over the course of a 30 year business plan, the efficiencies found

³⁰ Stats Wales, *Compliance with the overall Welsh Housing Quality Standard by provider and measure* (<https://bit.ly/2oBWQFv>)

³¹ ONS, *Construction Output Price Indices*



by both Stock Transfer and Local Authorities accessing Dowry Gap funding and MRA is equivalent to more than £1.1bn.

Over the course of their business plans thus far, the Stock Transfer organisations have also encountered significant additional costs to their repairs, maintenance and WHQS programmes due to the nature of the stock they acquired. In the early stages of transfer, many associations reported severe issues in the condition of properties that were undetected through surveys, including severe damp. One association reported additional costs of £822,000 in the removal of Cavity Wall Insulation (CWI) to repair issues caused by damp. Issues such as damp, asbestos and other issues with the fabric of properties are related to the age of the stock held by the Stock Transfer organisations, and are likely bring increasing costs across the length of the business plans.

Further to this, the non-traditional nature of many of the homes historically built by local authorities has added complexity and cost to the WHQS programme, with the Stock Transfer organisations reporting an annual spend upwards of £30m to deal with some of the issues brought about by this stock. One organisation reported costs of up to 26% more in maintaining and updating non-traditional homes compared to the remainder of its stock. Since their inception, Stock Transfer organisations have spent significant additional sums on aids and adaptations. The Stock Transfers are not currently able to access the Physical Adaptations Grant element of Social Housing Grant, which fund adaptations such as stair-lifts, hoists and ramps³², and have so far invested in excess of £60m in aids and adaptations from their own funds. While a number are able to partially access Disabled Facilities Grants through local authorities, around half of the Stock Transfers are currently wholly unable to do so, increasing their spend in this area. With their continuing commitment to a vision of a Wales where good housing is a basic right for all, and the challenge brought by the ageing population, the annual spend on aids and adaptations is likely to increase significantly.

When the Dowry Gap funding received in Wales, on a system of two year rolling guarantees to each organisation, is contrasted with the situation in England, it is less favourable from a cash flow perspective. In England many of the large stock transfer organisations received the funding in one lump sum, requiring far less borrowing up front and incurring lower costs than those of Welsh associations. This is an important factor in the consideration of the ongoing need for this funding.

While some Stock Transfer organisations have outperformed their business plans to date, this has been achieved by maximising efficiencies, including increased rent collection, absorbing a reduction from RPI to CPI in rent setting. Tai Ceredigion, for example, have reported a decrease in their rent arrears from 6% to 0.9%. Where Stock Transfers have outperformed their initial business plans, this has allowed them to invest further in exceeding WHQS, wider community benefits and the development of new homes. However, the narrow operating margins of these organisations and often onerous covenant requirements mean that the current Dowry Gap funding is essential to meeting the covenants on their financing.

³² Welsh Government, *Physical Adaptations Grants* (<https://bit.ly/2C9X6oX>)



b) What can Welsh Government do to encourage / incentivise changes to the existing arrangements in relation to Major Repairs Allowance and Dowry?

The most effective change that could be made by the Welsh Government in relation to Dowry Gap funding is to offer a full guarantee of the remaining funding for the life of the thirty year business plans of each stock transfer organisation. While the complexities of long term funding guarantees from Government would be a hurdle to overcome, we believe that guarantees such as those seen for Housing Finance Grant and Private Finance Initiatives mean that this long term certainty is possible. We will outline in our response to c) a number of the barriers and associated risks of the current model in greater depth. However, the current system, whereby organisations receive a rolling two-year guarantee of funding, can cause uncertainty for funders and for the boards and executives who must balance this risk when taking decisions on future ambitions, particularly around the development of new homes.

As their businesses mature, a number of Stock Transfer organisations have begun to develop new homes, delivering 665 over the last four years³³ (2013/14 – 2016/17) and they have significant ambitions to develop many more. However, longer term certainty over Dowry Gap funding would unlock further capacity and the potential to increase the development ambition of these organisations.

One Stock Transfer organisation has already undertaken work to assess the impact on the valuation of their homes should longer term certainty be offer in relation to dowry, reporting a conservative estimate of a £22m increase. This would increase their capacity to build homes by around 200 units across the life of their business plan. While more comprehensive modelling is needed to understand the full impact this change would make, early estimates across the organisations in receipt of Dowry Gap funding suggests that long-term certainty would unlock the capacity for around 3,200 extra homes.

c) What, if any, are the barriers to reforming the current arrangements for Major Repairs Allowance and Dowry?

Due to the staggered nature of the process of the transfer of stock throughout Wales, each of the Stock Transfer organisations is at a different stage of their business plan, and the biggest barrier to reform is the uncertainty that change would bring to each of organisations. For all those in receipt of the funding, any potential removal or reduction of Dowry Gap funding would have severe implications for the business and their ability to continue delivering what they are currently and develop more new homes.

Furthermore, it is worth noting that members have reported that the uncertainty built into the current model is a potential disincentive to collaboration. For organisations seeking to do due diligence on the finances of a Stock Transfer organisation, for example, to commission their Direct Labour Organisation to carry out work, or to collaborate on development, the uncertainty that surrounds the ongoing commitment to Dowry Gap funding would raise serious questions. In one ongoing instance of collaboration between a

³³ Stats Wales, *Additional affordable housing provision by provider (RSLs only), year and funding* (<https://bit.ly/2ML6Bje>)



traditional housing association and a Stock Transfer association, we are aware that the Dowry Gap funding is fundamental to enabling the viability of that particular collaboration or potential merger.

One further area of concern over both the current arrangements and any major changes, including potential removal of Dowry Gap funding, are the way in which they may be dealt with by lenders. All those in receipt of Dowry Gap funding have reported that lenders regularly raise the uncertainty of the funding as a concern, and for one organisation which went to the market for further financing, this concern resulted in only one competitive offer coming forward.

Therefore, it is our view that the most successful reform that could be made to the current arrangements would be to offer the long-term certainty we have mentioned previously in our response. This would provide Stock Transfer associations to continue meeting, and in many cases exceeding, WHQS and unleash their potential to develop homes and collaborate successfully.

d) Social landlords are on track to achieve WHQS by 2020. What requirements should be in place to ensure the quality of the existing stock is maintained post 2020?

Welsh housing associations have consistently led the way in working to achieve the Welsh Housing Quality Standard, with 99% of housing association dwellings in Wales compliant with WHQS as of March 2017. The process of transferring housing stock from local authorities to LSVT organisations has been vital in achieving this, and compares favourably with local authority compliance of 66%. The Stock Transfer model is predicated on the achievement of WHQS as one of the promises made to tenants during the ballot, and without the continuation of Dowry Gap funding, the ongoing maintenance of WHQS and that promise to tenants would come under significant pressure.

In 2016/17, housing associations in Wales spent £229.25m on repairs and maintenance and are not complacent in regards to meeting WHQS and the ongoing commitment to maintain homes to this standard. All housing associations have numerous examples of where they have gone above and beyond WHQS, but it is worth noting a number of examples of the additionality provided by the Stock Transfer organisations which highlight the value for money provided by those organisations in receipt of dowry.

Another particular example of additionality provided through the Stock Transfer organisations is the value added to leaseholders, who benefit from the ongoing repairs and maintenance of homes and areas in which they work, including the fitting of vital safety components. Further to this, the ground maintenance commitments that were a part of all the Stock Transfer agreements add significant additional ongoing costs in excess of £1.6m per year. This is in addition to the wider community investment that many stock transfers are invested in, including playgrounds, community centres and in some instances significant infrastructure investment including sewage treatment.

As part of our Housing Horizons vision, the sector has an ambition to deliver near zero carbon homes in all of its existing stock by 2036, and this will be an important part of the



sector's work as the sector works to maintain WHQS and build on this. A number of challenges will need to be overcome in the pursuit of this ambition, as outlined in our response to Work Stream 4, but the Stock Transfer organisations have again raised the need for certainty if they are to deliver on this ambition. Many have already invested heavily in the re-provisioning of stock since transfer, including the demolition and rebuilding of unsuitable stock. However, a programme of investment in bringing existing homes to near zero carbon standards will require significantly more certainty in business plans to allow for innovation.