



## In-depth Briefings

# Independent Review of Affordable Housing Supply

## On the day briefing

### Introduction

Following the launch of Community Housing Cymru's *Housing Horizons* vision of a Wales where good housing is a basic right for all, we called on Welsh Government to undertake a review of housing policy in Wales.

The subsequent Independent Review of Affordable Housing Supply in Wales, led by Lynn Pamment, has today published its final report, with 48 recommendations to increase the supply of affordable housing in Wales.

The report has been launched just over a year after the previous Minister for Housing and Regeneration, Rebecca Evans AM, announced the Review and will now be considered by the Minister for Housing and Local Government, Julie James AM, before the Government formally responds to the recommendations.

Throughout the course of the last twelve months, CHC has engaged extensively with our members on the Review, and our [response to the panel's Call for Evidence](#) highlighted the need for any new system to focus on three areas: collaboration, certainty and flexibility.

In our response we set out three tests which should be applied to the panel's recommendations, and we will continue to use these tests as we consider the report:

1. Will the recommendations deliver more homes?
2. Will those homes be genuinely affordable?
3. Will those homes be fit for the future?

This on the day briefing will summarise the findings of the report, as well as considering the impact of the recommendations on housing associations, outlining



CHC's immediate response to each of the key areas of the report and our future work in responding to the Review.

### **The panel's vision**

The full report makes 22 key recommendations for change, as well as a number of more detailed recommendations and commentary under the eight areas of work the Panel has reported on. The full report is available to read [here](#).

The panel's vision for affordable housing in Wales makes clear that affordability is high on the agenda throughout their recommendations. There are a number of themes throughout the vision, including the need for greater certainty by moving away from annualised decision making on issues such as rent and grant, the need to drive collaboration between housing associations and with local authorities, and the need for a system to enable social landlords to use greater flexibility.

**Importantly, the vision recognises that if Welsh Government wish to attempt to meet all the unmet housing need in Wales, this will require greater investment beyond the existing levels of public subsidy.**



## The report

The panel's recommendations are set out against eight areas of work. We have summarised their work in each area below, alongside the key recommendations and CHC's response.

### 1. Understanding Housing Need

In our response to the Call for Evidence, we highlighted the vast unmet housing need in Wales, and the challenges brought about by the dispersed nature of estimating housing need which has often led to conflicting estimates in different parts of the policy making process. We called on the panel to bring improvements to the processes and data used to estimate housing need at a local level, and for clearer links between this data and policy decisions on both grant and planning.

The panel focus heavily on understanding housing need in their report, and highlight that good housing policy decisions need to be based on the best possible data available. In both the key and detailed recommendations in this section, there is a strong emphasis on improving Local Housing Market Assessments, and building closer links between this process and Local Development Plans and the grant distribution process.

The panel's key recommendations:

- The Welsh Government should mandate local authorities to provide Local Housing Market assessments (LHMAs) based on a consistent timetable, data and methodology across housing tenures. LHMAs should be refreshed every two years and rewritten every five years, and submitted to the Welsh Government. Jointly commissioned LHMAs should also be explored.
- The Welsh Government statistical service should work with local authorities to agree data sets for use in the LHMA, Local Development Plan (LDP) and other housing requirements work.

## Our reaction

The report offers welcome recognition that housing needs in Wales are not being fully met, and rightly prioritises the use of better and more sophisticated data to drive policy making. The recommendations for stronger links between need and grant are welcome, but must be seen in the context of the panel's recommendation that we will only meet housing need in Wales with significant further investment. Furthermore, we are encouraged by the panel's recommendation that the revised LHMA process should link more closely with the planning system and the formulation of Local Development Plans.



## 2. Housing Quality Standards

In our response to the Call for Evidence, we called for greater flexibility in the Development Quality Requirements (DQR) to allow housing associations to innovate and build homes which were fit for the future. Within this, we felt that space standards should be prioritised and that there should be a level playing field across the home building sector, with all homes delivered to the same space standards. Further to this, we recognised the significant potential for the new homes to achieve zero carbon standards, with huge challenges in achieving this ambition for existing stock.

The panel's work on standards makes some radical recommendations across the three areas they have focused on: space, flexibility and decarbonisation. There is significant ambition in the recommendations to equalise space standard across tenures, and to bring homes up to EPC 'A' by 2021. The panel also recognise the vital role housing associations play in developing sustainable communities, based on mixed tenure high quality developments with good access to services, employment and public transport or active travel options.

The panel's key recommendations:

- The Welsh Government should develop new consolidated and simplified standards for new build grant funded and S106 homes. The new standards should be easier to use and should not have conflicting requirements. The new standards should concentrate on minimum space standards including storage inside and outside.
- The Welsh Government should introduce a requirement for all new affordable homes to be near zero carbon / EPC 'A' using a fabric first approach from 2021, supplemented by technology (renewables) if required.
- The Welsh Government should set a longer term goal by 2025 at the latest to have the same standards for all homes irrespective of tenure.

### **Our reaction:**

By focusing on space and flexibility, the panel's recommendations lay the ground for a simplified set of standards which will allow housing associations to be more responsive to the needs of individual tenants as their circumstances change throughout their life, while continuing to deliver sustainable and high quality homes.

Against the backdrop of a climate emergency, the recommendations to rapidly accelerate our progress towards delivering near zero carbon homes closely match the ambition of the sector. We will now work closely with Welsh Government to ensure we have the skills, knowledge and funding in place to deliver on the ambition of building new homes to near zero carbon standards by 2021.



### **3. Modern Methods of Construction**

Our response to the Review's Call for Evidence recognised the significant potential in the delivery of Modern Methods of Construction to increase the pace and scale of building affordable homes, but also called for Welsh Government to play a role in driving collaboration and standardisation to unlock this. We also noted the importance of learning from the work funded by the Innovative Housing Programme to better understand the deliverability of some of these innovative methods on a larger scale.

The panel recognise the important role that Modern Methods of Construction can play, and in particular the role it can play in achieving their ambition on carbon reduction. The panel recognise that the market for MMC is still at the early stages of its development, particularly in Wales, and alongside their key recommendations have made further detailed recommendations to develop an assurance framework to support its development.

The panel's key recommendations:

- The Welsh Government should continue to support the trialling of Modern Methods of Construction (MMC) to help establish which methods can contribute to the objective of increasing the scale and pace of affordable housing with the existing resources available.
- The Welsh Government should develop a strategy to map out how Wales could further use off-site manufacturing (OSM) and MMC to deliver near zero carbon homes along with an appropriate timetable for achieving this.

#### **Our reaction:**

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. In this context, Modern Methods of Construction will have a vital role to play in delivering our ambition to make good housing a basic right for all in Wales.

We are already engaging with Welsh Government on the issues of how Wales can further use off-site manufacturing and Modern Methods of Construction is underway, and CHC will continue this work, engaging closely with members.



#### 4. Rent Policy

In our response to the Review, we set out the long-term position of housing associations in Wales, that they should be given greater flexibility to develop their own rent policies which set rents locally and affordably. We noted that housing associations endeavour to keep their rents as low as possible, while balancing affordability for tenants and the viability of their business, and called for a stronger role for regulatory oversight to be introduced alongside the greater flexibility.

The panel's work in this area concentrated heavily on the issue of affordability, and the recommendations are delivered in the context of Welsh Government's 2019/20 rent settlement of CPI +/- 0%. The panel recognised the good work of a number of organisations in delivering local rent policies, and the need for meaningful engagement with tenants on rents, and were particularly enamoured with the progress some organisations have made in moving to Living Rents.

While the panel do not make a recommendation on the level of rent settlement, they note the English rent settlement of CPI +/- 1% from 2020/21 leaves little justification for anything above this level.

The Review panel has also focused heavily on the issue of value of money in rent setting, and were concerned that there had been little mention of costs and efficiencies as a factor in the equation.

#### Our reaction:

The panel's key recommendations:

- The Welsh Government should implement a five year rent policy from 2020-21, providing stability for tenants and landlords.
- Further flexibilities should be introduced into the Welsh Government's rent formula regime in relation to bungalows (a higher upward differential) in order to better differentiate them from flats and the locational index (a limit on annual adjustment) in line with the recommendations of the Heriot Watt report.
- There should be a focus on landlords considering Value for Money (VfM) alongside affordability. An explicit annual assessment on cost efficiencies should be part of the rationale for justifying any rent increase.

The review rightly puts the affordability of rents at the heart of its recommendations. We will continue to contend that the best way of securing affordability is by housing associations working alongside tenants to set rents at a local level. It is now crucial that Welsh Government moves quickly to put in place a five year sustainable deal that will provide certainty for tenants and landlords and can provide a framework to put suitable local rent policies in place focussed on affordability and sustainability.



## **5. Local Authorities as Enablers and Builders**

Our response to the panel's Call for Evidence recognised the important role local authorities can play in supporting our shared ambition to tackle the housing crisis. We called on the Review panel to ensure that the lifting of local authorities' borrowing cap led to further collaboration to unlock capacity, particularly in the areas of finance, home building and skills.

The panel's work has focused largely on how to use the capacity of local authorities, and recognises the skills, resource and capacity challenges within them. While the recommendations on grant are clear that a combined pot of funding should be made available to housing associations and local authorities, the detailed recommendations in this section explicitly call for the panel to link collaboration to grant distribution to assist with capacity.

The panel's key recommendations:

- The Welsh Government should encourage local authorities (LAs) to use the flexibilities that the lifting of the borrowing cap creates to support delivery of new affordable housing supply. Where appropriate, LAs should have the freedom and flexibility to access grant from Welsh Government direct or through wholly owned Local Housing Company structures.
- The Welsh Government should encourage LAs and HAs to work in partnership to share skills, capacity and resources, and work collectively, through local and regional procurement frameworks, to support local supply chains.

### **Our reaction:**

Local authorities have an important role to play both in the provision and enabling of the delivery of affordable housing. The announcement of the lifting of the borrowing cap on authorities during this Review was one of the most significant UK-wide housing policy announcements in years, and it is vital that Welsh Government works closely with local authorities, housing associations and other partners to maximise the potential of this capacity.

Housing associations are well placed to collaborate with local authorities, to overcome some of the capacity challenges we face as a sector, and to increase the scale and pace of the delivery of affordable homes across Wales.



## 6. Public Sector Land

In our response to the Panel's Call for Evidence, we identified the need for public sector bodies to offer greater transparency on land availability, and show increased flexibility and partnership working to deliver more affordable homes on public sector land. We highlighted a number of concerning recent developments in policies relating to land availability, and noted concern at the lack of any agency to drive forward work on making public land available for affordable housing.

The panel's work noted the need to make the most efficient and cost-effective use of public sector land, and noted three main issues highlighted by work in the Cwm Taf area, which required addressing; fragmented governance, limited capacity and skills to strategically enable housing, and the need for a more strategic approach to property and property management. The detailed recommendations also note the need for local authorities to make better use of CPO powers, and calls on utility providers to make a compulsory input to the planning process at pre-application stage.

The panel's key recommendations:

- An arms-length body should be established by the Welsh Government to act as a hub for public sector land management and professional services. This body should work alongside individual departments / bodies to provide capacity and resources to accelerate development of public land assets and support greater consistency and efficiency in managing those assets.
- The Welsh Government should mandate the mapping of all public land and require owners to publish the development potential for the land they own.

### **Our reaction:**

Access to affordable land is critical to the viability of affordable housing schemes in Wales, and housing associations have identified this as one of the main barriers to bringing forward more ambitious developments.

In this context, the proposals for greater transparency on land availability and the creation of an arms-length body tasked with accelerating development on public sector land are welcome. We hope that Welsh Government now deliver on this recommendation, with an organisation that has the resources and skills to work in partnership with housing associations and the public sector to bring appropriate sites forward.



## **7. Financing affordable housing**

Our response to the Review's Call for Evidence highlighted the need for longer term planning and greater flexibility in the distribution of grant, to allow housing associations to balance the risks of certain markets and complex sites and maximise delivery. We noted the potential of banded grant rates and called for the panel to avoid a competitive approach focused on driving cost down. We also called for a regional approach to zoning linked to City and Growth Deal regions to ensure greater recognition of housing alongside strategic decisions on planning and infrastructure.

The panel's work in this area has been extensive, and has examined a wide range of issues from zoning to distribution methods and the rate of grant allocation. While the report contains a number of detailed proposals as to the operation of the Affordable Housing Supply Partnerships it recommends, it makes clear that the operation of any new system must be co-designed with housing associations and local authorities. While the proposals recognise the need for longer term certainty, and has ambitions to drive collaboration, the panel have placed an emphasis on Value for Money at the heart of the new system they propose. We are keen to ensure that this emphasis focuses on the positive impact housing associations have – leveraging significant additional private finance into their communities – rather than leading to a system which focuses solely on driving down costs.

The panel's key recommendations:

- The Welsh Government should reform grant funding to introduce a new flexible long term five year Affordable Housing Supply Partnerships model which combines grant funding certainty and flexibility whilst testing grant VfM. The new funding model should be based on principles of fairness, quality, and grant VfM transparency.
- A number of current funding pots should be consolidated to focus capital and revenue funding on core tenures determined nationally reflecting needs assessments at national, regional and local levels.
- The new model should test the contribution of private finance and alternative finance models to stretch grant resources to maximise output and demonstrate grant VfM.
- The design of the new grant system should consider the use of both grant and equity funding interchangeably within the overall capital investment pot, in order to facilitate both new and existing financing models which are capable of demonstrating the necessary regulatory oversight required for public investment.
- Further consideration should be given to the need for a housing infrastructure and regeneration fund to sit alongside the main grant programme to unlock larger more complex sites.
- Access to grant and equity funding should be made available to Local Authorities able to contribute low cost finance to deliver grant VfM.



### **Our reaction:**

The panel is right that if we want to solve the housing crisis in Wales, we need to be prepared to increase the amount of capital investment in the system. A long term and adequately resourced grant programme which creates opportunities to collaborate and use the full expertise and capacity of housing associations across Wales is an important part of this. Whatever the technical arrangements that are put in place for grant to be distributed, it is vital that they support the building of genuinely affordable, well designed, energy efficient homes that provide value for money for the taxpayer, but does not prioritise cost over these vitally important factors.



## **8. Dowry and Major Repairs Allowance**

Our response to the Panel's Call for Evidence focused on the value added by Stock Transfer organisations, both in their achievement of WHQS and the added community value since the stock transfer process began, and highlighted the significant potential carried by the capacity and ambition of these organisation. We worked closely with the 11 Stock Transfer organisations to develop proposals to maximise their capacity in exchange for longer term certainty over this funding.

The panel's work in this area has focused heavily on maximising the value for money offered by the annual investment from Welsh Government, and on achievement of quality standards beyond the current WHQS, with a focus on decarbonisation. The panel have also considered opportunities to support Stock Transfer organisations in refinancing should they face barriers in future.

The panel's key recommendations:

- The Welsh Government should commission an independent financial review of the Welsh Large Scale Voluntary Transfers (LSVTs) in receipt of Dowry and the Housing Revenue Accounts of local authorities in receipt of MRA. The Review should scrutinise business plans post the achievement of Welsh Housing Quality Standard (WHQS) in 2020, including financial metrics together with cost KPIs to examine whether continued receipt of Dowry / MRA on a rolling 5 yearly review period basis can be justified.
- LSVTs and local authorities should be required to demonstrate an accelerated programme of decarbonisation of existing homes in return for an ongoing commitment to Dowry and MRA.

### **Our reaction:**

All housing associations have an ambition to ensure that all the homes they own and build are exceptionally energy efficient. Large Scale Voluntary Transfer associations in Wales have long been pursuing ways to ensure that their homes meet the highest standards. The review recognises the importance of providing certainty over dowry payments as one mechanism to help enable work on the decarbonisation of existing homes to go further and faster.



## Conclusions and Next Steps

Housing associations have an ambition to build a Wales where good housing is a basic right for all, and we called for this review of affordable housing supply after launching that vision in November 2017.

Wales faces many challenges including tackling climate change, supporting an ageing population and building enough homes across the nation, and we were clear that a step change in the way we build homes was required to meet those challenges.

We very much support the independent panel's recognition that Welsh Government need to invest more resources so that we can build the affordable social housing needed to meet the scale of the housing crisis in Wales.

The panel have worked hard over the last twelve months, and we thank them for their detailed recommendations which have laid down some challenges on rent policy, grant and standards amongst other areas.

We look forward to working with Welsh Government, local authorities and other partners to put a framework in place that delivers more of the right types of homes, which are affordable and fit for the future.

## Next steps

The publication of today's report brings to a conclusion over a year of work by the Review panel, but will bring about a significant programme of work for CHC, Welsh Government and partners to respond to the recommendations. Over the coming months, we will be focusing on a number of key areas of work to support our members including:

- **Rent policy**
  - Working with Welsh Government to secure a long term, sustainable rent settlement as recommended by the panel
  - Developing a package of support for members to help you develop rent policies alongside tenants and to set rents at a local level. This include our [publication, in partnership with Altair, to help housing associations](#) think about how local rent policies might work in practice.
  
- **Collaboration**
  - Bringing together housing associations, local authorities and key decision makers to understand the barriers to, and opportunities for, greater collaboration.



- Publishing a practical guide, in partnership with Savills, to help associations think about the ways in which they can collaborate to deliver on our ambition.
- **Grant policy**
  - Working with Welsh Government to influence their response to proposals and grant funding, and support them in the co-design of any new grant system
- **Standards**
  - Our one-day [Low Carbon Conference](#) in July will discuss and explore the direction set by Welsh Government, giving the sector opportunity to share best practice and to help housing associations progress their thinking and implementation – wherever in the process of decarbonisation they are currently.
- **Information sharing and best practice**
  - Working with our members, through *CHC Connect*, to provide updates and information on the latest policy developments. This will include webinars, podcasts and our Board Member Networking events alongside our ongoing policy development delivered through our Strategic Delivery Groups and the areas outlined above.