

# **Independent Affordable Housing Supply Review**

## **Call for Evidence**



**July 2018**

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## Chair's foreword



Lynn Pamment  
Chair of the Independent Affordable Housing Supply Review

I am really pleased to have been asked by the Minister for Housing and Regeneration to lead on this Independent Review of Affordable Housing Supply here in Wales. The panel is made up of six members who will bring real insight into housing supply issues and solutions. It's a high calibre panel who collectively bring a strong cross-section of skills and expertise across a breadth of areas.

The Minister has established the Review to examine and challenge the approach currently being taken to support affordable housing supply in Wales. The Welsh Government has a longstanding commitment to increasing the supply of affordable homes in Wales and has a target of delivering 20,000 affordable homes over the course of this Assembly term. However, there is a real appetite to consider what more can be done in the future, in response to a range of housing needs.

Whilst good progress has been made in Wales in providing affordable homes, there is a desire to increase the number of affordable homes available and to do so at pace. This includes continuing to create an environment which provides opportunities and in fact drives innovation and improvements in terms of design, quality and energy efficiency too.

The review will engage extensively with housing organisations involved in the delivery of affordable housing. I'm keen to provide a means for all those who wish to make a contribution to the discussion to have the opportunity to do so.

In order to inform the work of the review panel, I have already sought input into some work stream areas, as it is crucial that input is provided from across the housing sector. The independent review panel will also be looking to contribute to events where possible and tapping into the vast knowledge that we know exists in housing organisations and the members they represent.

This 'call for evidence' is another part of our planned extensive engagement and I would encourage all those with an interest in this work to participate in this opportunity.

I share the aspirations of many in the sector to seek ways in which the scale and pace of affordable housing delivery in Wales can be increased to meet a range of housing needs and I look forward to exploring options with those in the sector. It will be interesting to explore how the review can balance the growing need for affordable homes against the continuing pressures on the public expenditure available to support house building.

This will be a very challenging piece of work for all those involved, but I've been really encouraged by level of interest in this review and will seek to harness such enthusiasm and interest at every stage of this work.

## Introduction

The purpose of the review is to examine current arrangements supporting the development of affordable housing and to make recommendations for changes designed to increase supply and improve delivery from the resources available.

The review's recommendations will also be designed to ensure that patterns of development serve to help build sustainable communities as well as responding efficiently and effectively to housing need.

The review will be undertaken against a backdrop of the Welsh Government's longstanding commitment to increasing the supply of affordable homes which lies at the heart of its programme for government.

In scrutinising the existing arrangements for delivering affordable housing, the terms of reference for the review, confirm that the group will be expected to:

- examine the scope for increasing matching sources of finance and stimulating competition, together with the implications of that for grant intervention rates
- examine how partnership working is currently governed between local authorities and RSLs, together with wider more extensive collaboration, and recommend how relationships can be maximised to deliver on housing supply ambitions
- evaluate the impact of moving to deliver zero carbon homes by 2020 including the role of off-site manufacture and modern methods of construction
- provide advice on whether there should be changes to the standards governing the design and quality of affordable housing
- make recommendations on how a sustainable rent policy can help determine long term affordability for tenants and the viability of existing and new housing developments
- advise on how the development capacity in Large Stock Voluntary Transfer (LSVT) housing associations and stock-holding local authorities can be maximised especially after 2020 when all existing stock meets the Wales Housing Quality Standard (WHQS).

For the purpose of this review, the review panel have decided that 'affordable' will be defined in the context of TAN 2 (Technical Advice Notice 2) i.e social rented housing and intermediate housing (where prices or rents are above those of social rented housing but below market housing prices or rents, this can include equity sharing schemes), **plus** Help to Buy and Rent to Own. It will include any low cost home ownership scheme, which makes housing more accessible and affordable.

In order to inform the work of the review, the panel have set up work stream areas which will be made of members across the housing sector. The work stream areas are:

1. Understanding housing need
2. Grant allocation and intervention rates
3. Rent policy
4. Standards / Development Quality Requirements (DQR)
5. Local Authority building
6. Construction supply chain including modern methods of construction
7. Public sector land
8. Capacity of public sector and RSLs
9. Use of existing powers
10. Leveraging the investment potential in stock transfer and LA organisations

The review will submit a final report and make recommendations to the Minister for Housing and Regeneration by the end of April 2019.

## **About this call for evidence**

This call for evidence is structured around the ten work stream areas that form the scope of this affordable housing supply review.

The section which follows provides some background and context to the work stream areas together with a series of questions that the review group would appreciate your views on.

In addition, however, the review panel would welcome evidence on any aspects of the terms of reference for the review as provided on page 4. Providing comments in relation to strengths or weakness of the current arrangements across these areas would also be very useful.

Responses from representative groups are asked to give a summary of the people and organisations they represent, and where relevant, who else they have consulted in reaching their views, when they respond.

Responses will not be acknowledged individually.

Information provided in response to this call for evidence may be published or disclosed in accordance with the access to information regimes, primarily the freedom of Information Act 1998.

Any personal information received will be processed in accordance with the General Data Protection Regulations (GDPR) and in the majority of circumstances this will mean that your personal information will not be disclosed to third parties.

Thank you for taking the time to read this document and respond. Your opinions are valuable to us.

**Please provide all responses by close of business on Friday 14 September 2018 to:**

Vanessa Brookes  
Welsh Government, Cathays Park, Cardiff, CF10 3NQ  
[AffordableHousingReview@gov.wales](mailto:AffordableHousingReview@gov.wales)

## Background, context and call for evidence questions by work streams

### 1. Understanding housing need

The Public Policy Institute for Wales report by the late Alan Holmans was commissioned by the Welsh Government and published on 09 October 2015. This report provided two estimates of current and projected housing need and demands for Wales between 2011 and 2031.

Based on the principle projection, Alan Holmans' estimates, in the period 2011-2031, an additional 174,000 houses or flats will be needed, which equates to a need for 8,700 new homes each year of which 3,500 would be non-market social housing. The alternative projection proposed in the report gave a higher estimate of need and demand of 240,000 units over the period or 12,000 a year; of which 7,800 would be in the market sector and 4,200 in the social sector.

It is recognised that the data used to establish these projections are now out of date and new projections will be available as soon as possible.

Between 2011-12 and 2015-16 Wales has seen an average of 6,000 new dwellings built every year. Of this figure and over the same period, an average of 2,300 additional affordable homes has been delivered every year including around 1,900 delivered by Registered Social Landlords (RSLs).

The total number of dwellings in Wales continues to grow steadily with an estimated 1.4 million dwellings at 31 March 2017. The breakdown of dwellings by tenure in 2017 was as follows:

- 14% private rented
- 70% owner occupied
- 16% social sector

**The review** will consider how we can improve our understanding of exactly how many homes are needed across Wales, in which geographical areas and in what tenures. This can then better inform how and where resources are allocated, and ultimately ensure the right homes are built in the right places. This will include a view of the market context, as well as the spatial need and allocations in Local Development Plans (LDPs).

#### Questions

- 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?
- b) How should Welsh Government ensure that both housing need and demand is considered / met?
- 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?
- 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?
- e) How far does the planned provision deal with the backlog of unmet need?

## 2. Grant allocation and intervention rates

The Social Housing Grant (SHG) Programme is the primary source of capital subsidy for the provision of affordable housing in Wales to either build new properties or renovate existing properties. It plays a crucial role in housing supply and currently provides funding for affordable homes for rent (social and intermediate) and low cost home ownership through equity share (Homebuy).

Under current arrangements SHG is payable to RSLs at fixed grant rates of 58% for social housing and 25% for intermediate housing. Grant is allocated to Local Authorities (LAs) on an agreed formula combining household projections, affordability and expenditure and local authorities identify priority schemes for delivery.

For the purposes of being considered for grant funding, RSLs are zoned by local authority area. Being zoned for an area means that RSLs are eligible to be considered for grant funding in that area. There is no restriction on a RSL developing in an area where it is not zoned, but there is no grant available to them there.

In a climate of fiscal constraint, making best use of available resources is a key objective.

**The review** will examine how grant can be best used to support increased supply of affordable housing - whether the allocation of funding through the formula based on population is the best method to deliver value for money to the public purse, and maximise the number of homes built in the areas of highest need with available resources.

The review will assess if the model of fixed grant rates remains the right approach. The model offers certainty and simplicity, but may not optimise the role of grant in new supply.

The review will consider whether grant availability should be confined to RSLs, or made available to a wider range of delivery partners including the private sector, and whether the current system of zoning supports effective delivery and value for money.

The review will examine the role of grant alongside private finance and the scope for new finance structures, such as debt guarantees, partnerships with local authorities involving nominations agreements or third party equity for joint ventures and other investment or fund structures harnessing institutional investment.

### **Questions**

- a) How could the grant regime best achieve value for money and efficiency and deliver more affordable housing from current resources?
- 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?
- c) Should the zoning system continue or is there a better way of delivering affordable housing?
- d) What alternative structures of finance, including private sector finance, could be used to better support the development of more affordable housing in Wales?

### 3. Rent policy

The Welsh Government's Policy for Social Housing Rents (rent policy) was developed in collaboration with social landlords and bodies representing the interests of tenants. It was subject to consultation and implemented from 2014.

As part of the rent policy, a formula was agreed for uplifting rents each year from 2014/15 to 2018/19 which aimed to strike a balance between the interests of social landlords, their funders, current and future tenants and Welsh Government Policy. This five year agreement formed part of the Housing Pact with Community Housing Cymru, which enabled the previous 10,000 affordable homes target to be achieved.

The agreed formula is based each year on the Consumer Price Index (CPI) at previous September plus 1.5% and sets the maximum amount a social landlord can increase an individual tenant's rent of CPI plus 1.5% plus £2.00. CPI reached a five year high in September 2017 at 3%. The maximum amount a social landlord could increase an individual tenant's rent in 2018/19 was 4.5% plus £2.00.

The Rent Policy is currently being reviewed by Heriot Watt University and the final report is due for publication in September. This piece of work is separate to this Affordable Housing Supply Review. However, **this review** will consider the findings and recommendations of the Heriot Watt review as part of its work through this work stream.

In addition, this review will consider the need to introduce a revised rent policy, which gives certainty to RSLs and LAs and balances the need for continued development with affordability for tenants.

#### **Questions**

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

### 4. Standards / Development Quality Requirements (DQR)

All new and rehabilitated homes in Wales built by social landlords and funded using Social Housing Grant (SHG) or Affordable Housing Grant (HFG) must meet the standards set out in Development Quality Requirements (DQR).

Since 2001 DQR specifically requires homes meet the Lifetime Homes (LTH) Standards in order to increase flexibility by making them responsive to the changing needs of residents and offering choice and improved accessibility. LTH standards, including wider doors, accessible ground floor shower room, stairs suitable for chairlift installation, and additional space to allow wheelchair users to move around the home.

The existing standards have been in place for sometime and have build cost implications compared to homes built to Building Regulations standards only.



**The review** will consider whether the current standards and requirements remain the best way of meeting the housing needs of tenants accessing social housing, or whether alternative approaches offer better value for money and support increased supply.

The review will also consider the role of energy efficiency and delivery of zero carbon homes, and the requirements for the quality of the build environment and place making of grant funded homes.

#### **Questions**

- a) What standards, if any, beyond building regulations should there be for affordable homes in the next decade?
- 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?
- 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?
- d) How should Welsh Government ensure all new grant funded homes or homes built on WG land create sustainable places and quality homes?

#### **5. Local Authority building**

Local Authorities have an important contribution to make in increasing overall housing supply. A number of policy changes have come into effect to support this. The UK Government recently announced an increase to the Borrowing Cap in England of up to £1 billion, subject to bids between 2019/20 and 2021/22. HM Treasury has agreed a uplift to the borrowing cap in Wales, based on a straight population increase of the English uplift. The Welsh Government is liaising with representatives from the stock retaining authorities and the Welsh Local Government Association (WLGA) accordingly.

Local Housing Authorities are at different stages of their new build plans. Some are exploring developing new housing models that increase the quality and speed of delivery of new homes, which will also reduce fuel bills and environmental impacts.

**The review** will consider how best to support Local Authorities to build at pace and scale, including how to maximise the use of the borrowing cap.

#### **Questions**

- 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?
- 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?
- 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?

## 6. Construction supply chain including modern methods of construction

The Welsh Government launched the Innovative Housing Programme in 2017 to assist the housing sector to test and trial new methods and technologies, in order for homes to be efficient for today and into the future. The programme seeks to stimulate the design and speed up the delivery of new, quality, affordable homes.

A challenge facing the industry is that of ensuring there is a future workforce with the right skills to deliver the housing we will all need. The Farmer Review: Modernise or Die, highlights some of the challenges the sector is facing, skills being one. Modern Methods of Construction (MMC) including Off-Site Modular (OSM) offer significant opportunities for house building. It has the potential to help provide the homes of the future at a greater pace, with greater precision and efficiencies, but it also requires a workforce with different skills.

The Welsh Government's Economic Action Plan, Economic Contract and Calls to Action will all help assist and support the sector in the transition to a low carbon economy and society.

There is widespread acknowledgement that for a number of reasons the traditional model of house building is not sustainable without diversification. **The review** will examine how best to take this forward and scale up alternative models including off site manufacturing, including the opportunities for delivering zero carbon homes.

This work stream will also consider the supply chain across all types of building methods – how do we maximise the value of this, what's the capacity of this and are there any skills shortages?

### **Questions**

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

## 7. Public sector land

The Welsh Government acknowledges that utilisation of public sector land to increase the provision of housing in Wales plays an important role. A number of significant Welsh Government owned sites have already been brought forward for housing delivery.

The Welsh Government and the wider public sector, are exploring further potential land sites for the purpose of housing development on an ongoing basis. This includes innovative approaches in order to maximise the opportunities to bring land forward for housing development.

The National Assets Working Group (NAWG) is a cross Wales public sector group focused on enabling, encouraging and influencing public sector organisations to adopt a collaborative approach in asset management and to share and learn from best practice.

Making the best use of Welsh public sector assets is key to the delivery of high quality services for the people of Wales.

**The review** will consider how best to facilitate more public land coming forward for housing and what priorities can be supported by the supply of land for housing.

### Questions

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

## 8. Capacity of public sector and RSLs

Understanding and addressing capacity constraints is key to increasing supply. This takes a number of forms.

RSLs are a key partner of government in delivering affordable housing. Their organisational efficiency and financial capacity to leverage the asset base and raise debt to support affordable housing supply is key to increasing supply. For example, the ability to leverage private sector funding may be dependent to some extent on the financial capacity within the balance sheets of RSLs.

If RSLs are to scale up development and increase their contribution to supply, this has implications for skills and capacity of people at operational and board levels, to manage development risk at scale.

Similar organisational efficiency, skills and capacity issues exist for Local Authorities as this sector scales up housing supply.

Then there is the capacity of the house-building industry and supply chain to consider. In 2017 Housing, Communities and Local Government Committee report (into the capacity of the homebuilding industry) summarised that “Perhaps the biggest challenge facing the homebuilding industry is the growing skills crisis, with the size of the workforce declining and the demand for certain skills growing. It is also a challenge that is too big to be tackled by individual actors”.

**The review** will examine whether there are any capacity constraints within RSLs and the public sector that may act as a barrier to the delivery of the ambition to increase the scale and pace of affordable house building.

### Questions

- a) What organisational efficiency, skills and financial capacity constraints exist within RSLs and local authorities?
- b) How can Welsh Government help address capacity constraints?
- c) What measures can the sector take, including partnerships and collaborative working models, to share skills and combine resources in pursuit of increased supply?

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

## 9. Use of existing powers

Organisations across Wales involved in the delivery of housing have existing legal powers at the disposal. In considering a range of possibilities for increasing the scale and pace of affordable housing delivery in Wales it is important to examine whether there may be opportunities through the use of these existing powers which are not being used or maximised.

This will stretch across a number of areas including planning and environment and be diverse in nature. Some examples are: Section 106, Community Infrastructure Levy, Compulsory Purchase Orders and Local Development Orders.

**The review** will consider if there are existing powers that are not being maximised or used at all. What are the existing legal powers held by Welsh Government / Welsh Ministers, RSLs and Local Authorities in Wales? Which ones are and are not being used?

### **Questions**

- a) How do we maximise the use of existing legal powers (of Local Authority, RSLs, Welsh Government / Welsh Ministers etc) to deliver affordable housing?
- b) Are there areas where you believe they are not being used to full effect, and what would be your suggestions?
- c) Should more be done to ensure existing empty homes are brought back into use to increase affordable housing supply?

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

There are over 224,000 social homes in Wales provided by Registered Social Landlords and Councils who still have their housing stock. They house some of the poorest and most vulnerable people in society. To ensure people live in decent homes, all these properties must meet the Welsh Housing Quality Standard by December 2020.

The Welsh Government provides £108m of capital funding every year to Local Housing Authorities (through the Major Repairs Allowance) and Stock Transfer RSLs (through the Dowry Gap funding) which helps to fund the improvement works. This enables these landlords to lever in on average a further £500m every year to the WHQS programme.

Around 192,300 social homes (86% of the stock) now meet the Welsh Housing Quality Standard and the remainder are on track to meet the Standard by the Cabinet's 2020 deadline.

**The review** will examine how to best leverage the investment in Dowry and Major Repairs Allowance (MRA) to achieve better value.

## Questions

- a) What is Major Repairs Allowance and Dowry delivering currently in terms of output and value for money?
- b) What can Welsh Government do to encourage / incentivise changes to the existing arrangements in relation to Major Repairs Allowance and Dowry?
- c) What, if any, are the barriers to reforming the current arrangements for Major Repairs Allowance and Dowry?
- 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?