The finances and sustainability of the social housing sector

Response from the Highbury Group on Housing Delivery

Introduction

The Highbury Group comprises an independent group of specialists from the public, private and independent sectors with a membership drawn from housing, planning and related professions; it offers advice and makes representations to Government and other agencies on a variety of subjects, with the aim of maintaining and increasing the output of housing, including high quality affordable housing.

The current state of financial resilience and challenges in the social housing sector

The current arrangements for the funding of social housing, whether through local authorities or through housing associations are not fit for purpose. While the financial position of individual local authorities and housing associations vary widely, as a whole neither sector is adequately resourced to both maintain and improve the existing social housing stock to the required standard AND to provide new social rented homes to meet the backlog of unmet existing housing need and the projected requirements of future households. In recent years, new challenges have arisen, in relation to meeting net zero targets and replacing unfit and dangerous materials and correcting historic design faults. New building and fire and safety regulations together with new regulatory requirements have imposed additional costs on housing providers, both in relation to their existing stock and new development. These additional costs have not been met with additional resources from central government or, in the case of local authorities, the ability to raise further revenue locally. As far as local authorities are concerned, the inability to meet social housing obligations is part of a wider failure in the current system of funding local government services. Local authorities and housing associations alike have been forced to make difficult choices between competing priorities. As the policy and political focus has shifted to seeking to correct historic underinvestment in the existing social housing stock, many housing providers have been obliged to restrict their investment in new social housing provision. Increased construction cost and caps on the ability of providers to raise income from increased rents have had a negative impact on the financial viability of housing providers. Many housing associations, and ti a more limited extent some local authorities, have sought to undertake profit making residential development in order to subsidise their mainstream social housing activities. These initiatives have however not always been successful, as demonstrated by the failure of some local housing companies, most notably in the case of the London borough of Croydon.

The fundamental difficulty is the result of successive governments seeking to reduce the public subsidy towards social housing and to eek to encourage social housing providers to rely on alternative finance, whether in terms of raising private finance or entering into development agreements with profit seeking developers or other parties. Between 2010 and 2020, no central government subsidy was available for social rented housing, and while recent years has seen a reinstatement of the grant programme for housing associations and local authorities, not only has the total quantum of grant been inadequate, but the grant per new social rented home has been insufficient to remove the dependency of local authorities and housing associations on funding from other sources. While the use of s106 agreements under local authority planning powers has made a useful contribution to the provision of sub-market homes, it has not been an adequate substitute for direct grant and has largely generated forms of sub market housing which are not social rent and are not affordable by lower income households in most parts of the country. The system has also meant that much housing association development has been dependent on private developments and may not actually be the most appropriate in terms of built form and dwelling size and type for the lower income households in most acute housing need.

Policy and regulatory challenges

What is required is a return to the funding regimes in effect in the mid 1990's – a funding regime which provides adequate resources for both the maintenance of existing stock, the improvement and replacement of unsatisfactory housing (including correction of defects and meeting new standards)and the provision of new good quality social rented homes . Government grant for new social rented homes (currently via Homes England and the Greater London Authority) should be based on funding the full capital cost (within appropriate cost limits), which cannot be met from capitalised rent income (with rent levels capped in relation to local lowest quartile household incomes), while allowing for an appropriate level of rent income to cover management and maintenance costs. Separate funding should be available for improvements, so that the cost of improvements (which increase the value of the asset to the local authority or housing association) does not fall on the tenant. Separate funds should be available for replacement of social housing dwellings which cannot be improved to the required standard. This funding should not be made conditional on a change of ownership. There are a number of precedents for regeneration funding such as Estate Action, Housing Action Trusts and the Estate Renewal Challenge Fund, which were independent of the funding regime for new social rented housing. Public funds should be focused on funding the maintenance and improvement of social rented housing not on subsidising forms of home ownership or privately rented housing. In the past, funding has been provided for shared ownership homes which have not been affordable by the target group, leaving many new homes unsold, while subsidy for home ownership both subsidises developers rather than prospective purchasers and leads to house price inflation in the medium term by increasing effective demand without significantly increasing new supply.

Action is also needed to reduce construction costs. A focus on development by not profit- making bodies (local authorities and housing associations) significantly reduces development costs. It will also remove the dependency of affordable housing on speculative development, which is problematic in a volatile market, where a reduction in property prices will lead to a reduction in private sector development, which currently has a significant negative impact on the output of new social rented homes. Reduction of land costs is also critically, especially in high value areas. While the Governments proposals to revise legislation on compulsory purchase are welcome, what is required is a removal of all hoe value from social housing development so that local authorities and housing associations can acquire land for development at existing use value and that any benefit for land value uplift arising from planning consent is accrued by the local authority or housing association rather than by the land owner, speculative private investor or private developer. Where land is in public sector ownership and is appropriate for housing development, it should be developed for social rented housing by a local authority or appropriate housing association rather than sold to a private developer for the maximum capital receipt.

While securing sufficient funding is crucial, the Government must also address the lack of sufficient skilled trades in the industry. Since 2018, over 400,000 operatives have left the industry, and 45% of the European workforce has returned home. The Government, along with the Home Builders Federation and the Construction Industry Training Board need to have in place a skills strategy to address this declining workforce, otherwise costs will rise further and ambitious housing targets will not be met. Given the sector delivers 8% of the GDP, this has wider implications for the overall UK economy.

The Inquiry poses the question as to the current operation of **Homes England**. In recent years, Homes England has failed to meet its policy objectives, with an inadequate focus on the provision of new homes for households who cannot afford open market provision for rent or sale. It has underspent on its budget and sought to deliver forms of housing output which have not been appropriate to the providers or prospective occupiers, failed to redirect resources to deliverable projects. Its record in relation to predecessor bodies such as the Housing corporation and the Homes and Communities Agency has been poor. Rather than abolishing Homes England and replacing it by yet another new agency, the organisation needs to be restructured and set new policy objectives, with much closer monitoring of performance by Ministers. The appropriate changes are proposed:

1. Homes England needs to be transformed to have a public sector orientation and a focus on delivering genuinely affordable homes, primarily socially rented homes with controlled rents, security of tenure and which are allocated on the basis housing need, operating under guidelines set by the housing regulator. It should not be necessary to dissolve Homes England and/or seek to replace it with a new organisation.

2. Homes England should be directly accountable to Ministers and parliament, with its budget and priorities set by Ministers, HM Treasury and DLUHC officials. All decisions on allocation of resources for specific developments within the framework set by Government should be left to Homes England and not be subject to intervention by Ministers or DLUHC officials.

3. The majority of Homes England board members should have a public sector background and should include local authority representation as well as members from appropriate organisations representing tenants. There is a case for the chair being the Housing Minister. All senior staff should have experience of housing or related roles within a local authority, housing association or other public or semi-public sector organisation.

4. Homes England should be restructured on a regional basis, with the allocation and management of funding operating on a regional basis, working within the framework of regional housing strategies. The regional strategies should be developed in conjunction with local authorities as statutory housing authorities and other appropriate statutory bodies and within a national housing strategy prepared by DLUHC and approved on an annual basis by Parliament.

5. Allocation of resources between regions and local authority areas should be based on an assessment of comparative needs and resource requirements. Allocations of resources at a local authority level should be in collaboration with the relevant local authority based on priorities agreed with the local authority. This should ensure that funds are only allocated to projects which are supported by the local authority and will receive planning consent.

6. Where city region Mayors and combined authorities exist, they should be party to regional housing strategies. However, operational functions should remain with Homes England once restructured on a regional basis. The case for reintegrating the Greater London Authority's housing

investment operations into the national structure, but within a housing strategy set by the Mayor of London should be considered. This would ensure greater inter-regional consistency as well as being cost effective.

7. Homes England should collaborate with the relevant local authority in the acquisition of appropriate development sites, and should be prepared to use its own compulsory purchase powers as appropriate. Homes England should not act as a lender to housing associations or developer and should not itself act a profit=seeking developer, and the current banking functions should be transferred to HMT.

8. The case for reintegrating investment and regulatory functions within Homes England should be considered, on the basis of this being the most effective mechanism for ensuring consistency between regulatory interventions and investment decisions.

The Inquiry also poses the question as to the potential impact of the proposed **Infrastructure Levy**. In our view the government has failed to demonstrate that the proposed new regime will increase the provision of affordable social rented homes. Recent research by the Universities of Liverpool, Sheffield, Reading and the LSE has raised serious questions as to its deliverability, and in our view the current system of CIL and section 106 agreements can be more productive in facilitating the provision of appropriate new affordable housing effective if managed effectively.

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