



TAI CANOLBARTH CYMRU
MID-WALES HOUSING

Yn barod *amdani* Equal to the challenge

R
E
S
P
O
N
S
E
T
O
T
H
E
S
U
C
E
S
S
F
U
L
I
N
I
T
I
A
T
I
O
N

3rd November 2011.

Committee Clerk,
Communities, Equality and Local Government Committee,
National Assembly for Wales,
Cardiff Bay,
CF99 1NA.

Dear Sir/Madam,

Inquiry into the provision of affordable housing across all tenures

With reference to the invitation dated 7th October 2011 in which you seek to consult on the above, thank you for seeking the Association's opinion and I would comment as follows:

General Overview

The Association welcomes the opportunity to give its opinion on affordable housing within Wales by the Committee as it believes that the provision and importance of such housing is facing a sea change over the next few years. It is essential that the Welsh Government is clear about the future it sets out for the people of Wales, the priorities and the consequences which existing and wider UK decisions might have in Wales.

Before answering the specific questions raised, the Association feels that the committee needs to consider what the definition of "affordable" is in the context of its deliberations. Whilst most people recognise that affordable housing falls on a spectrum of provision that has social rented housing at one end, and market ownership at the other, it is quite unclear where, on that spectrum, "affordable" is exactly. The UK Government is currently seeking to establish a definition of affordable within its housing policy, and it may not be appropriate to simply accept that definition for Wales. Indeed, given the relative differences in employment, social deprivation and income across the different parts of Wales, there may be more than one simple all Wales definition of affordability.

Conversely a simple definition would give clarity. For instance "Market Rent" = 100% or more of Local Housing Allowance guidance; "Intermediate Rent" = 80% x LHA; and "Affordable Rent" = 70% x LHA, would be one definition.

1. The effectiveness of public subsidy in delivering affordable housing, in particular Social Housing Grant

The SHG system provides a one-off capital grant to subsidise housing costs in perpetuity. This is clearly more cost effective than revenue subsidies such as housing benefit. In the last few years Registered Social Landlords and their partners have used the available SHG to meet the "One Wales" target of 6,500 new affordable homes a full year ahead of target. Clearly, the SHG system has been effective. This does not mean that it cannot be improved upon:



- a. Unnecessary Detailed Scrutiny The Essex Review recommended considerable more freedom to RSLs¹ to operate, and whilst many improvements have been achieved, there remains a considerable amount of individual scheme scrutiny/bureaucracy, which this Association feels is stifling both innovation and critically, effective provision. For instance, the existing ACG² system where the Welsh Government dictates the expected cost of a scheme is manifestly flawed. Schemes slightly over an artificial community boundary attract significantly less grant than ones in adjoining high value areas, often making legitimate schemes appear expensive when they are not. The Association feels that a simpler mechanism could be developed, perhaps using the principles of social impact bonds would be more effective, with grant being awarded on delivery of clear objectives, in this case affordable housing, negating the need for hardly any detailed scheme approval.
- b. Artificial Grant Levels Notionally grant is awarded at 58% of scheme costs with RSLs borrowing the remainder from banks/building societies. In reality, all RSLs are subsidising schemes to a lesser or greater extent usually by identifying legitimate scheme costs as “non-qualifying”. This is nonsense and a real grant level should be accepted. The extent of this hidden subsidy is significantly greater in relation to small rural schemes than larger urban ones; due in part to economies of scale, and consideration should be given to a realistic and variable grant level to reflect these known extra costs.
- c. Geographic Inequities Mid-Wales³ (and some other counties - Monmouthshire) is largely ineligible for other Welsh Government/European grants such as Arbed 1⁴ funding compared to other areas where such grants are available. This means that RSLs operating in those areas can attract secondary grants for improvement costs, community and other economic regeneration, which RSLs within Mid-Wales cannot. This clearly means such RSLs are better able to further subsidise development activities, which must therefore disadvantage the “poor” within the Mid-Wales region.
- The Association appreciates that most of these other grants are related to the WIMD⁵ but such an approach ignores the fact that arguably the poor within a relatively well-off area such as Powys and Monmouthshire are even more disadvantaged in relative terms, with higher food, transport and fuel costs. In considering a variable SHG regime, a higher level of grant could be awarded within such counties to compensate for the unavailability of other grant funding for those on low incomes.
- d. Design Standards Historically, Welsh Government has used the SHG system to introduce improvements in design, and to lead improvements in design in the wider building sector. This has frequently led to affordable housing schemes being significantly better designed than adjoining market

¹ Registered Social Landlords (Housing Associations)

² Acceptable Cost Guidance

³ Powys and most of Ceredigion

⁴ Fortunately Arbed II funding is available, but still favours Strategic Regeneration areas.

⁵ Welsh Index of Multiple Deprivation



housing. The advent of Building Regulations powers devolved to Wales means Welsh Government can influence design standards equally across all tenures, and the provision of affordable housing should no longer be used as a market leader. RSLs have a good reputation for innovation and Welsh Government might still wish to support innovation via enhanced grant provision.

There is an argument to be had that reducing standards for affordable housing could see the same levels of SHG supporting greater housing provision in a time of acute shortage, and less SHG. If this is considered then the Welsh Government should ensure it does not result in standards below the market sector, and does not lead to a worsening of fuel poverty amongst the poorest sectors of society. The development of modular forms of construction may provide the flexibility for building to a smaller standard and expanding the property at a future date.

2. Whether alternatives to public subsidy are being fully exploited

The provision of any “product” at less than the market price requires a subsidy in some form, and a capital subsidy has more impact than an on-going revenue subsidy. The following are areas which Mid-Wales Housing Association and its partners have used or are currently exploring:

- a. Provision of Land The Association has been the recipient of cheap/ free land from Powys County Council which has enabled affordable housing to be provided by mitigating high rural costs (see above). It is currently discussing a way that the provision of such land can enable affordable, intermediate and market rent housing to be provided on one site with no SHG.
- b. S106 Planning Gain The collapse of the private sector market has seen a hiatus in development (certainly in the Mid-Wales region) which has seen the provision of affordable housing from the planning system dry up. However, a more flexible approach to S106 provision together with a reassessment of private scheme viability should enable some further affordable housing to come through. The Community Infrastructure Levy might also afford a way of reducing the development costs for affordable housing in due course.
- c. Cross Subsidy Mid-Wales Housing Association is considering establishing a private sector development company within its group structure. This would enable it to recycle profits from commercial activities into its affordable housing provision. The scale of this venture will directly influence the amount of affordable housing this will provide. The size of private sector demand in the rural communities of Mid-Wales will also put a natural limit on the scale of success.

3. Whether WG, local authorities and RSLs are effectively utilising their powers to increase both the supply of, and access to, affordable housing

It is the Association’s opinion that all three sectors can do more to increase the supply of and access to affordable housing:



a. Welsh Government.

- Should consider the disposal of land to RSLs at nil or reduced cost in the same way that it is considered by some Councils. For instance, the Association recently received SHG from Welsh Government to buy a site from Welsh Government. Obviously, disposing of the land at a reduced cost would have saved SHG which could have been spent on another scheme, whilst in reality Welsh Government succeeded in paying itself a large sum of money via a convoluted legal process for no real reason.
- Should consider reducing technical scrutiny of individual schemes and (dare I say it) trust RSLs to provide satisfactory housing.
- Should consider a variable grant rate to reflect the higher cost of rural schemes.
- Should seek to level the playing field in terms of the availability of other (non SHG) grants.
- Should provide SHG to only those RSLs that have met or are meeting their WHQS obligations.
- Should abolish the need for a vote on stock transfer and use the money saved to reinvest as SHG for the provision of more affordable housing.
- Should influence lenders (banks/building societies) to engage in the affordable housing debate. Positive discussion with the CML appears to have no influence on individual negotiations with lenders.
- Establish a clear and simple Rent Setting regime for RSLs and local authorities.

This is a complex issue which Welsh Government has been working on over recent years, and where it is now reaching a conclusion. However, there is a direct relationship between rental income and the ability of RSLs to subsidise the provision of affordable housing (and other community initiatives). An unduly restrictive rent regime will reduce the viability of RSLs at exactly the same time that welfare benefit reform also threatens rental income. On the other hand Mid-Wales Housing Association would not wish to see a rent regime which produced rents manifestly unaffordable to the local people it is seeking to help.

The rent review also serves to highlight the inequities highlighted above (1c). Welsh Government rent proposals appear to suggest current rents are too high in Powys and should be reduced, based upon low income households in the county, yet this is a county where WIMD based grants are not available as average incomes are too high. The use of differing indices runs the risk of significantly disadvantaging Powys, and probably other areas as well.

b. Local Authorities

- Those not already doing so should consider the provision of free/subsidised land to RSLs as a mechanism for subsidising affordable housing schemes.



- Should undertake a review of non HRA⁶ land and other property assets owned by the Council with a view to these being used for affordable housing or other community benefits.
- Should consider the legitimacy of treating social housing as “community infrastructure” as part of the LDP process, and whether the community infrastructure levy could then provide an alternative to SHG.
- Should adopt an empty property strategy which sees empty homes brought back into use.
- (Those who have not already done so) should transfer their stock and use some of the investment money generated to provide additional affordable housing.

c. RSLs

All RSLs are limited by the financial covenants imposed by its private lenders (banks/building societies), in particular, gearing ratios that limit borrowing. Mid-Wales Housing Association has renegotiated its gearing over the years, to enable it to borrow to meet its WHQS obligations and to invest in the development of affordable housing. It will shortly do so again despite it having one of the highest ratios amongst Welsh RSLs.

- RSLs should re-examine their own financial covenants and take a more aggressive stance on borrowing negotiations with lenders. Those failing to do so should be favoured less in the receipt of SHG. This could be assessed as part of the Welsh Government regulatory assessment.
- RSLs need to re-examine how they allocate housing in the light of impending welfare reform.

Whilst the final outcome of the reforms is still unknown, the impact could be financially damaging to an RSL’s ability to subsidise new housing and/or attract long term funding. It is imperative RSLs reconsider how they allocate housing to ensure financial sustainability. (For instance it will no longer be sensible to allocate a 2 bedroom property to a couple without children).

4. Collaboration

Collaboration is critical in ensuring that good ideas are shared and fostered, and that resources are used to best effect. Mid-Wales Housing Association is pleased to be part of the Powys County Council Affordable Housing Partnership which it feels is a good model for collaboration. However, the one sector that is not actively engaged is lenders, and sensible ideas have fallen foul of lender intransigence. For instance, Powys County Council found it almost impossible to obtain the opinion of lenders on proposed changes to its S106 planning agreements, even when it was seeking to make them more acceptable to lenders.

There also continues to be a “disconnect” with lenders about deposit requirements for mortgages, which has seen an increase in waiting lists as those who previously could obtain a mortgage no longer can.

⁶ Housing Revenue Account



The Association feels that collaboration and partnership means working towards a shared objective. It does not mean that there is no room for diversification of opinion and provision.

5. CLT and Co-ops

Mid-Wales Housing Association feels that both CLTs and Co-ops have a legitimate role in providing affordable housing, as do initiatives like “Co-Housing”⁷. However, their role is at best peripheral, and at worse can delay the provision of much needed housing. CLTs offer a good example of this.

There is virtually nothing which a CLT can do that a RSL cannot do often more effectively, as CLTs tend not to have the much needed full spectrum of skills to progress a project. Inevitably either the local authority or an RSL will be needed to support a CLT and the inclusion of a third partner (the CLT) often serves to delay schemes. The principal advantage of a CLT is in its “ownership” of a scheme or the land it is developed on, and the ownership of same in perpetuity for the community can be valuable. In particular if this were a driver to release land locally, say from a local farmer, then the role would be very valuable. However, this has not proven to be the case, with land usually coming from local authorities and other public sector bodies.

The Association’s experience with co-ops is limited and it does not feel in a position to comment authoritatively.

Conclusion

Given the current economic situation, and the pressures on the public purse it is timely for the Committee to be considering these issues. I would like to finish by thanking the Committee for the opportunity to comment on this important document, and I look forward to receiving the Committee’s conclusions in due course.

Yours sincerely,

SHANE R. PERKINS, F.C.I.H.,
Chief Executive,
Mid-Wales Housing Association. Tel: 01686 620510 Email: sperkins@mid-walesha.co.uk

⁷ <http://www.cohousing.org.uk/>