CIH submission to the inquiry into long-term delivery of social and affordable rented housing

About CIH

The Chartered Institute of Housing (CIH) is the independent voice for housing and the home of professional standards. Our goal is simple – to provide housing professionals and their organisations with the advice, support and knowledge they need to be brilliant. CIH is a registered charity and not-for-profit organisation. This means that the money we make is put back into the organisation and funds the activities we carry out to support the housing sector. We have a diverse membership of people who work in both the public and private sectors, in 20 countries on five continents across the world.

Further information is available at: www.cih.org

CIH contact:

John Perry, CIH policy adviser
john.perry@cih.org

Summary of our key points

This is a supplementary response to the House of Commons Housing, Communities and Local Government Select Committee inquiry into long-term delivery of social and affordable rented housing, following the invitation sent on behalf of the Select Committee on 12 March 2020. We do not repeat the points we made in our original response, but we address the three new questions relating to the Chancellor's March Budget. We also make some additional, brief points about housing delivery in the aftermath of the current coronavirus epidemic.

Our key points are:

- The new Budget allocation for the Affordable Homes Programme is very welcome and is a significant increase on recent allocations.
- Funding still falls well short of what CIH and other organisations consider to be the required programme, including the building of 90,000 social rented homes per year, estimated to cost £12.8 billion annually (see the previous CIH submission to the inquiry).
- Social landlords' ability to continue to pay the costs of a high proportion of a new development programme from their own resources was in doubt before the coronavirus epidemic; it is now even more limited given the collapse of the housing market.
- The sector is looking for a strong commitment by government to building homes for letting at social rents (in 2018/19 only 11 per cent of affordable output was for social rent).
- A new concern is that funding under the new programme may be conditional on the homes being made available to buy through shared ownership. We urge

the government to consult carefully on these proposals and take account of feedback.
- A strategic approach is required to the delivery of affordable housing, which assesses the scale of the programme and resources required, but also adopts relevant policies on retaining the existing stock, rent levels, benefit reform, the position of low-income tenants in the private rented sector and maintaining standards in the social housing stock.
- The government's planning reforms contain two elements which (so far) are of concern to CIH:
    - the possibility of further low-quality homes being provided under relaxed permitted development rules
    - the further erosion of local authorities' ability to require affordable housing through developer contributions.
- The changes in PWLB lending rates for local authority housing development were requested by CIH and are welcome. We draw attention to
    - other measures needed to encourage new council house building, and
    - some new constraints that result from the coronavirus crisis.
- The other comments made in our original submission to the Select Committee's inquiry still apply.

The March Budget Allocation for a new Affordable Homes Programme

The Budget set out a package of investment including £12.2 billion for the Affordable Homes Programme and £400 million for housing on brownfield land. It also confirmed allocations from the Housing Infrastructure Fund totalling £1.1 billion.

The announcement included important measures to tackle the housing crisis. We were pleased that the Chancellor agreed that the crisis needs long-term attention and investment from government. A £12.2 billion five-year extension to the affordable homes programme will give some certainty, with much depending on the make-up of the programme and conditions attached to funding. The sum includes £700 million of money from the current programme, £2 billion of forward-funded strategic partnership money already announced by Theresa May and £9.5 billion of new funding.

It is however notable that:
- Funding will average £2.44 billion per year. This compares with the current Shared Ownership and Affordable Homes Programme which is now worth some £7.7 billion in total, or £1.54 billion annually (2016/17-2020/21). The previous 2015/16-2017/18 AHP was worth £2.9 billion or just under £1 billion annually. The new allocation is therefore a substantial increase on these recent programmes. However, the National Affordable Housing Programme, which ran for three years to 2010/11, was worth £8.9 billion or almost £3 billion annually, at then current prices.

- Funding still falls well short of what CIH and other organisations consider to be the required programme, including the building of 90,000 social rented homes per year, estimated to cost £12.8 billion annually (see the previous CIH submission to the inquiry). It is worth pointing out, as we showed in the *UK Housing Review 2020*, that only 11 per cent of the current costs of new affordable homes are met through grant. Social landlords' ability to continue to pay the costs of such a high proportion of a new development programme was in doubt before the coronavirus epidemic; it is now even more limited given the collapse of the housing market.
- So far there have been no details on the planned make-up of the programme. The sector is looking for a strong commitment to building homes for letting at social rents. In 2018/19 only 11 per cent of affordable output was for social rent, compared with much higher percentages in the equivalent programmes in Scotland, Wales and Northern Ireland.
- Over the last six years there has been a net loss of 165,000 social rented units, despite 55,000 new ones being built, because of the effects of right to buy and the conversion of social rent dwellings to lettings at higher, 'affordable' rents. CIH urges the government to suspend right to buy, or at the very least to radically change the rules to allow more receipts to be used for investment. We will also look for an end to conversions of social rented lettings to affordable rent, because they deplete the social rented stock.
- A new concern is the suggestion that funding under the new programme will be conditional on new homes being made available for tenants to buy through shared ownership. This could have a damaging effect on social landlords' ability to fund the programmes and should not be imposed without detailed consultation. Furthermore, in the case of new social rented homes, where tenants are likely to be on lower incomes, it increases the risks to both the tenant and the landlord. We urge the government to consult carefully on these proposals and take account of feedback.
- As well as the planned new AHP, an additional £1 billion to remove all types of dangerous cladding from buildings over 18m in height is promised; this recognises the urgent need to address building safety following the Grenfell tragedy. However, the scale of investment required is likely to run to at least ten times that amount. It is also important that we ensure that affected buildings below that height and leaseholders also receive the funding needed to make those homes safe.

CIH has previously shown that there is a massive imbalance in government investment in housing. Before the March Budget, over three-quarters of government support was going towards the private market or homeownership and less than a quarter to affordable housing. These percentages may change somewhat when the details of the spending decisions in the Budget are made available, but the emphasis on private market support is expected to still be very strong. CIH believes that a fundamental restructuring of government incentives and programmes is required, to retarget them on those most needing support in the housing market, and enable the required level of new investment in social rented homes to take place.

Our earlier recommendation to the Select Committee therefore still applies: a strategic approach is required to the delivery of affordable housing, which assesses the scale of programme and resources required, but also adopts relevant policies on retaining the existing stock, rent levels, benefit reform, the position of low-income tenants in the private rented sector and maintaining standards in the social housing stock.

Planning reforms

The Secretary of State will set out comprehensive reforms to bring the planning system into the 21st century, followed by a Planning White Paper in the spring. These reforms will aim to create a simpler planning system and improve the capacity, capability and performance of Local Planning Authorities (LPAs) to accelerate the development process. The government will also explore long-term reforms to the planning system, rethinking planning from first principles.

The government's *Planning for the future* interim report promised a planning white paper and social housing white paper in the spring, but obviously these have been overtaken by events. The interim report confirmed various spending announcements and also some planned changes to the planning system (e.g. encouraging development of brownfield sites). CIH will be keen to comment on the white paper when it emerges, but in the meantime we have concerns about some of the issues in *Planning for the future*:

- It reiterated that the government is looking at extending permitted development rights by allowing extensions of buildings upwards and to consider proposals to allow demolition of commercial properties to build residential. It identified natural light as an issue, but there was no mention of space standards or other requirements, despite the government also being keen to introduce the Future Homes Standard by 2025. CIH is concerned that the worst aspects of permitted development, that are already occurring, will be repeated under the extended arrangements. CIH will call on government to review the effects of extending permitted development rights before extending them. It is also vital that all new homes, including conversions, meet the Future Homes Standard as far as practicable.
- This measure and others signalled in *Planning for the future* suggest a further erosion of local authorities' ability to require developers to provide affordable housing. As the government's own figures show, almost half of affordable housing is delivered via developer contributions ('section 101' agreements). It is vital that any reforms do not weaken local authorities' ability to impose such agreements and secure additional affordable housing via this route.
- *Planning for the future* also flagged the introduction of a new formula to calculate local housing need. Depending on how this is framed, it would be a progressive move if it encourages places to be ambitious and to build more homes, not merely be tied to purely historical levels of demand.

CIH has not looked at the government's planning proposals in any more detail, but we are aware of and broadly support the paper produced by the RTPI in March 2020, *Priorities for Planning Reform in England*. Among other things this calls for more direct investment in council and housing association building.

Terms of PWLB lending

The government will consult on revising the terms of PWLB lending to ensure LAs continue to invest in housing, infrastructure and front-line services, cutting the interest rates for investment in social housing by 1 percentage point, and making an extra £1.15 billion of discounted loans available for local infrastructure projects.

The commitment to cut the cost to councils of borrowing from the PWLB is a welcome announcement. The new discount reverses the PWLB rate increase imposed by the Treasury in October following its alarm at councils using the cheap finance to invest in commercial property. In January 2020 CIH identified a number of barriers that are stopping councils building badly needed new homes and the then recent increase in PWLB interest rates was one of these. We urged government to reconsider its decision and its change of mind is therefore welcome.

Our report was called *Local authority new build programmes and the lifting of the HRA borrowing caps - What is the potential and what are the constraints?* It showed that most councils are undertaking new build programmes and that the Treasury's expectation that councils might reach an output of 10,000 homes per year is realistic.

However, there remain a number of barriers to councils increasing their building programmes. These include:

- the pressures of right to buy and restrictions on use of RTB receipts
- scheme viability and the need for more grant funding
- land shortages and planning constraints
- building industry constraints
- shortages of skilled staff
- competing priorities for resources, such as investment in existing stock.

Councils also urge the government to ensure continuity of policy (especially on rents) over a longer run of years.

Looking towards the ending of the coronavirus pandemic, local authorities will undoubtedly be keen to restart investment programmes but they will undoubtedly face some new difficulties:

- an unknown number of LAs decided to postpone rent increases that were planned for April 2020; this will affect their income and any planned surpluses for new investment
- rent arrears are likely to have risen during the crisis

- costs may have increased or contracts may have expired or other problems may have been caused by delays in development
- none of the £3.2 billion of extra funding for local authorities was made available for councils' housing revenue accounts
- despite this extra funding, intense pressures on councils' wider services during the crisis, and the need to deal (for example) with extra homelessness pressures and the rehousing of rough sleepers who were given short-term accommodation, may affect the resources available for managing new build programmes.

Chartered Institute of Housing
May 2020