

22 September 2017

Submission: Autumn Budget 2017

A new generation of genuinely affordable homes for all

1. Executive summary

In our submission, the National Housing Federation makes proposals that we believe address the long-term housing challenges we face as a country. We propose specific and achievable recommendations that deliver on the Government's and our members' shared goals:

- **Sustaining and increasing the supply of new homes**
- **Helping people left behind by the broken housing market**
- **Ensuring that people who need extra support have a safe home that meets their needs.**

Our recommendations deliver greater value for money for the taxpayer by directing investment towards the causes of our housing crisis, rather than paying for the costs of failure. The Government's announcement of a social housing Green Paper, made at our Annual conference, is welcome. We share the Government's ambition to make social housing a badge of honour for the nation. But there are things we can and must do right now.

To deliver on our shared goals, we call on the Government to:

- **Provide certainty on housing association rents post-2020**
- **Support a new generation of high quality homes for social rent**
- **Put in place an effective funding mechanism for supported and sheltered housing.**

2. A track record of delivery

For over 100 years, housing associations have been delivering great places to live for people at every stage of their lives. We invest every pound of profit in building new, high quality affordable homes for young people, families, first time buyers, older people, and vulnerable people who need extra support, as well as investing in the quality of our existing stock.

In our previous Budget and Autumn Statement submissions, we made the case for greater flexibility for housing associations. We said that flexible funding would free us up to deliver more new homes, more quickly, across a range of tenures.

We are pleased that the Government listened and acted. **This greater flexibility has boosted housing associations' confidence to increase their supply of new homes. Last year housing associations built over 38,000 homes and started building a further 47,700, an increase of 13% on 2015/16.¹ We have an ambition to deliver 120,000 homes a year by 2033.²**

The following proposals will ensure housing associations can continue to deliver on new supply, and expand their offer of genuinely affordable great quality homes for all.

3. A critical moment for housing reform

We argue that three elements have come together to make this a critical moment for housing.

First, there is now a consensus that our housing market is broken. The Housing White Paper was a watershed moment, with the Government recognising market failure and putting a wide range of measures in place to address it.

Secondly, the Brexit process is a cause of unprecedented uncertainty that may result in a slowdown in house building – at a time when the nation needs a sustained and significant increase in supply.

Thirdly, the tragic fire at Grenfell Tower has opened a long overdue national conversation about the need for high quality affordable housing. The nation's attitudes to housing, particularly towards those left behind by the market, are rightly being examined.

This is a national crisis, long in the making. We have seen how a broken housing market, together with choices made by successive governments, have resulted in whole communities who feel powerless and unheard. Public investment in social housing is at record lows while spending on housing benefit continues to rise³. And it is clear that we are still not building enough homes. We have an urgent obligation – the Government, local government, housing associations and private developers – to act now, and work together to end the housing crisis.

¹ National Housing Federation, How many homes did housing associations build in 2016/17?, <http://www.housing.org.uk/resource-library/browse/how-many-homes-did-housing-associations-build-in-2016-17/>

² National Housing Federation, Ambition to Deliver, <http://www.housing.org.uk/get-involved/promoting-our-sector/ambition-to-deliver/ambition-to-deliver-publication/>

³ <http://www.housing.org.uk/how-public-money-is-spent-on-housing/>

4. Our shared goals

Sustaining and increasing the supply of new homes

The Government has been clear that housing is a key priority over the course of this Parliament. The target to build 1 million new homes by 2020 remains in place. Housing associations share the Government's ambition to deliver the housing that this country needs and ensure everyone has access to a quality home that they can afford.

The importance of rental income to housing association business plans cannot be overstated. Not only must rent cover day-to-day management and repairs, it must also provide a stable long-term income stream against which private finance can be leveraged. As government subsidy for building affordable homes has been cut, housing associations' business models have adapted – but there are limits to these changes and reliance on other sources of income. Rent uncertainty can therefore have far-reaching consequences in terms of business plan assumptions, development capacity and risk appetite.

When the Government announced the 1% rent cut in 2015 it was described as a temporary measure – lasting four years – to be followed by a return to rent policy of CPI + 1%.

The Government should bring certainty to the sector by delivering on its commitment on rents.

The Government should confirm a return to rent policy of CPI + 1% from 2020, enabling housing associations to invest with confidence in the supply of new homes.

Longer term, the National Housing Federation and our members are seeking to develop a sustainable and independent future for rents. We want to work with the Government to explore how future rent policy could deliver better outcomes for all stakeholders, building on the key principles of certainty, genuine affordability, accountability and transparency.

The Government should set up an official working group, involving housing associations, to develop a new approach to rent setting.

Helping people left behind by the broken housing market

Our housing crisis is leaving millions of families and whole communities behind. 1.2 million households in the Private Rented Sector (PRS) are in receipt of housing benefit⁴, and 1.3 million households struggle to make ends meet after paying their rent.⁵

⁴ DWP, Stat-Xplore tool, <https://stat-xplore.dwp.gov.uk/webapi/jsf/login.xhtml>

⁵ Shelter, General Election 2017 - The case for living rent homes, https://england.shelter.org.uk/_data/assets/pdf_file/0007/1376926/2017_05_12_Living_Rent_Homes_briefing.pdf

Despite the chronic shortage of genuinely affordable housing, public spending on new affordable homes has continued to fall. At the same time, spending on housing allowances continues to grow. In 2015, 85% of all public spending on housing in the UK went into housing benefit, and only 15% into building new homes.⁶

Since 2010, the Government has made it clear that no public money can be spent on new homes for social rent⁷. Instead, investment has been limited to homes for affordable rent (based on 80% of the private market value). These homes offer an invaluable lifeline to thousands of families struggling with prices in the PRS. However, across large parts of the country, affordable rents at 80% market value are simply not affordable for families on lower incomes.

Housing associations have continued to deliver new homes, including new homes for social rent, without any public funding. We believe it is now time for the Government to act.

The Government should partner with housing associations on a new generation of genuinely affordable, high quality homes.

There are three ways in which the Government could do this:

i. Investment

Investment is the most effective way of delivering a new generation of genuinely affordable homes. It is a more predictable and cost effective use of taxpayer money in the long-term. It ensures affordable housing delivery is counter-cyclical, sustainable and less reliant on market trends.

Crucially, public investment in genuinely affordable homes means that housing associations can charge lower rents, ensuring that work pays for our tenants.

The Government should ensure that the additional £1.4bn investment announced at the 2016 Autumn Statement is made available for bidding at the earliest opportunity.

The Government should use the unallocated £1.1bn from the Starter Homes programme⁸ as a starting contribution to a sustained capital investment in genuinely affordable homes for rent.

⁶ Eurostat, General Government Expenditure by Function (COFOG), table 10a, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=gov_10a_exp&lang=en

⁷ Rents set at a level intended to be genuinely affordable to those on the lowest incomes. They are set based on a balance of local property values and incomes, compared to the national average. Social rent is typically set below market and affordable rents

⁸ We understand the Government has allocated 5% (or £60m) of its £1.2bn Starter Homes Land Fund, meaning £1.14bn remains unspent

ii. Land

The Government has signalled an intention to bring greater certainty and transparency to viability assessments for new housing developments. This is a welcome move and will mean new homes are brought forward more quickly. We believe the Government could go further.

The Government should reform the viability assessment process to ensure there is a consistent methodology, strengthened guidance, enhanced transparency and clear review mechanisms.

To ensure the planning system delivers more affordable housing, London has successfully introduced a minimum threshold for affordable housing – to increase certainty, reduce costly delays and incentivise affordable housing. **The Government should set a national minimum threshold for affordable housing required on new housing developments. Privately owned sites should be expected to deliver 35% affordable housing and publicly owned land should be expected to deliver 50% affordable housing.**

Where a proposed development meets these thresholds, developers will be offered a ‘fast-track’ application process, where viability information would not be needed. Schemes which don’t meet these thresholds would be required to submit detailed viability information.

This approach would have a range of benefits. It would incentivise the delivery of higher percentages of affordable housing – and more quickly. It would help ensure affordable housing requirements are reflected in land values. It would offer all housing developers more certainty and the chance to avoid protracted and costly delays.

The cost of land often acts as a barrier to the delivery of affordable housing. And in terms of public land, the Treasury requires public bodies to dispose of their land for ‘best value’. Too often ‘best value’ is simply interpreted as getting the most money, rather than the price which will allow a mix of homes to be built quickly.

The Government should update guidance on ‘best value’, so they and other public bodies are encouraged to set a price for their land that can support delivery of 50% affordable housing.

Focusing less on financial return would allow land to be sold at a price which factors in the wider socio-economic benefits of housing. It would also ensure competition for land is based on quality, tenure-mix and speed of delivery.

iii. Flexibility and freedom

The Homes and Communities Agency (HCA) currently administers a raft of interventions – providing capital grant, equity investment, soft loans and debt guarantees – each seeking to address a specific housing issue or incentivise a particular course of action. This has led to a highly fragmented approach, which both limits the effectiveness of funding and dilutes the economies of scale that can be achieved.

The Government should support the HCA to become a more effective investor in housing, by consolidating its existing funding streams into a single fund.

The approach should be geared towards getting the right outcomes, rather than unnecessary processes. We would suggest that the single fund still be used to provide a range of financial interventions, but in a more joined-up and consistent way. This would enable the HCA to invest on a short and long-term basis in housing and infrastructure, building quality homes and regenerating communities. By joining up conversations over whether capital grant, equity investment, soft loans or debt guarantees were needed, housing associations and the HCA could ensure that the funding fits the project, rather than the other way around.

The Government should grant housing associations the flexibility to use available public investment to build the right mix of affordable homes – shared ownership, affordable rent and a new generation of homes for social rent – to meet current and future housing need and to reflect the challenges that some housing markets face.

With additional investment and the freedom to build the right mix of affordable homes, housing associations could deliver up to 30,000 new affordable homes for every £1bn of government investment.⁹

The European Investment Bank (EIB) has been a significant provider of long-term, competitively priced finance for housing associations, however the UK's decision to leave the EU puts the EIB's continued investment in the sector at risk. It is likely to become harder for housing associations to access long-term, competitively priced private finance, undermining their efforts to build more homes and improve existing homes.

The Government should commit to reopening the successful Affordable Homes Guarantees Scheme (AHGS) to mitigate the loss of an important funder and the impact of a credit rating downgrade.

The AGPS provided guaranteed lending to support the delivery of 27,000 new affordable homes, at the same time as generating interest savings capable of financing a further 6,000 new homes. Housing associations' no default record means it comes at no cost to the taxpayer and, by lowering the cost of private finance, would enable the sector to deliver even more affordable homes.

Ensuring that people who need extra support have a safe home that meets their needs

Housing associations are the main provider of supported and sheltered housing for older and vulnerable people. The 2015 announcement by Government that the Local Housing Allowance

⁹ Assuming a split of 50% shared ownership, 25% affordable rent and 25% social rent

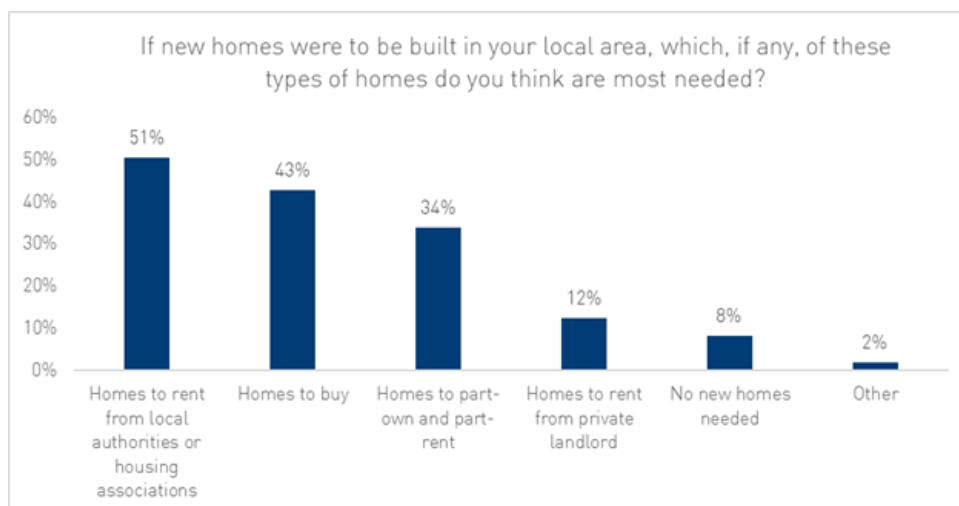
(LHA) cap would apply to social housing has affected housing associations' ability to invest in much-needed supported and sheltered accommodation.

We recently published data showing an **85% drop in the number of new supported and sheltered homes that are planned to be built**¹⁰; difficult decisions that housing association boards have been forced to make owing to uncertainty about their future income.

The Government should announce a supported housing allowance, set at a higher level than LHA; that older people's sheltered accommodation is removed entirely from the proposed policy changes; and that the Government urgently consult on the funding mechanism for very short-term provision.

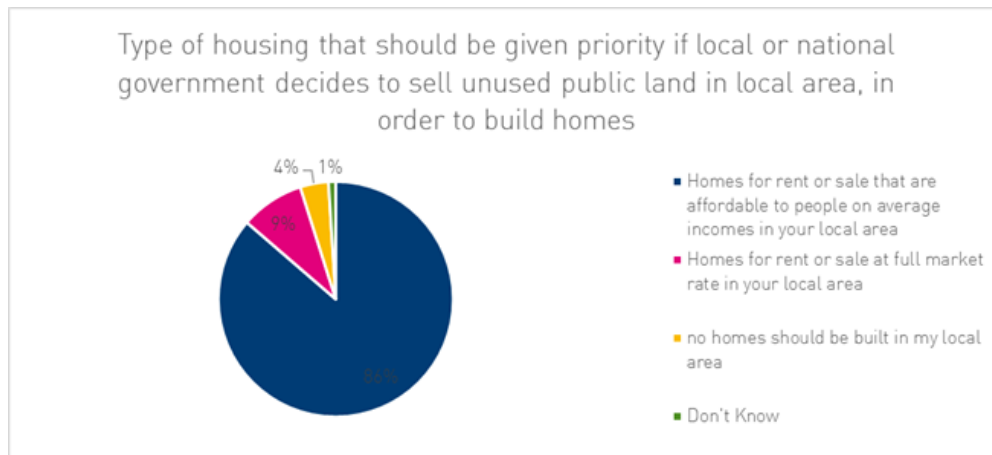
5. Conclusion

From research that we commissioned in 2016¹¹ we know that homes to rent from housing associations or local authorities, and housing that is affordable to people on average incomes, are considered by the public to be priorities. Government investment can help housing associations deliver a new generation of genuinely affordable, quality homes for rent and begin to meet this demand.



¹⁰ National Housing Federation, Supported and Sheltered Housing Survey, http://s3-eu-west-1.amazonaws.com/pub.housing.org.uk/Supported_and_sheltered_housing_survey_research_briefing.pdf

¹¹ NatCen, British Social Attitudes Survey 2016



We share the bold ambition of the Government to boost supply and foster inclusive growth. Our housing offer is one for people at every stage of their lives, and as such, we are working to restore the contract between the generations. Housing associations demonstrate the value of investing for the long-term, building not just homes, but great quality places and communities for people to live.

We believe that the proposals contained in this submission will help meet these goals through effective investment of public funds not in housing allowances but in a new generation of high quality genuinely affordable homes for everyone.

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