20,000 affordable homes target

Cabinet is invited to note:

- the Programme for Government has confirmed our target to deliver an additional 20,000 affordable homes during this term of government, including 6,000 homes supported under Help to Buy

- the broad approach to be taken to deliver this target and that it will involve a range of tenures and funding programmes in order to respond to as wide as possible a range of housing needs and aspirations

- the main risks and issues associated with the delivery of this target.

Background

1. Despite the clear benefits of building more homes Wales, like the rest of the UK, has for some time failed to keep pace with the current and projected demand for housing. The Public Policy Institute for Wales has published estimates of housing need and demand for Wales until 2031. Based on our official projections for the growth in the number of households, the report estimated that we need to build an additional 8,700 dwellings every year of which 3,500 would be social sector housing. Between 2011-12 and 2014-15 an average of 2,300 additional affordable homes have been delivered every year including around 1,900 by registered social landlords.

2. Building more homes delivers important benefits beyond simply putting a roof over people’s heads. Alongside the well documented health and education benefits that good quality housing provides for children and families, building houses of all tenures has a significant positive impact on the Welsh economy and on our communities. According to HM Treasury figures the housing sector creates 21 jobs for every £1 million invested in building homes and 32 jobs for every £1 million invested in maintaining existing housing. House building creates thousands of apprenticeships every year, provides wider regeneration in deprived areas and delivers benefits for and can transform whole communities.

3. Our failure as a nation to build sufficient homes is generating new pressures in the housing market. As we contemplate our housing programme for this term of government I want to propose that we should address these in the round. There will be a continuing need to provide social housing for rent for those unable to afford rents in the private rented sector. But I am also concerned that we should examine the powerful case for providing additional support for individuals and families in housing hot spots for whom home ownership will only become a realistic prospect given the right sort of incentive or public support. Evidence from the last twenty to thirty years suggest that the failure of successive governments to respond adequately to these needs and aspirations only serves to make the cost of owning or renting a home even less affordable over time. This in turn will tend to increase the pressures on government for even greater public
interventions in the longer term.

**Supporting a Variety of Housing Tenures**

4. I am proposing to make it clear that the Welsh Government’s housing supply policy moving forward will explicitly acknowledge our commitment to support a variety of housing tenures in order to respond to a wider range of housing needs. Whilst the delivery of additional social rented properties will remain our central priority I would expect the balance of the programme to shift towards a broader range of interventions by the end of this term. The Programme for Government makes it clear that our target of an additional 20,000 affordable homes already includes 6,000 which will be delivered under the Help to Buy Wales scheme. This reflects the success of that scheme in providing a route into more affordable home ownership, especially for first time buyers. It is also important to acknowledge the role Help to Buy has played in generating confidence within the housing sector and encouraging the commercial house builders to maintain their building programmes.

5. In addition to our continuing support for Help to Buy, the Programme for Government makes clear our commitment to develop a Rent to Own product. Officials have started work to identify the right delivery model for Welsh circumstances. I will ensure the scheme is principally targeted at working individuals and families on middle incomes who aspire to buy their own home and can afford to meet monthly payments, but are unable to save the deposit required to acquire a home in the normal way.

6. There are other possible schemes that may help people onto the property ladder and I am particularly anxious to examine what more might be done to support first time buyers. I have therefore asked my officials to consider other models which support home ownership, particularly in housing hotspots. I am also concerned that there is a shortage of well managed and maintained homes in the Private Rented Sector. We need to examine whether we can work with developers to bring forward projects offering high standards at below local market rent. Officials are currently considering options for incentivising developments of this nature. I am also proposing to support developments which deliver long term benefits to the health and social care systems through joint working with housing providers.

7. It is however important note that new schemes will tend to have significant lead in times and therefore only limited scope to deliver during this term of government.

**Innovation**

8. Alongside the need to focus on delivery of our numerical target it is also essential that our house building programme reflects a long term view as to the impact of new homes. We need to be even more concerned about the design, location and energy efficiency of new homes if we are to build successful and sustainable communities. Research has already been commissioned on new models of housing that will help us address some of the key challenges we face including
fuel poverty, carbon emissions and climate change. The report from the Welsh School of Architecture will be available this autumn and will help us determine what new models to support and the related costs, risks and opportunities. Further research on changing demographic pressures and on more flexible living standards is also being considered.

9. The emerging evidence suggests that these new designs of homes can cost more to build than traditional housing in the short term but do provide wider benefits particularly to the tenants in the form of lower running costs. Our planning assumption is that these costs should reduce in the medium to longer term as more developers adopt the new designs. Our estimates provide for 1,000 new design homes for this term of government recognising that most homes due to be built during the next two years will already have designs and planning consent agreed.

Delivering 20,000 affordable homes – building on our existing schemes

10. Even allowing for the inclusion of Help to Buy and the other schemes we are continuing to examine, delivering 20,000 affordable homes represents a considerable challenge. If we were to adopt a ‘business as usual’ approach to housing supply – based only on existing programmes and ways of working and current levels of funding – our new target would not be achievable. Equally, we would also face significant delivery risks were we to move immediately to new delivery models which are untested. It is therefore my intention to work with our housing partners to build a balanced programme for the delivery of this target which builds on the strengths of our current Social Housing Grant programme whilst progressively opening up support for new modes of delivery and a wider range of housing tenures including routes into homeownership.

11. Historically the most successful way of delivering affordable homes has been through our main Social Housing Grant (SHG) programme which delivers homes for the most vulnerable and in housing need. This delivers social and intermediate rented homes for people who cannot afford market rent levels or to purchase their own homes. It relies on collaborative working with Registered Social Landlords (RSLs) and local authorities and was the principal contributor to the achievement of the target of 10,000 homes in the previous administration. The housing sector responded well to our decision to regularly allocate additional funding above the baseline budget for housing in each of the last five years.

12. The Cabinet Secretary for Finance has ensured that we will as planned be able to expand the Housing Finance Grant (HFG) scheme under which RSLs borrow 100% of the cost of building new homes upfront, then repay this over 30 years. From April 2017 the SHG and HFG schemes will be combined for programme planning purposes, which will optimise available grant funding and sector capacity.

13. I am also proposing that The Welsh Housing Partnership, a partnership of housing associations in Wales, will contribute to the achievement of the target, as it did in the previous administration. The Partnership purchases properties and then leases them back to individual associations for a period of ten years.
Working with partners

14. Ultimately the Welsh Government does not build any houses. We rely on the strong relationships we have with Registered Social Landlords (RSLs), Local Authorities and commercial house builders. We must maintain and strengthen these relationships if this target is going to be achieved.

15. In the previous administration the achievement of the target to build 10,000 affordable homes was greatly supported by a Pact with Community Housing Cymru. For this administration I am intending to negotiate a tripartite Pact with Community Housing Cymru and the Welsh Local Government Association (WLGA) to support the achievement of the new target. I am very pleased with the progress we have made to date and particularly with the WLGA’s involvement this time, which shows the willingness of the wider housing sector to work with us.

16. The eleven stock-retaining Local Authorities are starting to consider their own build programmes, and I will be providing additional funding to these in order to support their development activities. Local Authorities need to develop their capacity and capability to build again and this will take some time. We will be working with these authorities to understand some of the barriers they face and to identify how best we might support their build programmes. We expect them to collectively deliver a minimum of 500 properties in this term of government.

Working with housing developers

17. The majority of new homes in Wales and elsewhere are built by the commercial house builders. Housing developers also make a significant contribution to the delivery of affordable housing through their Section 106 obligations.

18. The Help to Buy scheme has been a real success. It is popular with house builders and has had a significant positive impact on the housing sector, with developers reporting high numbers of properties on larger sites being sold using the scheme. We have recently signed contracts for Phase II of the scheme, which will see £290 million invested until 2021.

19. Whilst the market housing sector is likely to welcome our comprehensive approach towards building more homes, I will be working with the Cabinet Secretary for Environment and Rural Affairs to make sure that house builders understand that homes built with support from Help to Buy will not be included in the technical definition of affordable housing used for Planning purposes. The requirement placed on developers (through section 106 of the Town and Country Planning Act 1990 planning obligations) that a certain proportion of any development should comprise affordable housing will continue to be a matter to be agreed with local authorities.

20. A positive environment for house building in general will support the achievement of the target, delivering affordable housing through the planning system and units sold utilising Help to Buy. I will continue to engage with developers through the House Builder Engagement Programme, and will work closely with them to ensure Wales remains an attractive place to build homes, particularly supporting
the SME sector. Supporting the success of market housing will also support the achievement of this target and I will want to underline that whilst our commitment to supporting affordable homes is clear we continue to recognise the importance of building more homes for sale and recognise the contribution which clear action by government can make to support this.

Key enablers for house building

21. The planning system will continue to be a key enabler to ensure the right homes are built in the right places to meet housing need. We must continue to emphasise the need to ensure a sustainable 5 year land supply through Local Development Plans. I will continue to work with the Cabinet Secretary for the Environment and Rural Affairs to ensure that our housing and planning policies are aligned as effectively as possible to encourage new house building.

22. Making more land available for development is also a key enabler for house building. I will want to continue to explore how we might increase the availability of publicly owned land to support this wider agenda. Housing officials are working across government and with local authorities to better identify their land holdings. And I look forward to the outcome of the pilot project aimed at promoting greater integration on the land agenda currently underway in Rhondda Cynon Taf.

Risks to achieving the target

23. Inevitably there are risks to achieving this target. It is an ambitious ‘ask’ of partners, relies on the success of multiple schemes and needs new programmes to begin quickly. Some of the key risks include:

- New schemes and models of delivery take a certain amount of time to develop and implement before they reach the point where they deliver homes people can live in. As a result, these new schemes are unlikely to become established much in advance of the last two years of this administration. This will put pressure on their ability to deliver substantial numbers of housing units during the current term.

- Welfare reforms introduced by the UK Government continue to pose a real challenge for social landlords as well as those who are directly affected. The scale of those reforms is generating real hardship in our communities. But the nature of the reforms has also introduced significant uncertainty into RSL business models. Whilst we are not responsible for welfare policy, we will continue to do what we can to provide social landlords with a solid basis on which to plan what are typically 30 year investments.

- The RSLs ability to plan will also be influenced by our decisions on social rent levels. We will provide what clarity we can in this area but because of the link between rents and housing benefit policy this is an area where DWP and HM Treasury will also influence outcomes.

- The housing sector is also vulnerable to changes in the wider economy, which are beyond our control. If there is economic instability this can impact the behaviour of developers, mortgage lenders and house buyers. Schemes that are demand led, such as Help to Buy and Rent to Own, are
difficult to influence unless there is a broad degree of confidence both amongst house builders and prospective purchasers.

24. Despite these risks, there is a strong commitment from the housing sector to help the Welsh Government achieve this target and a real appetite to embrace new ways of doing things. With the level of resource which is proposed by the Finance Minister, I am confident that our collaborative approach and the range of programmes available mean this target can be achieved.

Impact

Wellbeing of Future Generations Act

25. The delivery of housing contributes to the achievement of six of the seven well-being goals provided by the Well-being of Future Generations (Wales) Act 2015 at a population level:

- a prosperous Wales;
- a resilient Wales;
- a healthier Wales;
- a more equal Wales;
- a Wales of cohesive communities
- a Wales of vibrant culture and thriving Welsh language.

26. The housing sector is a key driver for the Welsh economy, supporting thousands of jobs, training opportunities and apprenticeships. Good quality housing is directly linked to improved education and health outcomes. Through engagement with local authorities and communities house building activity delivers new infrastructure in roads and schools as well as new homes. Constructing homes provides social and economic support to the area through local employment and opportunities to local SMEs.

Welsh Language Standards

27. This advice raises no issues regarding the Welsh language. As such, no guidance has been sought from the Welsh Language Unit.

Equality and Human Rights

28. Equality and Human Rights have been considered and there are no issues identified at this point.

Tackling Poverty

29. There is a clear link between tackling poverty and housing. Housing supports the Tackling Poverty agenda by supporting the provision of affordable and subsidised homes which also promotes the creation of local jobs and training opportunities.

United Nations Convention on the Rights of the Child (UNCRC)
30. Officials have considered the advice set out and can confirm there are no issues relating to children’s rights (UNCRC) and there are no direct implications relating to Equality and Human Rights.

**Finance Requirements and Governance Implications**

33. Given the variety of delivery models I am proposing and the long lead in times there is a necessarily complicated relationship between the funding made available to support housing projects and the outcomes that achieves. In modelling our ability to deliver against the target we have therefore had to make assumptions as to the unit costs associated with different modes of delivery. We are making no allowance for inflation in the construction industry and delivery will therefore be dependent on identifying efficiency savings over the period of this programme.

34. Our initial planning assumptions regarding the contribution to be made by individual schemes include the levels of affordable homes we expect to generate without grant - underlining the importance of developing an agreed approach with providers. We will also be applying the ‘tail in tail out’ principle whereby units funded during the last term of government which reach completion during the current term are counted towards the target. This includes some 800 homes supported through the current Vibrant and Viable Places programme. Set against this, funding paid out in the final year of this term will contribute towards performance in the next term of government.

35. At this stage of our planning any forecasts for individual schemes will have a considerable degree of uncertainty associated with them. Given the level of capital funding the Cabinet Secretary for Finance and Local Government is proposing we should invest in the programme as a whole I am however confident that we can build a programme which delivers against the target. And as our delivery plans and budget calculations evolve I will be pleased to report to Cabinet on the shape of this plan as it evolves as well as on our performance against the target.

36. Additional funding has been prioritised for housing in the capital planning work and reflected in the allocations that were agreed at Cabinet on 20 September. It was also agreed that elements of this funding be held centrally and allocated in future budget rounds when the delivery model and profile has been firmed up.

37. We are continuing to analyse the staffing requirement associated with the development of additional housing delivery programmes. These will however be funded from within planned staffing baseline levels supplemented as necessary with programme funding from within the Communities and Children MEG. I will also be considering the programme governance arrangements appropriate for an ambitious and multi-faceted programme of this nature and will expect to agree that structure with the Cabinet Secretary for Finance and Local Government in due course.

38. The EPS Operations Team is content this MA complies with Interim Finance Notice 01/2015 (EPS/CS/0126/16). The paper has been cleared by Strategic
Budgeting. Ref: SB0040/5.

**Research and / or Statistics**

39. The programme projections set out in this paper have been shared with colleagues in Knowledge & Analytical Services.

**Communications and publication**

40. An Oral Statement is planned for 1 November, when I will set out the key parameters underpinning the achievement of our revised target. I am also hoping on that occasion to be able to announce the tripartite pact with CHC and the WLGA.

**Recommendation:**
Cabinet is being asked to note the approach being taken to achieve 20,000 affordable homes.

**Joined up Working**

41. This paper has been shared with Planning Division, Knowledge and Analytical Services and Legal Services.

Carl Sargeant AM
Cabinet Secretary for Communities and Children
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