

Independent Review of Affordable Housing Supply

Final Report

April 2019



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Chair's foreword

Dear Minister

I was delighted in April last year to have been asked by the then Minister for Housing and Regeneration, Rebecca Evans AM, to lead this Independent Review of Affordable Housing Supply for Wales.

It is clear that there is a real appetite to consider what more can be done to better respond to a range of housing needs, and I am pleased to have been asked to contribute to this work.



The Panel has recognised from the outset that increasing affordable housing supply is not just about the number of homes. Throughout our work we have explored, with the housing sector, the options for increasing the supply of quality affordable homes, whilst balancing the continuing pressures on the public expenditure available to support house building. We have considered housing quality standards, a sustainable rent policy and the skills and capacity across the sector to deliver more affordable homes.

The Welsh Government's 'Prosperity for All: the national strategy' recognises that the bedrock of living well is a good quality affordable home. However, to increase the scale and pace of affordable housing delivery will require change from across the sector. The status quo is simply not sustainable.

The Panel has had a little under a year to step up to the challenge to develop an evidence based review. The review's remit is exceptionally broad, but intentionally so, as we felt, as a Panel, that it was fundamental that the review took a holistic approach. To consider areas in isolation would undermine the validity of the exercise and not result in the radical change needed in some areas.

This has been a resource intensive and very challenging piece of work for all those involved, but I've been really encouraged by level of interest and enthusiasm in this review at every stage.

I am very grateful to all of the Panel members for the conscientious and constructive way they have undertaken their responsibilities. I would also like to express our thanks to the staff at Welsh Government who have supported the Panel. Finally, I extend our thanks to the housing sector and key stakeholders for their involvement, productive input and responses.

The Panel are pleased to present our final report and recommendations to you.

Yours sincerely

A handwritten signature in blue ink that reads "Lynn Pamment". The signature is written in a cursive, flowing style.

Lynn Pamment, Chair of the Independent Review of Affordable Housing Supply

Who we are

The Panel was made up of six members who have brought real insight into housing supply issues and solutions, and who collectively have offered a strong cross-section of skills and expertise across a breadth of areas.



Lynn Pamment joined PricewaterhouseCoopers (PwC) after graduating from Cardiff University. She is a fellow of the Institute of Chartered Accountants in England and Wales and a member of the Chartered Institute of Public Finance and Accountancy. Lynn is the senior partner at PwC’s Cardiff Office where she leads their Public Services Assurance and Advisory practice supporting a range of clients across central government, local government, health, education and housing in Wales and England. Lynn was on the Cardiff Capital Region Transition Board and has held non-executive positions within the housing sector in Wales.

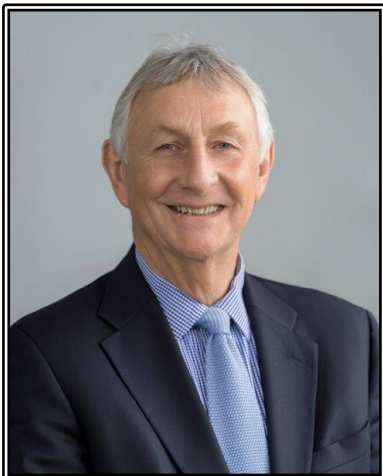
Helen Collins leads Savills Affordable Housing Consultancy team. The team provides a range of strategic and property consultancy advice to housing associations, local authorities, investors and developers. Helen’s housing career spans 30 years working in consultancy, for housing associations and for a volume developer. She specialises in public private sector initiatives for housing supply, and in asset optimisation. Helen is a Fellow and former President of the Chartered Institute of Housing and a Professional Member of the RICS.





Phil Jenkins has over 20 years of investment banking and advisory experience across derivatives, commercial banking, structuring and debt capital markets and is a founding shareholder and Managing Director of Centrus, which is the UK and Ireland's leading corporate finance advisor to the affordable housing sector, alongside its activities in a range of other essential service industries such as water, energy, infrastructure and transportation. Phil has advised many of the UK's largest housing providers and has played a leading role in a number of key market developments in the financing of affordable housing.

Professor Kevin Morgan is Professor of Governance and Development in the School of Geography and Planning at Cardiff University where he is also the Dean of Engagement. His research interests include: place-based innovation policy, multi-level governance, urban and regional development and local regeneration. To date his research has been supported by the ESRC (Economic and Social Research Council) as well as by the British Academy; European Commission; the Bill and Melinda Gates Foundation/World Food Programme; Joseph Rowntree Foundation; OECD; Plunkett Foundation, and by the Welsh Government, Basque Government, and regional development agencies in and beyond the UK.



Dr Peter Williams is attached to the Department of Land Economy at the University of Cambridge. After a long career in academia, housing and financial services he is an independent consultant on housing and mortgage markets and housing policy and a non-executive Director of Vida Home Loans Ltd. Peter was previously Director of the Cambridge Centre for Housing and Planning Research, Professor of Housing at Cardiff University and Deputy Director General of the Council of Mortgage Lenders. He served on the Boards of the Housing Corporation, Housing for Wales/Tai Cymru and Thames Valley Housing Association and was on the Welsh Government's Affordable Housing Task and Finish Group, which reported in 2008.

Dr Roisin Willmott OBE FRTPI is the Director for the Royal Town Planning Institute and her principle role is ensuring there are services in place for planners based in Wales and NI and for leading on RTPI work regarding planning policy in the two jurisdictions. Roisin has been a Chartered Town Planner since 1994 and she was elected as Fellow of the RTPI in 2016. Prior to joining the RTPI, her career has involved positions in local government, Further Education and private consultancy. Roisin was awarded an OBE for Services to Planning in Wales in 2017.



Summary of key recommendations

Understanding housing need

1. The Welsh Government should mandate local authorities to provide Local Housing Market Assessments (LHMAs) based on a consistent timetable, data and methodology across housing tenures. LHMAs should be refreshed every two years and rewritten every five years, and submitted to the Welsh Government. Jointly commissioned LHMAs should also be explored.
2. The Welsh Government statistical service should work with local authorities to agree data sets for use in the LHMA, Local Development Plan (LDP) and other housing requirements work.

Housing quality standards

3. The Welsh Government should develop new consolidated and simplified standards for new build grant funded and S106 homes. The new standards should be easier to use and should not have conflicting requirements. The new standards should concentrate on minimum space standards, including storage inside and outside.
4. The Welsh Government should introduce a requirement for all new affordable homes to be near zero carbon / EPC 'A' using a fabric first approach from 2021, supplemented by technology (renewables) if required.
5. The Welsh Government should set a longer term goal of 2025 at the latest to have the same standards for all homes irrespective of tenure.

Modern Methods of Construction

6. The Welsh Government should continue to support the trialling of Modern Methods of Construction (MMC) to help establish which methods can contribute to the objective of increasing the scale and pace of affordable housing provision with the existing resources available.
7. The Welsh Government should develop a strategy to map out how Wales could further use off-site manufacturing (OSM) and MMC to deliver near zero carbon homes along with an appropriate timetable for achieving this.

Rent policy

8. The Welsh Government should implement a five year rent policy from 2020-21, providing stability for tenants and landlords.
9. Further flexibilities should be introduced into the Welsh Government's rent formula regime in relation to bungalows (a higher upward differential) in order to better differentiate them from flats and the locational index (a limit on annual adjustment) in line with the recommendations of the Heriot Watt report.

10. There should be a focus on landlords considering Value for Money (VfM) alongside affordability. An explicit annual assessment on cost efficiencies should be part of the rationale for justifying any rent increase.

Local Authorities as enablers and builders

11. The Welsh Government should encourage local authorities (LAs) to use the flexibilities that the lifting of the borrowing cap creates to support delivery of new affordable housing supply. Where appropriate, LAs should have the freedom and flexibility to access grant from the Welsh Government direct or through wholly owned Local Housing Company structures.
12. The Welsh Government should encourage LAs and housing associations (HAs) to work in partnership to share skills, capacity and resources, and work collectively, through local and regional procurement frameworks, to support local supply chains.

Public sector land

13. An arms-length body should be established by the Welsh Government to act as a hub for public sector land management and professional services. This body should work alongside individual departments / bodies to provide capacity and resources to accelerate development of public land assets and to support greater consistency and efficiency in managing those assets.
14. The Welsh Government should mandate the mapping of all public land and require owners to publish the development potential for the land they own.

Financing affordable housing

15. The Welsh Government should reform grant funding to introduce a new flexible long term five year Affordable Housing Supply Partnerships model which combines grant funding certainty and flexibility whilst testing grant VfM. The new funding model should be based on principles of fairness, quality, and grant VfM transparency.
16. A number of current funding pots should be consolidated to focus capital and revenue funding on core tenures determined nationally reflecting needs assessments at national, regional and local levels.
17. The new model should test the contribution of private finance and alternative finance models to stretch grant resources to maximise output and demonstrate grant VfM.
18. The new grant system should consider the use of both grant and equity funding interchangeably within the overall capital investment pot, in order to facilitate both new and existing financing models which are capable of demonstrating the necessary regulatory oversight required for public investment.
19. Further consideration should be given to the need for a housing infrastructure and regeneration fund to sit alongside the main grant programme to unlock larger more complex sites.

20. Access to grant and equity funding should be made available to Local Authorities able to contribute low cost finance to deliver grant VfM.

Dowry and Major Repairs Allowance

21. The Welsh Government should commission an independent financial review of the Welsh Large Scale Voluntary Transfers (LSVTs) in receipt of Dowry and the Housing Revenue Accounts of local authorities in receipt of MRA. The Review should scrutinise business plans post the achievement of Welsh Housing Quality Standard (WHQS) in 2020, including financial metrics together with cost KPIs to examine whether continued receipt of Dowry / MRA on a rolling 5 yearly review period basis can be justified.

22. LSVTs and local authorities should be required to demonstrate an accelerated programme of decarbonisation of existing homes in return for an ongoing commitment to Dowry and MRA.

Introduction and engagement

Having access to a secure and quality home is considered to be the ‘bedrock’ of people’s lives. However, providing a warm safe home is about far more than simply ensuring that we have a roof over our heads.

There has long been recognition of the significant role that appropriate housing can play in improving society and the economy, for example, contributing to good physical and mental health¹ and increasing educational attainment. Increasing the supply of housing to meet need across all tenures is therefore critical in these and other ways. Increasing the supply of affordable homes can help reduce homelessness and poverty. Furthermore, affordable housing provision provides people who cannot afford market housing to access adequate and suitable accommodation.

The Independent Review Panel were established in May 2018 by the then Minister for Housing and Regeneration, Rebecca Evans AM, following the announcement of the Review and the Review Chair at the end of April 2018.

The purpose of the review was to examine current arrangements supporting the development of affordable housing and to make recommendations for changes designed to increase supply and improve delivery from the resources available. In doing so, the Panel were tasked with:

- Examining the scope for increasing matching sources of finance and stimulating competition, together with the implications of that for grant intervention rates;
- Examining how partnership working is currently governed between local authorities and housing associations, together with wider more extensive collaboration, and recommend how relationships can be maximised to deliver on housing supply ambitions;
- Evaluating the impact of moving to deliver zero carbon homes by 2020 including the role of off-site manufacture and modern methods of construction;
- Providing advice on whether there should be changes to the standards governing the design and quality of affordable housing;
- Making recommendations on how a sustainable rent policy can help determine long term affordability for tenants and the viability of existing and new housing developments; and
- Advising on how the development capacity in LSVTs and stock-holding local authorities can be maximised especially after 2020 when all existing stock meets the WHQS.

The Panel’s recommendations are also designed to ensure that patterns of development help to build sustainable communities as well as responding efficiently and effectively to housing need.

For the purpose of this review, the Panel decided that ‘affordable housing’ would be defined in the context of TAN 2 (Technical Advice Notice 2) i.e. social rented housing and intermediate housing (where prices or rents are above those of social rented

¹ See for example the recent report on housing and mental health in wales issued by CACHE:
<https://housingevidence.ac.uk/publications/housing-insecurity-and-mental-health-an-evidence-review/>

housing but below market housing prices or rents, this can include equity sharing schemes), **plus** Help to Buy and Rent to Own. It also included any low cost home ownership scheme, which makes housing more accessible and affordable to households with insufficient income to access market housing.

The Panel has engaged extensively with the wide range of housing sector organisations involved in the delivery of affordable housing in order to inform the review and its recommendations. It was important to try and ensure that there was a means for all those who wished to make a contribution to the discussion to do so. Appendix A provides details of the Panel's engagement.

The recommendations of the review will impact on a wide variety of stakeholders and was always expected to challenge those involved. Therefore in order to fully examine current arrangements supporting the development of affordable housing, the Panel used a range of stakeholder engagement methods.

The work of the Panel was supported by ten work streams whose membership included staff from local authorities and housing associations alongside other experts. The work streams helped the Panel examine issues and opportunities that would support an increase in the supply of affordable housing. The work streams were not conducted in isolation. Panel members, Welsh Government officials and indeed work stream members that sat on more than one group, all ensured information on emerging thoughts and themes were shared. This has served to ensure that emerging recommendations across the review were joined up and that the Panel has been able to develop a coherent set of recommendations. The ten work streams were:

1. Understanding housing need
2. Grant allocation and intervention rates
3. Rent policy
4. Standards / Development Quality Requirements (DQR)
5. Local Authority building
6. Construction supply chain including modern methods of construction
7. Public sector land
8. Capacity of public sector and Registered Social Landlords (RSLs)
9. Use of existing powers
10. Leveraging the investment potential in stock transfer and Local Authority (LA) organisations

The Panel also issued a formal 'call for evidence' in July 2018, which generated a fantastic response with 62 responses received, equating to 200 individuals and organisations contributing to the review's work. Appendix B lists the Call for Evidence Responses.

The Panel held meetings around Wales and heard evidence from a diverse range of organisations including housing associations, local authorities, builders and planners. The Panel worked with TPAS Cymru (previously known as Tenant Participation Advisory Service) to obtain insight into tenant views and were really pleased to engage directly with tenants at the TPAS conference held in Mid Wales in November 2018. In addition, the Panel engaged with the 'End Youth Homelessness Cymru' project to obtain young people's views and experiences of rents and housing affordability and were really pleased to hear the evidence from and views of young people. The Panel has also sought to collaborate with other relevant work being

carried out, such as the Decarbonisation Advisory Group review, Digital Innovation review and the Office for the Well-being of Future Generations. Appendix C provides an overview of the Review's recommendations in relation to the Well-being of Future Generations Act's five Ways of Working and seven Well-being Goals.

The Panel was also well aware of the many wider agendas which the review touched upon including other programmes and initiatives which this review could be linked to, including public land, planning and modern methods of construction. Where appropriate, the Panel has sought to collaborate with other relevant work being carried out.

The Panel has ensured representation from the varied stakeholders at each stage to draw on the expertise which exists, and encouraged meaningful debate. At all times the focus of work has been on identifying the key things that may contribute to a significant increase in the supply of affordable homes in Wales.

Our vision for affordable housing in Wales

Through its meetings and discussions the Panel has been able to develop a view on how to make better use of existing resources in order to increase genuinely affordable housing output, enhance standards and improve value for money. There were a number of elements to our thinking on how to achieve this:

- The Panel was acutely conscious of how housing in general, and affordable housing in particular, contributes to other social and economic priorities in Wales, including health, education, employment, social cohesion, environment, future generations and opportunity. Good housing is inextricably linked to all of these.
- It was evident that the focus on annual funding (grant/rent policy) decisions and the planning that flowed from this have a limiting effect on the capacity to maximise output from the investments being made whether from public or private sources. The Panel has recommended that the affordable housing regime adopt longer term horizons bringing greater certainty to the system and enhancing the opportunities for more efficient and effective supply planning, expenditure and processes.
- Throughout its work, the Panel has put affordability high on the agenda alongside increased output and achieving an appropriate balance between the interests of tenants and providers. Amongst other things, the five year rent policy proposals will enable providers to use the flexibilities offered to deliver improved affordability to tenants.
- A move to longer term horizons will provide a better framework for collaboration between providers, local authorities and the Welsh Government, which in turn will undoubtedly contribute to doing more with the same resource.
- The Panel recognised the opportunities that the lifting of the local authority borrowing cap creates for the provision of more affordable housing. In order to maximise this potential there will be a need for local authorities to pool skills and capacity more effectively with each other and with housing association partners.
- The Panel considered that a new grant framework can deliver more affordable housing to appropriate quality standards. The five year grant partnership programme proposed is ground breaking and has the potential to deliver better grant value for money supported by delivery partner operating efficiency, greater collaboration and better and more efficient procurement.
- To this end, the Panel also felt that consolidating and simplifying the number of funding programmes with all the additional demands they impose on providers and the Welsh Government and allowing more flexibility within core programmes would help enhance the potential for real innovation and better integrate local needs assessment and planned provision.
- The Panel recognised the importance of land owned by the public sector in delivering sites for new affordable housing. Pooling skills and resources

effectively to bring forward public sector land for development will be an important factor in increasing the pace and scale of affordable housing delivery.

- The recommendations that flow from the work of the Panel reflect this thinking. The report highlights the key recommendations in the blue boxes but alongside these are a number of additional recommendations that the Panel think also require attention.
- The Panel recognises that the review has set out a large number of recommendations with wide ranging implications for housing in Wales.
- There is a lot to consider in this report and clearly there will be a programme of work including consultations that might flow from any recommendations adopted by the Welsh Government.
- The Panel is acutely aware of the workloads this might generate, for Welsh Government officials, local authorities and housing associations. If this reform programme is to be delivered it is essential that an investment is made up front in order that the agenda can move forward at pace and deliver more of the affordable homes Wales needs.
- The Panel recognises that if the Welsh Government wish to attempt to meet all unmet housing need in Wales, this will require greater investment beyond the existing levels of public subsidy.
- In making recommendations, the Panel has considered the likely costs of implementation against the benefits that will flow from implementation. It is the view of the Panel that the benefits that will be delivered from implementing the recommendations outweigh the upfront transitional costs that will be required.

Understanding Housing Need

Key Recommendations:

- The Welsh Government should mandate local authorities to provide Local Housing Market assessments (LHMAs) based on a consistent timetable, data and methodology across housing tenures. LHMAs should be refreshed every two years and rewritten every five years, and submitted to the Welsh Government. Jointly commissioned LHMAs should also be explored.
- The Welsh Government statistical service should work with local authorities to agree data sets for use in the LHMA, Local Development Plan (LDP) and other housing requirements work.

Introduction

The basis of good housing policy and decisions regarding affordable housing supply stems from the best possible data on housing need and demand. This runs through a number of the Panel's work streams, not least when we consider grant allocation and rates.

Background

In recent years a number of need assessments have been undertaken for Wales². Two were commissioned by external agencies such as the Joseph Rowntree Foundation (JRF) and one by the Welsh Government itself. The Welsh Government has now further recognised the importance of such assessments within the National Development Framework, as contribution to housing policy and as vital information for meeting the ambitions of the Well-being of Future Generations (Wales) Act. Recently the Welsh Government published estimates of housing need at national and regional level in Wales based on 2014 based household projections and will produce estimates of housing demand by tenure later in the Spring³. These estimates are part

² These include Glen Bramley's affordability based model for the then Council of Welsh Districts in 1991 (*Bridging the Affordability Gap in Wales*), the first of the housing need and demand assessments for Wales undertaken by the late Alan Holmans in 1996, followed by subsequent reports in 2010 and 2015 (1996: Housing Need and Demand in Wales 1991-2001, 2010: *Housing Need and Demand in Wales 2006 to 2026*, Welsh Assembly Government, 2015: *Future Need and Demand for Housing in Wales*, PPIW). Most recently, Crisis and the National Housing Federation in England sponsored a report on housing supply requirements across Great Britain for low income and homeless households (*Housing supply requirements across Britain: for low income households and homeless people*). The report suggests that Wales needs 14,000 new homes per annum of which 4,000 should be social rent, 1,500 intermediate rent and 1,500 shared ownership².

³ Statistics for Wales (2019) *Estimates of Housing Need in Wales at a National and Regional Level* (2018 based). Its central projections are some 2,000 homes higher than current new build estimates. The 5,600 backlog element in the estimates is assumed to be met over 5 years, roughly 1,000 a year. The backlog includes homeless households in temporary accommodation (2,100) and those households that are concealed *and* overcrowded (3,500) but does not cover other concealed households - or sharing households. The recent *Welsh Homelessness Monitor 2017* suggests there were 120,000 single people in concealed households, plus 13,000 lone parents and total sharing households were estimated at 30,000. These figures contrast sharply with the estimates in this report which on the more limited assumptions are 3,500.

of on-going work in which a Scottish Government developed needs model has been adapted for the Welsh context.

Local authorities are required by statute to produce LHMA reports and Table 1 below gives the latest LHMA reports found online for each authority in Wales and subsequently confirmed by the authorities. A review of these documents suggests;

- LHMA reports focus on estimates of need for affordable housing. Very few present estimates of need for market housing but these are included where available;
- Some estimates are not published explicitly in an LHMA report but in a wider housing strategy. A different methodology may have been used;
- Some LHMA reports present estimates of intermediate rent and low cost home ownership (LCHO) separately, some combine the two under “intermediate” and for others it is not clear;
- The LHMA figures will always be different than national estimates derived using a different methodologies and models. The LHMA data is derived locally and can be used to challenge those national estimates broken down by authority to arrive at an agreed position.

Table 1: Local Housing Market Assessments – Current Picture in 2019

Local Authority	Date of Update	Links
Isle of Anglesey	2016	https://www.anglesey.gov.uk/documents/Docs-en/Housing/Housing-Strategy/Local-Housing-Market-Assessment-Update.pdf
Gwynedd	2018	https://www.gwynedd.llyw.cymru/en/Council/Documents---Council/Strategies-and-policies/Environment-and-planning/Planning-policy/Supporting-documents/DC.026-Gwynedd-Draft-Local-Housing-Market-Assessment-2013.pdf
Conwy	2018	http://www.conwy.gov.uk/en/Resident/Housing/Information-for-Developers/Assets/Documents/LHMA-files-2017/Local-Housing-Market-Assessment-Full-Report.pdf
Denbighshire	2019	https://www.denbighshire.gov.uk/en/resident/planning-and-building-regulations/local-development-plan/ldp-evidence-monitoring-information/local-housing-market-assessment.pdf
Flintshire	2015	https://www.flintshire.gov.uk/en/PDFFiles/Planning/Flintshire-Local-Housing-Market-Assessment.pdf
Wrexham	2015	https://www.wrexham.gov.uk/assets/pdfs/planning/ldp2/march_2015/local_housing_needs_assessment.pdf
Powys	2014	https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=2ahUKewjyINji-7jgAhV1SBUIHcYiBagQFjAAegQICRAC&url=https%3A%2F%2Fen.powys.gov.uk%2Fmedia%2F5862%2FLocal-Housing-Market-Assessment-Update-2014%2Fpdf%2FLocal_Housing_Market_Assessment_Update_2014.pdf%3Fm%3D1538146629423&usq=AOvVaw3HRNBV5IFiQtg0fQPXr4Hn
Ceredigion	2018	https://www.ceredigion.gov.uk/media/4509/housing-for-all-eredigion-local-housing-strategy-2018-2023.pdf
Pembrokeshire	2014	https://www.pembrokeshire.gov.uk/adopted-local-development-plan/implementation-and-monitoring
Carmarthenshire	2016	https://www.carmarthenshire.gov.wales/media/1213902/affordable-homes-delivery-plan.pdf
Swansea	2015	Local Housing Market Assessment (Update) 2015 (PDF, 634KB)Opens new window 2017 Review of Swansea Local Development Plan Growth Strategy and Evidence Base (July 2017) (PDF, 3MB)Opens new window
Neath Port Talbot	2013	http://www.npt.gov.uk/PDF/ldp_local_housing_market_assessment_august_2013.pdf

Bridgend	2012	https://www.bridgend.gov.uk/media/2078/sd138.pdf
Vale of Glamorgan	2017	https://www.valeofglamorgan.gov.uk/Documents/Committee%20Reports/Cabinet/2018/18-04-30/Appendices/Updated-Local-Housing-Market-Assessment-2017-300418-Appendix.pdf
Cardiff	2015	https://foi.cardiff.gov.uk/eng/Documents/FOI11172/FOI11172%20Attachment.pdf
Rhondda Cynon Taf	2017/18	https://www.rctcbc.gov.uk/EN/Resident/Housing/RelatedDocuments/LocalHousingMarketAssessmentSummaryReport.pdf
Merthyr Tydfil	2014	https://www.merthyr.gov.uk/media/1596/merthyr-tydfil-lmha-2014.pdf
Caerphilly	2015	https://www.caerphilly.gov.uk/CaerphillyDocs/Housing/LHMA/LocalHousingMarketAssessmentApr2015.aspx
Blaenau Gwent	2007	No link available *
Torfaen	2017	https://www.torfaen.gov.uk/en/News/Related-Documents/Local-Housing-Market-Assessment-June-2015.pdf
Monmouthshire	2018	https://www.monmouthshire.gov.uk/app/uploads/2013/06/150707-Corrected-Final-Report-PDF.pdf
Newport	2019	http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=2ahUKewilq_PJ87jgAhXnUxUIHe7JBLkQFjABegQICRAC&url=http%3A%2F%2Fwww.newport.gov.uk%2Fdocuments%2FPlanning-Documents%2FLDP-2011-2026%2FLHMA---Final-Version.doc&usq=AOvVaw3iPAnaLNA60JZ2vXFXR1PV

* New study commissioned in 2018

The new Welsh Government central estimate produced suggests that on average 8,300 new homes of all types and tenures are needed annually for Wales for the next 5 years. This includes an average of 1,100 homes annually to clear the existing backlog of unmet need. Over the next 15 years, assuming the projected slowdown in household growth is maintained, the numbers required fall and by the mid-2030s the central estimate is under 4,000 homes per annum. We are currently awaiting the production of the data splitting these requirements by tenure. The Holmans 2015 report work suggested that over the period 2011 to 2031, there was need for 8,700 new homes each year, with 5,200 of these in the market sector and 3,500 in the social sector⁴. In 2017/18, 5,465 market homes were completed and 1,198 social homes⁵, a total of 6,663⁶.

The Panel's work

The Panel set out to consider how we can improve our understanding of exactly how many homes are needed across Wales, in which geographical areas and in what tenures. This was seen as an essential building block for the overall review. The Panel's call for evidence produced a number of responses on this topic – the core of which might be summarised as follows;

- The housing needs in Wales are not being fully met;

⁴ See <http://ppiwi.org.uk/ppiw-report-publication-future-need-and-demand-for-housing-in-wales/>

⁵ Annual figures from the Affordable Housing Provision collection show that in 2017-18 2,316 additional affordable housing units were delivered and of these 1,946 (84%) were delivered by RSLs however, these figures cover all additional affordable housing units, whether through new build, purchase, acquisition, leasing or conversion of existing dwellings. <https://statswales.gov.wales/Catalogue/Housing/Affordable-Housing/Provision/additionalaffordablehousingprovision-by-provider-housingtype>

⁶ See <https://statswales.gov.wales/Catalogue/Housing/New-House-Building/newdwellingscompleted-by-period-tenure>

- There were differing views on the need for national projections of housing need / demand, with some for and others against this. Regardless, local knowledge is deemed as vital; and
- The LHMA's are seen as important in identifying the local dimensions of need, but their use, currency and quality varies across Wales and needed improving as shown in Table 1.

An existing technical housing need group made up of representatives from local authorities, and the Welsh Local Government Association (WLGA) together with housing, planning and knowledge and analytical services officials from the Welsh Government continued to meet with the addition of review Panel members. Its recent meetings concentrated on looking at what tool / model would provide the best option for estimating future housing need and demand in Wales. In addition, as part of the review, a housing need policy work stream was established to look at this work area. It included members of the technical group along with house builders and housing associations. The Panel also met with tenants and young people.

The work groups largely agreed with the views set out above, particularly around LHMA's, as well as the necessity for grant allocation to be linked to need and demand at a local level. They also commented on the poor quality of data and its use in the formulation of policy at both a local and national level and the need for the Welsh Government to take steps to improve the quality of data sources.

Towards a new framework for housing needs assessment

These deliberations provided a good starting point for the Panel to debate this area and formulate its own proposals. It is clear that some of the building blocks for proper assessment of housing requirements in Wales are in place (and not least because of the production of new national and regional estimates by tenure).

The Panel commended the Welsh Government for moving ahead and undertaking national and regional needs assessments and for publishing its 2018 estimates, as detailed above. In the Panel's view, this work must be maintained over the long term and with a published schedule for updating and revision. Moreover, with the LHMA process in place, Wales has the basis for good local assessment and understanding which can then feed into local, regional and national strategies and development plans.

However, despite this important progress it is also evident that there are a number of weaknesses which require addressing. These include;

- Making the LHMA system fit for purpose across Wales and better integrating it with the LDP processes;
- Working to ensure that the current system helps to feed and inform discussions at (a) regional level structures such as Regional Partnership Boards⁷ Public Service

⁷ Regional Partnership Boards (RPBs) were established under Part 9 of the Social Services and Well-being Act on local health board footprints. *This requires local authorities to make arrangements to promote co-operation with their relevant partners and others, in relation to adults with needs for care and support, carers and children. It places a duty on relevant partners to co-operate with, and provide information to, the local authorities for the purpose of their social services functions.*

Boards⁸ and (b) housing market areas (as distinct from local authority areas) and local community levels where granular needs assessment would reveal the diversity and complexity of need;

- Refining and improving the statistics which underpin all assessments and not least ensuring these are up to date and take account of homeless strategies and waiting lists, in so far as they can;
- Better capture of the more refined understanding of needs, for example see the Equalities and Human Rights Commission report on Wales in 2018 (<https://www.equalityhumanrights.com/sites/default/files/housing-and-disabled-people-wales-hidden-crisis.pdf>) and being responsive to the guidelines set out by the Future Generations Commissioner; and
- Local authorities recognising and resourcing these vital building blocks properly.

Additional recommendations

In addition to the key recommendations set out above the Panel had a number of more detailed recommendations to make. These are as follows;

- There is a need to enhance the granularity of the LHMA process to better capture the range of needs which might otherwise be ignored. More attention should be given to the requirements of older and younger age groups, people with disabilities and other needs as well as giving more detailed attention to sub market home ownership, rural housing, small settlements and the demand for community housing trusts and self build. The work undertaken by Tai Pawb in opening up some of these issues is to be commended and should be built upon.
- Further work is required to better integrate the production and reconciliation of the conclusions of LHMA and LDP processes. Housing and planning departments should collaborate further on this in order to bring greater clarity and cohesion to the local assessment of housing requirements and to make better use of limited resources. The potential for greater regional collaboration should be explored.
- The Welsh Government should require local authorities to deposit copies of their LHMA's with them.
- Local authorities should consider whether the right resources are being devoted to the LHMA and LDP processes and whether sufficient skilled staff are in place.
- As noted earlier, the Panel fully endorses the recent decision by the Welsh Government to develop a housing need and demand model. This model will be used to generate national and regional estimates and by tenure. It also has the potential to assist with local authority level estimates and the Panel would support further exploration of this option.
- The Welsh Government must look again at the resources devoted to the analysis of housing needs and demands and the associated areas of data collection. More should be done to make better use of data generated by local authorities and others.

⁸ Public Service Boards (PSB) were established by the Well-being of Future Generations Act for every local authority area in Wales. Each PSB must improve the economic, social environmental and cultural well-being of its area by 1) assessing the state of economic, social environmental and cultural well-being in its area; and 2) set objectives that are designed to maximise the PSB's contribution to the well-being goals.

Housing Quality Standards

Key Recommendations:

- The Welsh Government should develop new consolidated and simplified standards for new build grant funded and S106 homes. The new standards should be easier to use and should not have conflicting requirements. The new standards should concentrate on minimum space standards including storage inside and outside.
- The Welsh Government should introduce a requirement for all new affordable homes to be near zero carbon / EPC 'A' using a fabric first approach from 2021, supplemented by technology (renewables) if required.
- The Welsh Government should set a longer term goal by 2025 at the latest to have the same standards for all homes irrespective of tenure.

Introduction

All new and refurbished homes in Wales built by social landlords (HAs and LAs) and funded using Social Housing Grant (SHG) or Affordable Housing Grant (AHG) must meet the standards set out in Development Quality Requirements (DQR), which are above the current Building Regulation requirements.

Since 2001 the DQR specifically requires that homes must meet the Lifetime Homes (LTH) standards in order to increase flexibility by making them responsive to the changing needs of residents and offering choice and improved accessibility. LTH standards include wider doors, accessible ground floor shower room, stairs suitable for chairlift installation, and additional space to allow wheelchair users to move around the home. DQR does not have an energy performance standard. However, given that DQR only applies to new homes, the energy performance of new homes would fall under Building Regulations. This roughly translates to EPC 'B'.

The Terms of Reference for the review sought *“advice on whether there should be changes to the standards governing the design and quality of affordable housing”*. The review was also specifically asked to *“evaluate the impact of moving to deliver zero carbon homes by 2020...”*.

Background

The existing standards have sought to ensure that homes are designed so that they are flexible, responsive to both the changing needs of the occupants and to meet the changing needs of a variety of households who will occupy the home over its life. Those people in need of affordable housing often have little choice in the properties available to them and many tenants can also have additional needs, therefore the properties provided need to be able to meet their needs as flexibly as possible. The Panel was very aware that fuel poverty is a real issue for tenants (in 2016 23% of households were in fuel poverty in Wales) and there is a need to ensure tenants have homes that are fuel efficient. The current standards have been in place for

sometime and there can be higher build cost implications compared to homes built to Building Regulations standards only⁹.

Housing is responsible for 13% of the UK's greenhouse gas emissions and nearly 8% of Welsh emissions. Improving the quality of housing will help Wales help meet its international and domestic obligations to reduce emissions.

The EU Energy Performance in Buildings Directive 2010 requires all new buildings to be built to a “nearly zero energy” standard by the end of 2020. It requires Member States to “*draw up national plans for increasing the number of nearly zero-energy buildings*”. Furthermore, the Environment (Wales) Act 2016 requires the Welsh Government to reduce greenhouse gas emissions by at least 80%, from 1990 levels, by 2050.

The Committee on Climate Change (CCC) said in its report *UK housing: Fit for the Future?*¹⁰, “*The quality, design and use of homes across the UK must be improved now to address the challenges of climate change. Buildings constructed now should not require retrofit in 15 years' time. Rather, they should be highly energy efficient and designed to accommodate low-carbon heating from the start, meaning that it is possible to optimise the overall system efficiency and comfort at a building level.*”

The Welsh Government published its strategy in February 2019, *Prosperity for All: A Low Carbon Wales* which recognises that “*If Wales is to meet its climate targets, buildings will need to operate at close to zero emissions by 2050. This will require a substantial change in how we heat and power buildings in the future. The amount of energy used in our buildings will have to be significantly lower*”. As part of this, the Welsh Government has commenced a review of Part L of the Building Regulations. The review will inform future measures to improve energy efficiency standards for new and renovated buildings. It will also consider the role of on-site renewable energy sources, the relationship between improved energy performance and indoor air quality and increasing concerns over summer overheating.

The Panel therefore wished to consider whether the current standards and requirements remain the best way of meeting the housing needs of tenants accessing social housing, or whether alternative approaches offer better value for money and support increased supply. In addition, the Panel also “*evaluated the impact of moving to deliver zero carbon homes by 2020...*”.

The Panel's work

The ‘call for evidence’ responses provided general support for maintaining standards, however it identified a need to focus on the key areas of size, flexibility and adaptability. Responses also largely agreed that the current standards have served their purpose but are too prescriptive in some areas, particularly the mandatory requirement for lifetime homes. In particular the requirement to install a downstairs shower is viewed as onerous and not best use of space or money in all instances.

⁹ See for example the report of the HBF Wales in 2016 https://www.hbf.co.uk/documents/6746/Increasing_investment_in_housing_supply_in_Wales_-_June_2016_FINAL.pdf

¹⁰ *UK housing: Fit for the future?* Committee on Climate Change, February 2019 <https://www.theccc.org.uk/wp-content/uploads/2019/02/UK-housing-Fit-for-the-future-CCC-2019.pdf>

There was broad consensus that provision of a downstairs space adaptable for the future needs of the occupiers and available for storage (for children's pushchairs and so on), would be a better more practical approach.

The work stream also agreed that revised standards were required for new build grant funded homes that take account of the views of tenants, concentrating on minimum space standards including storage and flexibility. Currently housing providers are required to incorporate a number of different standards and a simplified single set would provide clarity on priorities and assist more cost efficient construction by having a single set of standards which do not conflict with each other and which are complementary.

The results of the TPAS survey in terms of managing and running your home, showed that the priorities of tenants were low energy bills, easy to control heating systems and good digital access (WiFi). Tenants felt that their homes and all newly built homes should be well insulated and have heat saving windows and doors to ensure energy efficiency, lower carbon emissions and lower bills. This was further confirmed by the participants at the TPAS Conference and the 'Young Persons' Forum.

The views on what was important to tenants both inside and outside their home can be summarised as:

- Space was the most significant aspect inside the home. One of the common themes was the importance of a having a kitchen with space for dining, separate to the living room;
- Outside of the home, security came out as the biggest priority for tenants. It was also seen as essential to have a garden space or a balcony if a flat, to provide access to an outside space to support mental health and well-being; and
- Digital access was also seen as a high priority, particularly for those accessing benefits, engaging with the Job Centre or seeking employment.

The Panel was advised of work undertaken in 2016 to review the DQR and noted that the recommendations from this work have not yet been implemented. These proposed revised standards provide a good starting point for the streamlining and updating of the DQR.

In relation to a moving towards zero carbon housing, it is important to clarify what is meant, as people often talk about 'zero carbon', but sometimes they mean 'almost zero carbon', and evidence to the National Assembly for Wales' Climate Change, Environment and Rural Affairs Committee has confirmed this¹¹. It is also important to consider the increasing importance of energy demand given the future shape and decarbonisation of the grid. EU directives also point to an increasing focus on primary energy in setting targets. Thus, a 'nearly zero-energy building' is defined in the EU Energy Performance in Buildings Directive as: *"...a building that has a very high energy performance. The nearly zero or very low amount of energy required should be covered to a very significant extent by energy from renewable sources, including energy from renewable sources produced on-site or nearby."* Beyond zero carbon a house can be carbon negative where over the course of a year the house generates more energy than it uses, so it cuts CO₂ being produced elsewhere.

¹¹ <https://www.assembly.wales/laid%20documents/cr-ld11711/cr-ld11711-e.pdf>

A summary of the reasons for moving towards zero carbon, as set out by the UK Climate Change Committee, can be expressed as follows:

- Heating and hot water for UK homes make up 25% of total energy use and 15% of our greenhouse gas emissions;
- Emissions are not falling at the rate needed to meet the UK's carbon targets;
- Greenhouse gas emission reductions from UK housing have stalled, and efforts to adapt the housing stock for higher temperatures, flooding and water scarcity are falling far behind the increase in risk from the changing climate;
- Decarbonising homes will improve health, wellbeing and comfort, including for vulnerable groups such as the elderly and those living with chronic illnesses; and
- Current policies are not driving the required changes.

The UK Climate Change Committee suggests new homes should deliver ultra-high levels of energy efficiency as soon as possible, and by 2025 at the latest. The Assembly's Climate Change, Environment and Rural Affairs Committee has recommended the Welsh Government prepare and publish a ten year low carbon housing strategy, including milestones and targets to be delivered.

There are some doubts on whether the industry could deliver step-change in a decade and, even if it could, with the focus of the policy squarely on new homes this will arguably take a long time to have any meaningful impact¹². However, those representing the house building industry have accepted that a move to zero carbon is achievable if the market is given sufficient time to adapt¹³.

Despite these challenges, there is an acknowledgement that house building must change, and that if Wales is going to meet its obligations the housing sector must do more to adapt and help address this challenge. However, the Panel have not seen any evidence that suggests that Wales (or any other part of the UK) would be able to move towards near zero carbon by 2020.

There are various studies¹⁴ into the additional costs for constructing to near zero carbon. By using a fabric first approach estimates of between 1% to 2% of overall costs have been cited. These and other studies have also highlighted the increase in the value of properties which can offset the costs and importantly savings on energy costs for occupiers.

Towards a new framework for housing quality standards

Maintaining space standards for affordable homes which are grant funded, with support for flexibility and adaptability was agreed across the board. The application of the specific requirements of Lifetime Homes should instead be replaced by mandatory minimum space and storage requirements and designed to support ease of future adaptation. For example, the construction of homes with non-load bearing

¹² <https://www.thenbs.com/knowledge/will-we-ever-achieve-zero-carbon-homes>

¹³ <https://www.assembly.wales/laid%20documents/cr-ld11711/cr-ld11711-e.pdf>

¹⁴ For example, *Sustainable Homes, Housing 2050 How UK social housing can meet the challenge of climate change*, 2019; Professor Ed Green, *MORE VERSUS BETTER: exploring the tension between quality and quantity in housing, and the opportunities offered by alternative approaches*, 2018; <https://www.theccc.org.uk/wp-content/uploads/2016/10/Next-steps-for-UK-heat-policy-Committee-on-Climate-Change-October-2016.pdf>

easy to move internal walls (where practical) would allow future adaptation and provide long term flexibility of individual properties for the needs of future tenants.

There is evidence which supports the construction through fabric first as having lower construction costs, compared to the use of expensive bolt-on energy solutions. The fabric first approach focusses on the building materials to increase energy performance before considering the use of other services or systems. This approach is also more efficient in terms of moving towards near zero carbon and improving the energy performance of homes.

The Panel carefully considered the balance between standards, costs and the potential for lower standards to bring cost savings, which in turn could support increased supply. However, the Panel consider the provision of adequate space standards and good design and a move towards achieving near zero carbon, as integral to providing sustainable homes which support the health and well-being of occupants. The balance must be struck between increasing supply and providing quality adequate homes.

The Panel was aware that some new housing provided to HAs through S106 planning agreements is not built to the same space standard as social housing and in that regard fall short of meeting the needs of tenants. LAs would benefit from support in national planning policy articulated in Planning Policy Wales (PPW) to require the same standards through their own policy and in S106 negotiations.

The Panel also recognised the need for HAs and LAs to have housing stock which is sustainable in the long term and is built as part of sustainable communities. Whole life building costs are essential to demonstrating this.

It is important for the overall well-being of communities and individuals in Wales that all housing is provided in mixed tenure high quality developments, and this should be an overarching aim of all those involved with the delivery of housing. PPW Edition 10 deals with housing through the Active and Social theme, which *“supports and enables the provision of a range of well-designed and located homes which are well-connected to existing retail and commercial centres situated at the heart of our communities and job opportunities.”* The Panel recognises that in addition to fuel poverty, low income households can also suffer if their housing is not located to allow ease of access to services and employment either by active travel means or regular, reliable and affordable public transport.

Given well-argued and lengthy examinations of a move to near zero carbon, the Panel has concluded that it will take some time to introduce this. Indeed, it seems reasonable to conclude that such a move by 2020 is unrealistic and unachievable. The Panel’s evaluation of the evidence is that the impact of this would most likely result in fewer houses being built in Wales, as opposed to more. However, with proper planning and sensible lead in times, there is nothing to stop a move to near zero carbon or the increased energy performance rating of EPC ‘A’ over a longer time period. The Panel is therefore recommending that all affordable homes should be near zero carbon / EPC ‘A’ using a fabric first approach from 2021, with the same goal being set for all homes irrespective of tenure by 2025 at the latest to meet the recommendations of the UK Climate Change Commission.

Modern Methods of Construction

Key Recommendations:

- The Welsh Government should continue to support the trialling of Modern Methods of Construction (MMC) to help establish which methods can contribute to the objective of increasing the scale and pace of affordable housing with the existing resources available.
- The Welsh Government should develop a strategy to map out how Wales could further use off-site manufacturing (OSM) and MMC to deliver near zero carbon homes along with an appropriate timetable for achieving this.

Introduction

MMC offers opportunities to speed up the provision of construction on site and reduce on-site construction costs, and support the move to near zero-carbon quality homes that meets the need of occupants. The Panel was tasked with *“evaluating the impact of moving to deliver zero carbon homes by 2020 including the role of off-site manufacture and modern methods of construction”*.

The Panel have commented fully on *“evaluate the impact of moving to deliver zero carbon homes by 2020....”* in the ‘Housing Quality Standards’ section of this report. This section will therefore comment specifically on the role of MMC including OSM in helping to achieve that.

Background

One challenge facing the industry is ensuing that there is a future workforce with the right skills to deliver the housing needed. The Farmer Review¹⁵ highlights some of the challenges the sector is facing, skills being one. MMC including OSM offers significant potential for house building. It has the potential to help provide the homes of the future at a greater pace, with greater precision and efficiencies. However, it also requires a workforce with different skills.

In 2017 the Welsh Government launched the Innovative Housing Programme to assist the housing sector to test and trial new methods and technologies, in order for homes to be efficient for today and into the future. The programme seeks to stimulate the design and speed up the delivery of new, quality, affordable homes. The Welsh Government’s Economic Action Plan will also assist and support the sector in the transition to a low carbon economy and society.

The Panel’s work

Whilst there is widespread acknowledgement that, for a number of reasons, the traditional model of house building faces significant challenges without diversification and innovation, the Panel’s view is that care must be taken to ensure that sufficient

¹⁵ *The Farmer Review of the UK Construction Labour Model: Modernise or Die - Time to decide the industry’s future* at <http://www.cast-consultancy.com/news-casts/farmer-review-uk-construction-labour-model-3/>

time is given to market participants to trial the best option(s) for using MMC and OSM.

As with any emerging industry, there are numerous participants with different technologies and approaches trying to establish themselves as market leaders. The Panel believes that deliverers of affordable housing should determine which MMC approaches best meet their objectives in terms of cost, quality, aesthetics, speed of delivery/scalability and environmental standards/sustainability. The Welsh Government should encourage this market to develop by embedding it within the grant system rather than through direct market intervention or by seeking to determine which methods and technologies will be the long term winners in this industry.

As a result of the evidence received, the Panel feel that the MMC market is still at an early stage and therefore needs time to evolve to establish the best methods, for offering alternative construction models including OSM for delivering additional high quality attractive homes and for meeting additional objectives such as near zero carbon homes.

It is also clear from the 'call for evidence' responses that affordable housing tenants do not wish to be '*guinea pigs*' of new technology and that greater time and attention is needed to communicate the benefits of non-traditional options to tenants.

Furthermore, the Panel believe that there is insufficient robust evidence to date, to suggest that *Wales can deliver zero carbon homes by 2020.....* in anything more than pilot site numbers using MMC given the supply chain and skills development required. It is the Panel's view that we should not build non-traditional housing in Wales that will also then require retrofitting to meet carbon standards in years to come.

The Panel have recommended (in the housing quality standards section above), that all new affordable homes should be at near zero carbon standards using a fabric first approach by 2021 and that all new homes irrespective of tenure should have the same standards by 2025 at the latest. Given this, the Welsh Government should develop a strategy to map out how Wales could further use OSM and MMC to deliver near zero carbon homes along with an appropriate timetable for achieving this.

Towards a new framework for MMC

The Panel believes that MMC could provide a valuable contribution to the mix of ways to increase the supply of affordable homes. However, MMC is currently in its infancy.

Investment should be targeted at supporting MMC manufacturers and developers, including SME's operating in Wales, which can deliver quality homes and meet grant recipient requirements. SME development will help ensure the economic value of constructing homes using MMC in Wales will be retained predominantly within Wales, but the market is such that providers should be open to investigating the potential of a wide range of manufacturers and suppliers. Again, the Panel considers that developing HAs and LAs are best placed to determine which suppliers best serve their needs and those of their residents. The Welsh Government can encourage local suppliers and supply chains through the funding system but this

should form part of a matrix of objectives including other relevant factors such as quality, cost, scalability and reliability of output.

Some HAs are already supporting local small businesses and supply chains through their approach to housing development, albeit on a fairly small scale. The Welsh Government is to be commended for their strong support of SMEs for housing development via the funding administered by the Development Bank for Wales, through programmes such as the Wales Property Development Fund and the Wales Stalled Sites Fund. Together these programmes provide an investment of nearly £430m to the SME sector. More recently a Self Build programme has also been announced.

The impact of developing homes using MMC can only be optimised if HAs and LAs collaborate to deliver more housing at scale, more quickly. There needs to be an affordable housing climate in Wales which fosters collaboration. Our recommendations to develop a new framework for five year Grant Partnerships provide an opportunity to also include innovation in the supply chain through MMC for example, by inviting proposals to capture local and regional innovation and associated economic activity, and give greater priority to proposals showing a commitment to MMC.

Additional recommendations

- Industry bodies (such as Build Offsite Property Assurance Scheme (BOPAS), National House Building Council (NHBC), Association of British Insurers (ABI), UK Finance) should develop the assurance framework around MMC helping to standardise product warranties and provide accreditation. This will allow lenders, valuers and insurance companies to more confidently finance, value and insure new MMC homes in Wales. Given the market size, adoption of UK-wide assurances and standards should be accepted by the Welsh Government.
- Learning from the Innovative Housing Programme should be used as the basis to inform the production of guidance in the roll out of MMC in Wales to provide quality homes which fit with Welsh DQR standards, representing value for money, which can be made efficiently by any factory who wishes to make them.
- The Welsh Government should wrap existing MMC related funding programmes into future grant frameworks and including commitment to MMC and related objectives as a desired outcome within the evaluation criteria for the proposed Grant Partnerships. This will provide a clear policy lever and greater certainty of long term demand in order to support investment. Within this, Welsh Government can consider the extent to which local solutions, supply chains and employment (subject to cost and quality considerations) can be favoured in order to maximise the impact on the Welsh economy and meeting the needs of occupants.

Rent Policy

Key Recommendations:

- The Welsh Government should implement a five year rent policy from 2020-21, providing stability for tenants and landlords.
- Further flexibilities should be introduced into the Welsh Government's rent formula regime in relation to bungalows (a higher upward differential) in order to better differentiate them from flats and the locational index (a limit on annual adjustment) in line with the recommendations of the Heriot Watt report.
- There should be a focus on landlords considering Value for Money (VfM) alongside affordability. An explicit annual assessment on cost efficiencies should be part of the rationale for justifying any rent increase.

Introduction

The Welsh Government introduced a new rent policy for social landlords in April 2014 for housing associations and April 2015 for local housing authorities with housing stock. The policy aimed to remove anomalies in rent setting between and within the social landlord sectors whilst maintaining the capacity of the sector to invest in existing and new stock. The Minister tasked the Panel with *“making recommendations on how a sustainable rent policy can help determine long term affordability for tenants and the viability of existing and new housing developments”*.

Background

Our work has benefitted from sight of the emerging findings report of the independent review of the current rent policy undertaken by Heriot Watt University¹⁶ for the Welsh Government. That review's aim was to identify how the current rent policy had been implemented by social landlords, whether the policy was fit for purpose and to inform the development of any new rent policy.

The current policy was driven by a desire to see greater fairness between tenants of different landlords and to more closely relate rents to local circumstances, be it wages, the location or quality and size of the home provided. HAs and LAs were able to set rents more flexibly across their stock albeit that they had to keep the average weekly rent within the Target Rent Band.

The Heriot Watt report argues that overall rent policy in Wales was meeting its objectives, is accepted by a range of stakeholders and should be retained. It noted that elements of the design and operation of the policy should remain under review and improved. The report noted that although there was flexibility in the current arrangements its use was not being maximised by social landlords. It was apparent

¹⁶ *Rent Policy Review, Emerging Findings Report*, Social Research, Welsh Government, 2019 authored by Mandy Littlewood, James Morgan, Mark Stephens of The Urban Institute, Heriot Watt University with Steve Wilcox and Peter Williams.

that some landlords found it convenient to maximise rents within the Welsh Government guidelines and without putting in place an evidenced and nuanced rent policy which paid due regard to tenant affordability.

The report rejected the view of some landlords that they should have full autonomy in rent setting. The authors argued it was difficult to see how consistency in rent setting, which is widely regarded as being a key component of 'fairness', can be achieved without some co-ordination. Moreover, it was suggested rent setting at the individual landlord level cannot be separated from wider public policy, particularly in relation to objectives of new affordable supply, investment for minimum quality standards, and the complex interaction between rents, social security benefits and the block grant. The report concluded that the approach of providing flexibility within an overall framework was the right one.

The report highlighted a number of tensions including;

- The lack of fit between the rent policy and the policy on grant rates for new developments, and in particular in low demand areas;
- The extent of annual variations in the locational index within the rent matrix. While these were in reality quite limited, there was a case for introducing an annual limit of say 1.0%, in the extent of variation in the locational index for any area in any one year;
- Whether there was a compelling case for a higher upward differential for bungalows, relative to flats, than the 10% provision that is currently part of the policy;
- The extent to which some landlords do not appear to understand the policy and the flexibilities already provided. There were concerns about the complexity of the policy, and the difficulty they faced when trying to explain it to their tenants. It was suggested Welsh Government might provide case study examples of the application of Rent Policy;
- There was scope for more meaningful engagement with tenants; and
- It was felt there was need for greater focus on VfM alongside affordability and which might involve more specific monitoring via a VfM Standard.

The Panel's work

The Panel's call for evidence provided submissions by 17 local authorities, 14 housing associations and 14 other bodies including a number of trade associations in response to the rents section of the review. Some 67 pages of evidence were submitted.

The responses provided mixed views as to whether the Welsh Government should continue to have a rent policy. In general, LAs argued for the retention of a rent policy while HAs argued for freedom to set their own rents. However, all agreed on flexibility, affordability, on recognising the impact on business plans and viability along with greater tenant involvement.

Likewise, in the work stream set up to discuss rent policy members could not achieve a consensus opinion on the case for a rent policy. The following summarises the main points of agreement from the work stream and its recommendations to the Panel:

- Provide more certainty i.e. longer term agreements to avoid annual rent setting and ensure social landlords have sufficient time to meaningfully engage with tenants and meet the statutory two months notice period for future rent uplifts as required under the Renting Homes (Wales) Act 2016;
- Social landlords need to consider affordability for tenants, taking into account the whole cost of living in a property e.g. rent, service charges and energy costs of properties. Affordability for tenants was a challenge for those living in 1 bedroom flats reflecting rent and service charges;
- **If** rent policy continues, it should to apply to both HAs and LAs; and
- Elements of the design and operation of the current policy should be improved including the locational indices, weightings for bungalows and if possible, finding an alternative to SAP as an appropriate proxy for energy.

CHC and some of its members argued for complete freedom for associations to set their own rents within an appropriate regulatory framework. Local authorities and tenant bodies argued otherwise and were in favour of a Welsh Government led policy not least because it offered some protection for tenants.

The Panel noted that in 2018-19, 22 out of 36 housing associations (and 7 of the 11 local authorities) increased rents by the maximum 4.5% allowed under current policy. All other housing associations and local authorities increased rents by varying percentages, with the majority increasing rents by more than 3%.

As part of the review TPAS Cymru circulated a survey in October 2018 to its Tenant Pulse members, which includes housing association, local authority and private sector tenants. In summary the responses regarding rent were as follows:

- 71% of respondents said their rents were affordable, although TPAS Cymru noted a significant difference in perceptions on this between those on housing benefit or not;
- 51% said that service charges were affordable; and
- 67% felt that rent was going up faster than income and a freeze on rent increases was needed.

Towards a new framework for rents

Given all of the evidence the Panel is of the view that there is no compelling argument for complete freedom for rent setting at this time. In the Panel's view, tenant affordability is paramount and should be a key driver for rents alongside provider viability as distinct from a focus on the creation of surpluses which might then fund new development. The Panel noted the reduced access to benefits and the sense that the balance between tenants interests and those of the landlords had moved too far towards the latter and without offsetting evidence of a focus on bringing down running costs and increasing service efficiency.

The Panel did note that there had been some changes in respondent views since the Heriot Watt research was undertaken. HAs in particular had been moved to give stronger support to the view that they should have more freedom to set rents, and that the Welsh Government rent policy should be withdrawn and replaced by regulatory standards and controls.

The Panel was clear there had to be a clear balancing between the interests of providers and residents. It was evident there was a real concern that rents had

increased faster than incomes. The evidence from the Joseph Rowntree Foundation (JRF) that average social housing rent for two bedroom homes in the Valleys were unaffordable for approximately 46% of social housing tenants was concerning. Evidence from Crisis and TPAS reinforced this and the need for a better balance.

Surprisingly, in the debate on the relationship between rent levels and grant there was little mention of costs and efficiency as a further factor in the equation. Amongst the few to comment on this the Regulatory Body for Wales flagged up its work on value for money and the move to encourage better performance by publishing comparative data across Wales. This has taken some time to achieve and is still quite limited but the Panel saw this as a step in the right direction. There seemed to be an unwillingness to confront the question of controlling operating costs and to consider their impact on rents.

Although there are arguments for landlord freedom to set rents, it was evident that a considerable amount of progress needed to be made in terms of mechanisms, the governance of the process and the evidence base underpinning it before it could be a realistic option for the Welsh Government to consider. As some landlords noted, it would take at least two years to prepare for such a regime and the slow progress on VfM and other cost efficiencies was noted by the Panel.

A number of associations have been exploring the potential of the living rents scheme as developed by JRF. This focus on tenant affordability was welcomed by the Panel although it was felt there were quite a lot of issues to work through here and the Welsh Government should help oversee this process and help discussions on a standardised framework.

Although some landlords seemed to have taken the view that having a Welsh Government rent policy in place absolved them of responsibility to have their own worked out rent policy alongside it, good practice is emerging, notably work by Trivallis and Merthyr Valley Homes to engage with tenants and seek to understand local affordability issues. The Panel were very much of the view that rent and affordability issues should be regularly debated at the highest corporate level, backed by an up to date evidence base on their tenants' circumstances. The Panel was also clear that landlords were not exploiting the current flexibilities already available with too many in effect 'sheltering' behind the current policy and failing to develop their own rent policies.

The Panel also reflected on flexibilities within the rent model. The Panel noted the extent of annual variations in the locational index within the rent matrix and the volatility that resulted. The Panel agreed with the Heriot Watt report that there was a case for introducing an annual limit on the extent of the variation in the locational index for any area. 1% was suggested as a sensible limit. Similarly the Panel agreed there was a case for a higher upward differential for bungalows, relative to flats and that the current 10% provision should be amended.

The Welsh Government have made the decision to set social rents for 2019-20 at the CPI measure of inflation at September 2018 i.e. 2.4%, pending the recommendations from this review for the longer term. This reflected concerns about the impact of higher rents for tenants and a comparison of average rent levels in England and Wales. The Panel supported the view the annual rent settlement was not helpful and that a longer term 5 year policy should be put in place for the period 2020-21 to

2024-25 and for successive 5 year periods. When this is in place the Welsh Government should then take stock of the progress being made on the issues raised above and whether the case can be made for further freedoms.

With regards to what the precise rent policy level should be in Wales, the Panel saw this as a political decision based on where Wales wish to be positioned. The review and the Heriot Watt report have been helpful in building a picture of the current position in Wales and the comparison with England. Given that England will be moving to a position of uplifting rents by CPI +1% from 2020-21 following a period of rent reductions of -1% the Panel believe that there is little justification for anything above CPI +1% The Panel recognises that unless landlords achieve more cost savings then lower rent settlements will mean lower surpluses and thus potentially less capacity for new development. However a truly sustainable social housing sector has to put tenant affordability as a priority. The recommendations made here offer landlords the potential of a longer term and better settlement and one in which there will be more opportunities to make better use of resources.

Additional recommendations

The Panel agreed the following recommendations in addition to the key recommendations above;

- Some landlords do not appear to fully understand or make use of the policy and the flexibility already provided. The Panel agreed with Heriot Watt that the Welsh Government should provide case studies.
- The Panel fully endorsed the view that there should be better, more meaningful, engagement with tenants on rents. This was seen as a high priority for landlords and the regulator.
- Living rents and other new approaches have potential and housing associations and local authorities should work with Welsh Government to develop these.
- The Welsh Government and the Regulator should continue to monitor the rent regime on an annual basis and consider the case for further changes before the proposed initial 5 year regime concludes in 2024/25.

Local Authorities as Enablers and Builders

Key Recommendations:

- The Welsh Government should encourage local authorities (LAs) to use the flexibilities that the lifting of the borrowing cap creates to support delivery of new affordable housing supply. Where appropriate, LAs should have the freedom and flexibility to access grant from Welsh Government direct or through wholly owned Local Housing Company structures.
- The Welsh Government should encourage LAs and HAs to work in partnership to share skills, capacity and resources, and work collectively, through local and regional procurement frameworks, to support local supply chains.

Introduction

Whilst increased housing provision overall is a priority for the Welsh Government, affordable housing is top of that priority list and both HAs and LAs have their part to play in meeting the housing needs of households unable to access the market.

LAs have an important contribution to make in increasing housing supply, particularly since the removal of the borrowing cap.

Background

Since the introduction of the Right to Buy in 1980, social housing stock has declined significantly with 139,843 statutory sales between October 1980 and 31 March 2018, equivalent to the loss of 45.3% of the 309,000 social housing stock in 1981. This has made a significant contribution to affordable housing undersupply and reduced access for people in housing need, many of whom are vulnerable.

To encourage the development of new social housing stock and to protect investments, the Welsh Government have ended Right to Buy, with the final abolition of existing social housing stock on 26 January 2019. In addition, local authorities are now able to build for the first time since the 1980s following the successful exit of the Housing Revenue Account Subsidy (HRAS) system in April 2015, and the lifting of the debt cap in early October 2018.

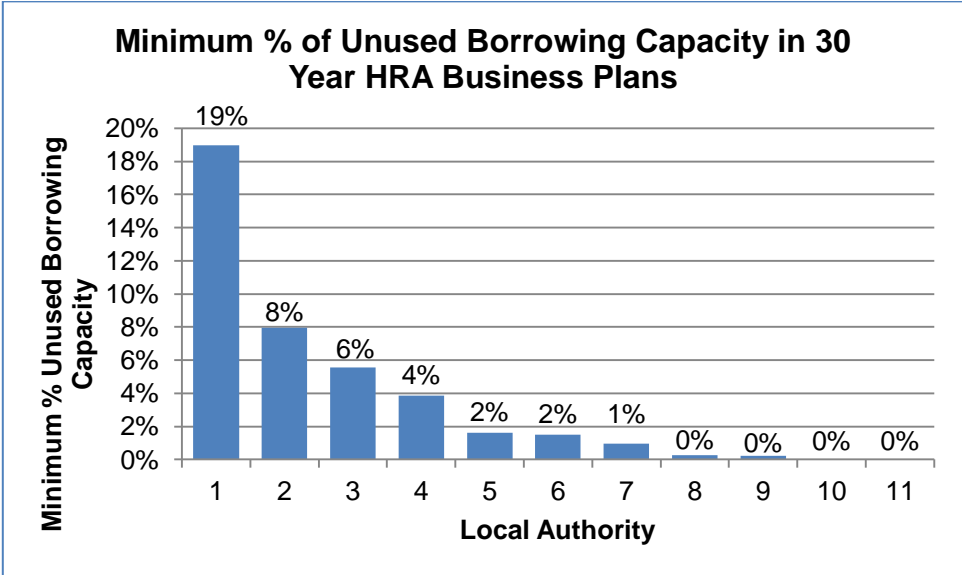
The Panel's work

The Panel felt that it was appropriate to look at how best to support ambitious LAs to build at pace and scale, including how to maximise the use of LA borrowing powers. A number of policy changes have come into effect to support this.

The UK Government announced plans to lift the Housing Revenue Account Borrowing Cap at the UK Autumn Budget on 29 October 2018 and agreed for the Cap to be fully abolished in Wales. As the borrowing cap formed part of the Voluntary Agreement in Wales, the borrowing cap was not formerly lifted in Wales until 20 March 2019. This enables LAs to revisit their ambitions for the provision of new social

housing supply. This news was welcomed by the Panel and wider sector. However, it is too early to gauge what affordable borrowing limits LAs will choose to set and these will need to be agreed by full Council. Furthermore, prior to the lifting of the borrowing cap, LAs were not all maximising their borrowing capacity. The table below provides the Welsh Government’s analysis of LAs Housing Revenue Account (HRA) Business Plans for 2018/19, which shows their minimum borrowing capacity over the 30 year plan.

Table 2 - 2018/19 Local Authority HRA Business Plan Analysis



The Panel recognises the contribution of debt, although important, may not be sufficient in isolation to bring forward more affordable supply.

The Panel’s ‘call for evidence’ identified the following key themes:

- Local authorities need medium to long term funding certainty - borrowing cap, rent policy, Major Repairs Allowance (MRA), access to Social Housing Grant (SHG) etc, together with skills and capacity to deliver;
- Flexibility and improvements to Local Development Plan (LDP), land availability and risks to development were commonly raised; and
- A more effective partnership model of procurement is necessary. Framework agreements are not attractive to development partners for small sites/rural areas and don’t benefit the local supply chain.

The work stream also identified a number of opportunities to support local authorities to build including the need for the Welsh Government to provide clearer guidance on the use of the Housing Revenue Account (HRA), which the Panel supports.

The ‘call for evidence’ and work stream on ‘existing powers’ also identified opportunities for LAs ability to increase the supply of affordable homes, including:

- Empty Dwelling Management Orders (EDMOs) are not being utilised as LAs are finding alternative solutions. EDMOs should be improved to make the process function better than any alternative solution;
- The Compulsory Purchase Orders process should be streamlined; and

- A set of core / minimum principles should be produced for framing Section 106 agreements. These should include minimum acceptable criteria for such developments across Wales.

Towards a new framework for local authorities as enablers and builders

The Panel noted evidence showing the disparity between ambition to build and delivery of key housing requirements in some local authority areas. Furthermore, the Panel has noted the variable achievement against the WHQS, which requires that all social landlords meet and maintain the WHQS by no later than December 2020. This standard is important as it ensures dwellings are of good quality and suitable for the needs of existing and future residents.

The Panel has seen evidence of skills, resources and capacity challenges within local authorities, including through the 'call for evidence' responses. The Panel wishes to support LAs to build but this must be balanced against resources and capacity to do so effectively and the need for LAs to demonstrate clear delivery of WHQS alongside new supply.

LAs are at very different stages of their new build plans, including some that are exploring introducing Local Housing Companies and developing new housing models that increase the quality and speed of delivery of new homes, which will also reduce fuel bills and environmental impacts.

The Panel is keen to encourage partnership working between LAs and HAs, recognising the limited pool of skills and capacity for development in Wales. Such collaboration will deliver a number of benefits including:

- Sharing skills, capacity, and resources to support building skills and capacity within local authorities; and
- Partnership working to support and maximise local and regional procurement and support the SME construction sector.

It is clear that there are skills and capacity constraints in all parts of the system, particularly in local authorities. Whilst the Panel has seen some excellent examples of collaborative working, there is scope for better and deeper partnership working and collaboration between organisations. The Panel is recommending reform of the grant model, including access to grant for LAs able to demonstrate grant VfM alongside effective use of PWLB/private finance and other resources. The Panel recommends grant be awarded to LAs meeting the criteria of the new model which should include evidence of having the track record, skills and capacity to deliver new homes. This evidence could include partnership working and this should be encouraged to avoid exacerbating the skills and capacity challenges facing the entire affordable housing sector.

Additional recommendations

- The Welsh Government should link collaboration to grant distribution to assist with capacity, whilst having the benefit of supporting local key strategic priorities. Greater collaboration between HAs and LAs would result in the delivery of more affordable homes.
- The Welsh Government should issue strengthened LA HRA guidance.

- The Welsh Government should streamline the Compulsory Purchase Orders process and improve the Empty Dwelling Management Orders process so that it functions better than any alternative work around solution.
- There should be more power for LAs to increase Empty Property charges and the rate should be increased.
- A set of core / minimum principles should be produced for Section 106 agreements and should include minimum acceptable criteria for such developments.

Public Sector Land

Key Recommendations:

- An arms-length body should be established by the Welsh Government to act as a hub for public sector land management and professional services. This body should work alongside individual departments / bodies to provide capacity and resources to accelerate development of public land assets and support greater consistency and efficiency in managing those assets.
- The Welsh Government should mandate the mapping of all public land and require owners to publish the development potential for the land they own.

Introduction

The Panel felt that it was fundamental to consider how best to facilitate more public sector land coming forward for housing given the core objective of this review is to increase the supply of affordable homes.

Background

The Welsh Government acknowledges the important role that utilisation of public sector land plays in increasing the provision of housing in Wales and they have already brought forward a number of significant Welsh Government owned sites for housing delivery. Furthermore, the Welsh Government and the wider public sector, continue to explore on an ongoing basis, the further potential of land sites for the purpose of housing development. However, this doesn't appear to be operating with any real traction or pace.

The Welsh Government's annual affordable housing provision statistical release¹⁷ details the number of affordable homes delivered across all land ownership and separates out the number of homes delivered on public sector land. During 2017-18, 531 affordable homes were delivered on land made available by the public sector, which was a decrease of 23% on the number delivered in 2016-17 on public sector land. The figures for the last 7 years are provided in Table 3 below:

¹⁷ See <https://gov.wales/affordable-housing-provision>

Table 3: Affordable housing units delivered by land supply source, 2011-12 to 2017-18

	No. of affordable housing units delivered						
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Total no. across all land ownership	2,432	2,042	2,416	2,218	2,400	2,546	2,316
Local authority land	280	265	528	327	384	405	418
Other public sector land	146	216	229	236	474	284	113
All public sector land	426	481	757	563	858	689	531
Total on public sector land	17.5%	23.6%	31.3%	25.4%	35.8%	27.1%	22.9%

The Panel's work

Given the on-going challenging financial climate, it is important to make the most efficient and effective use of the Welsh public sector land assets and seek ways in which the pace and ambition in driving forward initiatives, good practice and collaborative asset management across the Welsh public sector can take place.

The Panel considered the work of Ystadau Cymru (previously known as the National Assets Working Group), which is a cross Wales public sector group focused on enabling, encouraging and influencing public sector organisations to adopt a collaborative approach in asset management. This included the Welsh Government funded Welsh Public Sector Collaborative Estate pilot in the Cwm Taf area. The study focussed on opportunities to maximise benefits from the public sector estate across Cwm Taf via a strategic approach to collaboration having regard to four key criteria: creating economic growth; delivering more integrated and customer-focused services; generating capital receipts; and reducing running costs.

The pilot report exposed 3 main issues with respect to: the lack of knowledge about the public estate; the fragmented governance; and limited capacity and skills for strategic housing enabling, land and asset management, CPO and Section 106. The report confirmed that there were significant opportunities for public services to work together and take a more strategic approach to property and property management.

Both the Panel's 'call for evidence' and work streams highlighted the depletion of staff within LAs across planning and housing departments. Whilst greater collaboration and partnership working between LAs and HAs to pool resources, provides an opportunity to ease the skills and capacity constraints in some areas, it will not alone address the issues raised. The 'call for evidence' and work stream on public sector land both suggested that the Welsh Government should establish a body to add capacity and skills to work alongside land owning authorities to help prepare and bring forward public sector sites for development.

Towards a new framework for public sector land

The issue of lack of expertise and capacity in many parts of the public sector to move opportunities for land development forward has been echoed in the 'call for evidence' and the public sector land work stream of this review. The need for a body to be established to identify, prepare and bring forward public sector land sites for development, was seen as a real opportunity and a solution for tackling the slow, inefficient and ineffective process that is generally thought to be present currently.

As such the Panel believe that such a land body could act as a support / advisor to public land owners, provide agency services, to help them bring forward land for development, or receive transfer of land assets from other bodies where they lack resources to bring sites forward for development. Such a body would provide access to expertise, skills and capacity that is lacking across much of the public sector in relation to land assets. The body could would assist with Compulsory Purchase Order (CPOs) and S106 and could also assist with stalled sites, sites requiring infrastructure / remediation.

Furthermore, the body could have powers and resources to acquire land assets where public sector intervention is required (the market is not effective) for example stalled sites, sites requiring infrastructure / remediation / assembly. The body could also have CPO powers to fulfil its objectives. The body would need access to funding to support this and elsewhere the Panel recommends consideration be given to establishing a new Infrastructure and Regeneration Fund, to sit alongside the main affordable housing grant programme.

Further work will be required to scope the governance and resource requirements of the new body. Investing in such a body would represent a significant economic stimulus initiative at a time of economic uncertainty. Combined with reform of the grant model (and ideally additional grant funding being made available), delivery of more counter cyclical affordable housing would help maintain and boost construction output with the associated social and economic benefit this brings.

LAs should also be encouraged to make better use of CPO powers to help bring forward more land for housing, and to facilitate the development of existing public sector land. The creation of a new arms length body would however, provide capacity and resources to work alongside local authorities where a lack of skills or capacity is an impediment to bringing forward developable sites.

Finally, whilst there are existing mechanisms in place to capture the totality of public sector land holding, which are supported by Ystadau Cymru¹⁸, such as e-PIMS, an electronic Property Information Management System, its use is not compulsory. The Panel therefore believe that the Welsh Government should mandate the mapping of all public land and require owners to publish the development potential for the land they own.

Additional recommendations

- Local authorities should be encouraged to make better use of CPO powers to help bring forward more land for housing, and to facilitate the development of existing public sector land.
- Utility providers should be required to make a compulsory input at preplanning stage of LDPs as soon as possible.
- Consideration should be given to the body having land ownership and Compulsory Purchase Order (CPO) powers to help fulfil its objectives.

¹⁸ <https://gov.wales/written-statement-welsh-government-state-estate-report-2017-18>

Financing affordable housing

Key Recommendations:

- The Welsh Government should reform grant funding to introduce a new flexible long term five year Affordable Housing Supply Partnerships model which combines grant funding certainty and flexibility whilst testing grant VfM. The new funding model should be based on principles of fairness, quality, and grant VfM transparency.
- A number of current funding pots should be consolidated to focus capital and revenue funding on core tenures determined nationally reflecting needs assessments at national, regional and local levels.
- The new model should test the contribution of private finance and alternative finance models to stretch grant resources to maximise output and demonstrate grant VfM.
- The design of the new grant system should consider the use of both grant and equity funding interchangeably within the overall capital investment pot, in order to facilitate both new and existing financing models which are capable of demonstrating the necessary regulatory oversight required for public investment.
- Further consideration should be given to the need for a housing infrastructure and regeneration fund to sit alongside the main grant programme to unlock larger more complex sites.
- Access to grant and equity funding should be made available to Local Authorities able to contribute low cost finance to deliver grant VfM.

Introduction

The focus of the review is to recommend changes to increase supply and improve delivery from the scarce resources available. The Social Housing Grant (SHG) funding framework is a key source of financial support for social housing supply, and also provides support for intermediate rent and low cost home ownership. Given the extent of the gap between housing needs and supply, and limitations on grant funding availability, it is incumbent on all partners to draw on every available source of land and funding to optimise supply. Efficient landlords will have greater financial capacity for private finance to sit alongside the Welsh Government subsidy programmes. Optimising supply through effective use of grant, private finance, HRA finance, LA land and other supply initiatives is inextricably linked with a number of the Panel's work streams including housing need, affordability, rent policy, and design and quality of affordable housing.

Background

The current system of fixed grant rate funding for SHG has been in place since 1989. Since 2011 the Welsh Government has distributed grant to individual LAs on a formula basis, ensuring each area receives a fair share of scarce resources, recognising housing need exists everywhere in some form. Grant funding is awarded by LAs to schemes brought forward by ‘zoned’ housing association partners. Capital grant is paid on a fixed percentage of eligible build costs¹⁹. Homes built with grant are required to conform to prevailing standards set out in DQR, and rents are set in line with landlord policy. VfM testing is undertaken on build costs (comparing actual build costs with published cost data²⁰), but there is no mechanism available to test the VfM of the grant itself, and no incentive for housing associations to seek less than the maximum grant allowable, even when it is not needed. Fixed grants, and limited funding availability per se, also constrains the delivery of strategically important higher cost schemes.

In the course of its sector engagement for the review, it was clear to the Panel that grant VfM is not tested effectively by the current system, with widespread acknowledgement that fixed rates can sometimes result in over generous allocations. There is a need, and the potential, to put in place a system which embeds a value for money culture, maintains high standards of delivery and delivers more affordable new homes from the same level of scarce resources.

The Panel’s work

The Panel set out to examine how the grant framework could be improved, to deliver more homes from current Welsh Government funding, whilst maintaining quality, affordability, and provision of homes based on LAs priorities to meet local housing needs.

Over 60 individual responses to the review’s ‘call for evidence’ were received from housing associations, local authorities, trade and professional bodies with an interest in affordable housing. Some expressed support for maintaining the current grant system based on familiarity and simplicity, and some cautioned against change that might lead to “a race to the bottom” (an erosion of affordability, standards and needs led delivery). However, a number of respondents highlighted deficiencies which are summarised below:

- The inflexibility of the fixed rate grant allocation - some schemes needing less, or indeed more grant than is permitted;
- Absence of testing of value for money of grant (although costs are tested, the level of grant is not) lack of incentive for partners to seek less than the fixed grant permissible, and barriers to strategically important higher cost schemes needing more grant than the fixed rate system;
- There was support for flexible grant awards to allow lower (or higher) levels of funding to improve transparency of grant requirements and evidence value for money;

¹⁹ Currently 58% social rent and 25% Low Cost Home Ownership

²⁰ Acceptable Cost Guidelines published 2015, updated 2018 – costs of building to DQR by type/location

- The short term annualised funding creates uncertainty and acts as a barrier to investment in building a forward pipeline of development sites. There was support for longer term funding certainty to support investing in pipeline sites;
- There was some support to move to regional zoning to recognise patterns of delivery cross over individual local authority boundaries; and
- There was support to preserve effective partnership working between LAs and HAs and to protect the strategic housing function, and local determination of priority needs.

The findings of the ‘call for evidence’ were tested with a work stream made up of representatives from individual housing associations and local authorities, the WLGA, CHC, CIH, together with Welsh Government officials.

The work stream largely agreed with the views set out above. There was general acceptance that fixed grant rates can sometimes be over generous, support for a longer term funding model giving greater flexibility over grant rates, and support to consolidate fragmented funding. There was less consensus of how the system might change, underpinned by anxiety around possible changes to the grant distribution model which might disadvantage individual local authorities, and any change which might erode standards and quality of supply, and exclude smaller and specialist housing associations.

The ‘call for evidence’ and the work stream discussions have also highlighted that there are skills and capacity constraints in all parts of the system, particularly in local authorities and the housing department of the Welsh Government. Whilst the Panel has seen some excellent examples of collaborative working, there is more scope for better and deeper partnership working and collaboration between organisations particularly given scarcity of skills and resources for development delivery. This must therefore be a key consideration when making changes to the grant system.

Furthermore, the LA building discussions have resulted in a recommendation to encourage collaboration through grant allocations to acknowledge the capacity deficit. Greater collaboration between HAs, and particularly between HAs and LAs to share development skills and capacity to plan for and deliver affordable housing, would support delivery of affordable housing by LAs newly entering the grant framework and supply market.

Towards a new grant framework

The Panel commends the established partnerships working between HAs, LAs and the Welsh Government, to deliver much needed affordable housing from scarce resources. The Panel noted the role of LAs in determining housing needs and strategy and working with HAs to overcome funding challenges to deliver schemes, and the valuable contribution to supply from smaller and specialist housing associations. It is also evident that partners place shared value on delivering affordable housing to high standards, with support for a reformed DQR, and that the Welsh Government continues to try to respond to a range of housing issues, evidenced in the variety of funding initiatives in place.

However, the current system has a number of weaknesses which should be addressed, including:

- Lack of transparency over grant VfM;

- Short term fragmented funding pots prevents long term investment in building a delivery pipeline, and mitigates against procurement efficiencies; and
- The missed opportunities to share intelligence, skills, capacity and resources at a regional level.

The discussions helped frame the Panel's thoughts on how the grant framework could be improved, to stretch grant funding by drawing on the capacity of partner resources to deliver more homes whilst delivering the sector desire for longer term funding certainty and flexibility, maintaining high standards and ensuring any new system responds to the Welsh housing market context, whilst delivering greater transparency of grant VfM to the Welsh Government.

The Panel recognised that any move away from a fixed grant rate regime would necessarily involve a new evaluation process to determine an appropriate level of grant award. The Panel also recognised that it is not possible for any government to predict or model the range of financial capacity, funding rates, operational efficiency, risk appetite and board appetite for growth for individual HAs. All HA's have their own business plans and development appraisal models, and adopt financial assumptions relevant to their organisation. The new grant model should therefore allow prospective partners to make their own judgement of the grant required to support new homes development. This judgement should then be challenged as part of the grant determination and award process.

First the Panel wanted to test whether it is realistic to expect a new system to deliver more homes from existing resources. Introducing a new system requires up-front investment and the Welsh Government will want to be satisfied this represents a good use of resources.

In 2017/18 the average grant approved per general needs social rented homes in Wales ranged between £70k and £85k. Overall, 1,641 homes are being provided for a total grant of £125.9m at an average grant of £76,739. See table below for greater detail.

Table 4: Average grant approved for general needs only SHG schemes for tender approval in 2017/18.

	No of schemes	Average SCI	No of units	Average Grant per unit	Total grant
Less than 100% Scheme Cost Index (SCI)	47	89.60%	748	£70,199	£52.5m
100% - 110%	21	103.6	386	£77,814	£30m
110% - 120%	25	114.98	507	£85,571	£43.4
			1,641	£76.7k	£125.9m

There are challenges to making direct comparisons between grant levels per unit in Wales with other countries as there are different standards, building regulations and grant regimes in place. The table below does provide some comparative data:

Table 5: Average grant rates and grant intervention rates for social housing in England, Northern Ireland, Scotland and Wales

Administration	Social rent		All tenures
	Average grant rate	Average % grant intervention rate	Average grant rate
England	*	*	£42,500
Northern Ireland ²¹	£71,032	54.8%	
Scotland ²²	£74,000	56%	£66,495
Wales	£76,739	58%	

In Scotland, the outturn data for 2016-17 show that the average social rented house in Scotland cost just under £130,000 per unit and that the average grant rate was £74,000 or 56%. The average costs and grant provided for all tenures, including social rent and LCHO for HAs and LAs, was £129k and £66,495, or 51.8%.

* In England, grant for social rented homes has recently been re-introduced for the first time since 2011, but disaggregated tenure specific data are not available. The figure of £42,500 relates to the average grant awarded by Homes England through the Strategic Partnerships programme. Under this programme, Homes England invited Strategic Partners to self determine the level of grant required to deliver a given number of new home starts based on individual organisation’s financial capacity for development. The resulting average grant produced by Homes England’s 3 year model is a blended rate funding social rent, affordable rent, supported housing and shared ownership, with social rent targeted towards high stress markets.

The Panel considered the extent to which build costs and rents may impact the grant rate required by English and Scottish providers as compared with Welsh providers. There are additional build costs in Scotland and Wales compared to some parts of England (due to remote rural or specialist provision in both countries, and current DQR and Building Regulations requirements in Wales). In England a strong property market (outside of London) creates procurement pressures which drive up build costs, particularly in high value high stress areas (South East, South West, Eastern England). The panel concluded that drivers for build cost pressures are present in most markets in the UK.

A comparison of rents in the tables below indicate that different rent levels in Wales should not be expected to have a significant difference on grant requirements.

²¹ Confirmed to Welsh Government officials by Northern Ireland officials.

²² ‘Social housing in Scotland’, Dr Bilge Serin, Professor Keith Kintrea and Professor Kenneth Gibb, University of Glasgow, 20 November 2018 - “The outturn data for 2016-17 show that the average social rented house in Scotland cost just under £130,000 per unit and that the average grant rate was £74,000 or 56%.” (p.16)

Table 6 - England HA (units at social rents only) and Wales Registered Social Landlord (RSL) general need average net weekly rent (£)²³ and Scotland RSL units at social rents for 2018-19

	England	Wales	Scotland
Bedsit	72.29	73.83	73.72
1 Bed	80.65	78.94	82.31
2 Bed	92.24	88.94	82.96
3 Bed	102.59	97.01	91.72
4 Bed	120.52	113.79	
4+ Bed			101.63
5 Bed	137.53		
6 Bed	146.48		
5+ Bed		140.04	
Total	94.16	91.11	84.92

²³ **Wales data:** [Wales figures are based on actual rents data collected as part of the annual Stock and Rents data collection for 2018-19](https://gov.wales/ad-hoc-statistical-requests) Includes self-contained general needs units only. Exact breakdown presented above published at: <https://gov.wales/ad-hoc-statistical-requests>

England data: Source:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/766713/DR_Statistical_Release_2018_Full_v1.2.pdf (Table 27) Includes self-contained general needs units only. Includes units at social rents but excludes units at affordable rent. 2018-19 figures are projected from published 2017-18 figures for England (based on a 1% annual reduction). The projections assume that the stock (in terms of social / affordable rents, size, location etc) remain exactly the same.

Scotland data: <https://www.scottishhousingregulator.gov.uk/publications/charter-indicators-and-data-outcomes-and-standards> Includes social rents only - based on Charter Indicator data C17: Average weekly rent in the reporting year for lettable units by apartment size. The 2018-19 figures are projected from the published 2017-18 data using the published figure for Indicator C21 - Percentage average weekly rent increase to be applied next year. For RSLs the percentage applied is 3.2%. The projections assume that the stock (in terms of social rents, size, location etc) remain exactly the same. Note that the available average rent figures for Scotland are split by apartment size rather than numbers of bedrooms, where the apartment size is defined as the count of the number of bedrooms and any living / dining rooms. In collating and presenting figures in this table, an assumption has been made that the number of bedrooms equates to the apartment size minus one, for example the average rent figure presented for 3 bedroom properties is based on the average rent for properties of apartment size 4. It should be noted that the assumption made on the relationship between number of bedrooms and apartment size is a broad assumption only, and may not hold for all properties.

Table 7 - Local authority general need and sheltered average net weekly rent (units at social rents only) (£), 2018-19²⁴

	England	Wales	Scotland
Bedsit	72.38	69.15	61.16
1 Bed	75.67	77.68	68.44
2 Bed	85.47	86.95	72.75
3 Bed	94.06	97.12	77.88
4 Bed	112.62	106.92	
4+ Bed			84.70
5 Bed	132.30		
5+ Bed		115.34	
6+ Bed	144.97		
Total	85.72	89.49	73.07

If Wales could achieve a reduction in the average level of grant per home by c.15% or £11.5k – to an average of £65,200, it would equate to an increase in supply from 130 homes to 150 homes for every £10m of grant funding. The Panel is of the view that this represents a significant potential gain.

The Panel went on to consider how to reform the grant system, whilst protecting the aspects that work well. The Panel is of the view that a new model of innovative outcomes focused five year Affordable Housing Supply Partnerships (AHSPs) can be designed which responds to the sector ask for longer term, more flexible funding whilst delivering better grant value for money, maintains and enhances effective partnership working, preserves the LA strategic housing role, and avoids a ‘race to the bottom’ and pitfalls of other grant systems.

²⁴ **Wales data:** [Wales figures are based on actual rents data collected as part of the annual Stock and Rents data collection for 2018-19](https://gov.wales/ad-hoc-statistical-requests) Includes general needs and sheltered units. Exact breakdown presented above published at: <https://gov.wales/ad-hoc-statistical-requests> Bedsit data for Wales are based on self-contained accommodation only.

England data: Source: <https://www.gov.uk/government/statistical-data-sets/local-authority-housing-statistics-data-returns-for-2017-to-2018> Includes general needs and sheltered units. Includes units at social rents but excludes units at affordable rent. 2018-19 figures are projected from published 2017-18 figures for England (based on a 1% annual reduction). The projections assume that the stock (in terms of social / affordable rents, size, location etc) remain exactly the same.

Scotland data: <https://www.scottishhousingregulator.gov.uk/publications/charter-indicators-and-data-outcomes-and-standards> Includes social rents only - based on Charter Indicator data C17: Average weekly rent in the reporting year for lettable units by apartment size. The 2018-19 figures are projected from the published 2017-18 data using the published figure for Indicator C21 - Percentage average weekly rent increase to be applied next year. For LAs the percentage applied is 3.3%. The projections assume that the stock (in terms of social rents, size, location etc) remain exactly the same. Note that the available average rent figures for Scotland are split by apartment size rather than numbers of bedrooms, where the apartment size is defined as the count of the number of bedrooms and any living / dining rooms. In collating and presenting figures in this table, an assumption has been made that the number of bedrooms equates to the apartment size minus one, for example the average rent figure presented for 3 bedroom properties is based on the average rent for properties of apartment size 4. It should be noted that the assumption made on the relationship between number of bedrooms and apartment size is a broad assumption only, and may not hold for all properties.

The key principles on which AHSPs might be built are set out below:

Outcomes based delivery framework:

- Five year Affordable Housing Supply Partnerships: A new outcomes focused model of affordable housing supply, unique to Wales, delivering longer term funding certainty and flexibility and based on principles of fairness, quality and value for money. Open to all ambitious HAs (large, small, specialist, urban and rural) and LAs, seeking to partner with the Welsh Government to deliver more affordable housing from available resources. Partners could put forward proposals, on specific sites basis for at least the early years of delivery, to deliver a given number of affordable homes over the life of the Partnership, describing their proposals for grant support in the context of their own financial and organisation resources for delivery. The onus would be on the partner to deliver agreed outcomes, creating the opportunity for a lighter touch monitoring and oversight regime by the Welsh Government.

Collaboration, co-design and delivery oversight

- A new long term grant framework should be co-designed and the Panel suggests that the Welsh Government works with partners to capture the new model in a Prospectus for AHSPs, developed by the Welsh Government in partnership with WLGA, CHC, CIH and LAs and HAs.
- The Prospectus would describe the objectives and outcomes required and set out the process for responding to the Prospectus, the criteria for ASHPs and the evaluation process to be applied, and the roles and responsibilities of the Welsh Government and its partners in evaluation, award and deliver oversight.

Housing need and affordability – a regional dimension

- The Panel recognises there is a level of unmet housing need in every part of Wales. The current system of formula based grant distribution ensures individual local authorities receive a share of affordable housing grant resources. The aim of the long term AHSP model would be to deliver more homes for the available grant.
- Individual LAs should continue to determine local housing strategy and priority housing needs, producing LHMA's on a mandatory basis to a common timetable, to enable grant to continue to be directed at needs determined by individual LHMA's and the modelling undertaken by the Welsh Government. A new 5 year AHSP model could aggregate individual authority needs at a regional level, with regional needs reflected in the Prospectus to recognise market differences.
- Adding a regional dimension to grant deployment would allow the Welsh Government to work with LA partners to flex grant deployment to deliverable schemes to smooth spend profiles whilst ensuring individual LAs receive their fair share of grant over the life of the Partnership. The regional dimension would enable a bottom up needs based grant system which avoids a one size fits all national approach.

Quality, standards and criteria for AHSPs

The Prospectus should describe the quality of homes to be delivered by partners and the range of criteria to be met by AHSP partners. The Panel considers the following criteria to be important for a new model:

- Standards - The affordable housing sector in Wales is rightly proud of the high standards of new homes and the new approach should protect this and adopt the recommendations set out in the Housing Quality Standards section of this report. The Panel view is that meeting (reformed) DQR would be a mandatory requirement of the new model;
- Sustainable communities – a core requirement for the new model should be the requirement for AHSP proposals to demonstrate how tenure mix on schemes proposed will create or contribute to long term sustainable communities;
- Specialists and new entrants – The Panel recognises the valuable contribution to supply of smaller and specialist HAs, and the potential contribution from LAs. The Panel view is that the Prospectus should explicitly encourage participation from small and specialist housing associations, and from LAs;
- Diversity in AHSPs – The Panel recognises the value in having multiple AHSPs operating in the same regional areas to build some resilience in delivery outcomes;
- Housing need – the Panel view is that a new model should direct grant to schemes which meet LA need and have LA support. The Prospectus could describe the range of tenures to be provided regionally, as well as the need for specialist housing – sheltered, extra care, supported housing, rural housing. The Prospectus would require partners to set out their delivery proposals by tenure, supported by evidence of delivery and details of the development pipeline. It would be reasonable to expect partners to be able to name specific sites for at least the first three early years of delivery. This gives early visibility over individual sites and needs to be met and LA level delivery implications whilst allowing flexibility for partners to bring forward future sites as they are identified;
- Affordability – the Panel is of the view that AHSP partners should have a clear rent policy, referencing national policy and describing their understanding of affordability at the local level, and that evidence of this should be tested through the AHSP evaluation process;
- Grant value for money – in order for Welsh Government to test grant VfM, the new model should provide transparency of the level of grant sought by tenure, by region, by partner. The Panel view is that the process should give Welsh Government visibility of the level of private/HRA/PWLB other funding being contributed so grant can be evaluated alongside other funding sources;
- Skills, capacity and track record – the Welsh Government will wish to be satisfied that it entrusts delivery of grant resources to partners which can evidence capacity – organisational and resources to deliver the five year AHSP proposals. The Panel suggests the Prospectus should describe the evidence to be provided and evaluated as part of the new model;

- Partnerships and collaboration – the Panel considers there to be great potential for HAs and LAs to share resources to help bridge the skills and capacity gap and to support delivery of affordable housing. The Panel suggests collaborations and partnership working should be encouraged in the new model;
- Innovation in the supply chain/MMC – the AHSP prospectus should invite proposals which capture local and regional innovation and give greater priority to proposals showing innovation and VfM and demonstrate how partners will work with local supply chains and SME builders to build local economic benefit.

Evaluation, oversight and grant VfM

- A new AHSP approach should empower the Welsh Government by providing transparency over grant requirements and help embed a grant VfM culture in affordable housing supply by providing a framework for the Welsh Government to have an active dialogue with partners over grant VfM. The Panel recognises this would be a significant change for the Welsh Government and its LA and HA partners and has resource implications for all parties.
- The Welsh Government might consider a process of inviting indicative proposals (against the prospectus), followed by dialogue leading to formal proposals. This would give the Welsh Government and partners the opportunity to refine proposals to ensure objectives are met.
- As the Panel recommends opening up grant to LAs, the new model should require the Welsh Government to undertake grant VfM evaluation to respect commercial sensitivities. Respecting commercial sensitivity would be important to partners if they are to provide details of individual financial capacity for development and evidence grant VfM. A two stage evaluation might be helpful to allow the Welsh Government to share with regional LAs an overview of the aggregated delivery proposals, whilst protecting commercially sensitive information. This could embed the role of individual LAs within both the design and evaluation of a new model whilst giving the Welsh Government an enhanced role in stewardship of national grant programme.
- A new model with an emphasis on grant VfM would enable the Welsh Government to compare proposals and award AHSPs to partners best meeting the criteria set out in the Prospectus. As grant resources are so constrained it is unlikely that all proposals would be successful. The Welsh Government might consider a feedback framework based on the criteria for organisations who do not succeed in securing an AHSP. There may also be scope for successful organisations to subsequently partner with others to deliver.
- The Welsh Government might consider what the most appropriate mechanism would be for early discussions regarding proposals including good quality design, as part of the update of DQR. This could include for example liaison with others where appropriate such as the Design Commission for Wales.
- The Welsh Government would need to consider an appropriate mechanism for monitoring progress of ASHP delivery. The Panel's view is that a new model could ultimately reduce the administrative burden on the Welsh Government and

Local Authorities placing a greater burden of trust on partners to deliver their obligations as AHSPs.

Resources

- The Panel is aware of and sensitive to the significant resource constraints facing the Welsh Government's Housing Department. Previous recommendations to reform the grant model have not been implemented, in part due to resource constraints within the Welsh Government, and reform is overdue as the focus on grant VfM is currently very weak.
- The Panel recommends that the Minister supports the investment in sufficient resources in the Welsh Government housing department to work up and implement the new grant framework, whilst continuing to resource the current framework. The Panel believes a new grant VfM focused model will deliver more homes for available resources by better leveraging the balance sheet of delivery partners, and ultimately result in greater administrative efficiency.

The new grant model suggested raises some further important considerations as follows:

Local Authority access to finance and grant

Two recent changes to the Housing supply landscape now enable Local Authorities to take a more positive view on Council House building:

- The abolition of the HRA borrowing cap and
- The abolition of Right to Buy in Wales

Local authorities have been pressing for access to the SHG programme. The Panel agrees that access to such grant should be opened up to LAs – stock retaining and strategic authorities. The Panel believes LAs should be able to put forward strong grant VfM proposals which firstly optimise their access to low cost finance via Public Works Loans Board (PWLB), or by taking advantage of attractive alternative private finance available to LAs at very similar rates to PWLB. The low cost of finance available to LAs should be reflected in the level of grant required to support development. Where the LA has access to Council owned land, this may further reduce the need for grant support to achieve scheme viability. LA proposals for AHSPs would be tested against the same criteria as HAs which should include a focus on operating costs to ensure efficient landlords are rewarded through the grant system.

Consolidation of grant funding

The Panel is of the view that to make best use of available resources, funding should be consolidated with national programmes built up from regional housing needs, aggregated up from individual LHMA data. Consolidation could include:

- Social Housing Grant
- Land for Housing
- Rent to Own - Wales
- Shared Ownership - Wales
- Homebuy - Wales

- Innovative Housing Programme
- Integrated Care Fund*
- Home Improvement Loans*
- Houses into Homes*

*Further consideration required – may be better to stand outside of the new grant model.

Some funds should be retained as stand-alone programmes. The Wales Stalled Site Fund for example, is of critical importance to stimulate and support the Welsh SME home builder industry and does not sit naturally within a reformed affordable housing grant programme. Help to Buy - Wales, administered very effectively by the Development Bank of Wales, serves a different purpose and should continue as an independent fund. The Panel's comments on Help to Buy - Wales are set out separately below. Appendix D provides details of ongoing housing funding programmes together with the Panel's view on the consolidation of these.

The Welsh Government should work with partners to assess whether new and additional funds are required, to operate in tandem with the core affordable housing grant programme. For example, funding for infrastructure to support preparation of larger scale, challenging residential sites, does not currently exist and would be an important fund to work alongside the core social/affordable housing programmes. Schemes with significant remediation, assembly and infrastructure needs would require funding at a level which would be beyond the scope of the main grant funding programme.

Estate and neighbourhood regeneration funding (for feasibilities, CPO, Right to Buy buy back etc) represents another example of high cost development which cannot be accommodated within the constraints of the main grant programme. It is recommended Welsh Government gives consideration to a housing infrastructure and regeneration fund available to HAs and LAs to work alongside the main grant programme to unlock larger more complex sites and estates.

Rent to Own - Wales (RtOW)

This scheme was introduced in early 2018 alongside Shared Ownership - Wales (SOW) with £70m being made available across the two schemes over the period 2017/18 to 2020/21. RtOW has a grant rate of 30% compared to 25% for SOW but the two schemes are interchangeable with the decision as to which will apply being driven by the applicant's financial circumstances (RtOW is available to those with insufficient deposit or credit history, SOW is available to those who have sufficient deposit to be able to secure a mortgage to at least purchase a 25% share in the home). The focus initially was on new build but now includes existing homes.

To date around 300 homes have been funded via these two schemes and given some are still in the construction phase it is not possible to split out RtOW from SOW, not least because it will depend on what choice the buyer makes in the end. 12 associations are participating in 15 local authority areas at present.

Rightly, both schemes respond to the need to have a ladder of different opportunities for lower income households (whether income or deposit constrained or both) to enter home ownership. Clearly they are not without their complexities and ensuring that there is well informed and quality financial advice will be essential which looks

out over the short to medium term prospects for households and the optimum choices to be made.

The Panel has made proposals on need assessment and on financing which will impact upon the demand for these schemes. Better local information should ensure that authorities are more able to pinpoint the underlying demand for each of these products and for this to inform the engagement on the funding priorities and decisions which then flow through the grant partnership process. RtOW and SOW type options would need to feature in the prospectus so that these more granular requirements are captured.

Help to Buy - Wales (HtBW)

For completeness in this section on finances we consider the case of Help to Buy - Wales. This Welsh Government equity loan scheme (up to 20% of the purchase price) has been in place since early 2014 and by the end of December 2018 some 8,485 new homes had been bought using it. Help to Buy - Wales is a demand led programme open to anyone who does not already own a home (first time buyer or someone who has previously bought a property) and wants to buy a new main home valued up to £300,000. It was designed to boost the output of new homes and to ease access to home ownership. The current programme continues to 2021 with an up-front cost of around £460 million (the equity loans) which are then repaid with the addition of any subsequent price inflation on the equity loan via the sale of the home. It is administered by the Development Bank for Wales.

As noted at the outset despite the scheme being an open market programme it was included in the Welsh Government's definition of 'affordable housing' for the purposes of their 20,000 affordable homes target in this term of government, along with shared ownership and rent to own. Help to Buy - Wales is different to these other schemes in that there is no income limit although a 5% deposit is required.

The Welsh Government has yet to decide how it might respond to the recent extension of the scheme in England to 2023 (as a possible end date) and the possible planned relaunch there as a first time buyers only scheme (or a starter home scheme) with a lower, and regional, price threshold (currently it is £600,000 across England). From the outset, Scotland adopted a maximum equity loan of 15% and currently has an upper price limit of £200,000. The Welsh Government has announced that it will require the houses under HtBW to be freehold in all but exceptional circumstances, securing agreement from all of the five largest developers that they will no longer sell leasehold houses. In addition, in May 2018 the then Minister For Housing and Regeneration announced that the Help to Buy - Wales equity loan affordability calculator was to include an energy efficiency element, a first in the UK.

If a decision was made to impose tighter targeting of the scheme, e.g. for first time buyers only, it would move it towards being a more obviously affordable housing scheme rather than a wider open market scheme, although it would still not meet the true definition of affordable housing as defined by TAN 2²⁵.

²⁵ <https://gov.wales/technical-advice-note-tan-2-planning-and-affordable-housing>

The Panel recognises the merits of an open market scheme but, with tight resources, better targeting has a clear logic albeit that Wales has partly done that given the lower value limit imposed at the outset. However, with average of all first time buyers in Wales (i.e. not just HtBW) purchasing a home worth around £139,000 in October 2018, compared to an average home purchase price for all buyers in Wales of just under £161,000 in the same month²⁶, there may still be room to adjust HtBW thresholds downward (subject of course to house price inflation). Quite a lot of the current purchasers could have bought a smaller home without the assistance of the scheme, in other words in short hand they bought “bigger, better, sooner”. That probably has the merit of saving such households the need to move again so soon. This does reduce transaction numbers in the longer term (and the revenue from the Land Transaction tax) but it does save home owners the costs of more frequent moves.

The Welsh Government commissioned a review of the scheme in late 2018 and a draft report has now been submitted updating findings from previous research²⁷. Unlike in England, new build transactions in Wales have declined as a percentage of total transactions since 2015 and the upward trajectory in output achieved has recently faltered. Despite that, it is clear that HtBW has been important in maintaining the overall level currently being achieved.

The Panel recognises the potentially important contribution HtBW could make to a higher output of more tightly defined “affordable homes”. Although market interventions of this nature should logically only be in place long enough to help the market re-adjust to normal levels of activity there is merit in considering refocussing the scheme to make best use of this resource in line with broad tenor of the recommendations elsewhere in the review. The Panel would thus recommend the continuation of the scheme but with improvements in targeting via a lower price cap and a focus on first time buyers so that it is more evidently part of the affordable housing supply mix. Certainly the price cap should not be uprated in line with current or future house price inflation.

In addition, the Welsh Government should consider what other policy aspirations could be leveraged into the wider housing market using the incentive of continued access to HtBW. The major house builders have shown their willingness to work with the Welsh Government in this way through the changes we have seen around leasehold houses. Examples of policy priorities that could be linked to the provision of funding include the zero carbon agenda, improved digital infrastructure or space standards which align to DQR.

The role of new financing models

The financing of social and affordable housing is rapidly evolving with new models and structures providing a platform for long term, institutional capital to invest in this stable asset class. Wales has been a pioneer in this area, with successful partnerships between the Welsh Government, HAs and investors having already been established through models such as Tirion Homes (which used public sector

²⁶ <https://www.gov.uk/government/publications/uk-house-price-index-wales-october-2018/uk-house-price-index-wales-october-2018>

²⁷ <https://gov.wales/sites/default/files/statistics-and-research/2018-12/160309-help-to-buy-wales-interim-en.pdf>

land as equity) and Welsh Housing Partnership (where the Welsh Government allocated grant for housing associations to use as equity).

A future, flexible grant funding system should encourage further innovation in financing and be capable of working alongside long term, institutional capital, whether in the form of grant, direct equity or equity in the form of public sector land. Participants in the future grant system should be incentivised to bring forward innovative financing solutions, particularly where these models are able to demonstrate improved value for money in leveraging government investment and delivering more housing supply.

Under the current structure, only HAs are able to receive investment in the form of grant. The Panel recommends the design of the new grant system considers the use of both grant and equity funding interchangeably within the overall capital investment pot, in order to facilitate both new and existing financing models which are capable of demonstrating the necessary regulatory oversight required for public investment.

The impact on regulation of the sector

Regulation of the social housing sector is currently carried out by the Welsh Government regulatory team for HAs and the Wales Audit Office (WAO) for LA landlords. The Panel recommends the regulatory team should be engaged in co-designing the new model, to ensure proper consideration of any changes which may be required of the regulatory regime in the light of the recommendations made in this report.

Additional recommendations

In addition to our key recommendations set out above, the Panel had the following more detailed recommendations to make:

- Welsh Government should change the current 'zoning' system to apply regional zoning, thus recognising delivery across LA boundaries.
- The Panel recommends that the Minister supports the investment in sufficient resources in the Welsh Government housing department to work up and implement the new grant framework, whilst continuing to resource the current framework.
- The Panel recommend the continuation of the Help to Buy – Wales scheme but with improvements in targeting via a lower price cap and a focus on first time buyers so that it is more evidently part of the affordable housing supply mix. Certainly the price cap should not be uprated in line with current or future house price inflation.
- The Welsh Government should consider whether any changes should be made to the regulatory regime in the light of the recommendations made in this report, particularly around the new grant approach.

Dowry and Major Repairs Allowance

Key Recommendations:

- The Welsh Government should commission an independent financial review of the Welsh Large Scale Voluntary Transfers (LSVTs) in receipt of Dowry and the Housing Revenue Accounts of local authorities in receipt of MRA. The Review should scrutinise business plans post the achievement of Welsh Housing Quality Standard (WHQS) in 2020, including financial metrics together with cost KPIs to examine whether continued receipt of Dowry / MRA on a rolling 5 yearly review period basis can be justified.
- LSVTs and local authorities should be required to demonstrate an accelerated programme of decarbonisation of existing homes in return for an ongoing commitment to Dowry and MRA.

Introduction

One of the challenges set for the Panel was to *advise on how the development capacity in LSVT housing associations and stock-holding local authorities can be maximised especially after 2020 when all existing stock meets the WHQS.*

Background

In total there are over 225,000 social homes in Wales provided by social landlords (HAs and LAs who still have their housing stock). They house some of the poorest and most vulnerable people in Welsh society. Around 68,000 of these social homes are provided by LSVTs and around 87,000 of these social homes are provided by LAs (the balance of the 225,000 social homes is provided by traditional HAs).

Dowry gap funding (£43.8m capital funding in 2018/19) is paid annually to 10 LSVTs based on a fixed allocation of the gap funding determined at the point of transfer of housing stock to the LSVT. Receipt of the Dowry gap funding has enabled LSVTs to leverage significant additional private finance.

The remaining outstanding Dowry investment due is £858m, which takes those LSVTs through the life of their initial business plans.

MRA capital funding (£60.4m in 2018/19) is paid annually to the 11 LAs who still manage and maintain their council housing. It is used by LAs to meet the Welsh Housing Quality Standard (WHQS) by December 2020. The allocation of this funding to individual LAs is based on housing stock numbers of different archetypes. There is no long term agreement with LAs.

Dowry gap funding and MRA allows both LSVTs and LAs to not only achieve and sustain WHQS but also to fund aids and adaptations, more intensive housing management support to communities, and environmental improvements associated with the physical re-modelling of large estates with non-traditional properties.

The Panel's work

Assessing the performance and capacity of LSVTs and stock retaining LAs HRA is challenging. The Panel's work primarily concentrated on Dowry funding given the Welsh Government's continued commitment to LSVTs post stock transfer and the complexities of their financing arrangements. However, it is recognised that there is also a need to review MRA in detail.

LSVTs are established businesses where there is a natural incentive for the entity receiving the transfer of stock and its advisors to "fully load" the business plan costings in terms of stock condition and investments and via contextual economic assumptions. At the point of stock transfer, the risks of under-estimating the investment requirements or over-estimating financing costs may loom larger than they turn out in due course to be. This had the effect of suppressing initial valuations (high investment versus low rents) and in many cases, maximising the need for Dowry gap funding in order to meet front loaded investment programmes. In Wales, like England, the resulting experience has been a near universal "out-performance" of these original business plans as spending programmes and operating and economic assumptions were better in the real world than anticipated.

The key difference between English and Welsh Dowry systems however, is that gap funding for English LSVTs was paid up front whereas Dowry in Wales was a payment stream over time. The Welsh system will tend to increase financing costs (i.e. with more external debt needed with less early grant) but it does allow the Welsh Government to review the current position on an on-going basis in order to assess the value for money from continued dowry payments in the context of the continued viability of the LSVTs, their performance and capacity post WHQS and the return on public investment.

The aim of MRA funding is different to Dowry in that it is annual capital funding given as a contribution towards the cost of LAs achieving WHQS no later than 31 December 2020 and its maintenance thereafter. Not all LAs have achieved WHQS yet with four LAs planning to achieve WHQS in 2020.

The Panel recognises that each social landlord is unique and that there is no one size fits all solution to the question of future Dowry/MRA payments. The Panel noted and appreciated the modelling work and scenario testing undertaken by some of the sector as part of the work stream discussions and all the evidence submitted – most of which argued for the maintenance of the status quo.

The Panel noted concerns regarding existing funding arrangements for LSVTs, either where removal or a change of Dowry payments could constitute an event of default (and therefore induce a renegotiation of existing loan terms) or where funders have predicated investment and credit decisions on Dowry payment mechanisms.

Towards a new framework to leverage the investment potential in LSVTs and stock-holding local authorities post 2020

The Panel deliberated on this issue at some length and concluded that despite these arguments, the current status quo should not go unchallenged in either LSVTs or stock retaining LAs.

Recognising the limits on what it could do and the complexity of the issues at hand the Panel believes that the best way forward is to undertake an urgent and independent review of all of the LSVTs and stock retaining LAs using common and consistent benchmarks. This review should examine the following:

- Business plan capacity
- Performance KPIs
- Cost KPIs
- Specific circumstances impacting on costs (e.g. high prevalence of non-standard housing stock)
- Future investment plans
- Funding arrangements and restrictions

As well as a range of financial matters, the review should also consider material factors specific to individual LSVTs and stock retaining LAs. The review should scrutinise business plans post the achievement of WHQS in 2020 including the investment that may be required to meet new standards that may replace WHQS.

Through the review, a framework should be developed in which there would be clear links between continued receipt of funding under a rolling 5 yearly review mechanism and the achievement of value for money and meeting quality standards in respect of existing housing stock. The Panel is aware of that the decarbonisation agenda may place new requirements on LSVTs and LAs in respect of existing housing stock in the future. The Panel considers that LSVTs and stock retaining LAs should be required to demonstrate an accelerated programme of decarbonisation of existing homes in return for an ongoing commitment to Dowry and MRA.

In relation to LSVTs, there should also be scrutiny of their existing financing arrangements alongside the potential for new financial arrangements under current market terms (including existing hedging and potential breakage costs). It should also consider the capacity to move away from typical LSVT structural loan terms (e.g. annual business plan approval by lender(s) and financial covenants linked to the business plan).

The Panel notes that some Welsh LSVTs have already refinanced out of restrictive LSVT type funding arrangements which had fettered the borrowing and delivery capacity of those organisations. LSVT specific funding covenants are a natural response to the way in which LSVTs are established. However, as these organisations mature (and generally out-perform their business plans), these funding arrangements make less sense and over time should be re-structured to become less restrictive or a re-financing should be undertaken. Fundamentally, they should not prevent a business with underlying financial strength to sensibly access the borrowing capacity it had been able to generate.

If an individual LSVT's existing financing and an inability to refinance is identified as a potential barrier to effective delivery within reasonable financial parameters, the Welsh Government might reasonably consider using its resources to assist in supporting new financing arrangements. For example, use of contingent debt guarantees or a first loss tranche of debt within a structure to support weaker credits in refinancing restrictive funding arrangements may be more effective allocation of resources than guaranteeing Dowry payments over the remaining life of business plans. The Panel would therefore recommend that these options are considered as

part of the independent review along with close scrutiny of current funding arrangements and terms.

The Panel acknowledges that commissioning such a review will involve a period of uncertainty. It therefore recommends that the review should be undertaken as quickly as possible following the publication of this report. While the Panel recognises the need to provide assurance to lenders and investors making long term investment decisions, it should be noted that lending into Welsh LSVTs was always undertaken in an environment of an annual payment of Dowry and an assumption of a committed position over the full life of the plan. The Panel is not recommending that this position should change, but rather that continued receipt of Dowry (whether in full or in part) should be based on clear evidence of additionality, value for money and return on investment.

Additional recommendations

- The Panel recommends that as part of the independent financial review that, where an inability to refinance was a potential barrier to effective delivery within reasonable financial parameters, then the use of other options such as contingent debt guarantees be considered.

Conclusions and next steps

Conclusions: informed, engaged and innovating – taking the Welsh housing system into the future

Given the length of our report and the number and complexity of the issues we have covered, this brief summary provides a reminder of our overall goals and ambition. In summary:

- Our starting point was that the current system had considerable weaknesses and was not making the best use of resources – financial and otherwise.
- Our wide-ranging review has resulted in a significant body of recommendations for the Welsh Government to consider.
- The prize we have focussed upon is improving the system so we can do more with the same level of resources.
- We firmly believe that the recommendations we have made will result in increased and better quality output of affordable homes in Wales for the same unit of resource.
- While the weight of our work has focussed on supply-side issues we have worked hard to ensure that need and demand and affordability have not been overlooked. Ultimately the goal is not simply more homes but homes that make significant contributions to the lives and well being of their occupants.
- By improving the land supply, by better coordination and use of public land along with a slow but sustainable expansion of homes with some built by modern methods of construction and with the engagement of local authorities and housing associations in a reformed and streamlined financial system it is clear we can make better use of existing resources. This will require all to play their part in adapting and changing and to make the new system a success.
- The implementation of a new regime will require some up front investment. The Panel firmly believes that this investment is worthwhile and will result in benefits in the short to medium term. As a new system is implemented, consideration should be given on the most effective form of regulation for the housing sector in the light of the changes made.
- Overall, better assessment of housing needs and stronger collaboration between bodies with local authorities playing the central role should mean better outcomes and more output.
- Wales has a long history of innovation in housing policy terms reaching back to the first mixed funded schemes by housing associations. What we have set out in this report should support further innovation and the full release of the potential capacity of the affordable housing sector.
- Clearly it will take time to bring this new system into place but subject to how the recommendations are taken up we would expect to see benefits starting to flow within the next two years and to see significant steps forward within the life of the next Assembly.

Complete list of key and additional recommendations

Understanding housing need

- The Welsh Government should mandate local authorities to provide Local Housing Market assessments (LHMAs) based on a consistent timetable, data and methodology across housing tenures. LHMAs should be refreshed every two years and rewritten every five years, and submitted to the Welsh Government. Jointly commissioned LHMAs should also be explored.
- The Welsh Government statistical service should work with local authorities to agree data sets for use in the LHMA, Local Development Plan (LDP) and other housing requirements work.
- There is a need to enhance the granularity of the LHMA process to better capture the range of needs which might otherwise be ignored. More attention should be given to the requirements of older and younger age groups, people with disabilities and other needs as well as giving more detailed attention to sub market home ownership, rural housing, small settlements and the demand for community housing trusts and self build. The work undertaken by Tai Pawb in opening up some of these issues is to be commended and should be built upon.
- Further work is required to better integrate the production and reconciliation of the conclusions of LHMA and LDP processes. Housing and planning departments should collaborate further on this in order to bring greater clarity and cohesion to the local assessment of housing requirements and to make better use of limited resources. The potential for greater regional collaboration should be explored.
- The Welsh Government should require local authorities to deposit copies of their LHMAs with them.
- Local authorities should consider whether the right resources are being devoted to the LHMA and LDP processes and whether sufficient skilled staff are in place.
- As noted earlier, the Panel fully endorses the recent decision by the Welsh Government to develop a housing need and demand model. This model will be used to generate national and regional estimates and by tenure. It also has the potential to assist with local authority level estimates and the Panel would support further exploration of this option.
- The Welsh Government must look again at the resources devoted to the analysis of housing needs and demands and the associated areas of data collection. More should be done to make better use of data generated by local authorities and others.

Quality housing standards

- The Welsh Government should develop new consolidated and simplified standards for new build grant funded and S106 homes. The new standards should be easier to use and should not have conflicting requirements. The new

standards should concentrate on minimum space standards including storage inside and outside.

- The Welsh Government should introduce a requirement for all new affordable homes to be near zero carbon / EPC 'A' using a fabric first approach from 2021, supplemented by technology (renewables) if required.
- The Welsh Government should set a longer term goal of 2025 at the latest to have the same standards for all homes irrespective of tenure.

Modern Methods of Construction

- The Welsh Government should continue to support the trialling of Modern Methods of Construction (MMC) to help establish which methods can contribute to the objective of increasing the scale and pace of affordable housing with the existing resources available.
- The Welsh Government should develop a strategy to map out how Wales could further use off-site manufacturing (OSM) and MMC to deliver near zero carbon homes along with an appropriate timetable for achieving this.
- Industry bodies (such as Build Offsite Property Assurance Scheme (BOPAS), National House Building Council (NHBC), Association of British Insurers (ABI), UK Finance) should develop the assurance framework around MMC helping to standardise product warranties and provide accreditation. This will allow lenders, valuers and insurance companies to more confidently finance, value and insure new MMC homes in Wales. Given the market size, adoption of UK-wide assurances and standards should be accepted by the Welsh Government.
- Learning from the Innovative Housing Programme should be used as the basis to inform the production of guidance in the roll out of MMC in Wales to provide quality homes which fit with Welsh DQR standards, representing value for money, which can be made efficiently by any factory who wishes to make them.
- The Welsh Government should wrap existing MMC related funding programmes into future grant frameworks and including commitment to MMC and related objectives as a desired outcome within the evaluation criteria for the proposed Grant Partnerships. This will provide a clear policy lever and greater certainty of long term demand in order to support investment. Within this, Welsh Government can consider the extent to which local solutions, supply chains and employment (subject to cost and quality considerations) can be favoured in order to maximise the impact on the Welsh economy and meeting the needs of occupants.

Rent policy

- The Welsh Government should implement a five year rent policy from 2020-21, providing stability for tenants and landlords.
- Further flexibilities should be introduced into the Welsh Government's rent formula regime in relation to bungalows (a higher upward differential) in order to better differentiate them from flats and the locational index (a limit on annual adjustment) in line with the recommendations of the Heriot Watt report.

- There should be a focus on landlords considering Value for Money (VfM) alongside affordability. An explicit annual assessment on cost efficiencies should be part of the rationale for justifying any rent increase.
- Some landlords do not appear to fully understand or make use of the policy and the flexibility already provided. The Panel agreed with Heriot Watt that the Welsh Government should provide case studies.
- The Panel fully endorsed the view that there should be better, more meaningful, engagement with tenants on rents. This was seen as a high priority for landlords and the regulator.
- Living rents and other new approaches have potential and housing associations and local authorities should work with Welsh Government to develop this.
- The Welsh Government and the Regulator should continue to monitor the rent regime and consider on an annual basis the case for further changes before the proposed initial 5 year regime concludes in 2024/25.

Local Authorities as enablers and builders

- The Welsh Government should encourage local authorities (LAs) to use the flexibilities that the lifting of the borrowing cap creates to support delivery of new affordable housing supply. Where appropriate, LAs should have the freedom and flexibility to access grant from the Welsh Government direct or through wholly owned Local Housing Company structures.
- The Welsh Government should encourage LAs and housing associations (HAs) to work in partnership to share skills, capacity and resources, and work collectively, through local and regional procurement frameworks, to support local supply chains.
- The Welsh Government should link collaboration to grant distribution to assist with capacity, whilst having the benefit of supporting local key strategic priorities. Greater collaboration between HAs and LAs would result in the delivery of more affordable homes.
- The Welsh Government should issue strengthened LA HRA guidance.
- The Welsh Government should streamline the Compulsory Purchase Orders process and improve the Empty Dwelling Management Orders process so that it functions better than any alternative work around solution.
- There should be more power for Local Authorities to increase Empty Property charges and the rate should be increased.
- A set of core / minimum principles should be produced for Section 106 agreements and should include minimum acceptable criteria for such developments.

Public sector land

- An arms-length body should be established by the Welsh Government to act as a hub for public sector land management and professional services. This body should work alongside individual departments / bodies to provide capacity and resources to accelerate development of public land assets and support greater consistency and efficiency in managing those assets.
- The Welsh Government should mandate the mapping of all public land and require owners to publish the development potential for the land they own.
- Local authorities should be encouraged to make better use of CPO powers to help bring forward more land for housing, and to facilitate the development of existing public sector land.
- Utility providers should be required to make a compulsory input at preplanning stage of LDPs as soon as possible.
- Consideration should be given to the body having land ownership and Compulsory Purchase Order (CPO) powers to help fulfil its objectives.

Financing affordable housing

- The Welsh Government should reform grant funding to introduce a new flexible long term five year Affordable Housing Supply Partnerships model which combines grant funding certainty and flexibility whilst testing grant VfM. The new funding model should be based on principles of fairness, quality, and grant VfM transparency.
- A number of current funding pots should be consolidated to focus capital and revenue funding on core tenures determined nationally reflecting needs assessments at national, regional and local levels.
- The new model should test the contribution of private finance and alternative finance models to stretch grant resources to maximise output and demonstrate grant VfM.
- The new grant system should consider the use of both grant and equity funding interchangeably within the overall capital investment pot, in order to facilitate both new and existing financing models which are capable of demonstrating the necessary regulatory oversight required for public investment.
- Further consideration should be given to the need for a housing infrastructure and regeneration fund to sit alongside the main grant programme to unlock larger more complex sites.
- Access to grant and equity funding should be made available to Local Authorities able to contribute low cost finance to deliver grant VfM.
- Welsh Government should change the current 'zoning' system to apply regional zoning, thus recognising delivery across LA boundaries.

- The Panel recommends that the Minister supports the investment in sufficient resources in the Welsh Government housing department to work up and implement the new grant framework, whilst continuing to resource the current framework.
- The Panel recommend the continuation of the Help to Buy – Wales scheme but with improvements in targeting via a lower price cap and a focus on first time buyers so that it is more evidently part of the affordable housing supply mix. Certainly the price cap should not be uprated in line with current or future house price inflation.
- The Welsh Government should consider whether any changes should be made to the regulatory regime in the light of the recommendations made in this report, particularly around the new grant approach.

Dowry and Major Repairs Allowance

- The Welsh Government should commission an independent financial review of the Welsh Large Scale Voluntary Transfers (LSVTs) in receipt of Dowry and the Housing Revenue Accounts of local authorities in receipt of MRA. The Review should scrutinise business plans post the achievement of Welsh Housing Quality Standard (WHQS) in 2020, including financial metrics together with cost KPIs to examine whether continued receipt of Dowry / MRA on a rolling 5 yearly review period basis can be justified.
- LSVTs and local authorities should be required to demonstrate an accelerated programme of decarbonisation of existing homes in return for an ongoing commitment to Dowry and MRA.
- The Panel recommends that as part of the independent financial review that, where an inability to refinance was a potential barrier to effective delivery within reasonable financial parameters, then the use of other options such as contingent debt guarantees be considered.

Glossary of terms

CHC	Community Housing Cymru
CIH	Chartered Institute of Housing
CPO	Compulsory Purchase Order
DBW	Development Bank for Wales
DQR	Development Quality Requirements
EDMO	Empty Dwelling Management Order
e-PIMS	Electronic Property Management System
HA	Housing Association (also referred to as RSL – Registered Social Landlord)
HRAS	Housing Revenue Account Subsidy
JRF	Joseph Rowntree Foundation
LA	Local Authority
LDP	Local Development Plan
LHMA	Local Housing Market Assessment
LSVT	Large Scale Voluntary Transfer – transfer of LAs housing stock to a HA
LTH	Lifetime Homes
MMC	Modern Methods of Construction
MRA	Major Repairs Allowance
OSM	Off-Site Manufacturing
PWLB	Public Works Loan Board – provides loan funding to LAs
S106	Section 106 – legal contract between developer and LA alongside planning permission that requires developers to carry out specified planning obligations
SHG	Social Housing Grant
SME	Small to Medium size Enterprise (business or company that has fewer than 250 employees)
WG	Welsh Government
WHQS	Welsh Housing Quality Standard
WLGA	Welsh Local Government Association

Appendix A – Details of Review Panel Engagement

The below is provided to evidence the range and extent of the engagement which has taken place, and is not intended to be a complete list of every meeting or event attended by Panel members.

Engagement type	Details	
Panel meetings	<p>8 June 2018 29 June 2018 31 July 2018 7 September 2018 8 October 2018 12 November 2018 11 December 2018 16 January 2019 26 February 2019 18 March 2019 8 April 2019</p> <p>The Panel has held additional short meetings by telephone where required</p>	<p>The following people provided verbal evidence at their meetings including:</p> <ul style="list-style-type: none"> • Chair of Housing Supply Task Force • Swansea LA • Rural Housing Enabler • Harriet Lee Building & Renovation Ltd • NEW Homes (Flintshire's Housing) • Beech Developments (SME) • Cartrefi Cymunedol Gwynedd • Valleys to Coast • Cardiff City Deal • Development Bank for Wales • Young people representatives from Review sessions organised by End Youth Homelessness Cymru
Conferences / events - attended by Panel members in relation to the work of the review	<ul style="list-style-type: none"> • Housing Quality Network Cymru annual summit 2018 – <i>I'd rather be in Wales</i> – 13 June 2018 • UK Finance Wales Policy Committee focussing on MMC – 10 September 2018 • CIH Cymru - Big Question Conference - <i>The Housing Puzzle – Do the pieces fit?</i> – 4 October 2018 • CHC dinner - Affordable Housing Supply Review – 9 October 2018 • WLGA Housing Strategy Officers Cabinet Meeting – 10 October 2018 • CHC Annual Conference – 15/16 November 2018 • TPAS All Wales Tenants conference – 22 November 2018 • CIH Cymru - One Housing System - Tyfu Tai Cymru national forum – 5 December 2018 • Welsh Housing Research Conference 2019 – 10 January 2019 • Planning Officers Society Wales - 8 February 2019 • CHC - Annual Governance Conference for HAs – 6 March 2019 • Regulatory Board for Wales – March 2019 	

Welsh Government officials	Ongoing from April 2018. This has included: <ul style="list-style-type: none"> • Housing • Planning • Knowledge and Analytical Services
Minister responsible for housing	Ongoing from May 2018, to update on work of the Review
CHC, WLGA and CIH Cymru	Ongoing from April / May 2018
Future Generations Commissioner	Ongoing from May 2018
Decarbonisation Advisory Group & Digital Innovation Group Review Chairs	Ongoing from August 2018
Cross party housing spokespeople	Meetings held with those who responded to invitation to meet to share Review progress – February / March 2019
Home Builders Federation	March 2019
UK Finance Representatives	April 2019

Appendix B – List of Call for Evidence Responses

	Organisation/Individual	Type
1.	Beattie Passive	Other
2.	Collaborative Centre for Housing Evidence (CaCHE)	Other
3.	Cadwyn HA	Traditional HA
4.	Caerphilly Council	LA
5.	Cardiff City Council	LA
6.	Care and Repair Cymru	Representative body
7.	Carmarthenshire County Council	LA
8.	Cartrefi Conwy	LSVT
9.	Cartrefi Cymunedol Gwynedd	LSVT
10.	Ceredigion County Council	LA
11.	Community Housing Cymru (CHC)	Representative body
12.	Chartered Institute of Housing (CIH) Cymru	Representative body
13.	Conwy County Council	LA
14.	Crisis	Representative body
15.	Cymorth Cymru	Representative body
16.	Denbighshire County Council	LHA
17.	Equality and Human Rights Commissions (EHRC)	Representative body
18.	Flintshire County Council	LA
19.	Future Generations Commissioner for Wales	Other
20.	Grwp Cynefin	Traditional HA
21.	Gwynedd Council	LA
22.	Hafod	Traditional HA
23.	Home Builders Federation (HBF)	Representative body
24.	Individual (member of the public)	Other
25.	Isle of Anglesey County Council	LA
26.	Joseph Rowntree Foundation and the Bevan Foundation	Other
27.	Melin Homes	Traditional HA
28.	Merthyr Valleys Homes	LSVT
29.	Monmouthshire County Council	LA
30.	National CLT Network (England & Wales)	Representative body
31.	Neath Port Talbot County Borough Council	LA
32.	Newport City Homes	LSVT
33.	Newport County Council	LA
34.	National House-Building Council (NHBC)	Representative body
35.	North East Wales Homes	LA
36.	Older People's Commissioner for Wales	Other
37.	Pennaf Housing Association	Traditional HA
38.	Powys County Council	LA
39.	Public Health Wales	Other
40.	Rhondda Cynon Taf County Borough Council	LA
41.	Redrow	Other
42.	Royal Institution of Chartered Surveyors (RICS)	Representative body
43.	Royal Town Planning Institute (RTPI) Cymru	Representative body
44.	Rural Housing Enabler	Other
45.	Shelter Cymru	Other
46.	Snowdonia National Park	Other

47.	South Wales Police	Other
48.	Swansea Council	LA
49.	Taff Housing	Traditional HA
50.	Tai Pawb	Representative body
51.	The Co-operative Party	Other
52.	The Regulatory Board for Wales	Other
53.	Torfaen County Borough Council	LA
54.	TPAS Cymru	Representative body
55.	Trivallis	LSVT
56.	UK Finance	Representative body
57.	Vale of Glamorgan Council	LA
58.	Wales and West Housing	Traditional HA
59.	Wales Co-operative Centre	Representative body
60.	Welsh Local Government Association (WLGA)	Representative body
61.	Woodknowledge Wales	Other
62.	Wrexham County Borough Council	LA

Appendix C - The Review and the Well-being of Future Generations Act

From the outset of the work of the Panel, the value of meeting the Well-being of Future Generations Act’s five Ways of Working and seven Well-being Goals was recognised. This was supplemented by a challenge session by the Future Generations Commissioner on the Panel’s emerging conclusions and recommendations.

The tables below provide an overview of the Review’s recommendations in relation to the Ways of Working and Well-being Goals.

Ways of Working

<p>Long Term – balancing short-term needs with need to safeguard ability to meet long-term needs</p>	<ul style="list-style-type: none"> • The Panel has concluded that there needs to be a better balance in tenant affordability and developing surpluses to fund new development in setting rents. • The use of public sector land offers real opportunities to be part of the mix in increasing the supply of affordable houses. However identification of the land most appropriate for affordable housing and ensuring the right terms of the use of the land are essential to using it as contributing to the long term provision of affordable housing. • The Panel has made a series of recommendations regarding the funding of affordable housing with a view to ensuring the limited funding available is maximised. Grant partnerships funded on a longer term basis are proposed and introducing a higher level of accountability, transparency and value for money in the of Dowry and MRA. • The remit of the review is to increase the supply of affordable houses, however the Panel believes that there should be no reduction in the standards and quality of houses to meet an increase and instead ensure that long term needs of both tenants and landlords are met.
<p>Prevention – prevent problems from occurring or getting worse</p>	<ul style="list-style-type: none"> • The Panel has made recommendations to maintain and increase housing quality standards on space, digital access and near zero carbon construction of housing. This is important to provide homes that do not add to the problems of tenants who often face many challenges. • MMC development is considered by the panel as a potential method of increasing the supply of affordable homes more efficiently and should be explored. • The Panel deemed that tenant affordability should be the key driver in setting rents, particularly in a context of reducing access to benefits and improving affordability for tenants. Living rents have the potential to also improve affordability for tenants.

<p>Integration – impact on each of the well-being goals or on other objectives, or objectives of other public bodies</p>	<ul style="list-style-type: none"> • Improvement of the evidence of need and strategies to implement this need formulate the basis of the recommendations to direct action and funding. Developing, improving and appropriately resourcing LHMA's and LDP are required. • The Panel proposes a public sector land management hub to provide a central resource for public sector land management and professional services to support bringing forward public sector land. • Public land mapping would provide an improved data set of land to maximise the best use of public owned land.
<p>Collaboration – with any other person or different parts of the organisation, to meet well-being objectives</p>	<ul style="list-style-type: none"> • The regular production of LHMA's to a common standard will provide a strong basis to inform LDP's to support the delivery of affordable homes. • The proposed grant partnerships included proposals for collaboration to maximise the efficiency and effectiveness of relevant actors in an area to meet need. • Throughout the review, the Panel has been conscious of the reduced capacity across the sector, particularly in the public sector. Increasing capacity across the sector is essential to delivering more affordable homes.
<p>Involvement – involve people with an interest in achieving well-being goals, and ensuring that those people reflect the diversity of the area which the body serves</p>	<ul style="list-style-type: none"> • The proposals for grant partnerships have put involvement of partners at the heart of their development. • Meaningful tenant engagement in setting rents is regarded by the Panel as valuable in setting a rent policy which is affordable. • Involving tenants and potential tenants in the type of homes they need is regarded as important. Housing associations and local authorities should ensure involvement in the design of their strategies for development and in designing proposals to ensure development meets need.

Well-being Goals

<p>A prosperous Wales</p>	<ul style="list-style-type: none"> • A further move towards near zero-carbon building standards, using the fabric first principle, offers the ability to reduce carbon emissions. • Developing local / Wales' based supply chains to generate jobs and training opportunities and maximising the retention of surpluses within Wales. • Providing good housing that meet the needs of individuals to enable them to engage in employment and training opportunities effectively.
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A resilient Wales	<ul style="list-style-type: none"> • The Review has retained at its heart the need to ensure affordable housing is built to quality standards and are energy efficient whilst reducing carbon reliance and use.
A healthier Wales	<ul style="list-style-type: none"> • Secure housing built to quality standards to avoid poor health and mental well-being caused by homelessness and poor quality housing, including for vulnerable groups such as the elderly and those living with chronic illnesses. • The quality standards aim to eradicate fuel poverty in new properties.
A more equal Wales	<ul style="list-style-type: none"> • The review seeks to increase the number of affordable homes built in Wales to enable people to achieve their potential. • The Panel recognises that those requiring social housing often also face other challenges, including disabilities and have little choice of the housing available to them. The flexibility of properties to meet different needs is recognised. • Digital access in properties is recommended, as this is now a basic requirement for those accessing benefits and contacting the Job Centre and / or seeking employment.
A Wales of cohesive communities	<ul style="list-style-type: none"> • The Panel recommends funding to support quality developments in places where housing is needed and is constructed to meet the needs of communities and are safe and well-connected and are viable for housing associations and local authorities during the whole life of the building and also for the tenants.
A Wales of vibrant culture and thriving Welsh language	<ul style="list-style-type: none"> • Underpinning the review is to not only increase the supply of affordable housing but also to support existing and new communities to be able to participate fully, including in arts, sports and recreational activities.
A globally responsible Wales	<ul style="list-style-type: none"> • The recommendations include aims to construct properties which reduce the use of carbon and are more efficient to run and maintain to reduce carbon emissions and their contribution to climate change.

Appendix D – Consolidation of Welsh Government Housing Funding Schemes

Review Panel view	Scheme	Who can access	Type of funding	How funding is allocated	Level(s) of funding	Recyclable funding, if so how?
Consider consolidating schemes into new funding model	Social Housing Grant (SHG)	Allocated to LAs and payable to HAs based on prioritised schemes in the LAs Programme Development Plan (PDP)	Capital	Formula allocation by LA area	£133m 2018/19 £25m 2019/20 £50m 2020/21	Any SHG repayable in line with the terms of the grant award, is recycled as RCG (recycled capital grant) by the HA and captured through an Annual Return and the PDP process
	Homebuy – Wales	Allocated to HAs who loan to individuals to support households by providing equity loan to assist purchasing an existing property. Subject to local eligibility criteria	Capital	Part of SHG allocation	See SHG	If a home is sold the grant is repaid to the HA who recycle as RCG
	Rent to Own – Wales (RtO)	Tenants of new build rental properties operating within the scheme	Capital	Formula allocation by LA area	£70m by 2020/21	Any funding repayable in line with the terms of the grant award would be recycled into another home. If the homes are not sold then a number of options are available to ensure that the properties either continue to be used as affordable housing or the grant is recycled
	Shared Ownership – Wales (SOW)	Aspiring buyers who have some deposit but are unable to obtain the level of mortgage to purchase the home outright	Capital	Formula allocation by LA area	See Rent to Own	

Consider consolidating schemes into new funding model	Innovative Housing Programme (IHP)	HAs and LAs can bid for funding towards development and innovation costs for affordable homes. Private Developers and SME's can bid for the additional innovation costs within the homes they are building	Capital	Competitive bidding assessed by independent panel	£90m by 2019/20	Any funding repayable in line with the terms of the grant award, would be recycled for affordable housing
	Land for Housing Scheme	HAs	Financial Transaction Capital (FTC)*	Bidding round process up to twice a year	£52m allocated to end of 18/19	Any loan monies repaid in line with the terms of the loan are returned to WG and reallocated to the next successful application that is held on a pipeline list
Consider consolidating schemes into new funding model – may be better to stand outside	Home Improvement Loans (HIL)	Owners of substandard properties via application to their LA	FTC*	Formula allocation to LAs who award based on application	£10m	Any loan monies repaid in line with the terms of the loan are returned to the relevant LA and reallocated to the next successful application that is held on a pipeline list
	Houses into Homes Scheme	Individuals, charities, companies and businesses can apply up to the maximum advance of £25k	Capital and FTC*	Formula allocation to LAs who award based on application	£20m capital £10m FTC	Any loan monies repaid in line with the terms of the loan are returned to the relevant LA and reallocated to the next successful application

Consider consolidating schemes into new funding model – may be better to stand outside	Integrated Care Fund (ICF)	Regional Partnership Boards – made up of Health Boards, LAs and Third Sector	Capital	Formula allocation to Regional Partnership Boards who prioritise projects	£105m 2020/21	Any funding repayable in line with the terms of the grant award, would be recycled
Part of SHG PDP process understand no plans for funding beyond 2019/20 – no need to consolidate	Housing Finance Grant 2 (HFG2)	Allocated to LAs and payable to HAs based on prioritised schemes in the LAs PDP	Revenue	Formula allocation by LA area	£3.6m 2017/18 £5.8m 2018/19 £7.5m 2019/20 onwards for 28 years	Any HFG repayable in line with the terms of the grant award would be recycled
	Affordable Housing Grant (AHG)	Stock Retaining LAs	Revenue	Formula allocation by LA area	£1.5m 2018/19 £2.5m 2019/20 and per annum for 28 years	Any AHG repayable in line with the terms of the grant award would be recycled
Do not consolidate schemes into new funding model	Physical Adaptation Grants (PAG)	HAs on behalf of their tenants	Capital	Via application to WG	£11.6m 2017/18 £8m per annum going forward	N/A
	Help to Buy – Wales (HtBW)	The scheme supports the purchase of homes up to £300,000 to the buyers of new build homes and who do not own a property	FTC*	Via application to the Development Bank of Wales (DBW)	£460m by the end of 2020/21	Funds repaid to DBW are not currently recycled
	Wales Property Development Fund (WPDF)	Funding for small development companies to construct new homes and commercial properties	FTC*	Via application to the DBW	£30.5m	Any loan monies repaid in line with the terms of the loan are returned to the DBW and reallocated to the next successful application that is held on a pipeline list

Do not consolidate schemes into new grant model	Wales Stalled Sites Fund (WSSF)	Welsh SME home builders	Capital and FTC*	Via application to the DBW	£32m FTC and £8m capital	Any loan monies repaid in line with the terms of the loan are returned to the DBW and reallocated to the next successful application that is held on a pipeline list
	Self Build	Will assist people with the funding to build their own home. Applications for the scheme will open in 2019	Capital and FTC*	Via application to the DBW	£10m capital (to support LAs to bring forward plots) and £30m FTC (to provide loan funding to individuals)	
	Major Repairs Allowance (MRA)	Stock Retaining Local Authorities	Capital	Formula allocation	£60.4m per annum	N/A
	Dowry	Large Scale Voluntary Transfer organisations (LSVTs)	Capital	Formula allocation based on number and type of homes at date of transfer	£43.8m per annum	N/A
	Co-operative Housing	The Wales Co-operative Centre including Community Land Trusts (CLTs)	Revenue	To Wales Co-operative Centre to support co-operative housing projects	£147.5k 2018/19	Any funding repayable in line with the terms of the grant award would be used to support affordable housing
	Rural Housing Enablers (RHEs)	RHEs within LAs	Revenue	Fixed % of project costs	£105k 2018/19	Any funding repayable in line with the terms of the grant award would be used to support affordable housing

*Can only be used for loans and assets