Levelling up, Housing and Communities Committee

The finances and sustainability of the social housing sector: Inquiry

Response from the Northern Housing Consortium

The Northern Housing Consortium (NHC) is a membership organisation based in the North of England. We are the 'Voice of the North' working with councils, housing associations and ALMOs to develop insight, influence and solutions to create better homes and places.

THE CURRENT STATE OF FINANCIAL RESILIENCE OF SOCIAL HOUSING PROVIDERS

Q1. How would you assess the financial resilience of the social housing sector currently? Are increasing pressures and requirements putting financial viability at risk?

The North has a large and ambitious social housing sector.

Social landlords are planning substantial investment in existing homes and seeking to grow the supply of affordable housing.

The drivers for this are:

1. to maintain and improve the safety and quality of existing homes – including responding to a forthcoming 'Decent Homes 2' standard and associated Levelling-Up Mission
2. to decarbonise existing homes as part of the country's shift to net zero; to help residents through the cost-of-living crisis, and meet any forthcoming energy efficiency regulatory standard for the social sector
3. strong demand for social housing in a context where in recent years affordable housing delivery in the North has averaged 45% shortfall against independently assessed need.

Our view is that the sector remains resilient: the Regulator of Social Housing's 2022 Global Accounts confirmed that social landlords had "generally responded well to the challenges faced in the reporting year and are in a reasonably strong position to respond to more difficult operating conditions in future".

Social landlords face an uncertain outlook: a cap on rent rises was imposed by Government for 2022/23, there is no certainty on the rent formula for social housing beyond 2025; the outlook for the housing market as a whole is uncertain; and the exact requirements around key investments such as Decent Homes 2 and the social housing energy efficiency regulatory standard are as yet unclear.

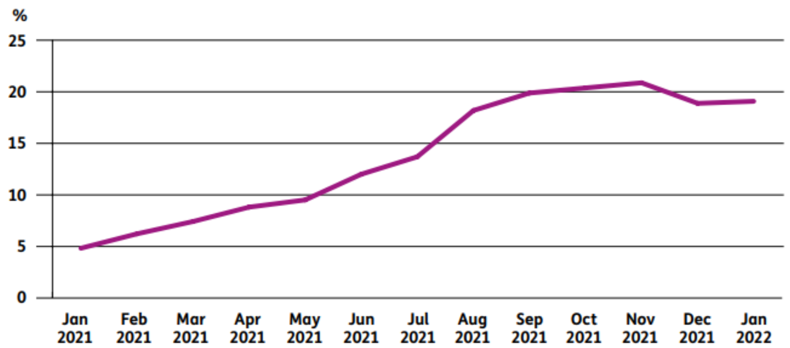
Nevertheless, we expect Boards and Councils to be able to maintain financial viability. The key question is the scale of the contribution the North's social landlords will be able to make to the three priorities outlined above. Difficult trade-offs will need to be made by those involved in sector governance, as the Regulator of Social Housing has noted in the Sector Risk Profile: this is especially the case where there are legislative and regulatory requirements that must be met.

Q2. What pressure has high inflation, increased energy costs and any other additional costs placed on the finances of social housing providers?

Construction products and labour costs have been subject to high levels of inflation.

Homes England Annual Report 2022 shows that market completions have been "increasingly hit by inflationary pressures, with availability and cost of key housebuilding supplies including bricks, timber and concrete affected." With the Building Cost Information Service Material Costs Index "rising since the start of the previous financial year and has reached a generational high, with few indications of slowing".

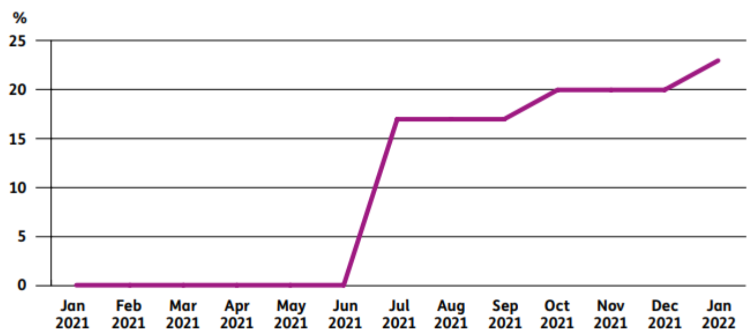
BCIS Materials Cost Index Rolling Annual Change (%)



Source: BCIS, Homes England analysis

Homes England report that "when this is combined with shortages in skilled labour and the continued demand for housing has resulted in labour costs climbing. All of which has created a difficult environment in which to complete the build of new homes."

BCIS Labour Cost Index Rolling Annual Change (%)



Source: BCIS, Homes England analysis

Add in increased energy costs and together these factors have placed increased pressure on social housing providers.

The [Regulator of Social Housing outlines in the Sector Risk Profile]that "providers' costs have increased materially in the last 12 months and are likely to face continuing inflationary pressure. High inflation and a tight labour market will put pressure on providers' wage costs. While supply chain disruption is easing, materials and parts are likely to see continued significant inflation. There are significant ongoing risks to the outlook for CPI inflation, including from further energy price shocks…"

Inflation has impacted on the operating cost per home, operating margins and rent arrears. Examples below from our members below show a range of impacts:

One large housing provider in the north reports that: "Inflation is increasingly becoming an issue and we have seen major price increases from some suppliers, especially those involved in construction and maintenance."

A large social housing provider in the north-east reports that: "There is a direct impact on the group's activities and a growing cost of living crisis that directly affects the group's tenants and residents. This implies a direct risk to the group's ability to maintain income collection rates and increases the risk of arrears and bad debts."

A social housing provider in the north-west has reported that: "The key challenge facing [us and our] tenants and their families in 2022, is the rate of inflation and cost of living crisis. Looking ahead, we have assumed that rent arrears will rise and rent collection rates will fall. The rising cost of essentials like food, energy and fuel will put severe financial pressure on many of the families we house. We will do everything possible to support our communities and we have made increased provision over the next three years for investment into community support initiatives."

Our members are modelling and planning for inflationary and energy cost increases and working to support tenants and residents through the cost-of-living crisis.

Q3. To what extent can social housing providers maintain output levels in housing development to provide a counter cyclical balance in otherwise tightening market conditions?

Some of our members report that output has been reduced with precedence given to investment in existing housing. Providers, particularly those reliant on shared ownership and outright market sale receipts, have identified market exposure as a risk. As market conditions change in response to high interest rates, they are more highly leveraged, more exposed to market, and sales exposure remains a key risk. The current trend, in response to other pressures, is to take a more considered approach to new development.

NEW CHALLENGES TO THE SOCIAL HOUSING SECTOR:

Q1. The Secretary of State has specified that more resources need to be directed towards maintaining and improving the existing stock. How feasible is this for social housing providers?

Landlords are continuing to balance their objectives of investing in new social homes, and in existing homes but they are facing inflationary costs and a rent cap.

The investment needed to sustain the decency of existing homes varies across providers but there is evidence that investment in existing homes has increased to record levels, with total spend on repairs and maintenance reaching £6.5 billion in 2022. The increase in spend in 2022 is partially due to catching up following the pandemic. Other factors include the delivery of fire and building safety works.

Providers invested a total of £12.3 billion in new homes – a 12% increase on 2021 – and completed 49,000 new social homes (9,000 more than in 2021).

Social landlords are forecasting in their business plans for stock to meet a minimum energy efficiency standard and are awaiting a revised Decent Homes Standard.

With less than a decade to improve stock to a minimum of EPC C, there is significant work to be completed. There is concern within the sector that it will not be feasible to stretch resources to meet the new decent homes standard, to meet the government's carbon targets, to fund building safety requirements and to continue to build new social homes to meet demand.

Q2. How do social housing providers choose whether to undertake new development or to focus on maintenance and upkeep of existing stock? Is it currently possible to achieve both objectives?

Social housing providers continue to balance investing in both new social homes and in existing homes. The pressures facing them, outlined above, are being managed well through their executive teams and through oversight and scrutiny from their Boards or Councillors.

Q3. What issues does the requirement on Housing Associations to carrying out building safety present?

The requirements present short term capital costs mainly associated with building safety works to higher blocks. Providers have a zero-risk tolerance in relation to harm to residents and have funded programmes of cladding remediation and fire safety in line with the regulatory requirements. Social landlords are also absorbing ongoing revenue costs in relation to expanded building safety requirements (e.g. expanded staff teams, training and insurances).

Q4. Has the lifting of the cap on the Housing Revenue Account made a difference to supply or improved housing from Local Authorities?

Inside Housing's research showed that 7 of the 10 biggest council housebuilders are in the North of England.

Whilst this is positive news for the sector, our local authority members could do even more if some of the unnecessary regulations were removed – such as the limits on use of Right to Buy receipts for acquisitions of stock, and the deadline for use of these receipts.

Q7. Has the emergence of partnership working between councils and housing associations in local areas made the sector more resilient? What encouragement has the Department given to such partnerships?

- To what extent do local authorities and Housing Associations collaborate when considering development plans for housing locally

An increasing number of successful partnerships between councils and housing associations are taking the form of recognising a strength or speciality and based on strong collaboration and complementary activity. For example, Sunderland City Council has built 17 affordable bungalows, 16 of which are specially adapted to provide homes for people with physical disabilities built with the help of £765,000 of Homes England funding. While Gentoo, the local registered provider, is delivering a highly complementary housing development strategy to address the shortage of affordable homes in Sunderland.

Q8. The Affordable Homes Programme includes a high proportion of shared ownership properties. To what extent is this form of tenure desirable for potential purchasers and for social housing providers?

Shared ownership is an attractive product for buyers and makes a significant contribution, alongside social renting. Changes to the shared ownership model introduced more cost, administration and complexity for registered providers including paying the full cost of repairs and maintenance on properties for 10 years. At a time when the tenure could be used to deliver counter-cyclical sales, the new model of shared ownership could see investment in new affordable homes being reduced. There is already a shortfall for more shared ownership products in the North with an independently assessed need of over 5,000 units per annum but average delivery in recent years of just over 2,000 (a shortfall of 58%). The shortfall for social rented homes is even greater at 81% against a housing need. In total, it is estimated the North needs of over 18,000 affordable homes a year.

Q10. Will the introduction of the Infrastructure Levy and changes to section 106 significantly affect the capacity to develop affordable housing?

We believe a value-based minimum threshold below which the Levy is not charged will reduce the contribution of affordable housing supply in the North. The framework contained in the Levelling Up and Regeneration Bill which includes a charging schedule and a new right to require do not provide reassurances of sufficiently robust safeguards.

Basing the levy on gross development value risks not only delivering less infrastructure and less affordable housing, but it could also put the development of less viable sites at risk. If this should be the case, we would seek alternative options to identify how any gap in funding will be addressed to meet affordable housing levels.

WHAT ARE THE POLICY AND REGULATORY CHALLENGES TO THE DEPARTMENT AND THE REGULATOR?

Q1. Is the current Departmental policy on social housing and affordable homes appropriately focused?

We believe government should maintain a national housing target – within which there should be a clear target for the delivery of affordable housing.

Government policies aim to provide affordable home ownership for first time buyers; finance options for home ownership; to boost levels of new construction; and speed up the planning system. The complexities across different regions have had less of a focus and this would be needed if the North is to deliver the new and improved homes required.

Professor Glen Bramley's Housing supply requirements across Great Britain estimated that the North needs to deliver over 18,000 affordable homes a year to meet need and our own evidence shows there is an average annual 45% shortfall in affordable home completions which rounds to over 8,550 homes a year.

There are some encouraging aspects to the Levelling Up and Regeneration Bill on the power to use a CPO and for the establishment of Development Corporations, but there is little support to local authorities to better enable them to meet local need for affordable homes.

Q2. Is Homes England being directed appropriately by the Department, and is it achieving its objectives?

We welcomed the Levelling-Up White Paper's commitment to 'refocus' Homes England to drive forward regeneration. However, no detail has emerged in the 15 months since on how this 'refocusing' will be translated into clear objectives for the Agency.

The Agency's Strategic Plan (which dates back to 2018 and was signed-off by the May government) expired in March 2023 and no replacement has been published. It is unacceptable that an Agency with 1,400 staff and an annual expenditure of £5bn+ has been left operating without a Strategic Plan.

In practical terms, this means that the Agency's priorities on key areas like Levelling-Up and Net Zero are undocumented. It is therefore impossible for stakeholders to assess whether it is achieving its objectives; and difficult for councils and housing associations in the North to understand the strategic alignment between their own priorities and the Agency's.

The most recent 2020/21 Homes England Annual Report demonstrated that the Agency continues to be managed on May-era Key Performance Indicators: 71% of the Agency's funding went to just 50% of local authorities, located mainly in the South of the country (KPI 4).

Q3. Has any evaluation been undertaken of the impact of the additionality guidance on the supply of social housing?

Recent research by Savills for Homes for the North describes the net additionality rules in the Affordable Homes Programme (AHP) as “a barrier to housing associations in the north seeking to provide the right homes for their customers, support local economic growth, create high quality places, and cut the environmental impact of their portfolios.”

Solutions will require a place-based approach that splits funding between additional and replacement homes depending on specific local market needs would maximise the impact of this change. The Department for Levelling Up, Housing and Communities’ (DLUHC) own research states that for future approaches to the estimation of additionality “the local housing market context is crucial to the assessment of additionality.”

The latest Green Book (2020) has put increased emphasis on place-based analysis, noting “where proposals have a focus on a specific part of the UK, place-based analysis should be performed and be central to appraisal advice” however, there is little evidence so far of the impact of this Green Book revision.

We recommend that Local Planning Authorities should be properly resourced to keep housing needs strategies updated and housing associations work with them to ensure that the right types of homes are delivered to meet need. This will ensure that economic growth is supported through delivering the right homes in the best locations.

Q4. Is the current range of grant funding available appropriate to address the issues and challenges that the social housing sector faces?

The Affordable Homes Programme continues to be the main government intervention to get more affordable homes built. The programme has been particularly valuable in Northern regions where housing markets have been weaker; and where developer obligations deliver less. The cost and availability of land remains a significant barrier to building affordable homes. Brownfield Land Funding has been a vital source of funding for Northern areas and, if administered flexibly, could have a transformative effect on the ability of housing associations to develop some of the more challenging brownfield sites.

The 2022 Autumn Statement committed new government funding for energy efficiency worth £6 billion to be made available from 2025 to 2028. This is a welcome commitment, but it leaves uncertainty for providers for delivery beyond this spending review period and following the next general election. The latest round of SHDF funding for Wave 2.1 has seen just over £184 million going to Northern regions, but there are still funds from manifesto commitments yet to be brought forward.

If we are going to see real homes and real change in the north we need further long-term investment from government. A quarter of the North’s emissions come from our homes and nearly 4 million homes need upgrading across the North. It is impossible to reach the country’s net zero ambitions without upgrading our existing homes.

However, green home upgrades in social housing are already helping to address this – by insulating homes we’re helping to cut carbon and provide support through the cost-of-living crisis. These homes are warmer, healthier and clean-energy ready – and by upgrading them the sector will help create thousands of good green jobs.

But we need to keep it going and invest in real homes for real change. There's more and more of this work happening across the north and it's reaching scale, but this is at risk without further funding. Which is why we want to see a more ambitious commitment from government - investing £6bn a year in home energy efficiency to tackle the scale of the challenge.

Alongside this, the outcomes of the Decent Homes Review are still to be determined and no funding is currently committed. There is an assumption that the sector will need to self-fund the requirements which come out of the review, which creates uncertainty when planning. Lessons from the last Decent Homes programme highlighted the importance of delivering a clear standard, but also the importance of the funding and a programme that sat around the Standard. This will need to be revisited as part of the new Decent Homes Review, so lessons are not only learnt but built upon to reflect the current climate.

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