

Long-term delivery of social and affordable rented housing

UK Finance submission to HCLG Committee inquiry

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In addition to representing residential mortgage lenders for home purchase and buy-to-let, UK Finance members also lend to support the social housing/RSL sectors across the UK .

General comments

The long-term delivery of social and affordable rented housing is rightly a high policy priority for government. In our view, the issues and challenges from the perspective of private funders and investors in the sector can help inform the Committee's [inquiry](#).

The success of the sector to date has been as a result of a strong and long-lasting public-private partnership in which the funding model is based on the certainty of government funding (grants, benefits, etc); the strength of economic regulation; private finance and investment; and a housing association's ability to subsidise social rented homes via sales of new homes for outright or shared ownership.

This model has generally worked well, and we would expect the government's overall approach and policy to support its continuation.

We suggest, in our specific comments below, how this might be achieved and highlight areas for attention that would help improve the delivery of social housing in the UK.

Specific comments

How can the Government ensure the sustainable delivery of social and affordable rented housing to meet long-term need and contribute to the Government's overall housebuilding targets.

- What levels of central government funding will be required to support this delivery over the next 10 years.

Although it will be for government to determine its funding priorities, housing professionals and commentators are consistently clear that subsidised housing needs subsidy.

From the perspective of lenders and investors in housing association businesses, we are equally clear that long-term funding and investment decisions require long-term certainty, in terms of both the level and availability of government grant funding and rent policy.

- How effective existing government incentives and programmes are and what further incentives should the Government provide to key stakeholders to stimulate delivery.

A formal evaluation of existing government incentives and programmes would be useful in highlighting what works and where government is able to achieve most effective leverage from its investment.

For Registered Social Landlords (RSLs), housing associations and local councils, a degree of flexibility to innovate and develop new products and approaches would help support more sustainable housing supply in the future.

The 2018 announcement by government of flexibility in relation to tenure mix was welcome and we would want to see this continue in future, to ensure RSLs are able to respond to the prevailing economic and housing market dynamics.

We also suggest there could be levers to stimulate delivery by linking grant and other public funding sources to housing supplied via, for example, modern methods of construction and/or the provision of homes that are high-performing in terms of energy efficiency/environmental impact, while also meeting exacting building standards -particularly relating to fire safety.

From the perspective of private funders and investors, the government's approach to guarantees has been popular in some parts of the market. In other areas, where the performance of legacy back-books can present a drag on new lending, government might want to consider how this could be overcome. More widely, approaches that ensure risk is minimised and returns maximised across a level playing field of opportunity, should help support sustained lender and investor appetite in the sector. We suggest here the government would need to be mindful of the approach of regulators and the views of ratings agencies. This coming at a time when the funding environment might be less certain as a result of the UK's departure from the EU.

With the likely loss of European funding, we suggest there would be a need for government to consider with the sector, innovative ways of making-up the difference, as this funding has been important to some RSLs and funders.

- Are supply subsidies the best way of supporting delivery, or should other approaches be considered?

Any review of the balance between supply side subsidies, such as grant, and demand-side subsidies, such as housing benefit, should consider whether better value could be derived from reducing the need for benefits and focussing more on increased grant to subsidise new supply. There should be a clear view on whether government's total investment via both supply and demand side subsidies is delivering the greatest additional contribution in new social and affordable housing.

In this context, we would also suggest consideration be given to the appropriateness of continuing with Right to Buy (both statutory and voluntary versions) which lead to the loss of social rented

homes, and their tendency to re-appear as private rented homes with an attendant need, typically, for more housing benefit support.

What the role of (a) local authorities – as enablers and providers, (b) Homes England (c) housing associations and (d) other providers should be in that long-term delivery.

There should continue to be a vibrant and active role for these actors in the future supply of social and affordable rented homes. We expect there will be a role for more partnership support between housing associations and local councils, particularly were a council might lack skills needed for housing development or management.

In the future we would expect to see a greater role for larger institutional investors as commissioners of development, particularly for affordable or sub-market rent.

How does the Government ensure long-term provision (a) meets the needs of tenants and (b) is adequately regulated.

(a) There need to be more robust and effective channels for tenant engagement and scrutiny, coupled with clear and effective routes to redress in cases of complaint or dissatisfaction.

(b) Regulation of social housing should always be more than adequate. It should be excellent, in terms of being robust, proportionate, intelligence-led, independent and well-resourced.

From the perspective of funders, we would expect to see robust economic regulation of the sector continue as this is an essential element of sustaining funder confidence in the financial viability and governance strength of associations. We recognise the need to strengthen the approach to consumer regulation but caution that this should not be done in a way that weakens the strength of economic regulation. Both economic and consumer regulation will need to be fully resourced including with relevant and appropriate skills to be effective in delivering positive outcomes.

How can the Government's approach to delivery best meet the different needs of individual regions and areas?

We expect more granular and effective assessment of local needs will be required, possibly coupled with elements of local rent setting and flexibilities within an overall rent policy. This could support local affordable rent in a way that delivers value for money while sustaining financial viability.

What lessons can be learned from alternative approaches to social and affordable rented housing delivery in other countries and jurisdictions.

A comprehensive study and evaluation of approaches to delivery in continental Europe and further afield by appropriate academic experts and researchers would be beneficial.

There are also lessons that can be learned from approaches in the other UK nations:

In Scotland, for example, there is a strong focus on a “whole housing system” approach which recognises the role and value of both public and private finance and investment in social and affordable housing delivery.

The tradition and heritage of smaller community-based housing associations (CBHAs) helps ensure providers retain a strong community focus and identity. However, recent interventions by the Scottish Housing Regulator (SHR) do underline particularly the governance risks and challenges that some CBHAs pose to the RSL community and ecosystem. The pros and cons of the CBHA model would need to be carefully evaluated.

Approaches to tenant inclusion and engagement in Scotland are more explicit and, for instance, embedded in the approach to regulation: the SHR has a statutory objective to protect the interests of tenants, and actively engages tenants via its National Panel of Tenants and Service Users, and a network of Registered Tenant Organisations and tenant representatives who are involved in regulatory consultations. Further, a pool of independent volunteer tenant advisors helps to ensure the Regulator's work stays focussed on issues that matter most to tenants.

On rents, there is no formal rent policy in Scotland, which allows RSLs to set their own rents, with greater regard to local needs and circumstances. A challenge from this approach is that in the prevailing environment of high levels of government grant, there can be limited incentive for RSLs to keep rents as low as possible – meaning a need for strong regulatory focus on rent setting and local affordability including via the Scottish Social Housing Charter, which has specific standards and outcomes on rents and value for money.

In Wales, there is similarly a strong tradition of smaller community-based providers, and work is underway to ensure tenants continue to be at the heart of not only RSLs themselves but also the work of the Regulator. There are plans to establish stronger links between health, social care and housing and the role of government and the regulator in a more tenant-centred landscape of provision and policy.

In Northern Ireland, despite the challenges presented by the lack of a functioning Executive at Stormont, work is underway via the Department for Communities and housing and planning organisations including the NI Federation of Housing Associations and the Chartered Institute of Housing to promote and mainstream mixed-tenure development. This is an effort to move away from mono-tenure approaches of the past, and the community isolation and exclusion that this has encouraged.

Contact

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