CIH submission to the Affordable Housing Commission

About CIH

Chartered Institute of Housing (CIH) is the independent voice for housing and the home of professional standards. Our goal is simple - to provide housing professionals and their organisations with the advice, support and knowledge they need to be brilliant. CIH is a registered charity and not-for-profit organisation. This means that the money we make is put back into the organisation and funds the activities we carry out to support the housing sector. We have a diverse membership of people who work in both the public and private sectors, in 20 countries on five continents across the world.

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Introduction

We have a chronic undersupply of housing, with a growing number of households experiencing real stress and poverty as a result of lacking a decent and secure home. Many other households find themselves stuck in housing that is unsuitable and poor quality but also high cost. The Affordable Housing Commission’s focus to look for effective and practical solutions is very welcome and CIH is pleased to respond to the call for evidence, and address its questions below.

1. Understanding the affordability challenge

1.1 What does affordability mean for different people in different places?

Recognition of our housing supply and affordability crisis became widespread due to the growing number of households that would previously have accessed home ownership, have found they are unable to do so. Many are facing an indeterminant period of time in private rented housing, which means high costs that make saving for ownership more difficult, alongside a lack of security of tenure - the frustrated first-time buyer households. (For example; 24 per cent of households in the 35-44 age bracket now live in the private rented sector, three times as many as 20
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years previously. 38 per cent or 1.7 million households have dependent children ONS UK private rented sector 2018). This has brought the issue of housing affordability into a wider public arena, and many of the government’s flagship policies, such as Help to Buy, have been targeted here. However, there is a challenge to agree the definition and effective measures of affordability, given the complexity of factors that are involved. This affects both the development, and evaluation, of different interventions to tackle unaffordable housing.

The broad affordability measures generally used are either a maximum income ratio to be expended on housing costs (usually around 30 per cent of household income) or establishing an agreed residual household income level after housing costs. The detail of different measures, in particular in relation to low income renters and first-time buyers, has been explored by Professor Geoffrey Meen of CaCHE; How should affordability be measured.

Although more affordable housing is needed throughout England (see estimates of housing need modelled for Crisis and NHF below), the required mix of housing tenures, sizes and type will vary according to local factors, but overall it is clear that social rented housing will need to be part of that mix.

In CIH’s report, Building Bridges: a guide to better partnership working between local authorities and housing associations, we have called for a locally agreed approach across councils and housing association partners to establish a local housing affordability framework (LHAF, see pp124-128).

The local housing affordability framework should involve data collection of:
- Housing costs by tenure and product
- Household income profiles
- Local housing allowance and other limits on assistance with housing costs.

Assessment of the population groups to consider can be arrived at through different analysis of household incomes by: average household earnings; the earnings of lower income groups, or through a comparison of costs for different sized properties by different-sized household incomes. The focus should be agreed locally across all partners. The LHAF could be adapted to
include consideration of specialist housing for older people. It could also be developed to reflect local house conditions in its measure of affordability.

The LHAF can be used to establish target numbers and price points for sub market housing products, to shape rent setting policies, strategic housing market assessments and other appropriate strategies in localities.

1.2 Why is housing unaffordable?

The drivers underpinning our housing affordability challenge are many and complex.

Long term sustained undersupply of housing
We have consistently over decades failed to build enough new homes to meet the emerging and changing needs of a growing population. Recent analysis by Professor Glen Bramley of Heriott-Watt University for the National Housing Federation and Crisis has identified a backlog of housing need across 4 million households in England, 4.75 million across the UK. That backlog includes 250,000 older households lacking suitable homes, and 510,000 households in poverty after paying housing costs.

It argues for the delivery over a fifteen-year period of 340,000 new homes a year in England of which a considerable proportion needs to be at below market levels including 90,000 a year for social housing and 25,000 a year for shared ownership. The report provides figures for England illustrating the different impacts of affordability at the regional level, in terms of the broad break down of housing needs across these broad tenures.

Loss of the most affordable existing homes
The backlog of need for more affordable homes is further exacerbated by the ongoing loss of existing social rented homes, those most affordable to people on low incomes. The reinvigorated programme of Right to Buy announced in 2012 led to a resurgence in the number of homes sold, but restrictions on the use of receipts meant it failed to provide one for one replacement. Recent statistics from MHCLG show 75,618 homes have been sold but only 21,890 homes started or acquired to replace these. CIH’s estimates that around 200,000 homes will have been lost by 2020 on current trends, through a mix of Right to Buy sales, conversions to Affordable Rent and demolitions. The discounts for Right to Buy equate to
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£1 billion a year, and cost councils around £300 million; reducing the
discounts by one-third could release enough funds to deliver an additional
12,000 homes a year. CIH has called for a suspension of the right to buy
given the critical need for more affordable homes to be delivered quickly,
alongside greater flexibility in the use of receipts from the programme to
date.

The right type of homes to meet local priorities
Not only are there insufficient homes but there is also an undersupply of
the right types of homes to meet different needs across local populations.
Despite an ageing population and the increasing number of people living
for longer with multiple conditions, only 7 per cent of our existing housing
stock has basic accessibility standards. However, any requirement for new
homes to be built to higher accessibility standards – Part M 4 (2) – is
discretionary rather than the default.

This leads to households with disabled people locked in unsuitable
housing: 1.8 million people, including 580,000 of working age have unmet
housing needs, and living in an inaccessible home means a disabled
person is four times more likely to be unemployed or not seeking work
(Papworth Trust, Disability facts and figures 2018).

For older people, lacking an attractive suitable home in which to downsize
can increase risks to health and wellbeing (especially through the effect of
cold, damp and falls) and social isolation. Many older home owners have a
reduced income and limited equity in their homes to address issues of
disrepair and accessibility; JRF’s report into home owners and poverty
identified that £2 billion investment would be required to bring the homes
of older owners in poverty up to the Decent Homes Standard. The
provision of suitable alternative housing could benefit both the
individual(s) and public services, for example; analysis by Demos estimated
the social value of sheltered housing at £486 million a year, largely due to
addressing risks to health and the increased reliance on health and social
care services.

Using a local housing affordability framework as explained above would
enable local housing authorities and housing provider partners to identify
and plan strategically for a greater diversity of housing products to meet
local needs, including specialist housing and accessible homes, benefitting
households, local employers and the wider local economy.
The rise of low paid, insecure employment
JRF’s recent UK poverty 2018 reports that in-work poverty has risen even faster than employment rates, driven largely by the increase in working parents experiencing high housing costs, and poor quality jobs with little opportunities for progression and wage increases. Children in single parent families are particularly affected with 49 per cent in poverty. Just over half of lone parents are in low paid employment and these households are more likely to experience persistent poverty.

Welfare reforms
Changes to the welfare system have contributed to the struggle households have to meet housing costs. For example:

The freeze on Local Housing Allowances (LHAs) set until 2020 (following on from earlier capped increases) means that in spite of the government’s targeted affordability fund to address the worst gaps, LHA rates have become so misaligned to local rents that the private rented sector has become unaffordable for most low-income tenants, severely increasing their risk of homelessness. Only 10 per cent of LHA rates covered the cheapest 30th percent of private homes (see CIH’s reports; 2016, Mind the gap and 2018, Missing the target).

The lower benefit cap, restricting total out of work benefits to £20,000, affected the housing benefit of 53,000 households at November 2018, of whom 74 per cent were single parent families, and 26 per cent had a child under five (CIH response). More than 40 percent of those affected were losing over £50 per week, reinforcing the findings of JRF’s poverty 2018 report and the increasing incidence of working age single parents in poverty.

Access to credit and deposits
Restrictions on access to credit following the global crash severely impacted on younger, first time buyers lacking resources to meet the large deposits required, exacerbating the issues of affordability. The Help to Buy equity scheme aimed to address this by limiting the level of deposit needed (5 per cent) and the initial mortgage to 75 per cent of market value for five years.
People trying to rent privately also face large up-front costs currently, with deposits and advance rental payments, although the Tenant Fees Act will help this group.

1.3 Costs and consequences of unaffordable housing – what’s at stake and who are the priority groups that most need support?

The greatest and most damaging impact of our housing affordability crisis is seen in the rising numbers of people who are homeless, in temporary accommodation and rough sleeping. The number of people sleeping rough has escalated by 165 per cent since 2010, to 4,677 at autumn 2018. The loss of a private rented tenancy remains the single biggest factor in homelessness – 31 per cent; many households reliant on welfare for help with housing costs struggle to access the private rented sector, and there is a severe lack of available social homes as an alternative.

The impact on particular groups, including working families and particularly single parent families, of unaffordable housing (together with low paid employment and an insufficient welfare system) has been highlighted (see above) in CIH’s research and the report of JRF into poverty in the UK. High housing costs and the contribution to poverty arising from it has wider repercussions than housing stress. Many of these households face difficult daily decisions about whether to ‘heat or eat’. CIH’s research, Feeling the pinch, looking at the impact of the benefit cap found that households reported increased stress, and that children were unable to join in with social and educational activities.

1.4 What’s being done and is it working, and what are the implications and policy trade-offs?

From 2010, the government’s focus was clearly on home ownership and the problems for younger households to become owners. It resulted in its Help to Buy programme, launched in April 2013, which has supported 135,000 people to buy a new home (80 per cent being first time buyers) up to June 2017, with funding of £22.1 billion. Government’s evaluation of the scheme estimates that it generated around 37 per cent of additional demand, supporting the continuation of housebuilding at a time of stress.
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However, recent analysis of all government support for housing published by CIH, raises questions about whether this can moderate or reverse the declining trend in home ownership, which was one of its aims.

The report, Dreams and reality? Government finance, taxation and the private housing market, looks in detail across all government interventions in housing, including investment, tax reliefs, subsidies and regulatory measures. It shows clearly that most government support is directed towards home owners rather than those who rent, whether in the private or social sector.

Although there has recently been a shift in the government’s announcements on housing and some additional funding, currently only 21 per cent of its investment is directed into affordable housing. In the light of the evidence of increasing numbers of households in poverty and the impact of high housing costs as part of that, CIH continues to call for a rebalancing of this investment to increase the development of more homes for social rent to support people with low incomes.

2. Towards a new affordable housing offer - increasing supply

2.1 What role should housing providers play and what products old and new should be backed by government and how?

The housing needs we face are challenging, and to date we are still struggling to reach the numbers we need. Whilst 90,000 new social homes are required, in 2017/18 only 47,355 were delivered. Although this represented a 12 per cent increase we are still facing huge shortfalls. We need to utilise the combined effort and expertise of housing associations and local authorities to maximise delivery and find ways to increase funding (see also our response to 2.3).

Many social housing providers are already developing housing with modern methods of construction (MMC) to deliver homes at greater speed and lower cost, and / or to provide more intermediate housing (for example for young people otherwise limited to shared accommodation). There is a need to increase the scale of such programme which government could usefully support within Homes England’s new strategic partnerships, through targeted funding, or through ringfencing some
public land specifically for MMC developments. Local authorities could also be active partners through direct use in their own delivery programmes or through strategic support including access to land. It also provides an opportunity to ensure a greater focus on standards in new housing, including accessibility and energy efficiency standards, that address the housing requirements of older people and households on low incomes (in terms of ongoing running costs and energy efficiency; see CIH’s response to the HCLG committee’s inquiry into modern methods of construction).

Whilst local authorities’ plans to develop more homes through the self-financing settlement due to policy changes introduced after the agreement (including rent reductions), many have looked to develop outside the Housing Revenue Account, setting up local housing companies, and joint ventures with housing associations or private developers, capitalising on each partner’s assets and expertise. County councils have also entered this field, looking to deliver specialist housing to meet growing care and support needs as well as generating income from private housing for sale and rent.

Action to support land assembly and more proactive strategic master planning as identified above would enable these companies and ventures to deliver more (and exemption of LHC’s properties from Right to Buy).

2.2 What planning reforms would deliver more affordable housing?

*Improved section 106 delivery*
The government’s affordable housing output is hugely dependent on section 106, which provided 22,929 affordable homes, or 48 per cent of the total, in 2017/18 (UK Housing Review 2019). The Centre for Progressive Capitalism estimated that, in 2014/15, although £2.8 billion of land value uplift from newly built homes was captured through section 106 and Community Infrastructure Levy, £9.3 billion was not. If continued at that rate, they estimated £185 billion of increased value over the next 20 years would be lost. So there is significant room for improvement and better mechanisms for a more balanced sharing of the increase in value that comes from local authorities’ investment in public infrastructure across landowners, developers and local communities, including through the provision of more affordable homes for people in those communities.
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**New towns model/ local development corporations**
More could be done proactively to encourage and enable a more widespread use of the new towns model/ local authorities’ development corporations: to acquire land, grant planning permissions, and establish the level of affordable housing to be provided. If retaining land to develop directly, the local authority would benefit from sales receipts and/ or rental revenue. Alternatively, through sale/lease of land to developers, it could retain the value uplift from the planning permission for investment in required infrastructure and costs.

**Letwin’s review of build out-rates**
CIH would also like to see recommendations from Sir Oliver Letwin’s review of build out rates implemented, including:

- Increasing the diversity of housing types, sizes and tenures on large schemes to step-up build out rates (and in the process support more mixed schemes encouraging more diverse and mixed communities)
- Powers for local authorities to designate sites for large development, create master plans and design codes – a proactive strategic approach to delivering the right homes in the right places.

**Land Compensation Act**
A key element for both approaches to be successful is to enable the local authorities to acquire land at closer to existing use value rather than anticipated value from future development, through amendments to the 1961 Land Compensation Act. The existence of such a power, even if incorporating a (set and limited) premium available above existing use would:

- depress the hope value that arises from the current negotiable arrangements
- incentivise landowners to release land for development in advance of any application of the compulsory purchase.

Amending compulsory purchase powers to acquire land at or close to existing use value may also be a simpler method of capturing land value than by developing other mechanisms.
Assessing housing needs and local policies
The national model for assessing housing needs does not give sufficient steer on assessing and planning to meet the needs of older and disabled people in local areas, and this could be strengthened. There should also be a clear expectation that strategic priorities set out in local policies should not only address the numbers of homes required but ensure that these are of appropriate type and standard for the needs of the current and future population, including meeting the needs of older and disabled people.

2.3 How can government support the funding and financing of affordable housing and what needs to change with the current system?

Ongoing direct investment
For many low-income households, social rented housing is the only option that is affordable. There is clear evidence that grant funding for social housing is a good investment, as it delivers savings in the cost of welfare over the long term. Savills, in their report, *Investing to solve the housing crisis*, argue that investment of £7 billion to house 100,000 households in social rented homes could secure savings to the welfare bill of £418 million a year. This echoes earlier research by Capital Economics for SHOUT, the NFA and Arch (*Building new social rent homes*), which argued that a continuation of current tenure trends risked an escalation of welfare support for housing costs to £197 billion by 2065/6 compared to the current level of £24 billion, with 63 per cent of claims from households in the private rented sector. CIH believes that there is a solid case for ongoing and increased grant funding for social housing, and maximising additional routes to support it, including through use of public land and mechanisms to capture increased land values.

Housing as infrastructure
Many housing associations have diversified the range of the housing models and tenures they develop including not only shared ownership homes, but also housing for market rent and/or sale to address the wide range of housing need that exists. Development of market housing provides increased opportunity to cross-subsidise their affordable homes. Savills’ research shows housing associations’ output of housing for market sale increased by 24 per cent in 2016/17-2017/18. The number of new homes delivered with no grant through Section 106 also hit a high point, at 22,000.
However, this activity increases the vulnerability of housing associations to cyclical market risks, and Savills have also argued that Section 106 could reduce by 50 percent in a downturn. CIH previously made the case for a more strategic approach to funding for affordable housing as infrastructure investment through a downturn, to utilise potential spare capacity in the building industry and stimulate the economy. As part of that we called for a restart to the affordable homes guarantee, so the recent announcement of £3billion additional loan guarantees from government is very welcome. It is important that it provides for more social rented homes given the current level of need.

The role of local authorities
We have only achieved the level of house building required in the past when local authorities were active in development, so government should look at how it can work with and strengthen the role of councils in development. The removal of borrowing caps to enable authorities to increase their house building programmes is welcome and should be maintained. CIH has often argued that there is potential for local authorities to do even more if changes were made to how their borrowing is accounted for (the public sector borrowing requirement).

Revenue grant funding
CIH has recently modelled the potential of revenue grant to support more investment in social housing. In Boosting affordable housing supply in England, revenue support towards borrowing costs is proposed as a third source of funding in addition to capital grant and providers’ own resources. This could deliver extra homes to supplement the existing Affordable Homes Programme. Although more expensive in the longer term than capital grant, it could provide a boost to supply at a time of acute shortage of social housing.

Revenue support to housing associations would have less immediate impact on public finances, with costs spread over a longer period. Whilst allowing local authorities to access grant would have immediate impact, it would enable councils to drive forward more ambitious plans to develop than might otherwise be possible following the rent reduction.

The report proposes investment of around £46million a year which would deliver 10,000 more homes and estimates that it would provide savings to
the housing benefit bill of between £23-26million a year (based on the lowest and highest social rents).

2.4 What needs to change to ensure the skills and capabilities are in place to deliver more affordable housing?

Taking a counter cyclical approach to investment in affordable housing as suggested The case for boosting the supply of sub market housing, by enabling ongoing development when private provision drops, would help to retain skills of those in the building sector. The social housing sector also has a track record of supporting employment and training opportunities for tenants and residents through its own services, and its partners and contractors.

There is also a need to step up resources for local authorities’ planning and strategic housing functions to ensure they can respond – capacity and funding has shrunk as a result of councils’ funding cuts, with a 15 per cent reduction in real terms of planning teams between 2010/11 and 2017/18 (National Audit Office).

3. Towards a new affordable housing offer – managing demand

3.1 What tax and macro-economic policies and changes in mortgage lending would help to ensure that housing is more affordable.

The exploration of the range of Government’s intervention in the housing market in the report, Dreams and reality? Government finance, taxation and the private housing market, provides a useful overview and provides an assessment of the impacts. It concludes that home ownership receives the greatest level of government support overall.

Tax reliefs benefit home owners to a much greater degree than private landlords. Net tax relief for owners was some £29 billion in 2016/17 (£10 billion paid in tax; £39 billion received in tax reliefs), whereas private landlords paid net tax of at least £8 billion.

Recent changes have sought to shift support in favour of potential new home owners rather than private landlords; exempting the former from Stamp Duty Land Tax for purchases up to £300,000 whilst adding a further
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3 percent to the levy on private landlords (except for corporations) and second home owners. In addition, changes to limit tax relief for mortgage interest costs has been limited, as has allowances for ‘wear and tear’.

However, in terms of access to mortgages, private landlords have a strong advantage in having access to interest-only mortgages whereas new home buyers must navigate various restrictions on mortgage availability.

The Help to Buy schemes have had some impact in supporting first time buyers secure mortgages and cover the costs of a deposit, but that this remains a significant difficulty for potential first-time buyers, and it is uncertain whether this and other interventions, such as stamp duty land tax relief, will succeed in reversing or moderating the decline in home ownership levels. It further identifies tax relief for existing owners as inflating house prices and therefore indirectly contributing to the difficulties for new entrants.

A second aim of Help to Buy was to encourage developers to build more homes. The government’s evaluation reported that developers were clear that sites were being built out more quickly, that it was having a direct impact on sales, and that it had an important role in consumer and developer confidence. There is some question about how much the scheme has driven up house prices.

Help to Buy is seen as integral to the mainstream market. This will make the withdrawal of the scheme difficult, requiring careful management to maintain development. Potentially alternative models such as shared ownership would maintain development, and flexible and affordable alternative route into home ownership.

3.2 What regulatory reforms and new products/ schemes are needed to make both social and private housing more affordable?

Private sector rents have largely been unregulated since 1989. However, growth in the housing benefit bill led to measures to limit the level of support to tenants in the private rented sector with the introduction of local housing allowances that were then pegged to the cheapest 30 per cent of local rents. The mechanism of local housing allowances (LHAs) has not restrained rent levels in the private rented sector, and the freeze on LHAs has led to a significant misalignment to rent levels that has caused real
hardship in many households. CIH has called for LHAs to be restored to the 30th percentile of rents as originally intended, and removal of the lower benefit cap so that people are able to cover their rent. Other mechanisms should be considered to incentivise more affordable rents in the PRS (as for example, the potential to offset the number of affordable homes to achieve rents at London Living rent in Build to Rent schemes)

Social housing has been regulated although the focus and extent of that regulation has shifted over time. Following the fire at Grenfell Tower, closer regulation and greater involvement of tenants is proposed, which may have an impact on landlords’ own investment decisions including on rents.

Government has recently announced its new rent settlement for social housing of CPI plus 1 per cent. On balance we agree with this to address four years of enforced rent reductions, although there is a case for a thorough review of rent setting policies in the longer term. We are concerned that rent increases will exceed inflation and that real social-sector rents will resume their rising trend in relation to incomes. It will be important to monitor rent levels to ensure that they remain affordable to people in work. This is an opportunity for social housing provider to develop a local housing affordability framework with local partner to set rent levels appropriate to local incomes.

3.3 How can we ensure the better use of existing stock?

In CIH’s Building Bridges report, existing arrangements for allocating social housing, through housing registers, choice based lettings and nominations agreements are identified as unable to meet the needs of local authorities and housing associations. The system struggles to match applicants with available properties (across the range of products), ensure that applicants can afford housing association lettings, and make best use of existing stock. There are also significant differences across regional and local areas in terms of key pressures and best ways to tackle it to support people to access suitable, affordable homes.

The report proposes a shared technology-driven system for allocations that covers different streams of applicants (across the different sub market housing products) enabling better matching of applicant to property and utilising stock more effectively, reducing risks of tenancy failure, clearer identification of likely demand for new development by product. It involves
broader eligibility criteria to capture a wider range of households, and enables a more proactive approach to ensuring mixed and sustainable communities. It can support shared approaches to generate chains of lettings, for example by incentives and support for older householders to downsize.

(CIH is currently undertaking a programme of work exploring allocation of social housing in more detail and outputs from this – Rethinking Allocations- will be available summer 2019.)

3.4 How can the welfare system ensure that those on low incomes, with particular needs or those experiencing financial shocks have the right level of support in a timely way to reduce housing stress?

Government should undertake a review of the cumulative impact of its welfare changes and the impacts these have, in terms of delivering on its intended aims for welfare, but also for its policy objectives for housing policy, on homelessness reduction etc.

CIH has called for changes to welfare reform that would make it more effective in supporting people in a timely way and to a sufficient level, including:

- Lifting the freeze on local housing allowance rates, and ensuring that these reflect the cheapest 30th per cent of local rents
- Removing the lowered benefit cap

With Universal Credit:

- Fully reversing cuts to work allowances for all household groups
- Reducing the five weeks wait for initial payment and consider options for more frequent payments
- Reducing the use of sanctions

Support for Mortgage interest changed from a grant to a loan in April 2018, so it is potentially too early to assess possible impacts, other than if this change has deterred people from seeking help.
4. What else needs to change?

4.1 What other areas of policy need to change, such as reforms to the machinery of government, governance of housing providers, place-making and public realm?

The crisis in housing supply and affordability is not an outcome of failure in housing policy alone. It is part of a wider system failure, and the lack of strategic connections across other areas of public policy.

Welfare reform is contributing to an unstable housing environment for many people – with reductions to the benefit cap, caps to LHAs, problems with Universal Credit, all of which make it difficult for some working age households to access and secure housing they can afford. For landlords that increases the risk of loss of rental income, making some private sector landlords unwilling to house people reliant on state support. For landlords in the social sector, the risk to rental incomes streams, and additional costs to ensure they collect and maximise their income, affects their wider activities including the maintenance of homes, support for tenants and communities, and development more housing.

In turn, the introduction of Affordable Rent intended to increase the revenue stream to fund housing associations’ development activity, increases the reliance of tenants on welfare support to meet the higher rent levels, and further increases the housing benefit bill.

Wider labour market trends also play a role. Whilst we are experiencing a period of low unemployment, much of recent growth in jobs are those on insecure contracts, with low pay and very limited opportunity for progression and the opportunity to increase earning. This throws people back onto reliance on state support with housing and living costs – and the cycle begins again. Professor Geoffrey Meen’s report, Policy approaches to improving affordability highlights the limits to what housing policy can achieve alone, and the key impacts from labour markets, incomes and interest rates. General supply increases are also limited, and a role remains for direct provision of housing for low income groups.