PlaceShapers response to the Levelling-up, Housing and Communities Committee inquiry into the finances and sustainability of the social housing sector

Introduction

This response is on behalf of PlaceShapers, the national network of place-based housing organisations. The social housing sector is diverse. Providers differ based on their size, the profile of their homes, their geographical focus, social missions, and operating models.

PlaceShapers have over 100 members – ranging from small housing associations with less than 1,000 homes to large housing associations with over 40,000 homes. Our members operate locally, focused on helping residents and communities thrive. They are not-for-profit businesses committed to improving places through long-term social, economic and physical regeneration.

Summary

In this submission we show:

- PlaceShapers remain ambitious, robust, financially resilient organisations. However they face a range of specific challenges that, without additional support from the government, mean they will have to make difficult decisions about trade-offs in the short-term that could have long-term consequences for their residents and communities.
- The economic environment and the need to invest in existing homes means housing associations are revising their business plans and reducing investment in other areas, including potentially the development of new homes.
- Like all housing associations, the main priority of PlaceShapers is to provide good quality homes and services, but as community anchor institutions they are ambitious for their residents and communities. With the right support they can be key partners in levelling-up local places.
- Policy and regulation should support all types of housing associations in a diverse sector. PlaceShapers have a significant positive impact locally, as well as contributing to the national effort to end the housing crisis and strengthening the economy.

The following recommendations will help PlaceShapers overcome the short-term challenges they face so they can continue to deliver for their residents and communities and help the government achieve its ambitions on housing, levelling-up and economic growth:

- Certainty on the post-2025 rent settlement, that recognises the challenges and contribution of housing associations, would allow the sector to plan long-term and shore-up investment in a range of activities, including the development of new homes.
- More flexibility in the Affordable Homes Programme would allow investment into the regeneration and retrofit of existing homes, improving the overall quality and energy efficiency of social housing and supporting delivery of national net-zero targets.
- Reconsidering how the development of new social housing is funded, getting the right balance between revenue and capital support, would ensure building new homes does not undermine rent affordability for residents or the long-term capacity of housing associations.

- A rebalancing of the Affordable Homes Programme, with higher grant rates, would allow the development of homes for social rent, which is the most appropriate tenure for most people on low incomes in housing need.

Financial resilience

Our housing association members are not-for-profit, asset-based businesses. Our not-for-profit status means our only interests are our residents, their homes and the communities where they live. All of our resources go into our homes and services, including transformative, long-term investment in communities and places.

The housing association sector remains a robust, financially resilient sector, despite facing some specific challenges that have put significant pressure on some organisations, and the social housing system in England more generally.

Some of these challenges, such as building safety and energy efficiency, are due to the nature of the homes we own and manage, others are due to the direction of government policy, such as the way the development of new social housing is funded and what that funding is available for. Along with other sectors, housing associations also face increasing operating costs due to inflation, and wider economic pressures.

The sector has been able to respond to these challenges because of the approach to managing risk and long-term planning. However, without further government support, organisations are now having to make difficult decisions and trade-offs to ensure social housing is safe-guarded and they can respond to the needs of their communities.

Many housing associations will be increasing investment in existing homes, which will mean reducing their development plans, at the time of an escalating housing crisis. Others will be looking at their operating margins.

For a very small number of housing associations, these challenges pose a real risk to their viability. This is not due to a lack of risk management or planning, but because the challenges are coming together in unforeseen ways and are particularly acute. We urge the government to review what support they offer housing associations because there is strength in a diverse sector and ensuring housing associations of all sizes can thrive is the best way of delivering impact at a local and national level.

Government intervention in the rent settlement in 2016 and 2023 undermined long-term financial planning in the sector and led to significant cuts in services to residents in some places. The Regulator of Social Housing estimated a 14% reduction on spending on major repairs in 2017 to compensate for the four-year 1% rent cut introduced in 2016/17.[1]

Housing associations have worked hard to ensure this hasn't affected their relationship with lenders and funders. However, a long-term rent settlement the sector can rely on will be critical in ensuring housing associations can secure the finance and support necessary to build new homes and improve the quality and energy efficiency of existing homes.

We recommend the government starts a conversation with the sector now about the post-2025 rent settlement and commits to bringing forward a settlement that recognises the challenges and

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/666695/2017_Global_accounts_of_private_registered_providers.pdf

contribution of the sector as soon as possible. This would allow the sector to plan long-term and shore-up investment in a range of activities, including the development of new homes.

Case study – financial challenges in the sector

One member has budgeted for an expenditure of £70 million in their five-year business plan to meet fire safety requirements. This organisation has an annual rental income of £50-60 million, therefore building safety spending will account for around 25% of this. While there is some government support for remediation costs, housing associations are still having to fund much of this work from their own resources, which will significantly impact their ability to invest in other priorities.

New challenges to the social housing sector

Housing associations face a range of challenges and priorities for investment, including building new homes and remediating and improving the quality and energy efficiency of existing homes. Housing associations are working hard to get to grips with these challenges, but some of them, particularly reaching net-zero carbon, are significant and long-term.

As community anchor organisations, PlaceShapers work goes beyond housing provision. Our members have been leading efforts to build social and economic resilience in communities for generations and the work they do has a significant impact at a place and community level. As set out above, they can do this because they are asset-based businesses, unlike local authorities who are, at least in part, dependent on government grant, which has reduced significantly in recent years. However, financial pressures will impact housing association's ability to match their ambitions with investment, which will have consequences for the areas where they operate over the long-term.

Case studies – place-shaping activities in communities

Bolton at Home, a housing association with 17,000 homes, spends around £3 million per year from its own resources on community support programmes. They have also founded Greenworks, Bolton's first low-carbon business park to create employment opportunities for local people.

Unity Housing, who manage just over 1,000 homes in Chapeltown in Leeds, supports the local economy and entrepreneurs through acquisition of empty commercial units that they rent to local people at below market value. This activity has created 742 new jobs.

WHG in Walsall are working in partnership to convert Wolverhampton Royal Hospital into housing for over-55s, bringing it into use for the first time in 25 years. They have a focus on regenerating places and buildings with heritage value. Historical buildings create the infrastructure to bring people together, bring new people in and make sure the history is understood.

Maintaining and improving existing homes

We agree social housing providers need to prioritise maintaining and improving existing homes. While social housing performs better than other tenures regarding the Decent Homes Standard[2], there are still too many social homes which are of poor quality, and a minority of those pose a risk to people's health and safety.

[2] https://www.gov.uk/government/statistics/english-housing-survey-2021-to-2022-headline-report/english-housing-survey-2021-to-2022-headline-report

The UK has the oldest and least energy efficient homes in Europe[3]. Many PlaceShapers were formed from the transfer of homes from local authorities and inherited housing that is old and in a state of disrepair.

While our members are working hard to improve the energy efficiency and quality of these homes, some of them need to be knocked down and rebuilt as they have far exceeded their intended life-span. The lack of funding to regenerate existing homes, estates and communities has hampered the efforts to bring social housing up to the standards that we aspire to. There has been no substantial funding to rebuild homes and communities at scale since the Housing Market Renewal programme came to end in 2011.

Current rules on Homes England's Affordable Homes Programme only allows for funds to be spent on additional homes, not the regeneration of existing homes.

We recommend the government allows Affordable Homes Programme funding to be spent on the regeneration of homes. This would allow homes to be rebuilt to a high standard, improving the overall quality and energy efficiency of social housing and providing a huge economic benefit to local communities. It would be particularly significant for those areas earmarked for levelling up, like in Northern post-industrial areas which tend to have more poor-quality housing, in lower value areas which do not attract new development.

Case study – regeneration

Leeds Federated are involved in the regeneration of the Sugar Hill estate in Leeds. The majority of the homes, which were provided for private rent, are defective and in poor condition.

Planning permission was secured by a private company for a new development in January 2021, involving the demolition of the existing homes and redeveloping the site for market sale. The company commenced a process of terminating the 60 assured shorthold tenancies which raised concerns in the local community and beyond and they eventually decided not to progress with the development.

Leeds Federated completed the purchase of Sugar Hill in 2022 when all 60 assured shorthold properties were empty and just the remaining ten protected tenancies remained. They are now managing the estate and actively engaging with the remaining residents.

Leeds Federated's proposal for redevelopment, supported by the council, is to demolish all 70 homes and build an entirely affordable homes scheme for rent and shared ownership.

The first phase of redevelopment will provide new homes for the ten protected tenancies, which will not be eligible for grant. A grant will be crucial in ensuring the remaining 60 homes can be developed for affordable housing to a high standard and the scheme is viable overall.

Schemes like these can have a hugely beneficial impact on local communities, replacing run-down housing with new homes that can completely transform the place, economically and socially. However, there is no guarantee that schemes like these are eligible for grant funding given the current rules around additionality. And without organisations like Leeds Federated schemes like these are unlikely to be taken forward in a way that benefits communities in the long-term.

Inflation has had a significant impact on cost of maintaining and repairing homes. The National Housing Federation reported that the annual price growth of repairs and maintenance was 14% in

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[3] https://www.bre.co.uk/filelibrary/Briefing%20papers/92993_BRE_Poor-Housing_in_-Europe.pdf

2022, running significantly higher than CPI.[4] This will obviously have a significant impact on business plans and further limits investment in other areas.

Despite this, the 2022 Global Accounts show providers' investment in existing homes increased to record levels, with total spend on repairs and maintenance reaching £6.5 billion.[5]

Housing associations have limited ways to finance work to improve existing homes. Social housing organisations cannot pass costs onto the residents without undermining their core purpose of providing affordable housing to those in need.

Improving the energy efficiency of homes to reach EPC C and eventually net-zero carbon emissions is perhaps the biggest challenge facing housing associations. The cost of decarbonising social housing will be very significant. Housing associations are beginning to factor these costs into their long-term business plans but it is difficult to do this with any certainty as we are only at the start of this journey. Even at this stage it is clear that public funding at scale will be required if housing associations are to carry out this work and meet the government target while remaining financially viable.

Case study – improving the energy efficiency of homes

In low value areas the cost of retrofit to improve the energy efficiency of homes often exceeds the total value of the house. For instance, North Star Housing operate in Teesside where market value of homes is very low, around £30,000 for a family home in some areas. It would be a challenge to spend a similar amount retrofitting these properties; with the low demand for housing in the area, the cost of retrofit would not result in an equivalent uplift in the market value of the property.

Development

The way the development of new social housing is funded has changed significantly in recent years, with reduced upfront capital subsidy per home and a much higher percentage of the cost being raised through debt or bond finance, higher 'affordable' rents and the sector's own resources, including through the delivery of market housing. As well as leading to affordability challenges for residents, this will mean some housing associations will eventually hit their borrowing limits.

This model for developing new social homes has come under increasing pressure given the need to invest in existing homes and the other economic pressure the sector faces.

This model and these pressures have led to many housing associations revising their development plans downwards over the last year to ensure they remain financially viable and can meet their financial and fiduciary obligations. This does not mean that development will cease entirely, but overall it is likely to impact on the number of homes the sector builds, as well the type of homes built.

For example, one of our members with an ambitious development programme are expecting to reduce the number of new homes they build by 50% this year. This is to ensure they have capacity to address issues around damp and mould and fire safety. They remain committed to development and will look to increase their development ambitions again when they are confident they have the capacity to do so.

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[4] https://www.housing.org.uk/resources/cost-inflation-for-housing-associations/

[5] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1128093/20221222_Global_Accounts_2022.pdf

PlaceShapers often build new homes to a higher specification than required to ensure these homes are aspirational and fit for the future. Because this requires higher capital spending, organisations will have to consider whether it is possible to continue with this approach given the current challenges they face.

Case study – challenges of development

One member's five-year development strategy had planned to move away from delivering homes through section 106 as this did not meet with their aspirations about the homes they provide for their residents. They intended to do more land-led development where they had more control over energy efficiency, heat, and space standards. Given the rising costs of development they have been unable to compete with developers who build to a lower specification. In a period of financial pressure and high land values, developers who build to a higher specification are finding it increasingly difficult to ensure viability on the quality of scheme they would like.

Our members account for many factors in deciding a development's tenure mix including local need, social cohesion, affordability, and demand. Place-based decision making may also lead to a decision to build market housing or shared ownership.

Case studies – developing homes with a place-based approach

Livin is a housing association which manages over 8,400 homes across County Durham. York Hill is an estate in Spennymoor that originally contained 144 homes which were constructed in the 1930s. With the area being associated with high levels of antisocial behaviour, and properties facing issues with damp and insulation, two-bedroom houses in the area were selling for as little as £15,000, making the area unattractive for private investment into regeneration. To regenerate York Hill, Livin invested £5.4 million from its own reserves into building improvements, such as installing external wall insulation and improvements into local amenities, such as new in-curtilage parking. This effort delivered 110 homes for both sale and rent, with Livin explicitly focusing on increasing homeownership in the area, which rose from 32% to 62% as a result.

Incommunities is a housing association based in Yorkshire, managing almost 22,600 properties across Bradford, Kirklees, Wakefield and Rotherham. Green Lane is an estate located in Bradford originally built in the 1950s that has suffered significant physical deterioration and increasing rates of antisocial behaviour and deprivation. After demolishing the previous housing, Incommunities struggled to attract interest from private developers for regeneration due to the location and scope of the project. This led to an in-house development arm leading on the construction of 142 new properties for both rent and sale and an establishment of a supply chain that utilises local suppliers while also providing local residents opportunities for training and employment.

Financial pressures are making it difficult for housing associations to build new supported housing as it is more expensive to provide over the long-term. There is already huge pressure on existing supported housing schemes, so any reduction in development will have long-term consequences in meeting supported housing need.

New housing is essential for communities to thrive and development is a critical part in regenerating and levelling-up of places. Some members have maintained their commitment to development despite the challenges set out here, but this will depend on the nature of their existing homes and their capacity to take on financial risk and new borrowing.

We believe the vast majority of new social housing should continue to be built and managed by housing associations and local authorities. As not-for-profit organisations, housing associations ensure that the most is made of the grant government provides, and any surplus is reinvested in homes and services that benefit residents and communities in the long-term.

We recommend the government considers the way new social housing is funded to ensure it remains viable for housing associations to continue to build homes to meet housing need. Revenue and capital support need to be considered together to ensure the development of new homes is appropriately funded and does not undermine rent affordability or the balance sheet and long-term capacity of housing associations.

Local authorities

Our members work in lockstep with local authorities. Building and maintaining strong working relationships with local authorities is crucial to place-shaping.

Our members usually own and manage a greater share of the social rented homes in each local authority in which they are active compared to other types of housing association. For example, in Torridge, Westward Housing Group Limited holds 65% of all social homes in the local authority, despite there being 20 registered providers managing homes there.

Across the country, PlaceShapers members own and manage social homes in an average of 26 local authorities, compared to 88 local authorities for other housing associations. This allows for strong relationships with partners in local authorities, which can often increase what it is possible to deliver in a local area.

Case study – housing associations working in partnership

South Lakes Housing (SLH) have formed a development partnership with Lune Valley Community Land Trust (CLT), with strong support from Lancaster City Council (LCC).

The CLT was set up to promote local affordable and sustainable housing and in 2018 set ambitious plans to redevelop a brownfield site for 20 community-led homes in the rural village of Halton, Lancashire, with a requirement that all homes were built to the passivhaus eco standard.

The scheme aligned with LCC's sustainability aims and pledge to be carbon-neutral by 2030. Once a feasibility study was completed, the CLT secured an option agreement on the land and selected SLH as their registered provider partner to deliver the development. In March 2023, the successful collaboration between LVCLT, SLH and LCC resulted in the delivery of the affordable homes for the community of Halton. The exceptionally low energy passivhaus standard will help to cut carbon emissions and will significantly improve affordable warmth for residents.

Policy and regulation

The change in the way the government supports the development of new social housing, with a significant reduction in the capital subsidy available per home, is well documented. It has led to a substantial drop in the number of homes built for social rent, in favour of affordable rent homes. Social rent is the best and most appropriate option for most households in housing need, particularly for those on low incomes.

We recommend the Affordable Homes Programme is rebalanced, with higher grant rates, to allow the development of homes for social rent.

As set out elsewhere in this submission, there is a very real risk that we will see a reduction in the development of new social housing built by housing associations. This will exacerbate the housing crisis and increase homelessness. While Homes England has offered some flexibility in the Affordable

Homes Programme, this needs to be matched by additional support for other priorities, to ensure this flexibility significantly shores-up development plans in a meaningful way.

Maintaining the delivery of affordable housing, and within that increasing the delivery of homes for social rent, will lead to significant economic benefits and savings in other areas, including through decreasing the use of expensive temporary accommodation. Analysis of expenditure by local authorities over 2021/22 reportedly showed councils spent at least £1.6 billion on temporary accommodation.[6]

As set out above, funding for regeneration and rebuilding social housing, which has been lacking for over a decade, would allow our members to deliver projects that could transform places and communities, making them more socially and economically resilient.

Many PlaceShapers are heavily reliant on section 106 as a means of increasing social housing in the areas where they operate. The government is proposing to replace section 106 with an Infrastructure Levy over the long-term. Given how challenging it is for housing associations to continue developing new social housing, it is vital that the contribution made through planning is protected and increased wherever possible. We'd urge the government to consider whether the proposed Infrastructure Levy can genuinely deliver social housing to levels needed in all areas of the country.

PlaceShapers support the Social Housing Regulation Bill and are preparing for stronger and more proactive consumer regulation and the introduction of Tenant Satisfaction Measures. Our members have contributed to development of these measures and we've facilitated engagement between the Regulator and residents to ensure these views were also taken into account. Regulation provides an important backstop for residents where their home or the service they receive from their landlord is falling short of what is expected.

We agree with statements by the Regulator of Social Housing that in this challenging period it is crucial housing associations are clear about their social purpose and how they can deliver against it. For PlaceShapers, that social purpose includes supporting and improving the economic and social resilience of residents and communities.

A number of housing associations have recently been downgraded from V1 to a V2 rating for viability. While these organisations are still compliant with regulatory standards, it does mean they need to manage material risks to ensure continued compliance. In making these judgements, it is important the Regulator continues to recognise the value in investing in services that deliver long-term economic and social benefits for residents and communities, provided the housing association can demonstrate it has a full and proper grip on the risks and this is appropriately factored into their business plan.

[6] https://commonslibrary.parliament.uk/research-briefings/sn02110/