HOMES FOR THE SOUTH WEST

Submission to Comprehensive Spending Review September 2020

Thank you for the opportunity to contribute to the Government's thinking ahead of the Comprehensive Spending Review. We recognise that, following the events of 2020, this will be a particularly timely and significant review.

About us

We are Homes for the South West, an alliance of 11 Housing Associations operating in the South West region.

Collectively we own 245,000 homes, we house half a million people, and our businesses make an annual contribution of £1bn to the local economy.
We build homes of all tenures, but affordable homes, homes for rent, for those in need and unable to afford the market, are the reason we exist.
Despite the challenges of recent months and years we remain resilient businesses and are in a position to meet the challenges ahead. We are ready to build 22,000 homes over next 5 years, and to invest £2bn in doing so.

Intervention required

Housing has a vital role to play in the economic and social recovery from COVID-19 and levelling up economic opportunity. Because of this, the Government's recent announcement of the £12bn affordable homes programme was very welcome.

However, we can deliver even more homes in the south west, drive faster economic growth and help more people achieve their aspirations with additional funding for affordable rented housing. A significant investment in public housing will meet the objectives of the Spending Review and make a profound difference to this and future generations. To achieve this, we are requesting:

1. An increase in grant funding for affordable housing to accelerate housing delivery across the south west in response to COVID-19
2. Review the public land disposal strategy to prioritise release of more land for public housing

3. Re-designating public housing as infrastructure investment to capitalise on low rates of borrowing.

Why now?

The pressing need for more homes means that we all need to do more. The need for affordable housing, including homes for rent, is clearly recognised by Government (e.g. the 2017 Green Paper). A 2018 report for Crisis, reinforced by both NHF and Joseph Rowntree Foundation research, estimates that we need to provide 145,000 new affordable homes each year, of which 90,000 should be for social rent.

House construction can also play a major part in boosting the economy and an equally significant role in the 'levelling up' of opportunity through training, skills, employment and security. And, at a time when the construction industry struggles with the consequences of Covid, the role of Housing Associations, and of affordable housing, can be not only a social benefit in itself but also a catalyst for construction projects and for the economy more generally.

Most importantly, we can generate confidence. Confidence that will be key to the UK's economic recovery; confidence of consumers, of investors and of developers; confidence despite the sluggish economy and the uncertainty; confidence that will be critical to achieving the objectives set out in the spending review. We believe the social housing sector can play a very significant role given the right support.

Debate about the 'levelling up' agenda frequently looks north from London. But we recognise that its relevance is as acute in the South West which has some of highest housing cost to income ratios outside London (NHF Home Truths). The ONS predicts (Subnational population predictions for England: 2018 based) the South West as having the second highest population growth in England. But less than half the existing population of the region feel that their chances of progressing are good, the second lowest region in England (Social Mobility Commission's Social Mobility Barometer 2019-20: in the SW 47% of respondents felt their chances were good compared to 78% in London)

Investment in construction, and housebuilding in particular, is one of the best ways of rebuilding the economy. There are four reasons for suggesting this.

- The lag between investment and impact is shorter for housing than many other forms of capital investment.

- Housing investment creates jobs, directly in construction and indirectly in the supply chain. Housebuilding relies little on imports (<8%) compared to other industries (HBF, 2015).
- It reduces the cost to the taxpayer of benefits for those in work,
- It creates tax revenues directly for the Treasury.

In the aftermath of the lockdown, the construction of new homes for sale is a challenge; in a report for Shelter, Savills (June 2020) predict a loss of 81,000 jobs and a shortfall of 218,000 to 318,000 new homes over next 5 years as a result of the pandemic. We can step in to address this, by working together to create the right conditions for an expansion in affordable home building.

Intervention #1 Subsidy/Grant

Proposition

Building more affordable, and particularly social rent, homes, will boost economy and contribute to levelling up. This can only happen with some form of subsidy. In the past decade, the housing association sector has met the Government's challenge to do more with less, driving efficiency savings, innovations in our business model and new income from private investment and development. However, because of the current economic situation, our two main sources of subsidy are both less viable: selling market housing and Section 106 agreements.

In order to build more affordable homes, we are requesting an increase in grant funding, which offers good value for the money invested. An additional £10bn funding package, as proposed by the recent HCLG Select Committee report, might provide the South West with a £1bn boost. We currently need around £50,000 of grant subsidy to provide a new affordable home, so we estimate that level of investment could provide a further 20,000 new homes in the region, as well as stimulating £4bn of investment in the local economy.

The case

The HCLG Select Committee Report described as "compelling" the evidence of Crisis, the NHF and JRF above that we need to provide 90,000 good quality social rent homes annually. Existing routes for providing affordable/social housing were already not working well, and they are now getting worse.

The report recognised that the reliance on cross subsidy was no longer sustainable. That was pre-pandemic. During a recession that model becomes even less so – see below

S106, even in its existing form, relies on new private development, which is expected to decline. A combination of (in the short term) recession - meaning fewer new homes and therefore less S106 - and (in the longer term) First Homes and the proposals in the Planning White Paper, suggest further decline. At best there will be a hiatus as S106 moves from provision at the outset of development to following on at the end; at worst it disappears completely.

The Select Committee also recognised the significance of 'social rent' homes specifically, as opposed to the more generic term 'affordable', and the Affordable Rent product which, for many, is not affordable.

The Joseph Rowntree Foundation (August 2020 briefing 'Build, Build, Build') make a compelling economic case for investment in social rent homes which will reduce the amount spent on rent from over 35% of incomes to below 30%, giving a huge boost to spending power and to the economy as well as reducing benefit payments.

Over 20 years, poverty rates for owners and social renters have dropped, but for private renters rates have doubled.

A 2020 report for Shelter by Savills suggests that the Covid pandemic has caused a loss of 81,000 jobs in construction and 90,000 in supply chain. The same report predicts a reduction in the output of new homes by 218,000 to 318,000 over the next 5 years.

Traditionally, social housing has had significant benefit in a recession; being counter-cyclical it can provide a housing-related construction boost (as described above) at a time when the building industry generally is in recession and output is falling. However, because we have adapted our business models in response to the Government's challenge, housing associations are more reliant on building market housing for sale and exposed to market conditions. The benefit of building through a downturn through grant funding, is to sustain the counter-cyclical momentum so it can create jobs and growth, but also do so using spare capacity in the labour market at a time of reduced market demand.

Grant also enables us to do what we do best, delivering a diversity of housing tenures, across larger developments in particular. The Letwin Report (An Independent Review of Build Out, Oct 2018) identified homogeneity of type and tenure as the most significant factor in slowing down build-out rates. Grant funding used imaginatively could provide not only significant amounts of affordable housing but also uplift build rates across larger multi-tenure developments, supporting the private housebuilding sector and supporting the economic recovery. Some grant could be ring-fenced to buy off the shelf and to buy in bulk from developers to boost the economy in the short term.

Recommendation

That a social housebuilding programme should
a) be top of the government's agenda to rebuild post-Covid, and
b) be supported by a programme of £10bn additional funding; a programme proposed by the Select Committee and one that could enable us to deliver 20,000 additional affordable homes in the South West.

Intervention #2 Land value

Proposition

Reducing the cost of land will mean that less direct subsidy is required to build affordable housing. Capturing private land value is a public policy decision and not within the gift of the Spending Review. However, capturing public land value is, at least in part, a financial decision.

The case

The cost and availability of land (often linked) are both a problem for us, and a barrier to the investment we want and could make (see 'context' above). Land values in the UK are high, and for affordable housing the necessary subsidies are being spent, in large proportion, on land. Furthermore, the availability of land is one of the most significant barriers to building new homes. 78% of HAs cite the availability of land as a 'standout factor' in developing new homes (Select Committee report) and we're no different.

Civitas, reporting in March 2018 on reform of land compensation rules, estimated that grant levels could drop by as much as 40% if land value reforms reduced the cost of land. As far as privately-owned land is concerned, we recognise that reform of the Land Compensation Act, whilst desirable, is not within the gift of the Chancellor and is not a matter for the Spending Review.

However, when it comes to public land, financial considerations are significant, and are currently unhelpful. This is because achieving full open market value takes precedence over other considerations. New Economics Foundation (DSH012) suggest that using public land could reduce grant levels by up to 62%. They also propose that prioritising other factors in decisions around public land disposal could be a means of having much greater control over the types of homes that are built.

Two studies in 2020 found that:

- only 15% of homes built on disposed public land were affordable, and
- only 2.6% of homes built on disposed public land were for social rent.

Prioritising the provision of affordable and social rent housing could, in itself, reduce the need for direct grant subsidy per home. But it might also be linked to other priorities. We are keen to see innovation, for example in different forms of tenure and in modern methods of construction (MMC). MMC can help us deliver more for less in the longer term but needs investment to deliver at volume. That investment, in training, in centres of excellence, would also boost skills and employment. There is an opportunity for the government to be the catalyst for change through its objectives for the use of public land.

Recommendation

That the current public land disposal strategy be reviewed and that, in future, priority for public land should change from cash for Treasury to the provision of public housing and innovation in housing.

Intervention #3 Infrastructure and capital investment

Proposition

Building new affordable housing should be treated as infrastructure investment by the government. This also reflects the value it offers compared to spending on benefits and the brilliant new communities it can deliver – helping people to maximise their potential, meet their aspirations and get on in life.

There is a strong argument that this capital investment provides a better long-term return than spending on housing benefit and other subsidies. That argument is strengthened when borrowing money is as cheap as is currently the case. There are few more cost-effective ways of providing the impetus for an economic recovery and doing so in a way that contributes to levelling up.

The case

The HCLG Select Committee report rightly identifies a massive shift over the past half century in the way subsidy of affordable housing is provided. The nature of the subsidy hugely influences the way in which that subsidy is perceived. From the 1940s to the 1970s capital subsidy held sway. The country invested heavily in bricks and mortar; 'public' housing was seen as a sound public investment for the country, and by 1975 80% of housing expenditure was on construction. Since the 1980s, the emphasis has been on revenue subsidy, with that investment focusing on providing a short-term safety net, and along with that our public housing becomes 'social' housing, seen as a welfare service. 85% of housing spending is now on benefits.

There is a strong public policy case for a return to 'public' rather than 'social' housing. Capital subsidy is an investment; not just in bricks and mortar, but also in the health, security and prosperity of the nation's citizens. It also benefits the nation's wealth: less income spent on housing costs means more on other things. By no means least, a return to the concept of 'public' housing would provide a real means of addressing the stigma attached to social, welfare, housing: this stigma is a real concern raised in the 2017 Green paper, with no real solutions offered.

Of specific relevance to the spending review and its objectives are the returns generated by that public investment. A report by Capital Economics for Shelter (2019) included research (by Capital Economics and LEK Consulting: The benefits of Investment, 2009) demonstrating that every £1 invested in housing construction produces a further £1.24 GDP. The same report finds an additional 56p in relation to social housing when reductions in benefit are taken into account.

Public investment is boosted by Housing Associations to the tune of £6 for every £1 invested (NHF). Capital Economics (2015) found that investment in social rent starts to deliver in-year savings to the Treasury after 20 years and produces a net surplus after a further 20 years. With current borrowing rates the picture is likely to be even rosier.

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Investment in decent, affordable homes, where people are secure and spend less than 1/3 of their income on housing costs should be valued as an investment for the nation, not simply a stop-gap welfare service. Public housing should be seen as key infrastructure development by and for the country – and the £10bn investment proposed above would be less than half what we currently invest in roads. This would maximise the cheap borrowing to maximum benefit of the country

Recommendation

That investment in public housing be treated as key infrastructure investment by the country to level up society across the country.

Thank you again for the opportunity to contribute to this review and, on behalf of Homes for the South West, please contact me if there is anything above you would like to explore further.

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