

**Affordable Housing
Task and Finish Group**

Report to the Deputy Minister for Housing

June 2008

This is a report to the Deputy Minister for Housing, but the views and opinions expressed within it are those of the authors and not necessarily those of the Welsh Assembly Government

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Foreword

The Task & Finish Group was commissioned by the Deputy Minister for Housing and work began in October 2007 led by Sue Essex. She was joined in December by Dr Robert (Bob) Smith, Director of the Regeneration Institute at Cardiff University and Dr Peter Williams, formerly Deputy Director General of the Council of Mortgage Lenders.

The team has been supported by Lisa Dobbins from the Welsh Assembly Government's Priority Projects Team and Kate Bacon as Team Support.

The report has been prepared as an advisory document for Government with suggestions for change. The Terms of Reference cover a wide and somewhat complex area of housing. The Review Group has not been able within the short timescale to provide a blueprint for the future. For the most part the suggested changes are broad in nature but in some areas such as regulation for housing associations, there is considerable detail to support immediate changes to the system should the Government decide to take those forward. Regulation needs to add value to the system but it should not be used as a way of stifling innovation and the ability to get things done.

The authors would like to thank all the many people and organisations who have taken part in discussions and provided ideas, evidence, data and case studies. We received a huge number of comments which we have done our best to cover, but inevitably in a report of this kind we have not been able to include every single point raised. What we have found is an immense interest and considerable enthusiasm for securing an expanded programme of affordable housing in Wales which bodes well for the future.

The authors strongly hope that the work of the Task and Finish Group and the engagement of others during these last six months, provides the bedrock for change and the delivery of an affordable housing system which will do justice to the needs of the people of Wales. All those involved in housing in Wales – past and present – should take immense pride in their achievements. The changes we are recommending build on the strengths of the existing system to meet the challenges of the future.

Sue Essex

Bob Smith

Peter Williams

Executive Summary

AFFORDABLE HOUSING IN WALES: AN INDEPENDENT REPORT TO THE MINISTER FOR HOUSING – June 2008

Context

In October 2007 the Deputy Minister for Housing established this Task and Finish Group to carry out a Review – in the context of the 'One Wales' agenda - to explore the barriers and opportunities presented by the Assembly Government's priority to deliver significantly more affordable homes in Wales by 2011. The Review has proven to be timely bearing in mind the significant changes planned in England and Scotland and the emergence of the 'credit crunch' during the period of the Group's work. The issues arising from this downturn in the market underline the importance of housing in tackling poverty and its influence on health and well being, educational access and achievement, and employment activity.

The challenge is not solely about delivering increased numbers but about people and their need for well designed, quality homes, of the right type, in the right place, integrated into wider community plans to ensure strong, balanced sustainable communities. However, we believe that the mechanisms currently in place to support the development of such housing – collection and use of information, regulation, resources and ways of working – needs to be more effective, Immediate action is necessary to achieve this.

The current picture in Wales

The starting point for the Group's Review has been the current housing position in Wales, how this might be expected to change and the existing frameworks for the delivery of affordable housing. Although the majority of the housing stock is in the private sector (83%), a significant proportion of households live in the social housing sector in homes provided by local authorities and housing associations. Tenure change in Wales has shown an overall decline in the level of social housing and the growing importance of housing associations as providers of affordable housing (see reference 1).

In looking at current and future housing requirements (and in particular the need for additional affordable housing), we have noted the evidence from a number of local and regional studies. However, we are concerned at the lack of a robust evidence base in relation to the extent of the need for additional affordable housing at a national level in Wales. We believe this data deficit needs urgent attention. Whilst the commitment to an additional 6,500 affordable homes between 2007-2011 is welcome, we think this is unlikely to be sufficient to fully address needs.

In terms of the long term improvement in the quality of Welsh housing stock available evidence suggests that the quality of the social housing stock (particularly local authority stock and that which has been transferred to new housing

associations) falls well short of the Welsh Housing Quality Standard (WHQS) and substantial investment is needed both to achieve WHQS by the target date of 2012 and to sustain it thereafter. This poses significant challenges for social landlords (not least in terms of local authorities examining the options and, where appropriate, putting the transfer option to tenants), yet the scale of investment also presents opportunities for social housing organisations to be at the heart of local economic and community regeneration.

Political devolution and the refocusing of Welsh Assembly Government policies on service delivery and a stronger co-ordination of different strategies and policies have begun to shape policy development for housing in Wales. We have concluded that more needs to be done to address supply side issues, to ensure environmental and community sustainability and to strengthen the strategic and enabling roles in housing at a local, regional and national levels, building on successful innovation.

In considering the current housing position in Wales we have considered the changing shape of the housing association sector, the drivers of change, and the ways the sector is organising to deliver on the provision and regeneration of affordable housing. The roles which housing associations play in the local housing system are changing and that this has implications for organisations themselves, the sector as a whole, their partners (including local authorities) and the Welsh Assembly Government, in terms of its funding and regulatory functions.

Looking to the future

The '*Making the Connections*' model at the heart of the Welsh Assembly Government's public service agenda, is both appropriate and applicable to taking forward a new approach to stimulating and developing affordable housing in Wales. The Group believe that the principles underlying the model, clearly focused on an outcome based and collaboration led approach, match the nature of housing in Wales, both in character and necessary direction. In applying the model, housing would be aligning itself with other policy changes in public service delivery taking place within Wales. This would see:

- the Assembly Government taking a stronger strategic role, moving away from detailed management of programmes to concentrating on achieving outcomes through enabling delivery, performance and accountability;
- local authorities acting as strategic housing enablers and community leaders, identifying local need and working closely with others to meet it;
- housing associations being given more freedom to release resources, develop and innovate but within a clearer, risk and performance based regulatory framework;
- the private sector recognised as having an essential role as funder, developer and landlord, encouraged to work in greater partnership with government; and
- tenants being sure of a quality and responsive service

The recommendations in the Group's Report will, if implemented, contribute to ensuring this challenging agenda can be met. Although not all are for the Welsh Assembly Government it is essential that they lead the change, moving quickly to put new arrangements in place. They must ensure that this Review is used to implement

and embed the cultural environment of trust and transparency that allows a model of partnership, integration, planning and performance to thrive.

Regulating housing associations – going forward

The current regulatory regime in Wales for housing associations was originally developed over 20 years ago and although it has served its purpose well, it no longer meets current or forthcoming challenges. We have set out a substantial agenda for change. Our view is that the current arrangements are failing in a number of different ways, albeit we fully recognise and acknowledge the considerable efforts made by staff in the Welsh Assembly Government and the Wales Audit Office (WAO) as well as housing associations themselves, to make the current regime work. Nevertheless having heard the evidence and considered this in significant detail, we take the view that reform is urgently needed.

In our view the task of change needs to be taken forward as soon as possible and certainly to begin this year. Having identified weaknesses in the current arrangements it would be foolhardy to leave these untouched now. With significant regulatory upgrading underway in England and Scotland it is important this is taken forward so that Wales is not disadvantaged.

The aim of the Review in part has been to see how we can help associations do more. Some may have viewed that as a mandate for a lighter regulatory regime or indeed no regulation at all. However, it has become obvious to us that in setting out an ambition to do more we do have to have a system in place which helps *all* associations achieve that. The requirement for more homes and better services is Wales-wide and the regulatory framework needs to ensure there are organisations fit for purpose across Wales delivering it.

Our aim has been to set up a regime which is far more transparent than the one operating at present, with clear performance requirements and compliance mechanisms in place so that it will deliver real benefits to associations and their key stakeholders including tenants and residents. It is quite evident that what we are suggesting has in broad terms been on the agenda for a long period of time and we have set out the necessary changes to deliver this agenda.

We have responded to the appetite for a regime built around a stronger role for self assessment but we have also recommended an upgrading related to finance and governance across the system. We have set out new requirements for the Welsh Assembly Government, stressing the need for continuous improvement and proposed a Regulatory Board that can maintain a *permanent watch* over the system and the performance of the sector.

Our view is that we need a step change in the current arrangements. The system has lost credibility with associations and others, as is evidenced by late reporting and the variable quality of those reports. There must be a renewed commitment by all parties to take any new arrangements forward recognising that the need to secure an efficient and effective social housing sector for the benefit of the people of Wales.

We believe that what we propose will ensure that key organisations will be much better placed to respond to the One Wales and Delivering the Connections agendas.

First the system will give a stronger role to local authorities and to residents and tenants. Second, it will help associations make better use of their resources. Third it should help secure more resources because investors - both public and private - will have more confidence in the regime in place.

Securing finance for affordable housing

The Report explores a number of ways it might be possible to secure extra funding. None of them are dramatically new or unique to Wales, but the reality is that markets and finance rules are constantly changing with new windows of opportunity opening just as others are closing. We looked across the spectrum to see what might be achieved, covering a range of issues including the use of land, cross subsidy, cheaper finance and increased leverage, building a greater borrowing capacity as well as looking at some of the different models that might be applied. The Welsh Assembly Government has explored some of these options in the past and others are currently under consideration. The key point is we know they can be made to work and that subject to appropriate safeguards (and appropriate market conditions) lenders will normally be prepared to back an expansion of activity.

The Welsh Assembly Government has identified the need to increase the supply of affordable homes in Wales. Successive years of public funding have allowed the housing association sector to build up a considerable stock of assets of both homes and financial reserves. The current Community Housing Cymru (CHC) initiative to ensure that housing associations are able to maximise these assets is a welcome move by one key player in the market place and one we strongly support. Our view is that the sector does have the capacity to do more and we would urge all association boards to deliver on this. The Report recommends a series of major changes to the regulatory environment which we believe will also help associations to carry forward this agenda.

We are looking to see expansion supported by increased use of European Investment Bank (EIB) funds, public land release and section 106 Agreements, all of which can bring extra resources to the table so that Wales is not solely reliant upon housing association asset alone. This may be complemented by European Structural Funds. Adopting a full suite of the range of options available including local housing companies, partial stock transfer and community land trusts, in conjunction with improved regulation, should reassure boards and association stakeholders such as lenders and local authorities that this can be done safely and without risk to the future of the associations themselves. The Assembly Government should use its strategic Capital Investment Board to secure additional funding for affordable housing as part of wider regeneration objectives.

As a matter of some urgency, we feel the Welsh Assembly Government must now review the housing association rent regime and its interaction with the cost guideline process. We are concerned that within the structure there are significant anomalies and there is a need for a regime with a stronger and clearer logic and one that is fair and consistent.

A review of the Housing Revenue Account (HRA) system is underway in England and this will impact upon Wales. This clearly is very significant for Wales and the

Welsh Assembly Government needs to work with the Welsh Local Government Association (WLGA) to influence its outcome. The timescales involved and need for legislative change suggest that there should not be an over reliance on this as a short term solution but it could play a role in the future.

Delivering on the ground

It is important to recognise that we are not operating on a blank canvas. There are already good examples of policies and approaches that are helping to increase the supply of quality affordable homes in Wales and elsewhere and there is an imperative to transfer and mainstream those initiative across Wales. these could be mainstreamed. Where necessary they have been reflected in the Report's conclusions and recommendations. Many of these good examples rely on the type of collaboration and partnership working recommended by the Report. The basic message is that working together works.

Key recommendations

The Review Group has not been able within the short timescale to provide a complete blueprint for the future. For the most part the suggested changes are broad in nature, but in some areas such as regulation for housing associations there is considerable detail to support immediate changes to the system should the Government decide to take those forward.

The Report has been prepared as an advisory document for Government with a large number of suggestions for change: this reflects the Terms of Reference which cover a wide and complex area. There are some that are crucial to the delivery of the 'One Wales' commitments and need urgent or immediate implementation. These include:

- the need to urgently put in place a robust evidence base on housing need;
- the immediate implementation of a planned programme of change, with the Welsh Assembly Government taking a strong lead role by providing a clear vision and setting out a partnership approach based on trust, transparency, mutual respect and clarity of roles;
- strengthening of staffing with the right skill sets in Housing Division to enable them to implement this change agenda and take a new approach. This may require additional resources. Those activities that don't add significant value (eg detailed scheme appraisals) need to stop urgently in order to create capacity for staff to move the management of Social Housing Grant (SHG) swiftly onto a more strategic footing and pursue a role of overseeing the health and performance of HAs to ensure that quality, affordable housing is delivered;
- implementing the new regulatory regime described in the Report as a matter of urgency, beginning this year;
- a more focused regime must be complemented by a relaxation of current constraints on housing associations through early implementation of the 'quick wins' recommended previously by the Group;

- ensuring that the Assembly Government and its partners make best use of existing resources such as publicly owned land, housing associations' assets and the planning system to support the delivery of new affordable housing;
- encouraging all local authorities (including those that have transferred stock) to take a stronger strategic enabling and community leadership role, identifying housing need and working with others across their areas to maximise opportunities to provide affordable housing;
- aligning Social Housing Grant and the Welsh Housing Quality Standard (WHQS) with the Assembly Government's climate change agenda, maximising energy efficiency and progressively moving up the levels of the Code for Sustainable Homes;
- early partnership working, which is essential to taking forward the recommendations regarding the Regulatory Framework and implementing the new regime for SHG.

Implementing these and the many other recommendations in the Report represent a significant challenge and will require sustained political, organisational and financial commitment from all the key bodies in Wales - particularly the Welsh Assembly Government, local authorities and housing associations. We have found an immense interest and enthusiasm for securing an expanded programme of affordable housing in Wales to meet the housing needs of people in Wales and we believe it is imperative that the Assembly Government, working in partnership with others, now leads a programme of change management to ensure delivery.

Chapter 1 – Setting the context

1. The Review Group was commissioned by the Deputy Minister of Housing in October 2007, in the context of the objectives of the *One Wales* document set out below. The current credit crunch was beginning to be apparent at that time but over the past six months in the course of this Review, it has deepened. The consequences of this have been that the initial concerns around affordable housing have intensified and local authorities are now reporting heightened demand for social housing, with a recognition that many households (and potential households) are not able to secure a good quality affordable home in the private market. At the same time, the prospects are of a decline in overall new housing starts by housing developers in response to market change.

2. The credit crunch has also highlighted the volatility of the housing market and the need to be constantly aware of housing need and pressures in a dynamic world. *One Wales* sets the context for the duration of the present Assembly Government but the current crisis serves to remind us that a bedrock of affordable housing in sustainable communities is essential to the well being of Wales and its people, and a sustained programme of provision will need to be put in place for many years to come.

'One Wales'

3. The intent behind the Minister's decision to set up this Task & Finish Group was to consider the way forward on delivering affordable housing in the context of the commitments made in *One Wales*, the policy programme for the Welsh Assembly Government for the period until May 2011. Specifically, this sets out the aspiration of a home for all –

“Everyone has a right to an affordable home as owner, as part-owner or as tenant. A stock of good quality affordable homes is the foundation of thriving local communities”

“The shortage of affordable housing , to rent or to buy is one of the greatest challenges, facing many communities in Wales.”

“Our ambition is to ensure that all households in all communities and irrespective of their means can afford a decent home”.

and commits the Welsh Assembly Government as follows:

“Working together we will create new tools to ensure that housing is affordable in the areas of most severe pressure. We will also ensure that the supply of affordable housing increases by at least 6,500 over the next four years”.

“We need to ensure that there is enough housing to meet peoples' needs in all communities. The era of long waiting lists for social housing should end, and new build housing developments should include affordable homes. Together we will ensure that the supply of affordable housing increases through investing in social housing, including council housing, and stimulating the supply of affordable private sector homes.

- *Increasing funding to support social housing.*
- *All sizeable new housing developments to include a percentage of social housing reflecting local need.*
- *Designate non development sites for the sole purpose of affordable housing taking into account the principles of adjacency and sustainability.*
- *We will reform and reissue guidance on affordability and local criteria for use in section 106 agreements.*
- *We will improve radically the supply of publicly owned land, including land in the ownership of Assembly government for local affordable housing.*
- *Promote expansion of Community Land Trusts.*
- *We will lobby Westminster to provide greater discretion to charitable organisations in disposing of land below market value*
- *to place a statutory duty on each local authority to prepare a delivery plan for affordable housing”*

And these commitments are set within wider objectives:

“We are strongly resolved to regenerate diverse communities of place and people, across Wales”

4. Therefore the Group has adopted an approach to its work with a clear focus on identifying ways forward on affordable housing set within the overall objectives of the Welsh Assembly Government in relation to sustainability, regeneration, social justice and wellbeing.

5. The initial impetus for a Review came from the concern about **whether the current regulatory framework for Welsh housing associations (HAs) was appropriate for the commitment to deliver more affordable housing** and this has been the main feature of the Group's Report. However the Terms of Reference (ToR) are wider than this. The Group has been asked to look at:

- *Constraints on Registered Social Landlords (RSLs) ability to deliver broader social products necessary for sustainable communities, including tackling homelessness;*
- *Opportunities for attracting/releasing more investment or funding in the sector to meet the One Wales goals;*
- *Incentivising higher environmental standards in line with the One Wales aspirations;*
- *Opportunities for using the Making the Connections agenda to good effect in the housing area;*
- *Looking at alternative models of operation, such as partial stock transfer; and*

- *Considering potential opportunities from moving to a more flexible and integrated approach to tenure.*

In addition, the ToR also provided the Group with a wider invitation to:

“point to other opportunities and constraints to action outside the immediate scope of the brief.”

Task & Finish Group approach

6. During the Review we have met with over 70 organisations or individuals engaged either directly or indirectly with housing. Over 100 more people were able to contribute to the Review through workshops or conferences.

7. Our approach has been as follows:

- To research latest findings and reports on housing relevant to Wales;
- To meet with key people such as the Welsh Local Government Association (WLGA) spokesperson on housing;
- To undertake group meeting sessions with organisations such as Housing Association Chief Executives, Welsh Tenants’ Federation (WTF) etc;
- To meet organisations across Wales, including North Wales;
- To speak at various conferences on housing held by the WLGA/CHC and Chartered Institute of Housing Cymru and run workshops;
- To meet with key staff in the Welsh Assembly Government, including those in Housing Division;
- To include a short article in Welsh Housing Quarterly encouraging people with views to contact us;
- To meet with National Assembly politicians who have a particular role in housing, or inter-related areas; and importantly
- To prepare the ground for change through discussion and debate of the issues with the key stakeholders, gaining understanding and acceptance for a new approach as the work has proceeded.

8. A full list of the organisations or individuals we have met or who have submitted evidence (or both) is attached as Appendix A.

9. In taking this work forward the Group has cast its net very widely with a view to gaining a broad perspective on the significant issues identified in the ToR. We have met with many people across the housing field all of whom have shared their thoughts, perspectives and ideas with us. This Report cannot begin to do justice to the detailed contributions of all those individuals and organisations but we hope that it reflects their key concerns.

10. The Group is delighted that housing is once again being given a high level of priority across the political spectrum. The repercussions of the current downturn in the economy will be felt in Wales (as elsewhere) in the coming months and this Report lays out the foundations for dealing with those problems in the short and longer term. What is clear is that housing is an issue of immense importance to those who contributed to the Review. All believe that good quality, affordable housing is central to creating sustainable communities as it impacts hugely on people's health and well-being, educational achievements, life chances and happiness.

11. In *Chapter 2* we take a look at the current information on housing need and availability and the implications of demographic change on future need. The implications of meeting the Welsh Housing Quality Standard(WHQS) and the impact of this on housing associations and local authorities are also explored. *Chapter 3* sets out the principles that must underpin the new structural and operational approaches outlined in later chapters. The Group consider that these overarching principles are **essential** if the aspirations and targets set out in *One Wales* and beyond are to be met. *Chapter 4* provides a short history of the current housing association regulatory regime; considers its fitness for purpose and makes recommendations for change. *Chapter 5* considers where the resources to fund an increase in affordable housing will come from. *Chapter 6* explores positive practice that needs to be replicated across Wales to aid delivery of the *One Wales* commitments. *Chapter 7* sets out our conclusions and recommendations.

Chapter 2 - The current picture in Wales

Introduction

1. Across the UK, there has been a vigorous housing policy debate around issues of housing needs, affordable housing supply, the quality of the housing stock, community sustainability and the rôle and regulation of social housing.
2. *One Wales* (Welsh Assembly Government, 2007) indicates that housing in Wales, as it is in England, is an increasingly important political priority. However, in comparison with England there has been little debate about the details behind the housing proposals in *One Wales*, the degree to which policy debate and development in England might be relevant to Wales, or how the Welsh Assembly Government's ambitious housing plans might be delivered. It is important that the Welsh Assembly, local government housing associations and other stakeholders are in a position to join an informed debate about the housing challenges and policy options.
3. However, the starting point for our review has been the current housing position in Wales, how this might be expected to change and the existing frameworks for the delivery of affordable housing.

The Availability of Housing in Wales

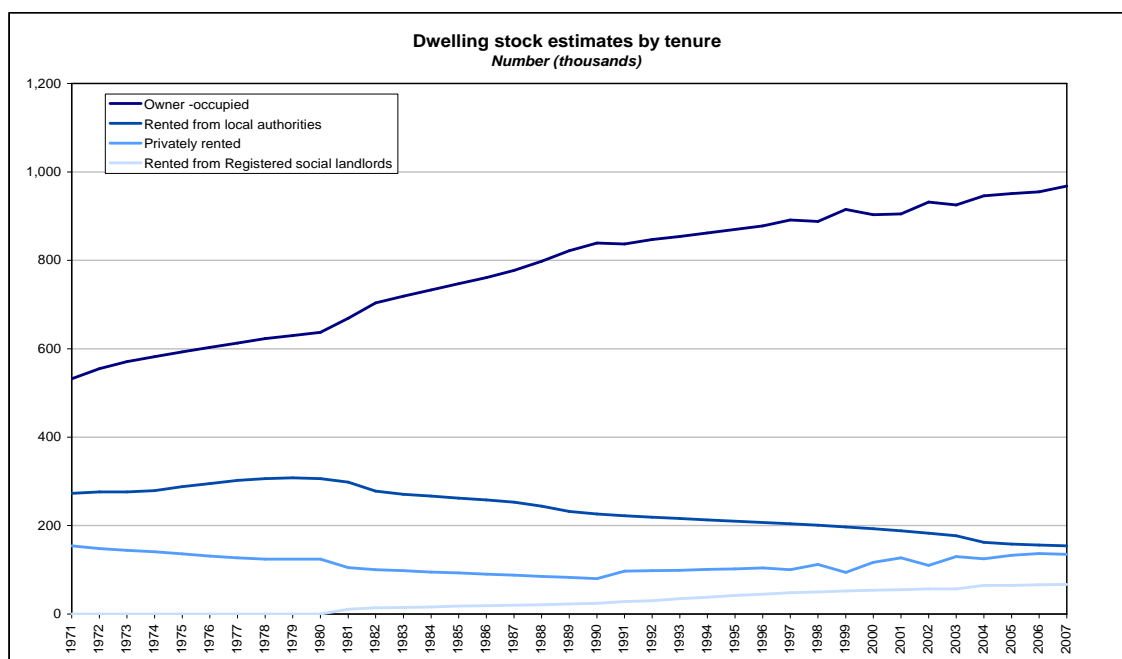
4. The total number of dwellings in Wales at 31st March 2007 was estimated to be 1.32 million, an increase of around 140,000 since 1990-91. The majority of the stock (73%) was owner-occupied, with 12% rented from local authorities, 10% privately rented and 5% owned and managed by housing associations. The growth in the housing stock over the recent period has been predominantly in the private sector, with a continued increase in home ownership, fuelled by household aspirations, a period of relatively low interest rates and economic prosperity and a continued transfer of homes (particularly via Right to Buy) from the social rented sector. The growth in private renting (by 38% since 1991-92, to 135,000) has been aided by the continued deregulation of the sector and the rise of buy-to-let mortgages. Although the private rented sector remains relatively small scale, it can play a significant role in meeting housing needs and it is vital that local authorities work in partnership with private landlords to ensure that the sector makes an effective contribution to meeting needs at a local level.
5. By way of contrast, the social rented sector (which includes homes rented from local authorities and housing associations) has declined from 21% of Wales's total housing stock in 1990-91 to 17% in 2006-07. Within this sector the amount of local authority (council) stock has fallen by 30% in this period to 154,000 dwellings. In comparison, the number of dwellings rented from housing associations has more than doubled, reaching almost 67,000 properties (5% of the total housing stock); plus a further 7,000 non-self contained units. In the most recent period the total housing association stock in Wales has been boosted by the transfer of former local authority properties via large-scale voluntary transfer (LSVT). This process is set to continue

in a number of local authorities in Wales over the next 12 months and beyond – an issue considered in greater detail later in the chapter.

6. The introduction of the Right to Buy (RTB) and other schemes since 1980 has seen a significant shift of dwellings from the social rented to private housing sectors. Between 1980 and the end of June 2007 some 141,500 local authority and 2,400 housing association homes have been sold under the RTB and other schemes. It is clear that the availability of housing for rent from social landlords has reduced dramatically over the last 25-30 years.

7. The changing tenure profile of the Welsh housing stock is given in figure 1.

Figure 1: Dwelling stock estimates by tenure



Source: Welsh Assembly Government

8. Although the total housing stock in Wales (1.32 million dwellings in 2007) exceeds the total number of households (1.24 million in 2003), this does not take account of second home ownership, levels of vacancy in different sectors (and some vacancy is necessary to facilitate household mobility and housing modernisation), evidence of unfitness within the existing housing stock, or how housing needs and demand and supply may not match at regional or local levels. In addition, the simple relationship between stock of housing and profile of existing households takes no account of whether available housing is suitable to meet household needs, whether it is affordable, whether there are concealed households who are involuntarily sharing with others and how the scale and profile of both households and the housing stock is changing.

9. In the next section we consider the evidence of future housing requirements in Wales. However, it is appropriate before doing so to look at the evidence of recent housing supply across Wales.

10. In the 10 years 1997-98 to 2006-7 new housing completions in Wales totalled just over 84,000 homes. Of these, some 9.8% were provided by either housing associations or local authorities. Over the same period new housing starts in Wales totalled just over 92,400, though new starts by housing associations and local authorities in the period represented only 7.8% of the new housing total. Whilst these figures may under-represent additional affordable housing provision (they are based on local authority returns and exclude acquisitions, conversions and the provision of hostel bed spaces) they do suggest that affordable new housing has represented a small proportion of new house building over the last 10 years (to March 2007).

11. In the light of the current credit market conditions it may be that the Welsh Assembly Government's new affordable housing target will be jeopardised in the context of an overall downturn in new housing development.

12. Earlier research in Wales (Wilcox, 2005) suggested that the problem of a lack of affordable housing in many parts of Wales was getting worse. It highlighted that accessing affordable housing was increasingly problematic for young working households with a then average price to income ratio of 4 to 1 across Wales (and higher ratios in areas such as Ceredigion, Gwynedd, Pembrokeshire, Powys and Monmouthshire). It argued that developing more intermediate housing market products (various forms of shared ownership) would help to address the mismatch between supply and demand, particularly in those areas where the affordability gap was most acute. At the same time, if younger working households are excluded from home ownership, this will place additional pressure on the social and private rented sectors, where problems of under provision are also very significant. Although a recent downturn in the owner occupied housing market may lead to a cessation in house price increase it is unlikely, given tighter controls on lending, to have significantly improved the position for those seeking access to the affordable home ownership market in Wales.

13. In addition, a recent Shelter Cymru report (Shelter Cymru, 2008) makes clear since 2004 there have been yearly increases in possession actions in Wales. In the first quarter of 2008 possession claims issued by lenders went up by 21% to 2,702 (those by landlords fell by 5% to 1,865). Mortgage possession orders were up 26% to 1,869. The figures are unsurprising given the wider context.

14. Although the CML no longer publishes actual mortgage possessions data for Wales, historically it was always around 4% of the total. On this basis, it is possible that in 2007 there were around 1,000 repossessions and going forward we might expect this to rise to 1,200 in 2008 if the CML's own UK forecasts turn out to be correct.

15. These will impact upon the market in Wales in terms of possible demand for rented homes and for flexible tenure arrangements. The Welsh Assembly Government is already considering how it might respond to these new pressures.

Future Housing Requirements in Wales

16. The population of Wales is continually changing in terms of age and household structure, ethnic make-up and its mobility. The impact of these changes varies across Wales and has implications for the provision of housing (and related services) throughout Wales.

17. In mid 2006 the population of Wales was estimated to be just under three million and to have grown by 1.9% over the previous five years. Growth in population took place in all but two of Wales's unitary authorities (Merthyr Tydfil and Blaenau Gwent), and ranged from 0.1% in Torfaen to 3.8% in Pembrokeshire. Wales's population is projected to increase by just over a further 11% by 2031 (to almost 3.3 million). Around 75% of the projected population increase is expected to be attributable to net in-migration.

18. The 2003-based sub-national household projections for Wales suggested that the household population will increase by 19.7% over the period to 2026, from 1,235,600 households in 2003 to 1,478,500 households by 2026. Single-person households are projected to increase by around half. Over half of the projected household growth is expected to occur in the South East Wales region, with regional rates of projected household growth ranging from 16% in North Wales to 22% in South East Wales over the period.

19. Using this data, and taking the projected growth in households for 2008-2012, then the anticipated growth in household population is 47,500 households (with just over half of this expected to occur in the SE Wales region). Without taking any account of any backlog of unmet housing need, these projections would suggest an additional housing requirement of 11,875 homes per annum across Wales (6,350 per annum in SE Wales) over the next four years.

20. The most recent all-Wales projection of housing need and demand (Holmans, 2003), which was based upon the 1998 population and household projections, suggested a future demand and need for an additional 8,600 dwellings per annum across Wales between 1998 and 2016 (this also allowed for a backlog of unmet housing need of 33,000 dwellings as at 1998). Holmans split this requirement thus:

- 6,100 dwellings p.a. – private housing;
- 2,500 dwellings p.a. – social housing.

21. These 2003 figures were lower than the same author's earlier forecasts (Holmans, 1996), which had estimated an additional housing requirement across Wales of 11,000 homes per annum (4,500 social sector) in the period 1991-2001 and 10,000 homes per annum (5,000 each year in the social housing sector) for the period 2001-2011. As shown in the previous section, the most recent Holmans assessment of an annual housing requirement of 8,600 homes per annum has virtually been met during the early years of the twenty-first century, though a much lower proportion of the total new housing completions have been made by social housing providers than might have been expected if Holman's estimate that around

30% of the total annual requirement represented a need for additional affordable housing.

22. The Welsh Assembly has not undertaken or commissioned its own national assessment of housing requirements for Wales. Instead, its policy (and that of the Welsh Office before it) has been to provide guidance and financial support to Welsh local authorities to undertake local housing needs studies and (subsequently) local housing market assessments (LHMAs). Many of these studies, together with other research, have suggested that the overall level of future housing requirements (and in particular the need for additional affordable housing), are both likely to be significantly higher than Holmans' 2003 assessment for Wales. For example, research undertaken for the recent Joseph Rowntree Foundation Rural Housing Commission estimated an annual deficit of around 3,800 additional affordable homes for nine out of the 22 unitary authorities in Wales (Joseph Rowntree Foundation, 2008). The South East Wales Regional Housing Forum's study (SEWRHF, 2005) of the SE Wales Regional Housing Market (10 unitary authorities) estimated a five-year affordable housing requirement of approximately 3,500 dwellings per annum. Finally, the recent (2007) local housing market assessment undertaken for Cardiff and the Vale of Glamorgan Councils suggested an annual affordable need of an additional 2,280 homes per annum for Cardiff alone (Cardiff Council, 2007).

23. However, although these different local, sub-regional and regional assessments of housing need are valuable for informing policy-making at a local/regional level, because they have been conducted at different times and using different methodologies they cannot be used in aggregation to construct a robust and credible assessment of total housing needs for Wales now and in to the future. A degree of caution needs to be exercised in the interpretation of the available data. Nevertheless, the balance of available evidence suggests that although the *One Wales* target of an additional 6,500 affordable homes in the period 2007-2011 would represent an increase in the level of recent completions of affordable housing and make a welcome contribution to increasing the supply of affordable housing across Wales it would by no means represent a complete solution.

24. The Review Group consider that the lack of an up-to-date robust assessment of future housing requirements for Wales (and in particular the extent of need for additional affordable housing) is a data deficit which requires urgent attention. We hope that this can be taken forward by the Welsh Assembly Government as part of the development of the new National Housing Strategy.

25. As well as the evidence from local housing needs and housing market assessments as to the extent of the requirement for additional affordable housing, there is also evidence that the number of households on local authority and housing association waiting lists (housing registers) has been increasing. An Assembly sponsored exercise in 2007 estimated that there were 82,840 households on local authority waiting lists. However, in 2004-05 only 11,200 new tenants were re-housed in local authority dwellings, 61% of these (6,900) from the waiting list with the remainder being re-housed on a priority basis (primarily under homelessness legislation).

26. Local authorities also have a statutory duty to house those homeless households assessed as a priority need. In 1980-81 12% of local authority vacancies were allocated to homeless households, yet this had risen to 34% in 2006-07, with figures in excess of 50% in some Welsh authorities. Local authorities and housing associations are working together to address the issues, and such collaborative working is becoming increasingly important in a context of rising housing needs.

27. The evidence (although limited) suggests that local authority and housing association waiting lists are growing rapidly (and are set to continue to do so) and many households face either very long waits or the prospect that they will never be re-housed. The pressure on local authority and housing association registers is the product of a number of factors; the decline of the overall scale of the social rented sector, the limited finance available to support the development of new additional housing, the gap between growing housing need and the construction of new affordable housing and the pressures in local housing markets (and rising problems of affordability) which are further adding to demands on social landlords.

Stock Condition, Welsh Housing Quality Standard (WHQS) and Higher Environmental Standards

28. In addition to problems of housing shortages, Wales faces problems in relation to the physical condition of the existing housing stock (across all tenures). Although there has been a steady improvement in housing conditions in Wales over recent decades (supported by significant levels of public investment, particularly in the 1980s and early 1990s), there remain issues to be tackled to ensure that people in Wales live in decent quality housing. There are also issues to be addressed in order to encourage higher environmental standards for housing in Wales.

29. The *Living in Wales* survey estimated that in 2004 under 5% of dwellings in Wales were unfit compared with 8.5% in 1998, 13.4% in 1993 and almost 20% in 1986 (using the 1989 statutory definition of unfitness). Unsurprisingly, the 2004 results showed higher rates of unfitness within the older housing stock (particularly pre 1919 constructed housing) and in the private rented sector (12.2%). Levels of statutory unfitness were lower in the housing association (2.3%) and local authority (3.4%) sectors than in owner-occupation (4.3%). However, as we have already noted the majority of the Welsh housing stock (73%) is owner-occupied and a further 10% is rented from private landlords (Welsh Assembly Government SDR 64/2006). The "*Living in Wales*" survey also continued to monitor evidence of a lack of basic amenities (inside wc, bath/shower, wash hand basin, kitchen sink and hot/cold water system), which was at the forefront of housing renovation activity in the 1970s and 1980s. However, by 2004 this lack of amenity was a residual problem only, affecting less than 1% of the Welsh housing stock. In comparison, 40 years ago almost a third of all housing in Wales (31.2% in 1968) had lacked at least one of these basic amenities. So very considerable improvements have been made in the condition of housing across Wales and standards have been revised (since the 2004 survey the housing fitness standard has been replaced by the Housing Health and Safety Rating System, HHSRS). The new system is designed to link housing condition more closely to health and safety issues and applies across all tenures.

30. Although public sector investment in private sector housing renovation has declined, local authorities in Wales have significant flexibility in providing assistance to private owners and landlords (in terms of advice, grants, loans etc). The nature of this help has to be set out in individual local authority Housing Renewal policies. In practice most authorities in Wales concentrate their efforts on helping those in the greatest need (including older and disabled people), often working with other local agencies (e.g. local Care and Repair organisations). This can help people to remain in their own homes, with wider benefits for the delivery of health and social care support, as well as not adding to the requirement for additional, often social, housing.

31. Increasingly local authorities are developing more strategic approaches to housing renewal, including the declaration of Renewal Areas (varying in size from around 100 homes to 2,800 properties). The Renewal Area approach has been very successful in Wales in tackling concentrated poor housing conditions, predominantly in private housing, with the declaration of more than 50 renewal areas in urban and rural localities. This approach has enabled local authorities to tackle a wider range of related socio-economic and environmental issues (not just the physical condition of the stock), focusing limited public resources to help restore confidence in defined localities and stimulate private investment, with a view to securing the long term sustainable regeneration of these communities. Later in this chapter we consider the local authority strategic rôle in more detail.

32. Following the publication of the Welsh Assembly's first National Housing Strategy (NAW, 2001) with its long-term vision for housing in Wales, the Assembly Government also introduced (in 2002) the WHQS as a tool to drive further improvements in the quality of the existing housing stock. The standard (which has more than 60 individual elements) has been developed to provide a common target standard for all housing in Wales. However, at the present time it is being used to assess the quality of the social rented housing stock in Wales (properties owned by local authorities and housing associations). Social landlords in Wales have been required to adopt the standard and to develop realistic options to ensure that social housing meets WHQS by 2012; a policy which has resulted in a number of local authorities in Wales consulting and balloting their tenants in relation to transferring the ownership of their homes to new RSLs.

33. We have already noted that the 2004 *Living in Wales* survey estimated that 3.4% of local authority housing (and 2.3% of the housing association stock) was unfit. However, the survey also sought to assess at an all-Wales level the extent to which existing social housing met WHQS. Whilst only two thirds of the elements within WHQS were measurable through the *Living in Wales* survey, it did show that less than 1% of social housing stock met the standard at that time.

34. Whilst there has no doubt been progress since 2004, the situation for many local authorities has been, and remains, extremely difficult. It has been estimated that due to long-term under-investment in council housing (with councils' investment in the repair and modernisation of their stock housing being subject to long-term and tight control over what they have been able to spend in this respect), investment of around £3 billion is needed to bring all council housing (including ex-council housing

in the 4 authorities which have already transferred their homes to newly established RSLs) up to the required WHQS by 2012. Furthermore, it has been estimated that an additional £4 billion will be required to maintain the standard over a thirty year period, making WHQS in effect a rolling programme requiring very significant public and private investment over the coming period (Savills/i2i, 2008).

35. In the first part of this chapter we have presented a position statement on housing (and households) in Wales, presenting as far as possible the most up-to-date statistics available. Whilst there may be a degree of argument about the extent of housing need in different parts of Wales (and weaknesses in data quality may exacerbate the position) the evidence is consistent in pointing to an acute shortage of affordable housing across Wales, and there is a need for concerted joint efforts to address this issue locally, regionally and nationally.

36. As well as concerns about the quality of the existing Welsh housing stock, there are moves towards achieving higher environmental standards. The need to reduce carbon emissions in domestic housing as a result of climate change, and the significant benefits this would have for reducing fuel poverty particularly in the stock of social housing is recognised by the Welsh Assembly Government. In March 2007 the Welsh Assembly Government approved a policy of requiring BREEAM 'Excellent' (BREEAM EcoHomes 'Excellent for housing) or equivalent as an environmental performance standard for all new buildings influenced by them through grant funding, investment funding or land disposal. This was to help support its aim of making a step change in the sustainability of buildings, including the aspiration that all new buildings constructed from 2011 onward should achieve the zero carbon standard.

37. With regard to housing, the 'Excellent' policy was not formalised within the Development Quality Standards for social housing, mainly due to the bidding timetable for Social Housing Grant (SHG) and the need to take a decision on whether the Code for Sustainable Homes should replace BREEAM EcoHomes. However, housing associations were strongly encouraged to adopt an EcoHomes 'Excellent' rating since the announcement on zero carbon in February 2007 and as the case studies in Chapter 6 show, there is already good work underway.

38. The Assembly Government is now promoting the Code for Sustainable Homes as the assessment framework for new housing and requiring at least Code Level 3 for all new housing influenced by them through grant funding, investment funding or land disposal. This is being formalised within the Development Quality Standards for social housing.

39. The Assembly Government is continuing to promote BREEAM 'as the assessment framework for new non-domestic buildings and require 'Excellent' for buildings it influences.

40. The Stockholm Environmental Institute(SEI) recently published its report 'Wales' Ecological Footprint – Scenarios to 2020' prepared for the Welsh Assembly Government, <http://new.wales.gov.uk/desh/publications/climatechange/ecologicalfootprint/report.pdf?lang=en> that identifies housing as the single largest component of the ecological footprint of Wales. At a local authority level it accounts for between 22% and 27% of

the footprint. However as the SEI Report makes clear all of the tools and techniques to deliver energy saving measures in existing homes and build a very high standard of new homes, are readily available. Retrofitting of the existing housing stock is also identified as being vital for reducing the footprint of housing as it can be implemented across the majority of the housing stock. The UK Government (DTI, 2003) has recognised the importance of retrofitting, emphasising that energy efficiency is the “cheapest, cleanest and safest way for creating a low carbon economy”.

41. The Assembly Government must use all the levers available to achieve zero carbon although it is recognised that this must address cost levels when set against a need to increase the amount of affordable housing. The impact on fuel poverty too means that making progress through the levels of the Code is increasingly important.

42. The levers will in the main continue to be Assembly Government funding and land disposal arrangements and planning, although the potential of WHQS and housing association consortia to drive down costs and improve skills and training must not be underestimated. The Group has recommended pilot schemes that demonstrate how costs can be reduced as part of its 'Quick Wins' recommendations in December 2007 – see Appendix B.

Housing and the Welsh Assembly Government

43. Political devolution within Britain has initiated a new era of governance and policy-making in Wales, with responsibility for most aspects of housing devolved from Westminster to the Welsh Assembly (National Assembly for Wales/Welsh Assembly Government).

44. *Better Wales*, the first Welsh Assembly Government strategic plan, was based on recognition of a need to demonstrate that it could deliver Welsh policies and programme for the people of Wales. It had long been argued that policy solutions developed in England had, in the past, all too often been implemented in Wales without fully taking account of Wales’s cultural, social and organisational differences.

45. The Assembly Government’s first National Housing Strategy, *Better Homes for People in Wales* (NAW, 2001) emerged from consultation between Ministers, civil servants and the wider housing policy community in Wales. It was initially well received, though not without some reservations. On the plus side, the inclusive nature of policy development and the attempt to be comprehensive were welcome. Conversely, its main shortcomings were seen as an over concentration on social housing and a lack of additional resources for housing and targets to achieve the vision and its key objectives. *Better Homes* has been taken forward since 2001 via the National Housing Strategy Action Plan and a selective Ministerial Review (Welsh Assembly Government, 2004). However, it is now very out of date, the housing context has changed (and in particular the issue of affordability has changed) and there is now a Labour/Plaid Cymru Coalition Government with its *One Wales* policy statement. Thus, a new housing strategy for Wales is being developed, with a view to publication in the Spring of 2009.

46. *Better Homes* also reflects the fact that it was developed during the first Labour administration. Since then not only has there been the development of a further range of other strategies which relate to housing but also the emergence of a new approach to the delivery of public services in Wales, and one which has diverged from the approach adopted elsewhere in the UK. In 2006 Sir Jeremy Beecham and his review team considered the direction being taken by the Welsh Assembly Government under the reform agenda *Making the Connections*. They concluded that Wales had a real opportunity to lead the way in what it called “small country governance” achieving responsive, accountable, citizen centred services in ways that other larger countries might find more difficult (Beecham, 2006).

47. The central tenet of the approach to public service reform in Wales is that citizens (with their associated rights and responsibilities) should be at the centre of public service reform. Collaboration is at the heart of the approach, not as an end in itself but as a means of ensuring that public services are reliable, of the highest quality, local, responsive and integrated and shaped in the interests of local citizens and not those of service producers. We have tried to bear all of this in mind in our review of the future delivery of affordable housing in Wales.

48. The refocusing of Assembly policies on service delivery and a stronger co-ordination of different strategies and policies has begun to shape policy development for housing in Wales. The Wales Spatial Plan, which has been progressing in each of the six spatial regions of Wales, has helped to shape regional collaborative working in housing in Wales at a strategic/enabling level (e.g. the establishment of regional housing fora, the Rural Housing Authorities Network – RHAN, closer collaboration at regional/sub-regional levels between housing, planning and economic development, and the development of regional/sub-regional housing market assessments).

49. Specifically in relation to strengthening the strategic housing function and encouraging the provision of additional affordable housing, the Welsh Assembly Government in partnership with others, has taken a number of steps. This has included –

- Development of the Affordable Housing toolkit.
- Technical Advice Notes 1+2 on Joint Housing Land Availability Studies and Affordable Housing.
- Ministerial Interim Planning Policy Statement.
- Support for the LA Housing Strategy Officers Network and the Rural Housing Authorities Network.
- Support for the CIH Cymru’s *Fit for Purpose* programme on building capacity in the strategic housing function.
- Encouragement of local authority empty home strategies.
- Funding to support collaborative local housing market assessment.
- Regional seminars bringing together planning and housing officers.
- Research on the use of section 106 agreements by local authorities in Wales to secure additional affordable housing with a Best Practice Guide to be produced this summer.

50. However, whilst significant progress has been made in supporting the development of local housing strategies and the delivery of new affordable housing, it is clear that more needs to be done not only to strengthen frameworks and delivery mechanisms but also to address supply side issues. The growing importance and global significance of sustainability since the introduction of *Better Homes* has also shaped the planning, design, construction and maintenance of housing in Wales. Housing which is well-built, safe and secure and environmentally friendly is fundamental to individual and community well-being. The investment in new housing provision and the refurbishment, improvement and maintenance of existing housing also provides significant opportunities to capture wider social, environmental and economic benefits for local communities and economies.

51. Wales' housing stock has a major impact on the environment, both locally and globally, particularly in terms of carbon emissions and waste disposal and management. Improving the environmental and energy performance of housing construction, occupation and maintenance is a key element in a sustainable future for Wales. It can also help to meet targets for energy use and the promotion of renewable energy technologies in housing.

The Local Authority Strategic Housing Function

52. Traditionally, the housing function at a local authority level has involved the delivery of a range of separate housing activities. These are:

- the direct provision of housing;
- addressing conditions in the private sector;
- the provision of a 'housing safety net' service by the delivery of the homelessness function; and
- planning for future housing supply by establishing future housing requirements.

53. In many local authorities the range of housing activities are organised across a number of different directorates, often with no central co-ordinating function. The strategic local authority housing role which emerged in the late 1980s and early 1990s tended to be limited to the delivery of new affordable housing and some elements of private sector renewal. However, subsequently the local strategic housing role has required much closer partnership working around housing across different directorates/divisions of local authorities (particularly housing and land-use planning) across local authority boundaries and between local authorities and other housing service providers. The intention is for local authorities to play a lead role in developing an approach to housing across all tenures and ensure the delivery of more integrated housing and related services.

54. Over time, the importance of the strategic housing function has increased. There has been a growing recognition that local housing markets (although not coterminous with local authority boundaries) are complex and dynamic, that the range of housing service providers at a local level has diversified, that different micro housing markets often exist close by, that the range of policy tools available to local authorities and their partners to shape housing markets has broadened and there is a growing demand for local strategies and policies to be evidence based. The

strategic housing role of local authorities is seen as a key function of modernised local government, central to the delivery of more sustainable local communities. Increasingly, housing is also seen as a significant influence on local economic development, health and well-being and regeneration..

55. The statutory framework for the strategic housing function is set out in three pieces of legislation:

- s8 Housing Act 1985 (requiring local authorities to consider housing conditions/needs in their locality);
- s3 Housing Act 2004 (requiring local authorities to keep housing conditions in private sector housing in their area under review);
- s87 Local Government Act 2003 (requiring local authorities to produce local housing strategies).

56. The strategic housing role also incorporates an “enabling role, with the authority working in partnership with others to ensure the delivery of affordable housing (including the delivery of the SHG programme) and to develop innovative solutions to address local housing needs.

57. Plan rationalisation in Wales means that the 2007 Local Housing Strategies will be the final set required by the Welsh Assembly. However, there is a general expectation that local housing authorities will continue to produce local housing strategies, based on local housing market assessments, and that they will feed in to an authority’s Community Strategy. Notwithstanding this changing framework (and the fact that some Welsh authorities have or will transfer their council housing stock to alternative landlords) the importance of the strategic housing role in local government is becoming more, not less, important. As a recent Welsh Assembly report argued (Inkson, 2008), it is critical that local authorities in Wales recognise the importance of the local housing strategy rôle and look to support it accordingly. This is in terms of not only delivering key housing functions (homelessness and allocations, supporting people, housing benefit, private sector housing renewal, housing advice, research and strategy etc) but, perhaps most importantly, in enabling the development of sufficient affordable housing.

58. In order to strengthen the strategic housing role, a number of Welsh authorities have put in place working relationships with other neighbouring authorities. We have noted that the Welsh Assembly have provided advice and financial support to undertake local housing market assessments (and supported capacity building in the strategic housing function) and we would wish to see such collaborative working encouraged further so as to develop a better understanding of local and regional housing markets, to further strengthen the local authority strategic housing role and to encourage the appropriate provision of additional affordable housing.

59. In the previous section we noted a number of Assembly-led developments to integrate housing strategies with other key policies and strategies. We conclude this section by reference to the introduction of Affordable Housing Delivery Plans (a commitment within *One Wales*).

60. The Welsh Assembly Housing and Planning teams have prepared guidance on what such plans might look like. The main elements are:

- to assess the need for affordable housing;
- to set a four-year target for affordable housing;
- to secure affordable housing; and
- to monitor and evaluate the delivery of the affordable housing.

61. It is expected that much of the information will already be held by local authorities and analysed through the local housing strategy process.

62. The Welsh Assembly Government is currently consulting on these, including incentivisation plans. However, following the consultation period we would hope that the proposed Affordable Housing Delivery Plans are not unduly burdensome on local authorities. We see their value as a tool for setting targets for delivery and monitoring progress against targets. They need to be developed quickly and to capture the dynamics of local housing markets.

The Changing Housing Association Sector

63. In England, housing associations now provide around two million homes for about five million people and now account for half of all social housing provision. The rise of housing associations over the last 30 years (and particularly since 1988) needs to be seen in the context of the declining role of local authorities as providers of social rented housing. Gradually housing associations have replaced local councils as the main providers of additional affordable homes and in many localities there has been a change of ownership of existing public housing to the housing association sector through processes of large-scale and partial stock transfer. At the same time the housing association sector has been able to attract significant amounts of private investment since the borrowing of associations has been excluded from public expenditure, with associations defined as private (non-public) sector organisations. The largest associations continue to grow, both as a result of new housing development and through acquisitions and mergers.

64. The housing association sector is a dynamic, expansionist and highly professional set of social businesses. Over the last two decades it has been subject to a number of drivers of change and organisations have responded accordingly. The Housing Act 1988 introduced mixed (public-private) funding, a growth in private borrowing and increasing accountability: to government, to lending institutions, to regulatory bodies, to customers and to local communities. This has meant managing risk, increased financial reporting, the development of a performance culture and (for some at least) growing diversification to increase income. Pressures on associations for economies of scale and increased efficiencies, together with a growth in regulation and inspection, have given rise to changes in governance, management (and growing competition to attract high-quality staff), organisational structures, collaborative ventures (to reduce average operating costs and achieve procurement savings) and overall growth and expansion. In England (though not in Wales) the sector has been exposed to external competition from selected private developers. Finally, there have been the pressures of increasing accountability: to customers, to local communities, to the taxpayer and to local, devolved and central governments.

Such pressures have further encouraged associations to develop an enhanced customer representation and a stronger customer focus.

65. Amongst housing associations there has been a move away from voluntarism, and although organisations remain not-for-profit, there has been a shift in emphasis towards associations becoming social businesses. The growing importance of private lenders as key stakeholders, and the diversification of services provided, has further encouraged the move of housing associations towards business planning, financial reporting and performance management. However, alongside these developments many housing associations have become part of a broader social inclusion and regeneration agenda. Investment in community regeneration has been encouraged by a number of government and industry-led initiatives (including the stock transfer agenda) and funded from a variety of sources. Many of the respondents to this Review felt that there was a general ignorance of the wider role that many housing associations play in the community and evidence suggests that public awareness of the sector remains limited. There is a need for housing associations in Wales to emphasise that they cater for a range of people in providing affordable housing and that their investment has much wider benefits in terms of local economic and social regeneration (Beaufort Research, 2007).

66. The scale of the housing association sector in Wales is much smaller than in England. As at March 31st 2007 there were 71,319 rented units provided by Welsh registered HAs, of which 64,324 (90.2%) were self-contained. In addition, housing associations had provided 2,505 low costs home ownership and other dwellings. It has been estimated (from Housing Corporation returns) that there are approximately 500 properties in Wales which are owned and managed by English registered HAs (none of these with more than one hundred units).

67. There are over 70 Welsh registered HAs (plus Abbeyfield Societies). However, this figure includes registered group organisations, almshouse charities, HAs with zero stock (which are often part of a wider group structure) and a number of small associations which have not been actively developing additional housing for many years. Since March 2007 a small number of individual Welsh HAs have either merged or become part of a wider group structure (whilst retaining a degree of independence). In addition, three new Welsh HAs have been established as a result of large scale voluntary transfer (RCT Homes, Monmouthshire Housing and Bron Afon). However, in effect, there are only 30-35 significant developing associations in Wales.

68. As we have already noted, pressures on local authorities to achieve (and subsequently sustain) WHQS is changing the nature of the social rented sector in Wales, not only in terms of its quality but also in terms of its ownership, following positive housing stock transfer ballot. We have already noted, that, following “yes” votes four authorities (Bridgend; Rhondda-Cynon-Taf, Monmouthshire and Torfaen) have already transferred their stock to new RSLs. A further three authorities (Newport; Conwy and Merthyr Tydfil) have also secured tenant support for transfers and are expected to transfer homes to other newly created RSLs before the end of 2008. In addition, three more local authorities (Blaenau Gwent; Ceredigion and Gwynedd) have resolved to ballot tenants on transfer and another five (Caerphilly; Flintshire; Neath Port Talbot; Pembrokeshire and Powys) are carrying out option

appraisals. In a further two authorities (Wrexham and Swansea) tenants have rejected transfer proposals, leaving five Welsh authorities which have either demonstrated or are seeking to demonstrate that they can achieve and sustain WHQS through a retention strategy.

69. Whatever the final outcomes of these options appraisals and tenant ballots, the housing association sector in Wales is already changing dramatically, and is set to continue to do so. The seven Welsh local authorities which have or will transfer stock to new RSLs, account for almost 48,000 dwellings; a very significant share of the sector as a whole and the major contribution to its growth. If tenants in other Welsh local authorities vote “yes” to transfer, then it may not be long before the sector owns and manages more social rented homes in Wales than local authorities. These new RSLs are also in a number of ways, quite different from the traditional form of housing association which has evolved in Wales over the last 30 years or so. Typically transfer RSLs will, on average, be larger organisations, with bigger investment programmes (in terms of stock modernisation/ improvement), be based within a single unitary authority, have a initial focus on ensuring properties meet WHQS (rather than adding to the stock of affordable homes) and, in partnership with the local authorities, have ambitions to be major agents for regeneration, ensuring that their investment provide local training, jobs and opportunities for community engagement, as well as physical and environmental improvements. At the same time, whilst the new RSLs will, like others in the sector, have a commitment to wider tenant engagement, some are being established on a “community mutual” model, with an expectation that tenants will have a greater involvement in the management of their homes and the services provided to them.

70. Of course, as we have already noted, what might be termed the traditional housing association sector in Wales has also been undergoing change. Whilst the majority have maintained their independence, since 2005 developing housing associations in Wales, in order to qualify for SHG, have organised themselves into six development consortia. Driven by Welsh Assembly Government concerns to improve efficiency in the delivery of social housing, associations were left to themselves to form consortia (though there was an expectation that each one would be capable of delivering a programme of at least £10 million per annum). However, the intention has been to improve SHG programme planning, promote collaborative working between associations (not just in relation to development but also for maintenance and other services) and promote joint procurement programmes to achieve economies of scale and more effective local supply chain management. Early evidence of efficiency gains is at best mixed (Housemark Cymru, 2007). In response to the Review there were many respondents who described difficulties in making the consortia work, and who felt that there is considerably more scope for maximising benefits from consortia working. Community Housing Cymru (CHC) has argued for a renewal of consortia working. What is clear is that the new arrangements do have implications for both the allocation of SHG and for developing the regulatory and performance management framework for the sector, which are considered later in this report.

Conclusions

71. We have set out the current housing position in Wales. Although the majority of the housing stock is in the private sector (83%), a significant proportion of households live in the social housing sector in homes provided by local authorities and housing associations. Tenure charge in Wales has been noted, with the overall decline in the level of social housing and the growing importance of housing associations as providers of affordable housing. The chapter has highlighted the scale of additions to the overall housing stock over the last 10 years, and the contributions made by local authorities and housing associations in terms of new housing starts and completions.

72. In looking at current and future housing requirements (and in particular the need for additional affordable housing) we have noted the evidence from a number of local and regional studies. However, we are concerned at the lack of a robust evidence base in relation to the extent of the need for additional affordable housing at a national level in Wales. We believe this data deficit needs urgent attention. Whilst the commitment to an additional 6,500 affordable homes between 2007-2011 is welcome, we do not think this will be sufficient to fully address needs.

73. The long term improvement in the quality of Welsh housing has been noted. However, available evidence suggests that the quality of the social housing stock (particularly local authority stock and that which has been transferred to new RSLs) falls well short of WHQS and substantial investment is needed both to achieve WHQS by the target date of 2012 and sustain it thereafter. This poses significant challenges for social landlords (not least in terms of local authorities examining the options and, where appropriate, putting the transfer option to tenants). Nevertheless, the scale of investment also presents opportunities for social housing organisations to be at the heart of local economic and community regeneration.

74. Political devolution and the refocusing of Welsh Assembly policies on service delivery and a stronger co-ordination of different strategies and policies has begun to shape policy development for housing in Wales. We have concluded that more needs to be done to address supply side issues, to ensure environmental and community sustainability and to strengthen the strategic and enabling roles in housing at a local and regional level, building on successful innovation.

75. Finally, in considering the current housing position in Wales we have noted the changing shape of the housing association sector, the drivers of change, and the ways the sector is organising to deliver on the provision and regeneration of affordable housing. We have noted that the roles which housing associations play in the local housing system are changing and that this has implications for organisations themselves, the sector as a whole, their partners (including local authorities) and the Welsh Assembly Government in terms of its funding and regulatory functions.

Chapter 3 - Looking to the future

1. Housing is at the heart of people's lives and at the heart of communities. As stated in *One Wales* "everyone has the right to an affordable home" and a stock of good quality affordable homes is the foundation of developing local communities. The link between housing, communities and community regeneration, economic activity and development, health and educational achievement is fundamental and underlines the need for housing to be given attention and priority. It is vital that this attention and priority is sustained if the goals set out in *One Wales* are to be achieved and maintained in subsequent years.

2. The problem of providing quality affordable housing in the right numbers, in the right location and of the right type has always been a challenge for government. This is largely due to the nature of demographic change, population movement and changing economic circumstances. Climate change is also likely to bring its own challenges over the next decades. There is a need to use targets but at the same time to recognise in reality we will have to go beyond those targets. We need to be ever alert to the contextual dynamism in the housing market and the need for everyone, including government, to be responsive to change both in policy and delivery.

3. Therefore this report sets a way forward to achieving the targets for affordable homes set out in '*One Wales*' but also offers a structural and operational format which can be responsive to this dynamism and sets housing importantly in the wider context of strategy, policy and action. Certainly in terms of the Welsh Assembly Government's legislative commitments to sustainable development and equality of opportunity, housing is fundamental, but also in terms of other strategic priorities such as climate change and economic and social regeneration.

Setting the direction

4. Articulating the vision for housing in Wales, alongside a well thought out and resourced policy and operational model, is absolutely essential in the current turbulent financial times. Political intent, allied to a programme of action based on partnership, integration and a coordination of purpose and operation, gives a strong message of confidence to private investors. Private investment in Wales is fundamental to providing capital for stock transfer support, market and affordable housing and for active investment in regeneration. Area regeneration schemes, whether large such as the Heads of the Valleys, or local, need external investment.

Being 'fit for purpose'

5. Within this interrelationship there is a need to make sure that the key players are 'fit for purpose' and the structures and processes are capable of delivering the outcomes to be achieved, can ensure value for money, sustainability, quality and support innovation. Structures and processes must be directed to service outcomes, not the other way round, and must be aligned to secure performance responsiveness.

6. The ability of the Welsh Assembly Government to provide leadership and direction gives a dimension that did not exist pre-devolution. To ensure high quality delivery, leadership by the government needs to be 'engaged leadership' as described in the Beecham Report, not 'command and control'. This leadership style is particularly apposite as the Assembly Government looks to meet commitments on climate change and sustainable housing and communities.

7. Set within a national framework provided by government there must be space and support for innovation and creativity, set within appropriate risk, governance and accountability parameters. Both local authorities and housing providers need to respond flexibly to meet changing needs and local circumstances and should work together to secure continued improvement. Tenants must be at the heart of this, both in terms of their experience and involvement. Housing association consortia should be encouraged to provide technical expertise on a range of issues including design, procurement and best value.

Partnership based on trust and respect

8. In setting a direction for the future we must recognise the interrelationships and general interdependence of the key players in the field of housing. Understanding and respecting relative roles must form the basis of the relationships. Strategic objectives will not be achieved without the recognition and support for organisations that are delivery agents and have a direct responsibility to citizens on the ground. This complex relationship exists for most public services but is particularly true for housing and the acceptance of this by all parties is essential and needs to be the basis for collaboration and partnership. This includes working with the private sector whose role as developers, providers, managers and financiers is critical to delivery.

9. The pattern described above argues for a model in Wales that is integrated and aligned, directed and encouraged to achieve sustainability and consistency and where all players are prepared to challenge performance and innovate in order to respond to a housing need that we know will be persistent and pressing.

Working together across other policy areas

10. There needs to be recognition and acceptance of the importance and interrelationship of housing to other major policy areas that government at all levels are concerned with. Affordable housing is at the heart of the social justice agenda and at the heart of sustainable communities. It also has a critical relationship with health and wellbeing and can be a strong component of policies for economic regeneration and related activity. As we have noted, the total investment in renovating social housing to WHQS is a fundamental objective of stock transfer. This investment can be a crucial stimulus to economic activity in terms of training, employment and local business, as well as a means of reaching environmental standards. Valleys to Coast (V2C), the first stock transfer association in Wales has pioneered the integration of housing renewal and wider community and economic regeneration. See case study in Chapter 6.

A New Model

11. The way forward is set firmly within the Assembly Government's Delivering the Connections Model, with public service delivery being citizen/community focused, and activity being set within clear, strategic direction, with the emphasis on outcomes and performance and with partnership and collaboration as the means of planning and delivering.

12. It is clear that to achieve this vision, and to overcome the perceived current barriers, there is a need for a new model of operation for housing in Wales; one that is constructed with a defined purpose of sustained delivery of affordable housing. The new model must:

- Establish a strategic direction.
- Set out clear roles and responsibilities.
- Drive service and develop standards of performance.
- Provide sound governance, risk and control frameworks.
- Align systems to work to and achieve common goals.
- Ensure a focus on outputs and outcomes, both in terms of responsiveness to existing and future housing needs of tenants and residents and wider agendas, such as regeneration.
- Look to make the best use of all resources.
- Provide the basis for sustainability;
- Offer transparent decision making and resource allocation.

Applying the principles of the approach set out in this model requires the following characteristics:

Collaboration

13. It is patently clear that delivery on affordable housing targets requires collaboration across a range of agencies. This collaboration needs to be made more explicit and become more developed. A defined partnership across the housing sector with a shared and common goal, based on trust and respecting the differing role of all parties would provide a firm base for achieving affordable housing targets. The partnership should be aligned to focus on outcomes and to deliver on the key premise of citizen/community centred services. A partnership model on this basis require a change in the style of leadership from the Assembly Government but would also require other essential organisations and agencies to work cooperatively and share information and where necessary expertise. As well as working together across sectors there needs to be recognition of the need to work across geographical boundaries. Housing need often transcends local authority boundaries and its dynamic nature requires joint planning and responses. The Spatial Plan, with its regional frameworks, helps to give a basis for geographical partnership to allow better responsiveness.

14. This model requires the Assembly Government in general and the Housing Division in particular to take on the role of **engaged** leadership rather than **controlling** leadership. Liaison and support are key features of the work of the Assembly Government and would help ensure a much more joined up approach between the centre and local deliverers, making a greater likelihood of target and standards being achieved. Capacity needs to be created within the Welsh Assembly Government to serve this partnership role. The collaborative approach will be particularly useful where skills and capacity levels are limited.

Citizen/Community focus

15. The '*Connections*' model rightly puts citizens at the heart of planning and delivery. For housing this means existing tenants in terms of quality and responsiveness of service, residents in the wider geographical area and recognising the needs of those waiting for affordable housing. Those in need must be the prime focus as the basis for aligning planning, programming and the delivery of additional affordable housing.

16. The model of partnership must also look outwards from housing and link in with needs and opportunities across areas of regeneration, social care, health and economic activity to secure the greatest benefits for communities and the maximisation of value for resources committed.

Performance

17. An intrinsic element of the making the connections agenda and a strong recommendation of the Beecham Report was the need to introduce a performance culture and framework into public service. Performance appraisal, measurement and evaluation must be seen as a critical part of delivering an affordable housing programme. This will require accurate and up-to-date information, collected and presented in clear and comparable forms. To be effective, the culture and character of performance assessment must be more beyond a tick box format. It must give clear information and assessment of progress, and be able to reveal what is working or not working, gains and shortfalls. The performance data and story must support the partnership model and allow scrutiny at local, regional and national levels. In order to achieve the numbers of affordable housing units required, the momentum of sustainability must be retained and performance information can be a strong driver in keeping both the 'public eye' and 'political eye' on affordable housing priorities.

18. Performance analysis also acts as a major spur to better responsiveness from housing agencies and others. Housing need is dynamic in character and performance assessment needs to include opportunities for making sure that delivering solutions which match need and are sensitive to changing requirements.

19. A performance model of this type requires clear political responsibility and accountability at both local and national levels which can be demonstrated and assessed through Local Service Boards and through scrutinising committees, at both council and National Assembly levels.

Standards and Quality

20. Existing housing quality standards have been an important part of Welsh housing policy in recent years, both in action and expenditure. The model of partnership and collaboration should be used to further develop standards and quality achievements in affordable housing. The challenge of ensuring better environmental standards and the optimum use of financial resources is best served by housing agencies working in collaboration to achieve quality design and value in procurement and development costs. For housing associations the consortium model now introduced could be developed to be more effective if it were better defined on a regional basis and if consortia worked in cooperation across organisational boundaries. However, although we would hope to see over time the composition of the consortia better reflect the regional geography of Wales, we would not propose any major reorganisation of consortia working at this time.

21. There was a persistent call to the Review Group that skills and capacity levels are limited in Wales. Improving technical expertise through sharing best practice, pooling resources for better outcomes and cost reductions are all possible through more joint working. The consortia model could work more effectively with greater strategic direction and support, and by working to a performance framework which gives recognition to good performance and outcome. The consortia critically need to be the driving force in value for money and design and construction improvements.

22. Improving the quality of affordable housing and the local environment must be recognised and valued as essential. Good design gives both better quality of life and is a major contribution to the sustainability agenda. Resource allocation and planning frameworks and decisions should reflect the value of housing and environmental quality.

Innovation

23. Models of operation must allow innovation to take place in Wales. There is no one off the peg template for affordable housing and there must be the propensity in the system for local responsiveness, new ideas and differing solutions. This flexibility needs to be set within proper finance and governance frameworks and clear accountability.

24. Innovation, especially in the field of sustainability, should be encouraged and supported by government with resources where possible and become the basis for developing and extending the design base and capacity in Wales. There must be a process where good innovation where transferable can be mainstreamed.

25. The partnership model should be one which encourages and supports rather than one which restricts innovation and learning and reflection should be inherent characteristics of the collaborative approach.

Communication

26. The ability for housing to develop in this way will require a new emphasis on communication, transparency and flexibility. Many of the problems outlined by respondents, come from a lack or perceived lack of all three elements. Partnership and collaboration require good communication to work. Transparency is at the heart of good governance and trust between partners and flexibility is needed in a collaborative relationship in order to allow progress and resolution.

Conclusion

27. The '*Connections*' model at the heart of the Welsh Assembly Government's public service agenda is both appropriate and applicable to taking forward a new approach to stimulating and developing affordable housing in Wales. The Review Group believe that the principles underlying the '*Connections*' model, clearly based on an outcome based and collaborative led approach, match the nature of housing in Wales, both in character and necessary direction in policy. In applying the Connections Model, housing would be aligning itself with other policy and practice changes in public service delivery taking place within Wales.

Chapter 4 - Regulating housing associations: going forward

Introduction

1. We have described the current role of associations in Wales. Here we turn to their regulation. This chapter considers the current strengths and weaknesses of the existing arrangements. Partly in the light of major regulatory change in Scotland and England but primarily because of the evidence of the need to improve Welsh Assembly Government regulation we have resolved to set out proposals for a new regime in Wales.

2. The current legislative basis for the regulation of RSLs in Wales is provided by Section 75 of the Housing Associations Act 1985 (as amended by Paragraph 5 of Schedule 3 to the Housing Act 1996), Section 46 of the Housing Act 1988 and Sections 140 and 23 of the Government of Wales Act 1998. Under the Government of Wales Act 1998, Tai Cymru/Housing for Wales was abolished and the regulation and investment functions were absorbed inside the Welsh Assembly Government.

3. On devolution, Scotland set up Communities Scotland as an executive agency. This has now been abolished and the functions transferred to the Scottish Government. England stayed with the Housing Corporation (HC) although under the current Housing Bill 2008 it is proposed to abolish it and split its regulatory and investment functions with the former going to the Tenant Service Authority and the latter to the Homes and Communities Agency.

The development of the regulatory regime in Wales

4. The regulatory requirements regime operated by Tai Cymru/Housing for Wales was put in place in 1997. In early 2003, the Welsh Assembly Government consulted on a new approach to the regulation of associations. The consultation paper issued in early 2003 set out the aspiration to:

- Build a regulatory system that reflected the growing maturity of housing associations in Wales by becoming more strategic;
- Greater openness and accountability to the public and lenders;
- Reflect the upgraded systems in Scotland and England;
- Make best use of limited Welsh Assembly Government staff resources.

5. The proposed system was to be led by new Regulation Coordinators who would draw upon an initial whole association analysis, annual updates and self assessments to produce a risk assessment using a risk assessment matrix (set out in detail in the Consultation Paper). The Regulation Co-ordinators would agree with individual associations a forward plan for regulation and inspection. They would also contribute to the development of an annual sector-wide report.

6. This was followed in July 2004 by further consultation on the detail of the proposed Regulatory Code for housing associations and the planned inspection regime with a view to implementation in 2005 (and a review after 2 years). In the event although the inspection process became operational on 1 April 2005, the regulatory requirements regime was not formally replaced until March 2006.

7. At present both regulation and investment functions are carried out by the Welsh Assembly Government's Housing Directorate. Their work is then supported through inspection delivered by the Wales Audit Office (WAO) under a memorandum of understanding.

8. We understand there are 4 regulation and finance managers and one seconded finance analyst in the Welsh Assembly Government housing regulation branch plus two support staff and 4 full time inspectors (plus 3 tenant inspectors) and limited administrative support in the WAO.

9. Although the Welsh Assembly Government currently operates under the same legislation as England there are significant operational differences partly reflecting the scale of the sectors in the two countries (just over 30 active associations compared to around 1,500 in England) and the resources available.

The Regulation regime

10. The Consultation Papers issued in the run up to the current regime set out high hopes and expectations of what might be achieved. In reality it is clear from the evidence submitted that the Welsh Assembly Government has had difficulty meeting its own expectations. This is a product of both constrained resources and other policy priorities. However, in the light of the credit squeeze, the re-pricing of finance to reflect risk and the reduction in number of lenders to social housing in combination with a current supervisory case in Wales and an insolvency in England, it is an opportune time to consider whether the current regime is fit for purpose.

11. Discussions with the Welsh Assembly Government highlighted a number of serious weaknesses, though it appears some are to be addressed. The issues are:

- It has not been possible for the regulatory staff to provide the holistic service which was expected and for them to act as relationship managers in the fullest sense. This would seem to be a consequence of very limited staff resources. Of the 4 managers mentioned above, only 2 work on HAs, the other two work on local authority Housing Revenue Account (HRA) and Major Repairs Allowance(MRA) issues.
- It is evident that though a wide variety of data is submitted to the Welsh Assembly Government the current resource only allows this to be used in very limited and specific ways, eg, rule changes, Section 9 consents or where there are concerns arising from other sources. The opportunity to examine in a rounded way all the financial and non financial data has not arisen.

- In reality until recently there was a very limited formal programme of regulation other than the inspections carried out by the WAO. To exemplify this we are advised that only from August 2007 were regulators attending RSL board meetings and seeking to build a more consistent risk based approach.
- The intention to roll out a two tier process of risk based regulation has not progressed to date. The ambition was to undertake initial reviews to identify strengths and weaknesses, and where the latter existed and were a cause for concern this would trigger a second stage review. This in itself would not be equivalent to the English risk based assessment where data is run through a risk model to identify outliers. This then triggers further investigation proportionate to the risks identified and their likely impact on individual associations and the sector.
- Though the Welsh Assembly Government has been able to progress 30 year financial forecasts, limited use has been made of them to date. The plan is to enhance this in 2008 and these are now being put through a new Welsh Assembly Government model to assess financial viability.
- Sector wide reviews have not progressed, although the global accounts have been published in 2008. There has been no 'lessons from regulation' publication as in England.

The Inspection regime

12. The inspection regime began with pilot inspections in 2004/05 but the full programme for 2005/06 was held back until the revised code was introduced. The aim was to inspect 32 associations over 4 years (although that then became in effect 3 years). In 2005/06 there were 11 inspections but changes to the Code meant publication was delayed (resulting in an average 13 month period between on site inspection and publication). In 2006/07, 10 more were inspected, in 2007/08, 6, and in 2008/09 5 are scheduled. The reduced rate reflects the complex and time consuming nature of the inspection process for both WAO and HAs as well as a budget cut in 2007/08.

13. To date some 15 reports have been published on the website (plus a 16th - Valleys to Coast - but it has no judgements) with a further 6 in the process of completion (based on inspections between August 2007 and March 2008) plus 3 reports issued in 2006/07 where there are on-going disagreements with the associations concerned.

14. The results of the inspections suggest that 7 associations had strong strategic and corporate capabilities with respect to continuous improvement, 6 were raising their standards and 2 were weak in processes and performance.

15. The inspection process is backed by a 52 page *What we look for Inspection Guide*, the equivalent of the Key Lines of Enquiry regime in England. Though the process operates to an agreed timeline (draft report 3 weeks after site visit, and a detailed report, summary and statement published 12 weeks after that) in practice this has been allowed to slip. This reflected the partnership approach where it was

accepted that if an HA needed more time to respond or there were differences of view that these were considered. However lengthy delays have crept into the system and significantly undermined the credibility of the process. Inspection is a primary driver of change and these delays inhibit that and increase risks.

16. The future role of the WAO service awaits the outcome of this review. There have clearly been a number of issues around the difficulty of securing appropriate staffing and resources, the speed with which reports are produced and agreed by Has, all as well as the reliance on WAO to secure service improvements rather than through the Welsh Assembly Government and the CHC Improvement Network. Our advice on the last of these is that this network has *not* developed as an active forum through which service improvements have been achieved.

17. Given regulation is a key focus of this Task and Finish Group we have gathered comments from a number of quarters as to the merits of the current arrangements. As a generality, most respondents (whether in terms of formal submissions or in discussion) have argued that there are serious weaknesses in the regulation regime and in particular that it is both limited and focused on detail and compliance rather than 'the big picture' and that this approach is costly and time consuming reducing the contribution HAs can make. Some have suggested the limitations of the regime are such that HAs wishing to innovate must do this without Welsh Assembly Government involvement.

18. Such tensions between the regulated and the regulator are partly inevitable. However our discussions with the Welsh Assembly Government suggest there is a recognition that the current regime is inadequate and that there is little to ensure continuous improvement. To illustrate this point, there are currently around 100 circulars in operation, of which only 7 have been issued by the Assembly Government; the remainder are Tai Cymru circulars. These were reviewed in 2006 and 2007, but to date there has been no public updating and we understand the process is on hold due to 'pressure of work'.

19. Unlike England, there is no annual regulatory review published reporting on issues within the sector and it is evident that the Housing Directorate has focused its efforts on maintaining a basic service. To date 5 associations in Wales have had Section 17 appointees (currently Tai Cantref has appointees) but there have been no insolvencies and no losses for lenders on Welsh associations.

Regulation and inspection; an external view

20. Many of the submissions to the review commented on the need for a radical overhaul to reduce the regulatory burden and to create a new regime. Expectations of this new regime varied widely. Some wanted it to be more strategic with a move away from process and detail and a focus on finance and governance, outputs and outcomes. There were many calls for it to be process and performance based and more transparent and risk based.

21. CIH Cymru's detailed submission argued for fundamental reform pointing towards a range of weaknesses in the current system. These included variations in approach, inconsistency in remit, a provider focus, a lack of proportionality and trust and inadequate sanctions and support. Going forward CIH Cymru suggests there

must be a stronger customer focus, a concern with outcomes rather than processes and a proportionate system with external challenge. The regulatory framework they put forward includes time limited licenses to operate, a programme of external inspection and performance evaluation, accredited self regulation and publicly available performance information. Ambitiously, CIH Cymru also set out thoughts regarding a national framework covering all providers.

22. Alongside the submissions we also undertook a range of meetings with a range of interested parties including interviews with major funders. Further details are given in Appendix A. Lenders were asked for their views on the current regulatory regime and any thoughts about the future, given the momentum behind stock transfer in Wales and the likely divergence between Welsh and English legislation. These interviews took place in late 2007 and early 2008, before the full impact of the credit squeeze worked through to the social housing sector.

23. By way of background around £800 million of private finance has been raised for social housing in Wales (there is also borrowing via bond issues). With stock transfer the annual requirement for funding will rise from around £80 million to over £200 million per annum. Lenders vary considerably in terms of their exposure with Nationwide BS having the biggest book (around £300m) but Barclays, Lloyds and Royal Bank of Scotland (RBS) have been doing most of the recent business.

24. Almost without exception lenders commented on the absence of contact with or information from the Welsh Assembly Government. Although some had maintained close relationships with Tai Cymru and individual officers in the past (including initiating annual lunches to maintain the process, making presentations and engaging with the Assembly Government on explorations of policy) all commented that contact was now minimal.

25. This lack of contact was then compounded by the very slow flow of information from the WAO in terms of inspection reports. These were up to 2 years out of date by the time lenders received them. As such they were no use as current Management Information (MI). Indeed they reinforced the view that active regulation was quite limited.

26. Inevitably comparisons were drawn with England where contact was greater and where regular reports flowed to lenders from the regulator (and from Has, including the annual financial viability review which is part of the risk based approach). Annually, the HC publishes the *Global Accounts of Housing Associations*, a review of housing association finance and a report on regulation (*Lessons from Regulation*). It has a dedicated private finance manager who keeps regular contact with lenders partly through regular meetings with the Social Housing Panel of the Council of Mortgage Lenders.

27. The HC adopts a risk based approach to regulation (low, medium, high risk) which reflects both the size of HAs and their complexity. Viability is assessed as part of this with the depth of the assessment reflecting the risk profile of the housing association. Details of the HC's approach are given in a series of 7 reports on *How We Regulate* covering the challenge process, regulatory documents, risk based regulation, self assessment, overall approach, viability and governance.

28. In Wales, associations are expected to provide direct to lenders the following information (though performance varies);

- Quarterly and Annual accounts and external auditor management letters
- Any Welsh Assembly Government assessments and consents (including Section 9s)
- WAO reports

29. The Welsh Assembly Government website includes the Regulatory Code for HAs registered in Wales (updated to March 2006) setting out the current framework of expectations, the evidence to be provided and how it will be assessed. More detailed guidance is then given at <http://new.wales.gov.uk/topics/housingandcommunity/housing/social/management/circulars/?lang=en> The code indicates that the Welsh Assembly Government undertakes an annual assessment of compliance with lenders' covenants and that there is an annual analysis of the 5 year business plan and the 30 year financial forecast.

30. We know now that to date only limited use is made of this data. Circular RSL 01/07 issued on 16 March 2007 set out the requirement for 30 year forecasts. It indicated that the Welsh Assembly Government will assess the returns and that they may be used for a sector-wide report on the financial health of the sector. No such report has emerged.

31. Off setting lenders' concerns about poor information and lack of contact were then a number of factors including;

- their exposure to the Welsh sector is relatively low. There are number of funders active in the market thus spreading the lending quite widely. They include Abbey, Barclays, HBOS, Nationwide BS, RBS, Principality BS and Lloyds TSB.
- HAs have been relatively conservative in terms of their borrowing. Gross interest cover was over 131% and an average debt to equity ratio of around 38% with a range between 20% and 71%. However total debt has recently grown faster than the growth in capital and reserves.
- Welsh associations are relatively small and the number is reducing through mergers. However, stock transfer will bring bigger associations into being and with higher risks.
- There has been no failure of a significant housing association in Wales since Corlan HA in 1990, and it was felt that although information flows were limited the practical reality was that in a small system regulatory staff had reasonable contact with associations. This view was then qualified by the recent news of difficulties at another association. Concern was expressed that information about this recent event came to lenders via third parties rather than direct from the Welsh Assembly Government (or

the association) and that the regulatory staff were increasingly tied up with stock transfer and thus less engaged.

32. The general view from lenders was that they could 'live' with the current situation but that it was far from ideal. Moreover given pressures on raising funds in the capital markets, the increased cost of capital, the low margins, the perceived increased risk and the concerns about limited regulation made lending increasingly unattractive, some lenders had reduced their market engagement.

33. This sensitivity had been heightened by three recent events. First and foremost, by the insolvency of Ujima HA in England. Although no lenders had lost money in this event it had reminded all that an insolvency could take place (lenders had actually triggered the moratorium arrangements under the 1996 Act).

34. Second, the new capital adequacy requirements under Basel 2 were now in place. This had required all lenders to model the risk of default in specific loan categories, eg, housing associations. In getting what are called advanced approach models signed off by the Financial Services Authority (FSA) they have been required to significantly enhance their assessment of HAs and not least around governance. Unsurprisingly lender visits to housing associations are now starting to include a risk analyst as well as a relationship manager.

35. Third, we have the current liquidity pressures. These are playing out in complex ways and across all funders. Effectively funding is being both 'repriced' and 'rationed' because lenders cannot access the wholesale markets in the way they did previously. This means that the appetite for safe but lower value lending to associations has declined. This change in the market also co-incides with the planned expansion of the private finance requirement in England and Wales. Over the last month a significant re-pricing has taken place in the market, reflecting reduced appetite, a re-appraisal of risk and a shortage of funds. The obvious alternative to debt finance would be the bond markets but this has been inactive partly due to pricing differentials, through those have now narrowed. A small number of HAs in Wales have accessed this market in the past.

36. Lenders were concerned that though housing associations made a series of financial returns to the Welsh Assembly Government, there was little evidence that these were closely scrutinised or acted upon (although the Welsh Assembly Government indicates they are used to establish financial viability). There were questions about whether there were staff with the right skills to do this. England has adopted a risk based approach to regulation which was driven off a model into which recent RSL data was input. As far as we are aware no such approach or model is used in Wales, though this may be because the number of associations is much lower. The Welsh Assembly Government now indicates that they plan to review private finance on a regular basis.

37. The other issue that emerged from discussions with associations and lenders regarding the current regime was the question of Section 9 consents for disposal under the 1996 Act. CHC discusses this in its submission, pointing to the number of detailed issues for which consents are required and the delays in getting them.

38. The view strongly expressed is that the Section 9 regime in Wales is more onerous than that in England. This has been the subject of detailed discussion between the Welsh Assembly Government and the CML in their response to the 'Quick Wins' interim report from this review (CML, 2008). The CML has supported our stance that the current system should be reviewed and amended with the processes streamlined as far as possible subject to ensuring sensible controls remain in place.

39. Finally, it was felt that the stock transfer process in Wales was slower and more cumbersome. In part lenders felt this was because of limited experience and limited resources in the Welsh Assembly Government. There was a view that stock transfer had resulted in staff being diverted from mainstream regulation. There was not much direct experience of the quality of the regulation of such associations in Wales but questions were asked as to whether the regulation was adequate to the task.

40. Having reviewed the regime in Wales and its effectiveness, the review turned to the question of whether we could improve upon the current arrangements. Before considering this in detail we felt it important to consider the regulatory upgrading that was underway in both England and Scotland.

Developments in Regulation – England and Scotland

41. Discussions about the future framework for HAs in Wales have an obvious synergy with parallel debates in England and Scotland. This section provides a brief summary of the current position.

England

42. In the first half of last year two influential reports commissioned by the UK government were published (Hills, 2007; Cave 2007). Subsequently the Housing and Regeneration Bill was introduced in November 2007. The main proposals within the Bill are:

- setting up of the new Homes & Communities Agency (HCA) with a national role as the investment vehicle for social housing and regeneration;
- abolishing the Urban Regeneration Agency and Commission for the New Towns (the bodies that together constitute English Partnerships: EP);
- the establishment of a new regulator, The Tenant Service Authority and a new regulatory framework;
- revoking of the system of 'registered social landlords' created by the Housing Act 1996 and abolishing the HC.

43. The Bill is now in the House of Lords. The National Housing Federation continues to argue that the Secretary of State (SoS) has too much power to intervene in the affairs of housing associations and that this might breach the definitions of 'public and private' bringing housing associations back into the public sector.

44. In terms of issues regarding private finance;
- an obligation has been placed of the SoS to consult lenders when considering new regulatory standards and/or directions;
 - if compensation is offered to HA tenants the financial impact on the viability of the HA concerned will first be considered;
 - the HCA will not be able to recover grant from a housing association during a moratorium;
 - the expansion of the fundamental objectives of the new regulator to include the promotion of private finance to encourage investment in social housing;
 - arrangements to deal with practical issues that arose during the recent HA insolvency (Ujima) including:
 - a power for the new regulator to appoint an interim manager to manage the affairs of the HA whilst proposals are being developed and agreed,
 - the moratorium is changed to 28 *working days*,
 - only those secured creditors who can be identified using reasonable efforts will receive notices and be contacted to check agreement,
 - the powers of the manager widened to allow an amalgamation as well as a transfer of engagements,
 - the price of transfer assets should be not less than that certified by the district valuer as what the property would fetch if sold by a willing seller to a non profit registered provider.
45. Obviously we do not yet have completed legislation but there are clear issues for Wales. These include:
- regulation is now separated from investment and the Regulator is very clearly working with/for tenants.
 - the powers of the Regulator have been strengthened to deal with a range of circumstances
 - the moratorium arrangements have been modified to reflect the experience of the Ujima insolvency.
46. The Welsh Assembly Government has given no indication as to how it might choose to respond to these changes beyond saying it is content with the 1996 Act. This leaves unresolved how or whether the Welsh Assembly Government might take a stronger role around tenants' issues and what it might do to strengthen its intervention powers.
47. The Welsh Assembly Government has given no indication as to how it might choose to respond to these changes beyond saying it is content with the 1996 Act. This leaves unresolved how or whether the Welsh Assembly Government might take a stronger role around tenants' issues and what it might do to strengthen its intervention powers.

Scotland

Scotland has also introduced proposals for change on the back of its consultation paper *Firm Foundations: the future of housing in Scotland* (Scottish Government, 2007), published on 31 October 2007. This included;

- setting a target to increase the rate of new housing supply to at least 35,000 houses a year by the middle of the next decade
- launching a Scottish Sustainable Communities Initiative
- helping first time buyers through the creation of LIFT: the Government's low cost initiative for first time buyers
- encouraging the private rented sector to flourish and play a full role in meeting housing need
- improving the choice available to homeless people
- offering local authorities incentives to build new council houses
- ending the right to buy on all new social housing
- increasing the supply of new housing association homes
- modernising the regulation of social housing

47. On the housing association sector, the Scottish Government is clear that regulation must work to safeguard and promote the interests of tenants and others. The paper sets out proposals including:

- tenants should have a greater role in the scrutiny process;
- more operational independence will be given to the new body;
- greater separation between standard setting and measurement;
- regulatory burdens should be reduced and more emphasis should be put on HA Boards and self assessment;
- there should be no cyclical programme of inspections with future work triggered by performance issues and be more targeted and risk based;
- better data is to be collected in a cost effective way;
- there will be a review of intervention powers with a view to securing a broader range of possible measures including information requests, rights to inspect, improvement or enforcement notices, fines or compensation and rent capping;

48. As this suggests, the Scottish Government is moving ahead in directions not dissimilar to England. This again re-enforces the differences with Wales. In part that

is the nature of devolution; each country has different ideas and trajectories. However, overlaid on this is the issue of financing, reputation and performance.

49. The funding market is a UK market. In the current circumstances there can be no doubt there is a new premium on the quality of regulation and control as part of the lenders' new heightened awareness of risk. Lenders will live with differences between countries but with fewer lenders tendering for new loan mandates and with re-pricing of some outstanding loan offers and all new loan propositions by a margin of 0.8% or more the Welsh Assembly Government has to take this new environment into account. Wales could be at a comparative disadvantage in a market characterised by a shortage of funds. In our view this is one of a number of pressing reasons why the regulatory framework in Wales must be upgraded.

A New Regulatory Framework for Wales

50. Over the last five years the Welsh Assembly Government's reviews of the regulatory framework have all had similar themes – less detailed regulation, more strategic regulation, more self assessment, greater use of performance indicators and benchmarks – all driven towards making for a more efficient and effective sector capable of continuously improving.

51. The current regulatory framework finally came into force in 2006. It was intended to be outcome focused and flexible and driven by association self assessment and external validation. To date, the Welsh Assembly Government has not been able to deliver the regime it has aspired to, despite the best efforts of all involved. Partly this is due to other policy priorities, but also because the regime has become immersed in detail.

53. CHC in its submission to the Review argued for the following;

- relaxation of the regulatory requirements relating to consents under Section 9 Housing Act 1996;
- allowing HAs to use assets to support non SHG developments (including the creation of non-registered subsidiaries for non core activities to achieve this purpose);
- moving to a lighter touch/ more outcome focused system regulatory regime for housing & repair services;
- increasing intensity of regulation for governance and financial control;
- introducing more flexibility and coherence in the rent regime;
- clearer connections to the health and regeneration agendas;
- allowing build for outright sale to cross subsidise schemes;

- securing more efficiency savings via procurement and increasing use of landbanking and moving from a micro managed ADP to one where Welsh Assembly Government dictates price and quality and LAs agree location, need and mix;
- allow HAs to self certify with random Welsh Assembly Government sampling of schemes with the ultimate sanction of repayment of grant if not adequate;
- 3 year programmes to aid the purchase of sites/land banking;
- a Wales-wide housing procurement initiative at a scale to drive down costs, eg, back office costs, doors, windows, boilers etc;
- a culture shift towards risk management and away from risk aversion.

54. Some of these aspirations have been echoed in earlier Welsh Assembly Government proposals and the reality is that the broad sentiment about a more focused regime and one which reflects the maturity of the sector and the need to move to more strategic issues, has been accepted. In our view the Welsh Assembly Government has had the ideas but it has not committed the resources to implement them. This puts in place a significant challenge for this review.

55. In our interim report we suggested a number of changes which should reduce the unnecessary regulatory burdens and this potentially frees up resources to undertake key tasks in our proposed new regime. However, there is still the question about the right skills.

A New Framework

Principles

56. In terms of our thinking about a new framework for regulation the following sets out the broad shape of our thinking:

- Our view is that the current regime needs upgrading to reflect new realities, ensuring that housing associations are well governed, financially viable, delivering high quality services to their residents and are striving to continuously improve;
- there must now be a decisive move towards a new set of arrangements. The current structure works, but in a limited way and is not fit for purpose. It is not achieving the ambitions sets out by the Welsh Assembly Government itself and does not ensure that risks are assessed and managed;
- Regulation must add value to the system along with providing delivery and performance. The new regime must address issues of the sustainability and viability of associations more strongly and regulation must be proportionate and risk based;

- the regime must also be more customer facing with clearer links to tenants and residents in terms of both the regulatory framework as a whole and individual associations. Our purpose here is to strengthen the drive to better performance by giving users of the services provided a stronger voice;
- We have read and discussed the findings of the CHC review of Governance of housing associations undertaken by Paul Griffiths. It is a cogent review and we support the recommendations it makes. However, we would also go further in stressing the urgent need to upgrade governance in Wales. Given the new challenges facing associations, the difficult finance market and the potential demands place upon them consequent to this review, we do feel that more must be done to increase the financial and business competencies of boards and to enhance their challenge function to their executives;
- Associations are entering a new phase in a new environment and board strengthening is an essential part of the process of ensuring they are fit for purpose. We discussed whether paying boards would help. We think this should be a choice individual associations are able to make for themselves.

The new regime

57. We propose a new regime is put in place and the elements of this are captured diagrammatically on page 51. In our view the changes we suggest do not mean starting afresh. We think the current Regulatory Code provides a sensible starting point for the new regime.

58. However, we recommend that the Code be reviewed in the light of the proposals set out here. The Code needs to take better account of transfer associations and to consider the case for more strongly testing finance and governance issues. However, within these not insignificant limitations, it broadly covers most of the areas we think should be there.

59. Accepting the code in its current or revised form as a starting point, we agree that associations must continue to assess their performance on an annual basis against the Code, providing evidence to support their response and providing details of how their performance matches benchmarks as set out in Housemark, the Wales Data Unit and other performance indicators.

60. The self assessment of their own performance, their strengths and weaknesses, backed by more detailed evidence and set against the aspirations set out in their own business plan provides the starting point. We recommend this self assessment would need to be signed off by their Board and for their self assessed performance to have been discussed with a representative group of tenants and residents.

61. The self assessment and the more detailed data driven evidence base would be sent to the Welsh Assembly Government. Copies of the finalised report would

also go to tenants and residents, lenders, local authorities and any other key stakeholders.

62. We recommend that the Welsh Assembly Government must now put in place a proper process to evaluate and use these self assessments. The Welsh Assembly Government should check the self assessment reviews, looking at what associations think they are achieving and validating that with the relationship manager's own assessment and the Welsh Assembly Government's own risk model outputs (see below).

63. The Welsh Assembly Government must assess quarterly, annual accounts and 30 year financial plans running key measures through a risk model to identify cases for further consideration and what remedial action may be required

64. The Welsh Assembly Government must compare the performance of associations using key indicators and benchmarks, including how HAs perform elsewhere in the UK

65. On a risk and exceptions basis there should be a more detailed check on a number of associations each year. This would involve much closer scrutiny of both the self assessment and the underlying data/performance

66. The Welsh Assembly Government relationship managers must meet with associations and hold an annual review meeting with each association and with key stakeholders around the submissions. This would include relevant local authorities and tenants and residents. These managers would also periodically attend board meetings of associations

67. All this would need to be in the annual business planning cycle. We recommend that all associations be required to set out how they intend to move forward to tackle any identified weaknesses, as well as meeting their own aspirations for improvement and that they would be required to provide a detailed improvement plan for the next year as part of its forward business plan. This plan would be lodged with the Welsh Assembly Government and reviewed by the relationship manager and finance analyst and provided to key stakeholders –local authorities, lenders and, subject to confidentiality, to tenant/resident representatives. In the event that the Welsh Assembly Government and the association were unable to agree on the adequacy of this plan the Welsh Assembly Government would consider how it might intervene to secure improvements. We return to this later.

68. The cycle of self assessment and review would begin again checking performance against plans and other measures.

69. In addition, we recommend that the Welsh Assembly Government should adopt the current English financial viability review process (FVR). The FVR would form a core part of the annual assessment.

70. We also recommend that the Welsh Assembly Government considers its intervention powers in the light of improvements being made in England and Scotland. The current powers are being supplemented to give the regulator a wider and more flexible range of interventions more in line with a regime built around self

assessment and continuous improvement. In our view the Welsh Assembly Government must now update its powers in this area and align them with those in England and Scotland.

71. We have specifically reflected upon the needs of stock transfer associations, both in terms of their initial set up and then supporting them going forward. It is our view that regulatory support to transfer associations needs to be increased. The requirements for managing stock transfer are intensive in the short term, not least with the bunching of transfers. There is a case for staff working in this area moving across to regulation roles as the transfers come through over time and numbers begin to decline. There are synergies between stock transfer roles and regulation more generally.

Inspection

72. A programme of inspection would also be a core part of the new regime. Independent inspection is important in showing what associations are achieving and providing the basis both for self improvement and for the regulator to develop a dialogue with associations and where necessary to enforce improvements. Our view is that the current scope of inspection is only adequate and should reach wider than landlord and tenant services.

73. We have also taken the view that the inspection regime in Wales should be subject to tender on a regular basis. We believe this would lead to a tightening and improvement of the arrangements. We make no presumption as to whether or not WAO would continue to be the service provider. WAO is obviously well placed to tender to offer the service and it now has experienced staff in place.

74. We recognise the benefits of an external review process. The Welsh Assembly Government will want to have a call down facility to undertake urgent inspections triggered by serious complaints/advice from other parties (including tenants) or its own regulatory staff.

75. Given that WAO has nearly completed the first round of inspections of all associations in Wales (though new stock transfer RSLs are coming on stream), there is a strong case for a new approach in the future with the inspection provider working in a more selective and focused way. Inspection might cover;

- Issues prompted by the self assessments or tenants
- Associations which WAG has decided are performing poorly or where there is a need for intervention
- New transfer associations, to ensure they are progressing appropriately
- Service areas across groups of associations
- Group structures or consortia.

76. As a matter of some urgency, we believe inspection should undertake a review of the six consortia arrangements operating in Wales. The performance of the consortia was raised in a number of submissions. It is clear that their performance is very varied, with some very clearly delivering increased value for money but others appearing to have only increased costs and achieved little in terms of improved delivery. The recent Housemark review of consortia (Housemark, 2007) gives a mixed picture and raises issues which must be addressed immediately. A recent i2i report on joint procurement also offers valuable insights as to the potential for new forms of procurement (Savills/i2i, 2008).

77. A more selective regulatory regime may thus free-up resources to be used to strengthen other aspects of the regulatory system.

Regulatory Oversight

78. We recommend that overseeing the new regulatory process would be a new advisory Regulatory Board as exists in Scotland. The Board would comprise relevant interests (eg, Welsh Assembly Government, the inspection provider, WLGA, CHC, TPAS Cymru, Welsh Tenants Federation (WTF) and other key stakeholders, plus a minimum of two independent members, one of whom will be Chair). The Board would;

- Meet at least 4 times a year with a remit to receive and discuss reports on Welsh Assembly Government regulatory activity and performance and that of the sector as a whole, with a view to ensuring the regulation regime is maintained and improved.
- Consider how Welsh associations perform, compared to those elsewhere in the UK.
- Advise the Minister regularly on the outcome of its deliberations.
- Publish an annual review of regulation in Wales which will be its report to the Minister on how the regulator has discharged its role. This will be circulated to relevant stakeholders.

The Welsh Assembly Government's role

79. We recommend that the Welsh Assembly Government commit to the following;

- Setting up and running this new structure;
- Completing the quick review all of the existing circulars, setting out controls and requirements for housing associations;
- Producing annually the global accounts of associations in Wales and a short review of the private finance market in a timely manner, so that these can inform the market;

- Undertaking closer scrutiny of planned and existing mergers, consortia arrangements and group structures, with a view to ensuring they offer enhanced value for money. We return to this point later;
- Holding an annual meeting with lenders where the annual private finance and regulation reviews are discussed. This meeting would co-incide with, and be linked to, a meeting of the Regulatory Board.

Welsh Assembly Government's Resources

80. None of what we recommend will happen without proper resources. The staffing implications of this review would suggest that with around 30 associations, the Welsh Assembly Government needs to have in place a minimum of four dedicated relationship managers and two financial analysts, plus administrative support and a section head who can also act as a relationship manager. There are potential costs associated with this upgrading.

81. Within a constrained Welsh Assembly Government Budget it may be necessary to consider charging associations for regulation. The Tenant Service Authority is moving to that model. We have also discussed the case for charging for regulation. There are arguments for and against this. Experience suggests that when the regulated pay for the regulator there is a closer relationship and it is more business related and proportionate. At the same time it can be argued that a pay regime would be unusual in Wales and that it would be a cost burden on small organisations. We also recognise the costs of self assessment.

82. On balance, we feel that as a general rule charging should not be imposed, though we recognise this is an issue for the Minister. However, we do feel there is a strong case for charging associations that are identified, via regulation and inspection, as having serious failings which have not been addressed. The charging regime would not include the costs of the original assessments undertaken.

Conclusions

83. We have set out a substantial agenda for change. We do not do this lightly. Our view is that the current arrangements are failing in a number of different ways, albeit we fully recognise and acknowledge the considerable efforts made by staff in the Welsh Assembly Government and WAO as well as HAs themselves to make the current regime work. However, having heard the evidence we do take the view that reform is urgently needed. We have gone into significant detail. This is the reality of regulation.

84. In our view the task of change needs to be taken forward as soon as possible, and certainly to begin this year. Having identified weaknesses in the current arrangements it would be foolhardy to leave these untouched now. With significant regulatory upgrading in England and Scotland it is important this is taken forward so that Wales is not disadvantaged.

85. Let us not forget why we have looked at the regime. The aim, in part, has been to see how we can help associations do more. Some may have viewed that as a mandate for a lighter regulatory regime or indeed no regulation at all. However, it

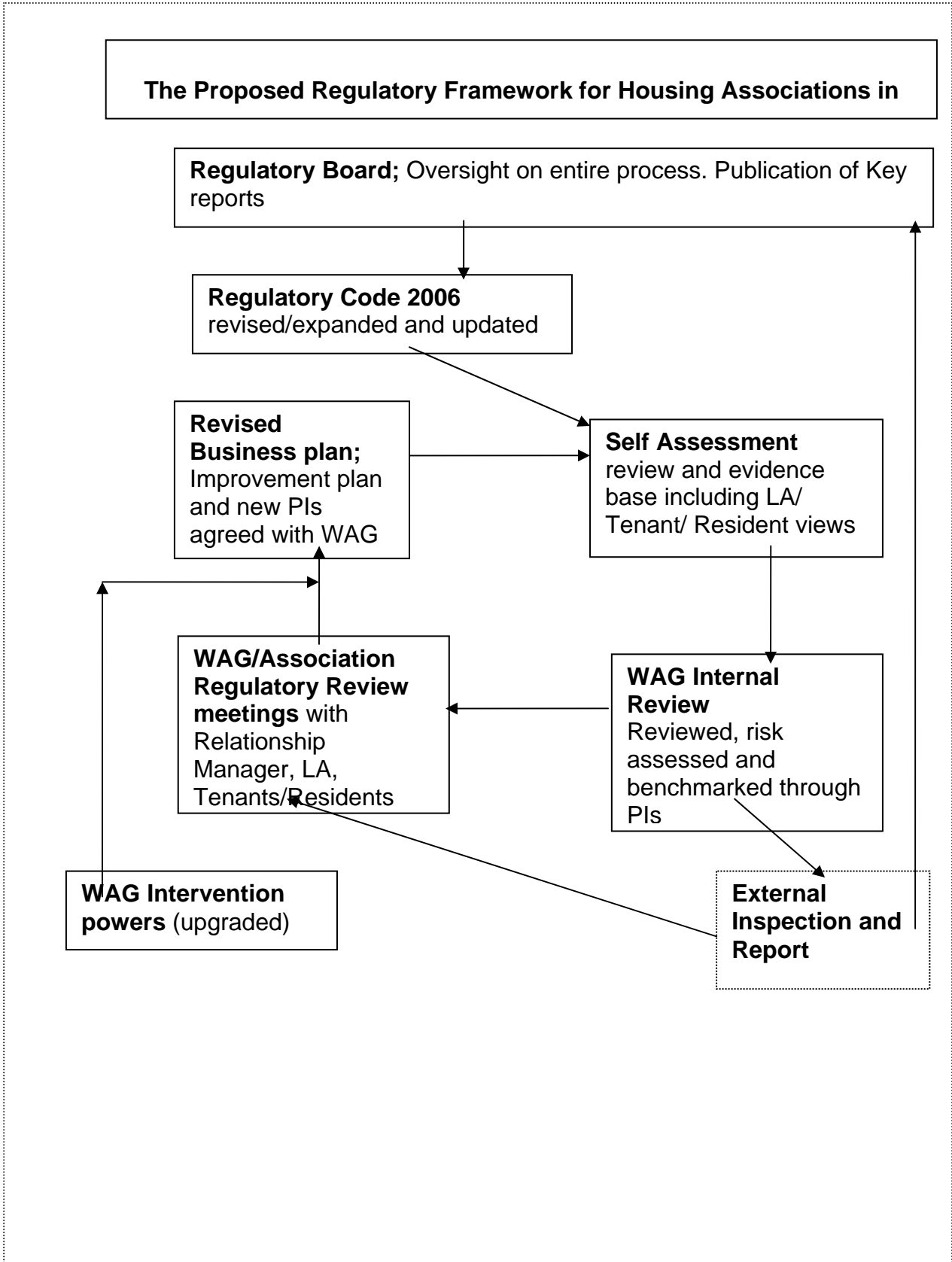
has become obvious to us that in setting out an ambition to do more we do have to have a system in place which helps *all* associations achieve that, rather than a selected few. The requirement for more homes and better services is Wales-wide and the regulatory framework needs to ensure there are organisations fit for purpose across Wales delivering it.

86. Our aim has been to set up a regime which is far more transparent than the one operating at present with clear performance requirements and compliance mechanisms in place, so that it will deliver real benefits to associations and their key stakeholders, including tenants and residents. It is quite evident that what we are suggesting has in broad terms been on the agenda for a long period of time and we have set out the necessary changes to deliver this agenda.

87. We have responded to the appetite for a regime built around a stronger role for self assessment, but we have also recommended an upgrading related to finance and governance across the system. We have set out new requirements for the Welsh Assembly Government and proposed a Regulation Board who can maintain a *permanent watch* over the system and the performance of the sector.

88. Our view is that we need a step change in the current arrangements. The system has lost credibility with associations and others, as is evidenced by late reporting and the variable quality of those reports. There must be a renewed commitment by all parties to take any new arrangements forward, recognising the need to secure an efficient and effective social housing sector for the benefit of the people of Wales.

89. We believe that what we propose will be much better placed to respond to the *One Wales* and *Delivering the Connections* agendas. First, the system will give a stronger role to local authorities and to residents and tenants. Second, it will help associations make better use of their resources. Finally, it should help secure more resources because lending institutions will have more confidence in the regime in place.



Chapter 5 - Securing finance for social housing

1. The provision of housing is a costly activity, albeit the returns are substantial but over a long period of time. Most housing provision is financed by the private sector. This is perhaps best illustrated by the more than £4bn of mortgage finance that has been raised annually in recent years to secure house purchases in Wales, compared to the £60 - £85 million contributed by the Welsh Assembly Government through the Social Housing Grant system. Although the annual allocation of SHG has fluctuated over the years (Wilcox, 2007), it has now been increased to around £82m per annum in the main programme and £103m per annum in total. This is for the period 2008/09 to 2010/11, with the latter figure including capital investment for extra care schemes for older people. However this does not include SHG investment to support provision for young offenders/substance misusers or the £18m allocated over the 3 year period for not-for-profit nursing homes.
2. In the pursuit of increasing public expenditure this recent increase in SHG is to be welcomed, but in view of the extent of the pressing problem of housing need more funding is obviously desirable. The introduction by the Welsh Assembly Government of the Strategic Capital Investment Board should help achieve this.
3. The task for government is to create the conditions for an active private finance market and where necessary to provide funds either to support and incentivise that market, or indeed where no such market exists to provide alternative funding.
4. Over time social housing provision, whether through councils or housing associations, has moved from 100% grant based public finance to a mixed funded regime (in the case of HAs), reflecting the fact that, given current definitions and rules, the sector creates assets and rents which can support private borrowing.
5. Increasing spending on housing to respond to unmet needs in Wales has been a priority, albeit within a defined Welsh Assembly Budget. The discussions between the Welsh Assembly Government and CHC in terms of the need for more funding highlight this. Earlier in the report we made the point that there is a need for more accurate evidence on the precise scale of unmet housing need in Wales. Given both an overall shortage of homes and the need to further help regenerate communities we need to recognise the current Budget limitations. .
6. This chapter explores a number of ways it might be possible to secure extra funding. None of them are dramatically new or unique to Wales (see NHF, 2008), but the reality is that markets and finance rules are constantly changing with new windows of opportunity opening just as others are closing. It is thus important that we looked across the spectrum to see what might be achieved. We covered a range of issues including the use of land, cross subsidy, cheaper finance and increased leverage, building a greater borrowing capacity as well as looking at some of the different models that might be applied.

Social Housing Grant

7. Regardless of other options that may be adopted, SHG will probably remain as the bedrock of social housing finance in Wales. The Welsh Assembly Government has supported social and affordable housing over recent years through the funding of local authorities (MRA, yearly capital allocations - non ring fenced, specific grants allocations for activities such as home improvement) and housing associations through SHG. SHG is seen as the most important government support for increasing the stock of social housing. The SHG allocation process has changed overtime (see Figure 2);

Figure 2: The Changing Social Housing Grant Allocation Process

YEAR	ALLOCATION PROCESS
Pre 1999	HAs submitted bids to Tai Cymru for SHG. TC assessed the bids and agreed SHG programmes with HAs, taking account of priorities identified by local authorities
1999/2000	HAs submitted bids to National Assembly and officials agreed programmes with HAs subject to local authority endorsement
2000/2001	The process changed significantly. Bids for SHG programme were invited from local authorities , who had to prioritise development proposals and to nominate HAs, to carry them out
2001/2002	The Assembly Government distributed 80% of available SHG between local authority areas using the following formula (agreed by WLGA and WFHA): ⇒ 70% by existing programme share; and ⇒ 10% by population. The remaining 20% was distributed by bid, with each authority submitting proposals for additional allocations of SHG for schemes that met specific criteria.
2002/2004	SHG distributed between local authority areas proportionately the same as the basic allocation for 2001/2002. (no bidding process)

8. It was recognised that one of the weakness of the distribution method used up to 2002 was that it maintained the status quo without being evidence based. The Assembly Government issued a consultation paper in October 2002 inviting local authority and housing association views on the “Formula Distribution of Social Housing Grant (SHG)”, which had been agreed in partnership with WLGA and the WFHA (now CHC). The paper consulted on two options:

- A socio-economic formula based allocation, using housing and people needs components with a choice of three different weightings
- A per capita distribution, based on data from the 2001 census

9. There was no agreement on the method of distribution and Welsh Assembly Government commissioned the University of Glasgow to look at the distribution method, with a view to developing an evidence-based approach to the distribution of SHG. However, this proved inconclusive.

10. Following a further consultation paper in July 2004, the Welsh Assembly Government issued in March 2005 *'Developing Partnerships: A New approach to Social Housing Grant Programme Distribution and Delivery'*. This outlined the Welsh Assembly Government's aims for distributing and delivering the SHG programme in Wales. The main objectives of *'Developing Partnerships'* were:

- The introduction of a multi-year bidding process; and
- The formation of Consortia which promote collaborative working between housing associations to build capacity and achieve more efficient programme delivery

YEAR	ALLOCATION PROCESS
2005/2006	In order to allow local authorities and housing associations/ consortia to adapt to the new system, local authorities were asked to submit schemes for inclusion in the programme as before. But rather than being constricted by a pre-set budget, local authorities could bid for as many schemes as they wished (justified by needs and deliverability)
2006-2008	In June 2005, local authorities were invited to bid for SHG funding in 2006/2007 and 2007/2008 under the following strategic themes: <ul style="list-style-type: none"> • Schemes to increase the supply of affordable housing (including housing adapted for families with disabled members) • Schemes to support the authority's strategy for older persons • Do-it-yourself Homebuy • Schemes to address low demand and to support community regeneration • Supported housing schemes (excluding housing adapted for families with disabled members)

11. The Welsh Assembly Government has also introduced a spending stream for care for the elderly through a grant mechanism for associations to bid for. Extra care housing is an important contribution to affordable provision. When run on a not-for-profit basis it can give long term affordable housing provision for people who can no longer live in their own houses or are staying in hospital or are in intermediate care. In addition, the Welsh Assembly Government has introduced a new spending stream totalling £18m over the three financial years commencing in 2008/09 for not for profit nursing homes. Although not counted in the statistics as new affordable/social housing, some residents who move into these homes do leave vacated affordable housing units for others. For all these reasons, it is important that the commitment to

spend and support housing associations to delivering care homes is recognised and maintained. In addition, the Welsh Assembly Government also provides additional funding via the social housing management grant scheme (to assist in developing a range of people related initiatives) and the funding for regeneration from which associations can also benefit.

12. Currently SHG is awarded on an annual bidding process. Local authorities set out strategic priorities often around schemes developed with HAs. The schemes are scrutinised by officials in a staged process, and may be rolled forward for future programmes. On advice, the Minister approves the selected scheme list. The grant is directed through consortia and if any scheme is subsequently withdrawn, the consortium reallocates the funds to other members.

13. In the evidence presented to the Review team, both verbal and written, there was a criticism of the way that the SHG is currently administered by Housing Division. A consistent message coming back from housing associations, developers and local government was that the system needed urgent reform. There were a number of points of concern including;

- Allocation of grant in the past has been insufficiently prioritised according to need (deliverability has been a key driver);
- There is a lack of transparency to the decision making process and this had led to perceptions of unfairness;
- The assessment process has been bureaucratic and time consuming and does not add value to the process;
- The grant regime has not been responsive enough to need or the wider objectives such as urban regeneration;
- There are too many rules preventing potentially good schemes being considered e.g. within stock transfer areas;
- The current SHG assessment process does not encourage innovation, particularly in relation to sustainability issues, by the way that cost elements are accepted or dismissed;
- Acceptable cost guidance (ACG) needed to be reviewed albeit in conjunction with a review of the rent setting regime;
- There needs to be a full three year allocation programme, to enable schemes to be developed properly and for HAs to have a longer term development programme;
- There were also some housing associations who thought that SHG should again be available for Homebuy.

14. There are clearly a range of issues which need considering and resolving so that the full potential of the social housing system in Wales is released. Given our remit to consider how resources might be used to best effect to secure extra housing output, we were particularly concerned that despite the creation of consortia and other procurement related strategies the Welsh Assembly Government are still engaging in detailed and time/resource consuming scheme scrutiny.

15. In our view the Welsh Assembly Government must move towards setting standards for new construction and managing the overall framework of grant allocation. It should pass responsibility to associations/ consortia for compliance with

those standards via self certification and audit. In the event they fail to meet those standards grant would have to be repaid. The detail of this, including quality assurance, value for money and audit arrangements needs to be developed in partnership with CHC and others.

16. The current 'rules' by which funds are allocated need to be reviewed with a view to securing a common agreement about best use of funds. With a focus on needs and full recognition of the wider objectives to be met through housing expenditure, the rules must be redrawn to reflect the Welsh Assembly Government's corporate objectives as expressed in *One Wales* and *Making the Connections*.

17. Similarly, although the Welsh Assembly Government has espoused a desire to move to a longer term programme allocation, in reality it is still only 2 years and on some occasions less than this. Given the time development can take, we recommend that a full 3 year allocation regime is put in place to allow associations to become more effective and cost efficient in their development activity.

Housing Association Borrowing

18. The housing association sector has two great strengths. First, associations are very clearly more than housing providers in the narrow sense. They play a significant role in wider neighbourhood and community agendas and in regeneration (See CHC's Housing Manifesto, <http://www.chcymru.org.uk/policy/housingmanifesto.html>). Second, they are able to raise private finance to help achieve these roles. Finance is raised against their property assets and reserves and the SHG provided by the Welsh Assembly Government. This private finance regime was introduced in 1988 (with Wales providing one of the pathway schemes in St Mellons), and since then the sector has raised around £800 million in Wales (and in the UK in excess of £35bn).

19. Clearly this must be done prudently. Associations in Wales have generally been cautious in their approach and there is no intention here to suggest they should dramatically depart from that. However, it is generally accepted that the housing association sector in Wales has the potential to raise more funds without putting at risk the good reputation that has been built up. There have been no insolvencies and no losses for lenders in Wales.

20. The latest global accounts for housing associations in Wales show the following;

- In 2007 associations had 74,000 properties with a net book value of over £1 billion (at historic cost) and a gross cost/valuation of £3.1 billion
- Total reserves totalled in excess of £346 million
- Gross interest cover was over 131% and an average debt to equity ratio of around 38% with a range between 20% and 71%.

21. With appropriate safeguards, there is room for more borrowing, although it must be recognised that some associations are more highly geared than others.

Encouraging the more cautious associations to borrow more will need careful handling. However, CHC has indicated that members are willing to increase leverage to an average of 40% with a view to raising around £112 million of extra funds to support an expanded development programme over the four years 2007/08 to 2010/11

22. We support this and suggest that the Welsh Assembly Government and CHC move this agenda forward in as transparent and mutually supportive way as possible. Ideally, what may be roughly an extra £25m of annual activity should be spread across the sector, rather than supplied by just a few associations.

23. Clearly this has been made more challenging in the current funding environment, where the number of lenders actively agreeing new commercial loans has fallen sharply. As part of the Review a sample of lenders were interviewed and indicated the following;

- Appetite and capacity to lend has been falling, reflecting current market conditions. Loans to existing customers continue, but the cost of lending has gone up sharply with lenders pricing loans at 75 to 100 basis points (bps) above LIBOR compared to the previous 25bps. This re-pricing may bring some lenders back into the market, though all face a funding shortage at present. A re-pricing will bring returns up and allow HA lending to better compete with alternative choices available to lenders, as well as bringing them better into line with perceived risk post the insolvency of Ujima.
- Given the limited number of lenders still in the market, it was possible that individual associations could reach the exposure limits of the debt lenders. They would thus need to access the capital markets and this was where bonds might play a role.
- It was also clear that syndicated loan arrangements (joint funding by lenders and thus spreading the risk), was less easy under Basel 2 (where lenders have their own different risk models and varied status under Basel 2).
- The market is moving rapidly and will continue to evolve over the next few months. It places a new premium on ensuring a well ordered and effective regulatory system in Wales.

24. It is recognised that raising extra funds from the debt market against the existing stock/assets is one option regarding new funding arrangements, albeit we must recognise changing market conditions.

25. Beyond the debt and bond markets there are a range of other ways associations could raise additional funds to support increased activity. These could operate alongside any additional loan financing and indeed could help strengthen the business case for borrowing/lending.

European Funding for Housing and Wider Regeneration

26. The main opportunities for funding are available in the Convergence Programme for West Wales and the Valleys and the competitiveness Programme for East Wales. The former is a significantly larger programme in terms of priorities and total funding available, but both could assist the social housing sector in helping to deliver the four areas of activity identified as follows:

- Learning skills and enterprise.
- The physical improvement of communities.
- The development of community assets particularly through social enterprise.
- The education of fuel poverty and reducing the carbon footprint.

27. There are also other EU Financial instruments and programmes that could also assist eg the JESSICA Financial Initiative, which will use Structural Funds to support urban regeneration initiatives. The Welsh Assembly Government has recently commissioned consultants, with the European Investment Bank's financial support, with a view to using the JESSICA Financial Instrument in Wales.

28. EIB funding is available at a preferential rate for funding regeneration and the re-modelling of areas including homes (but not new build in the direct sense). The bank has in the past lent directly to housing associations via 'framework agreements' with major banks but not over the last 12 months. However it continues to lend via the Housing Finance Corporation smaller amounts of up to €25million.

29. The Welsh Assembly Government has been actively exploring the potential of EIB funding. To date, both V2C and Bron Afon have had EIB funding. EIB funding can help reduce the cost of schemes and thus help bridge the gaps between debt servicing capacity and the likely returns from a specific development. It is clear that EIB funding is a sensible source of additional support, particularly for wider regeneration agendas. We suggest this agenda should be moved forward with speed.

30. The use of planning obligations and agreements on planning applications is allowed through section 106 of the Town and County Planning Act 1990. Technical Advice Note 2, published in 2006, provides detailed advice to local authorities on affordability, the role of local authorities and associations, setting affordable housing targets, policy approaches and monitoring affordable housing output. In August 2007 the Welsh Assembly Government published a research report specifically looking at the number of planning obligations used and their value for 2005/6 (Rowley et al, 2007). In 2005/6, there were a total of 130 agreements in Wales containing affordable housing obligations which produced 869 affordable units with *no* free or discounted land being transferred at 'affordable house market value' to associations, even though this was potentially achievable. It was estimated that the value of this extra affordable housing was between £14 and £20 million. The report concluded that there is sustained scope for local authorities to increase income through

planning obligations. It concluded that the key issue for success is not land value but rather the clarity of local policy and the negotiation process.

31. The use of s106 in Wales contrasts with its use in England. A study noted that “land is routinely transferred to an RSL for free or at a discount”. The South Shropshire case study contained in this report (chapter 6) gives an illustration of what can be achieved. Carmarthenshire CC used standard charging for affordable housing and also keep a database to record obligations.

32. Though a better framework and implementation process is now being put in place for section 106s, the current climate in the house building industry means an expected severe fall in the rate of new house building and consequential planning gain for affordable housing. Although long term benefits will come from better use of planning obligations, in the current climate and possibly for the next couple of years we should not over-inflate the value of delivering affordable housing through section 106. However, the view is that s106 is currently under used, not least in relation to the delivery of affordable homes.

Low Cost Home Ownership as Cross Subsidy

33. Developing more low cost home ownership (LCHO) and using that activity to cross subsidise rental developments is well established in England, and around 90% of the receipts from LCHO were applied in this way.

34. The recent Welsh Assembly Government review of LCHO (Welsh Assembly Government, 2006) took little account of this potential cross subsidy and was more narrowly focused on the role of LCHO in the Welsh housing market. At the same time, it is accepted that with lower house prices and easier access to the housing market in Wales the prima facie case for LCHO is weaker. However, if it is now considered that affordability conditions have worsened, then it deserves further consideration and in relation to the wider benefits that can flow, ie, investment in LCHO is not an alternative to renting, it can help achieve both. We support the Welsh Assembly Government's intention to further consider the role of LCHO.

Local Housing Companies

35. In England work is proceeding on a number of models, including Local Housing Companies - joint venture companies using local authority land and private sector development expertise and this is being taken forward by EP in 14 pilot areas as well as the Limited Liability Partnerships(LLPs) being explored by Communities and Local Government and community land trusts. All of these are seen as having considerable potential and are being supported by HM Treasury. Recently the Greater London Authority (2008) published a report '*Overcoming barriers to institutional investment in residential property*'. This covers some of this ground and not least the issue of LLPs. In our view the Welsh Assembly Government should certainly examine these developments and their potential application.

Higher Rents – to support more finance

36. We have considered the case for increasing rents albeit with a close eye on any negative impacts this might generate.

37. This might suggest moving away from the current rent benchmark arrangements which sets maximum rents for each particular type of property. Rents are a very secure income stream supported, where necessary, by government funded benefits. As already noted, this has been recognised in the thinking around securitising rental streams (though such schemes have little prospect at present). Social sector rents in Wales are lower than those in England. Equally there are disparities between association rents and local authority rents and we recognise this is a factor which may be inhibiting the creation of a single housing tenure and in securing support for stock transfer.

38. Welsh local authorities help pay the Exchequer costs of housing benefit for council tenants in Wales. Wales has been making a transfer payment to England to reflect the surpluses being generated on HRAs. Unlike Scotland, where no transfers of surpluses take place, the Welsh Assembly Government is required to make these payments to help cover the cost of local authority tenants housing benefit in Wales. With transfers and thus local authorities coming out of the HRA, system the cost of this has been going down with the latest estimate being £25 million per annum. It is understood HM Treasury makes a compensating payment to Wales in relation to the MRA.

39. In the recent 2008 UK Budget a review of housing benefit was announced and any changes flowing from this will impact upon Wales. The review is being undertaken internally at the Department of Work and Pensions and will look closely at work incentives. In Wales it would be important to ensure that any moves on rents or changes to housing benefit do not impact upon poverty and inequality. Limited evidence does suggest that tax credits and some modest reductions in reliance upon housing benefit have meant that the impact of rent increases is somewhat dampened.

Local Authority Funding

40. Over the last few years, local authorities have been able to use prudential borrowing to fund capital schemes. For those authorities, whose social housing stock will not be transferring to RSLs, some are considering prudential borrowing as a way of improving social housing to meet WHQS.

41. As noted above, a review of the HRA is underway in England and this will impact upon Wales. It will include consideration of a process by which LAs could use the HRA as a means of providing new social housing. This clearly is very significant for Wales and there should be a means of the Welsh Assembly Government working together with WLGA to influence this Review. The outcomes of this review may be fed into the planned Housing Bill for the 2008/09 legislative programme. There are opportunities here for the Welsh Assembly Government to

secure a framework agreement for Welsh legislation. We recommend that urgent attention be given to these opportunities.

Housing Association Rents

42. The guidelines on housing benefit subsidy for Welsh HA rents are described as vague. The detailed evidence base for housing association rents in Wales is weak because the HAs no longer contribute to WHATS, the database developed to monitor rents and lettings at local and national levels in Wales (the equivalent of CORE in England). We believe there is a case to be considered for the re-introduction of the recording of information on individual lettings and the recreation of a CORE/WHATS database for Wales.

Rental Income

43. In terms of the financial base for housing associations to provide more affordable housing, many associations felt that the current rent benchmarking scheme needs to be urgently looked at, with some rent levels being sensitively increased. The existing 'rent control' or rent benchmarking scheme is set by the Housing Division within the Welsh Assembly Government. The view is that the regime is restricting justifiable increases in rents, which could then be used to support further borrowing.

44. In evidence to the review there were concerns expressed particularly on the rent benchmarking regime through which rent bands are set by local authority area. There were a number of concerns;

- there was a disconnect between the rent benchmarking regime and the ACG regime (see Box 1)
- some areas felt they were in the wrong rent band (See Box 2)
- there was specific concern about the rent benchmark level for 3 bedroom/5 person housing which it was felt did not reflect the true cost of development (see Box 3 below);
- there was also concern on rent levels restrictions for the new stock transfer associations, as stock transfer associations inherit the local authority rental levels with the stock.

Box: 1 In evidence it was noted that the Acceptable Cost Guidance (ACG) assessment is used by the Welsh Assembly Government to judge value for money for SHG funded projects. It comprises notional land values, works costs and an on-cost percentage for each approved property type. ACGs are reviewed, usually annually, and the latest circular, Acceptable Cost Guidance/On Costs for use with SHG Funded Housing in Wales was issued in October 2007. There are 6 ACG bands (1 being the lowest, 6 being the highest) and these are set by Community Council area.

There is also a Rent Benchmark regime which was established in the mid-1990s following a period of rent bidding. Under rent bidding the RSL submitting the lowest bid in any local authority area received the largest SHG development programme. The rent bids were used to establish the Rent Benchmarks which have existed ever since. They were developed separately from the ACGs. There

are 5 Rent Bands with Band A being the lowest and Band E being the highest. There is one Rent Band for each local authority area. To be eligible for SHG funding associations have to change rents within the Benchmark Rents determined/advised by the Welsh Assembly Government annually and have to certify as such.

ACGs are thus set by Community Council area but Rent Bands are set by local authority area. There is no correlation between Rent Bands and ACG Bands, e.g. Pembrokeshire – ACG Bands 1-4, Rent Band A and Swansea – ACG Bands 1-6, Rent Band D. The same maximum rent applies to a less expensive property as a more expensive one. Given that it is rental income which drives the capacity to borrow; this limits what can be done.

Box2:; In evidence one association commented that the current rent regime lacked transparency and that there was no explicit link to affordability, house prices or bedroom numbers, as is the case in England. It was argued that there was a serious lack of fairness for tenants and organisations with the existing bandings. It was felt that some associations have been placed in the wrong rent banding groups, ie, rural instead of urban groupings. Being moved to a different banding would generate significant additional income, which would enable improvements to be delivered faster and for a significant amount of additional environmental improvements and regeneration work to be undertaken to the benefit of communities. It was felt that the overall impact on tenants would be low, as the majority the additional income would be funded from Housing Benefit, thereby increasing the overall level of funding being invested within social housing in Wales. It was suggested there should be an urgent review of the rent setting regime.

Box 3: In evidence it was argued there are anomalies in the Rent Benchmarking system that needs addressing. The most important of these relates to the setting of the benchmark rent for 3 bed, 5 person houses. To keep rents between the local authority and housing association comparable there have been restrictions on the increase in the rent for this type of property. Over the years it has resulted in a compression of the rent bands and most importantly it has meant that it has now become uneconomic to develop such property at a time when rented family housing is in more demand than ever. This can be seen by a simple example comparing a 3bed 5person house and a 2 bed, 3 person flat in ACG Band 4 and rent band 4. The difference in rents between these two types of properties is approximately £10 - £11.

Construction Costs (based on ACG)

Band 4 ACG for construction of a 3b/5p house	£154,500
Band 4 ACG for construction of a 2b/3p flat	£102,400
Additional Cost	£ 52,100
Additional Private Finance Required £52,100 * 42%	£ 21,882
Annual interest on additional Private Finance @ 6%p.a.	£ 1,313
Interest per week on additional Private Finance @ 6%p.a	£ 25

Therefore there is a deficit between the additional rents and the additional construction costs of around £15 per week, and this is before taking into account the long term maintenance costs of the house which are higher than that of a flat.

HAs are having to substantially subsidise the construction of houses which inevitably means that less are produced than would otherwise be the case. On the other side, tenants in flats are only paying £10 less than those in houses, and this difference is even less when service charges for such items as lifts and cleaning communal areas are taken into account. There are a number of solutions;

- *Increase the amount of SHG payable for 3 bed / 5 person houses.*
- *Increase rents in relation to 3 bed / 5 person units faster than other property types. This would have to be done gradually.*
- *Add a premium of £10 to the benchmark rent for all **new** 3bed / 5 person houses. This would be simple and immediate. It would not impact on existing tenants/reduce the number of units in the ADP. Rents could be linked back to the benchmark rent for statistical purposes.*

The other main anomaly in the current system is that it works to a maximum rent per property type, rather than an average. In reality all properties within a property type and within the same rent band tend to have the same rent despite age, condition etc. This problem could be alleviated by using an average rent for each property type, so allowing associations the option of charging a higher rent for newer more modern properties, while reducing the rent on their older less desirable stock. Discussions have taken place between CHC and Welsh Assembly Government on this.

45. Overall it was felt that there was insufficient rationale for variations in social housing rents across areas and by type of property. Many housing associations argued that this needed further consideration and that raising of rental levels need to be considered in order to bring forward finance for new affordable housing, as well as ensuring greater fairness between areas.

46. At a more general level, rental level differences in rents inhibit mobility between areas and landlords whether public or private sector and within the social housing sector as a whole (and this has in turn impacted upon moves to create a single social housing tenure).

47. It is our view that there is a strong case for a fundamental review of the social housing rent regime and that this should be an early priority, looking in detail at rent benchmarks and target rents. This should be undertaken in conjunction with a review of the ACG system. The review would have 3 main purposes:

- to consider the detailed impact and effectiveness of the current regime at a local level, and to consider any anomalies;
- to explore the potential for adjusting rent bands and target rents in line with market realities and as a way of generating new resources;
- to consider the interaction between the rent regime and the ACG regime, and how that might be improved.

Partial Transfers and Partial Ownership

48. Mention has already been made of the questions of partial transfers and partial ownership. We have considered both options. During the course of the Review an interesting idea came forward on partial ownership. Our consideration of this is set out in Appendix C.

Partial Transfer

49. The Review Group was specifically asked to consider partial stock transfer. This is a potential solution for levering in funds where there are specific areas that support transfer, although the population of tenants in the local authority as a whole do not. It can be difficult to engineer and sustain but it has worked in a number of English authorities, albeit as part of an overall plan for the authority.

50. Having reflected on this option we have taken the view that partial transfer should be an option in Wales when a full stock transfer has been rejected by the majority of tenants voting.

51. Making progress with improving part of the stock, eg, at an estate based level, is seen as better than no progress at all, with benefits flowing to those who support it as well as to the authority as a whole. Lenders were generally positive although it was suggested that this could put some receiving HAs under some pressure. Associations may find that taking on a block of negative value stock to upgrade and improve might be quite challenging.

Infrastructure Funding

52. HM Treasury recently issued a report '*Infrastructure procurement: delivering long- term value*' http://www.hm-treasury.gov.uk/budget/budget_08/documents/bud_bud08_procurement.cfm

53. This is an important report summarising a range of ways that infrastructure can be procured using the private sector. Joint Ventures, Private Finance Initiative (PFI) and Partnerships are covered in some detail. Wales through its own more narrowly focussed *Value Wales* initiative is regarded as having moved ahead in this area.

54. Although PFI has been used for schools and roads in Wales it has not played a part in terms of housing. The absence of PFI credits for housing is a key factor in this.

55. Some lenders had been involved in PFI schemes and found them time consuming in preparation, albeit the returns were higher than regular social housing lending. Lenders were aware of debates around cash flow securitisations in Wales (ie, putting all council rents into a bond structure) but felt this was complex and there would be little appetite at present to support that.

Public Sector Land

56. Land is a potential source of cross subsidy when sold at below market rates albeit for specified purposes. Welsh Assembly Government has around 4000 acres of public sector land that has the potential to be used to assist housing development in Wales. Welsh Assembly Government has drawn up a land protocol, see <http://new.wales.gov.uk/topics/housingandcommunity/housing/publications/protocoldisposeland?lang=en>. This sets out how land might be disposed of to assist the development of affordable housing. However, to date no disposal has taken place and discussions are continuing regarding the use of any capital receipt and how the balance of costs and benefits should be shared between the disposing body and the receiving organisation, especially when non – profit.

57. Local authority owned land is also a potential source for affordable housing development. Many local authorities have made land contributions over the years, either as direct contributions or for sale below market value, which have been critical in allowing development to go ahead. At times of a slowdown in development and the consequent slow progress of land release from Section 106 agreements, public land availability may prove crucial.

Community Land Trusts

58. Community Land Trusts provide an opportunity for local action to deal with affordable housing. There are some small schemes being progressed in Wales directly involving the local communities. Although time-consuming, they nevertheless can be a useful model for developing local action, using below market value land to provide the catalyst. This initiative can be complemented by the use of Mutual Home Ownership Schemes. Work currently being undertaken in Wales by both Land for People and The Prince's Foundation need to be used as an evidence base for this model, both in terms of any streamlining that needs to be done by Government to make it workable, but also in terms of its transferability. The Deputy Minister for Housing has commissioned further work on the Mutual Home Ownership Model.

Welsh Community Mutual Model

59. Welsh Assembly Government funded the development of the Welsh Community Housing Mutual model (see Stock Transfer Guidelines Supplement 8 on Welsh Assembly Government website) and it is now in place at Bron Afon and RCT Homes.

60. Although lenders supported this and felt that it had strengths the question was raised about how this model sat with respect to the clear drive to strengthen governance in housing associations. The new attention being given to the quality and strength of Boards with respect to financial skills did raise questions about this model which needed addressing.

Glas Cymru Model

61. The Glas Cymru model (company limited by guarantee) for water services in Wales has been highly successful in raising capital from the money market in support of public service expenditure. It has been suggested that this model, essentially through issuing bonds for fund raising as the financial mechanism could be applied to rising funds for investing in quality improvement for existing housing or for new social build in Wales. Although interesting and potentially applicable the current view from evidence taken is that this model would not be appropriate for the present circumstances where raising private finance is difficult. Nevertheless the model, already successful in the Welsh Water Industry is something that should be seriously considered in the future when the general borrowing climate is eased.

Conclusions

62. The Welsh Assembly Government has explored some of the options discussed above in the past and, others are currently under consideration. The key point is we know they can be made to work and that subject to appropriate safeguards (and appropriate market conditions) lenders will normally be prepared to back an expansion of activity.

63. The Welsh Assembly Government has identified the need to increase the supply of affordable homes in Wales. The current CHC initiative to encourage associations in Wales to increase borrowing is a welcome move by one key player in the market place and one we strongly support. Successive years of public funding have allowed the housing association sector to build up a considerable stock of assets, both homes and financial reserves. Our view is that the sector does have the capacity to do more and we would urge association Boards to consider this. Elsewhere in this review we recommend a series of major changes to the regulatory environment which we believe will also help associations to carry forward this agenda.

64. We recognise increased activity might be viewed with concern by some. However, we are looking to see expansion supported by increased use of EIB funds, public land release and other ways that can bring extra resources to the table, and thus not be solely reliant upon CHC members alone. Adopting a full suite of the range of options available, in conjunction with improved regulation, should re-assure boards and association stakeholders such as lenders and local authorities that this can be done safely and without risk to the future of the associations themselves.

65. Local authorities too are playing a role through Section 106, though our view is there is potential to do more. Both local authorities and housing associations might also consider whether more use can be made of Section 106 agreements and low cost home ownership to provide cross subsidy for more rental homes.

66. We would like to see local housing companies explored by local authorities and the Welsh Assembly Government in the context of the prudential funding regime. We believe there is some potential to take forward this agenda. We also support the idea of partial transfer as an option to be considered in the event of a 'No' ballot on transfer. We are less clear regarding partial ownership. The idea has

merit, but initial explorations do not suggest they are superior to other routes, eg, prudential borrowing. However, at this stage we have an open mind on this and would ask the Welsh Assembly Government to consider undertaking a proper evaluation of the potential of all options set out.

67. The Welsh Assembly Government is actively exploring the use of EIB funds and its own land holdings as ways of leveraging in extra resources. We think both have considerable merit and both agendas need to be moved forward as matters of urgency. It is an issue of some concern that despite the agreement on, and publication of, the Welsh Assembly Government land protocol in March 2007, no land has yet been released, though we note this agenda is continuing to develop inside the Welsh Assembly Government.

68. Contentiously perhaps, we have raised the question of the rent regime and the potential to raise more funds through increasing rents. We believe this is worthy of exploration. Equally, and as a matter of some urgency, we feel the Welsh Assembly Government must now review the housing association rent regime and its interaction with the cost guideline process. We are concerned that not only are rents too low overall, but that within the structure there are significant anomalies which need sorting out. We also want to see a regime with a stronger and clearer logic and that is fair and consistent. We recommend an urgent review of the rent setting and cost guidance regimes for associations.

Chapter 6 - Delivering on the ground

1. We are not operating on a blank canvas in Wales. There are already good examples of policies and approaches that can be used as a base and provide the opportunity for transferable positive practice. Many of these good practice approaches, both from within and outside Wales, are transferable and should be mainstreamed. They have been incorporated therefore into Chapter 7: 'Conclusions and Recommendations'. So many of these good examples rely on collaboration, and the basic message is that working together works!

Active implementation

2. Around Wales there are good examples of local authorities taking a strong, pro-active approach to securing affordable housing. The essential characteristics are joint and integrated working, particularly between planning and housing, and close working with communities on the ground, to identify opportunities for new affordable housing to meet need.

CASE STUDY: MEETING THE DEMAND FOR AFFORDABLE HOUSING IN GWYNEDD - LOCAL ACTION

In 2003 Gwynedd County Council identified affordable housing as one of its main corporate long-term priorities. The Authority decided that it had to respond, in a positive and proactive manner, to the reality of a significant increase in Gwynedd's average house prices since 2000, compared to a very small increase in local income levels.

The Gwynedd Affordable Housing Project was set up to increase the amount of affordable housing for local people in genuine need; ensure design and build quality whilst achieving a mix of tenure, price, size and type; promote collaboration and effective partnership that secures additional housing and promotes best practice; and be proactive as a planning and housing authority, offering clear and consistent guidance to key players.

A multi-partner steering group was set up in 2004 to steer the Gwynedd Affordable Housing project. Two posts have been crucial to achieving these aims - the Affordable Housing Officer (AHO) and the Rural Housing Enabler (RHE).

The AHO identifies need, develops strong partnerships and processes to meet that need, provides guidance and develops a programme of schemes on the ground. The RHE engages with targeted communities where affordability issues have been identified, helps create collaborative partnerships between key bodies and local communities, raises awareness of the current housing issues, and identifies potential opportunities to increase the provision of affordable housing within these communities.

The liaison with the AHO has enabled the RHE to become an "independent broker" providing a voice for the community. Direct outcomes from this approach include increased provision of high quality affordable housing with, to date, a potential 66 affordable units that can be attributed to the RHE's work. In addition, there is more effective and efficient use of resources, through the reduction in duplication of efforts, better use of council owned land to help meet need and raised awareness of rural affordable housing issues locally, regionally and nationally.

As an early RHE Project in Wales, the project is seen as a pioneering one with wider application.

Working across boundaries

3. A significant and sustained increase in affordable housing numbers in Wales can only be achieved through effective collaborative and responsive working. This collaboration needs to be across the housing sector, particularly between local authorities and housing associations, across the various council departments but including those other key players, such as the Local Health Board who are stakeholders in supported housing.

4. Using the work of the Affordable Housing Officers and Enablers, a standing forum, bringing all stakeholders together, can coalesce around a plan of action, align and readjust programmes and activities and monitor progress. The operation of such a forum can then provide the bedrock for performance monitoring for each authority area, linked across the relevant Spatial Plan Region. The forum, could be the group that oversees the production of the Council's Affordable Housing Delivery Plan.

5. Wrexham Council has operated the Wrexham Housing Alliance for several years and it works well as a way of setting priorities and progress chasing.

CASE STUDY – WORKING TOGETHER WREXHAM HOUSING ALLIANCE

Prior to setting up the Wrexham Housing Alliance in December 2005, the promotion and development of new affordable housing was limited predominantly to small scale support or community housing schemes and was at times constrained by both underlying market conditions and a lack of understanding of the role of HAs.

It was recognised that to ensure delivery of the Council's strategic housing agenda it would be necessary to improve the working relationships and arrangements between the local authority and HAs. To fulfil this role the Alliance meets quarterly and draws together the senior representatives of key stakeholders and decision makers in relation to housing provision and housing policy in Wrexham, including Wrexham CBC, HAs, the Local Health Board and the Home Builders Federation Wales. Elected Members are also involved via representation at meetings and through workshops and scheme visits. Cross-boundary working is promoted with partners who operate in other areas. The benefits of the Alliance are that it:

- works to ensure that all housing needs in Wrexham are met;*
- adds value to the service received by customers and tenants by maximising the limited resources available;*
- raises the profile of housing issues in the area;*
- ensures equality in housing matters is promoted across all tenures and sectors;*
- drives up standards across all tenures; and*
- provides a greater understanding of the roles of other Alliance members, breaking down barriers and dispelling incorrect perceptions of the activities of other agencies*

A formal nominations agreement for HA lettings is already in place and work is in hand on a joint affordable housing register and common acquisition values for affordable housing.

The costs of the Alliance are in administration and running costs and staff and member time, and these are met within existing resources.

Making partnerships work – Housing Associations and Local Authorities

6. Housing associations working with councils and private developers/contractors can jointly deliver major regeneration which combines mixed use with new housing development. In many cases, the local authority provides the land at a discount, in order to enable the social housing development to be cost effective, and by doing so help to achieve their affordable housing target.

CASE STUDY: MEETING THE CHALLENGES OF SUSTAINABILITY PENRHOS – CAERPHILLY

The Penrhos development in Caerphilly is one of a series of developments in the Caerphilly CBC area resulting from a successful partnership approach between the Caerphilly Council and United Welsh Housing Association to meet local need for affordable housing. The development is a Design & Build scheme for houses and apartments on a 3.5 acre site, and forms part of a Section 106 agreement between the Council and the site vendors. Architects for the scheme are Hammond Architects, and the contractors are Gee Construction.

All properties have been constructed to 'Lifetime Homes' standard. The development will provide 48 affordable new homes comprising:

- 12 one bedroom apartments
- 22 three bedroom houses
- 14 four bedroom houses

The entire site totals approximately 50 acres and was formerly a brownfield site. In recent years substantial remediation and profiling works have been carried out by the vendor, together with the provision of highways and service infrastructure. The first and second phases of the site have already been handed over to United Welsh. The site, when complete will in total provide approximately 500 new homes, a 'Housing with Care' scheme and nursing home, a doctor's surgery, a supermarket and office accommodation.

CASE STUDY: DELIVERING MORE TOGETHER IN SOUTH EAST WALES - GENU S CONSORTIUM

The drive behind the GENU S Consortium is to achieve smart regional working in order to deliver more for the people of South East Wales. GENU S is about working collaboratively and openly, sharing skills and knowledge to deliver a programme of affordable rented and low cost house ownership.

Delivering New Homes – *In 2007/08 GENU S worked closely with local authority partners to provide over 250 new homes at a cost of £40 million.*

Delivering WHQS – *Raising the quality of existing affordable housing is key for GENU S. Over £3.65 million has been invested in improvements to 1,500 tenants homes during 2007/08 and over £3 million has been spent on ongoing maintenance. GENU S' procurement framework has secured cost savings totalling £500,000 per annum.*

Efficient Procurement - *GENU S has worked with new partners in 2007/08 to develop procurement frameworks, bringing new efficiencies:*

- *A Development Procurement Framework has been jointly established with neighbouring consortium DEVCO. The outcomes will be greater economies of scale, increased capacity and better programme delivery over the next four years. A joint framework for Development Consultants will follow in 2008/09.*
- *The new stock transfer Monmouthshire Housing Association (MHA), has teamed up with GENuS to form a new Maintenance Procurement Framework to deliver £50 million of WHQS improvements to more than 10,000 homes between 2008 and 2012.*

GENuS' collaborative procurement frameworks will employ 30 local contractors to deliver £150 million of construction work over the next four years. Plans to help local supply chain partners to develop through training, apprenticeships and capacity building have begun to bear fruit in 2007/08. With 13 young trainees currently employed, the first full apprenticeships were awarded in May 2008. The coming year targets significant advances in this area.

Local Authorities working with GENuS - *GENuS' belief in the value of regional working is shared by its local authority partners. Forums such as the Joint Strategic Group and Joint Operational Group allow GENuS and its Local Authority partners to come together to build common focus and understanding in South East Wales.*

The Consortium principle if properly developed can be a good vehicle for partnership to give better value and collaboration to give a more joined up approach on the ground across geographical and sectoral boundaries

Local Authority leadership

7. Local authorities have a strong community leadership role to play in the delivery of affordable houses, giving clear direction, and associated action programmes, all set within the framework of the Council's Community Plan. In 2005 Carmarthenshire County Council provided its Affordable Housing Action Plan.

CASE STUDY: SETTING DIRECTION AND POLICY – 'A STEP ON THE LADDER' – CARMARTHENSHIRE COUNTY COUNCIL

The Council set out a programme of action and allocated £3.12 million for 2005/6 to the following initiative:

- *Providing land at below market value for residential use*
- *Using section 106 agreements to provide affordable housing*
- *Permitting development in, or immediately adjoining the limits of a settlement providing it met local need eligibility criteria*
- *Advice and support for residential development briefs*
- *Introducing restrictions on the re-sale of homes purchased via the Right to Buy in rural areas.*
- *Working in partnership with Housing Associations, increasing the availability of affordable housing for rent and sale*
- *Actively promoting Homebuy as a means of providing affordable housing for sale in the County*
- *Setting aside a proportion of their own capital receipts to fund additional Homebuy purchases*
- *Working with our Housing Association partners to ensure that they are utilising the restriction on the right to acquire*

- *Entering into partnership arrangements with private developers for the development of affordable housing for sale*
- *Commencing consultation regarding the establishment of “Community Land Trusts”, and supporting communities where there is identified need for affordable housing*
- *Establishing links with organisations such as the Community Self Build Agency to promote self-build initiatives*
- *Introducing a programme to bring empty properties back into use.*

8. Many essential regeneration schemes can be complex and time-consuming but give long lasting benefit to the community and to the local area as a whole. Local authorities can lead and drive much needed regeneration schemes, but will often need to work in partnership with others to deliver development and funding. Torfaen County Council are about to begin on the following scheme in Pontypool.

CASE STUDY: LAND AND LEADERSHIP; BLENHEIM SQUARE, CWMBRAN

Blenheim Square Neighbourhood Centre is in demonstrable need of regeneration. Torfaen County Borough Council has worked with a local housing association –Fairlake-who in turn appointed Lovell as their development partner. The scheme comprises the demolition of the existing flats and shops, construction of 53 new homes (a mixture of rent, low cost home ownership and sale), 2 new shops, a play area, a new road, new lighting and additional parking provision - a total regeneration package.

Key characteristics of the scheme:

- *The Council took a public/private partnership approach to the development and delivery process*
- *The Council on the principle of generating a significant community value package has disposed of its land-holding at substantially less than best consideration*
- *Its reduced receipt is being reinvested back into the scheme in order to achieve better local facilities and substantially improve the wider environment*
- *Full Council support and involvement in the scheme, including project team meetings of all relevant departments & services*
- *The Council took a comprehensive approach to regeneration and as part of this there was significant community consultation and engagement, which helped shape and influence the scheme*
- *All objectives to be delivered by the scheme were set by the Project Team at the beginning of the process to ensure cohesion*

The total cost of the scheme is £7.1m. It will start in June 2008 and will take 3 years to complete. The scheme illustrates an approach to partnership between public and private sectors that put local authorities at the centre of regeneration and ‘place making’. Public sector leadership has driven this project, with the council taking a bit more risk and responsibility in return for more control and better outcomes from the regeneration scheme..

9. Local authorities can give clear leadership in making sure that all available resources are used, in the most efficient and effective way particularly the use of

Section 106 funding and Social Housing Grant. A fair and clear assessment process of resource allocation to development schemes can provide the basis for prioritisation and direction. Cardiff County Council has, produced an assessment approach and has developed a toolkit to provide the basis for this.

**CASE STUDY: LOCAL AUTHORITIES AS STRATEGIC ENABLERS
SITE ALLOCATION MATRIX - CARDIFF COUNTY COUNCIL**

Cardiff Council consider it imperative to ensure that the most appropriate HA partner is identified at an early stage. This early selection process supports and encourages early dialogue ensuring that opportunities are maximised to meet housing need and promote innovation and sustainability.

Cardiff has developed through a series of meetings with its HA partners, a Site Allocation Matrix tool kit which has formalised the procedure for determining the Council's preferred consortia/HA partner for the development of affordable housing on section 106 sites. Consortia/HAs are assessed on a number of areas such as housing development (including delivery, quality and innovation), lettings achieved through nominations, partnership working (including commitment to corporate priorities) and community sustainability.

Prior to the development of the matrix, there was no transparent process for the selection of HA partners for development sites and selection was often driven by individual relationships that HAs had with site developers. This led to problems with some HAs being overstretched, others being under utilised and a tension between where new homes were built and the most appropriate HA to undertake the management function.

Community regeneration

10. It is essential that affordable housing is considered in the wider context of community regeneration and sustainable community objectives. In order to gain the maximum value of investment in housing there must be wider integration with other key objectives.

11. Many housing associations in Wales have a good track record of diversification to act as social enterprises to support their local communities.

CASE STUDY: HELPING COMMUNITIES DEVELOP - COMMUNITY DEVELOPMENT DEPARTMENT, RHONDDA HOUSING ASSOCIATION

Rhondda Housing Association (RHA) invests time and resources working in partnership with tenants because it believes that strong communities improve peoples' quality of life. RHA's Community Regeneration team is dedicated to this aim. It has four priorities including learning new skills, youth work, training and development and tackling poverty.

Young people are the future of their communities and their participation and vitality can change local society for the better. Without this engagement and vitality the most able will inevitably move away, from the home locality. RHA's youth workers give young people focus, confidence and key skills which will help them to take a full and positive role in their communities.

Vocational training and work experience are a priority, as this can lead to employment. Traineeships are being developed throughout the organisation, as well as intensive work

with individuals and groups to give them the key personal and work skills they need to succeed. This process includes addressing barriers such as ill health, poor basic skills and coming off benefits. Addressing poverty is a priority reflected in financial inclusion projects.

"Since projects have been running there has been a significant reduction in ASBO referrals coming from the area." RCT Youth Offending Service

12. The most effective community regeneration is frequently delivered through public /private partnership leveraging essential private sector resources and where the needs of the people in those communities are put at the forefront of the regeneration agenda. Taking the time and trouble to ensure social, economic and environmental benefits are at the heart of the project has a substantial impact on the lives of residents.

CASE STUDY: REBUILDING COMMUNITIES THROUGH PUBLIC/ PRIVATE PARTNERSHIPS- CAMP HILL, NUNEATON

In 2002 Camp Hill in Nuneaton, Warwickshire was an estate with a host of problems including high unemployment, crime and high levels of long term illness amongst residents. It was stigmatised by these problems with strong negative perceptions amongst those who did not live there. In addition, the market would not invest in the area and as a result land values were negligible and house prices so low that in some cases cash buyers were the only potential purchasers.

Since 2002 genuine partnership work fronted by 'Pride in Camp Hill' has involved Lovell, HA partners, Nuneaton and Bedworth BC, Warwickshire CC, Advantage West Midlands and the Prince's Foundation and has led to investment of £17.5m for Phase 1. The aim is to create an Urban Village following the principles of the Prince's Foundation model of sustainability. The project is being delivered over 3 phases, the first of which has seen the provision of 172 new homes for sale and rent. Phase 2 comprises 227 homes currently under construction through Lovell. By the end, the project will deliver around 1200 homes, of which approximately 255 will be for rent.

The development framework is one of transformational change based upon tackling the areas of poorest housing. Demolition of a proportion of the existing properties has allowed existing tenants to be re-housed in new homes on the site, which are integrated with those built for sale. The existing community and retail centre is being remodelled creating a new village centre as well as a 'High Street' that links the estate.

Making better use of existing homes

13. There is still a relatively high level of vacant properties in Wales in the social rented sector. Some of this housing may be seen as traditionally hard to let, but action taken by Neath Port Talbot County Borough Council has led to a significant fall in the volume of its empty property and is an approach which could easily be replicated across local authorities in Wales. It is an approach which treats potential tenants as consumers with choice, rather than the take it or leave it attitude that many social housing tenants have traditionally faced.

CASE STUDY : 'HOMES BY CHOICE' NEATH-PORT TALBOT LETTINGS POLICY

Neath Port Talbot CBC, following an initial pilot project in the Amman and Upper Swansea Valley, has introduced a scheme called 'Homes By Choice' which is the new way of letting council homes within the Borough. The scheme is a choice based lettings service and it gives those in housing need the opportunity of applying for the home they want, in the area they want to live in. It is open to almost everyone, anywhere in the country who is a legal U.K. citizen, over the age of 16 and in housing need, regardless of their current housing situation.

Members of the general public, existing council, housing association or private tenants, owner-occupiers, or persons in certain temporary accommodation, etc. can apply to join. All available vacant homes (with a few exceptions) owned by Neath Port Talbot CBC are included in the scheme and details of available homes are published monthly in a brochure. This includes all dwelling types, i.e. general needs, older and disabled persons accommodation. The size and type of home that people can bid for is dependent upon household type or need. Bids for up to a maximum of five homes each month are allowed. Since introducing the scheme on a rolling basis during 2003/4 the number of vacant properties across the area has reduced by 34%, with significant reductions in areas that were previously difficult to let.

14. Many local authorities also have problems with long term empty privately owned property that could be brought back into use for housing purposes, and in many cases will give wider regeneration benefits. Taking action on empty housing is often time consuming and complex but there are considerable rewards for the effort.

15. We consider the approach by Carmarthenshire County Council to be worth commending, as an Authority that works closely with the private sector and who has for several years operated a programme of intervention on empty property in areas of housing need.

CASE STUDY: CARMARTHENSHIRE COUNTY COUNCIL BRINGING EMPTY PROPERTIES INTO USE

In 2004 Carmarthenshire County Council estimated that there were over 2,000 homes empty for more than 6 months in the authority area and produced its Empty Homes Strategy 2005-2009. The Council's Strategy contains numerous and wide ranging actions including the following:

:

- *create a designated empty property officer*
- *set up, maintain and monitor a database that lists all the long-term empty properties*
- *establish an Empty Homes Register to act as a contact point for possible developers, buyers and owners of empty properties*
- *set a target of dealing with at least 40 empty properties in the public sector each year by either taking action or providing advice*
- *create a partnership with a private developer to use renovation grants to bring empty properties back into use*
- *produce an information pack for owners of empty properties, which sets out the range of options available to them to help bring their properties back into use*

The Council is working with the National Landlords Association for Wales to survey the owners of private sector empty housing, build the database and explore why properties remain vacant and the options for bringing them back into use.

Working with the private rented sector

16. There needs to be a good working relationship between local authorities and the private rented sector, in order to secure up to date knowledge on the availability and quality of rented accommodation and wherever possible to improve both the supply and standards of accommodation and management.

17. In particular, local authorities should set up a partnership forum with the private rented sector and many authorities in Wales currently have this. Of critical importance is the relationship with letting agencies and that local authorities use their powers of enforcement when needed.

CASE STUDY: SWANSEA LANDLORDS' FORUM MAXIMISING THE CONTRIBUTION OF THE PRIVATE RENTED SECTOR

Swansea Landlords' Forum was formed in June 2001 with the aim of giving a greater voice to local private landlords.

Since its formation the Forum has held a number of meetings to discuss a diverse range of issues such as tenancy deposit protection, refuse arrangements and proposed legislation affecting the private rented sector.

Although facilitated by the Council, the Forum is run by landlords themselves, who set the agenda for meetings. The aims of the Forum are as follows:

- *To promote good quality accommodation in Swansea;*
- *To provide an effective arena for landlords to share their experiences of letting accommodation with each other and the local authority;*
- *To increase awareness of changes in legislation;*
- *To allow the Council to consult landlords on new policies.*

Any private landlords who lets property in Swansea is eligible to join the Forum. Landlords who own HMO (Houses in Multiple Occupation) registered or members of Swansea's Accreditation Scheme are automatically invited to meetings. The Forum also publishes its own regular newsletter.

Swansea Landlords' Forum is run by a Steering Group of 10 landlords and facilitated by the Council.

Providing land/use of section 106 provisions

18. One of the most significant barriers in recent years to building new social housing has been the high cost of land purchase. Land has been estimated in general to form 30%-35% of the total cost of new development and the big leap in house prices over the last 10 years has made it financially difficult for housing associations to acquire building land, particularly in the higher cost market areas of Wales. These high cost market areas also correspond to the areas where first time buyers and others are squeezed out of the market and are more reliant on affordable houses. (Chapter 5 covers the importance of land supply).

19. Using land delivered through section 106 planning agreements has been a critically important way of enabling new build to be developed by associations. The

approach to affordable housing through section 106 largely rests on local authorities establishing a policy base for setting their targets numbers and then establishing a threshold limit to set the point of unit numbers which trigger the development obligation. Local authorities have varying target figures and threshold levels. The basis for these figures should be the local determination of housing need, and this should be expressed in the Council's policy. It is clear that the capacity to deliver on negotiations is critical for section 106 agreements to be secured. The Welsh Assembly Government has taken steps to develop this capacity in Wales and this will be part of taking forward Affordable Housing Delivery Plans.

20. South Shropshire District Council has been pioneering, developing and delivering on the use of planning agreements and complementary action, to provide new affordable housing in a rural area. The Council has taken a very proactive and determined approach, which has delivered their housing targets and more. Set out below are the key elements of the approach.

CASE STUDY: USING PLANNING AS A TOOL TO MEET HOUSING NEED - SOUTH SHROPSHIRE DISTRICT COUNCIL

The Council has taken a proactive approach to ensuring it meets housing need in its area. Primarily rural in nature, with a couple of market towns, activity focuses primarily on the effective use of the planning system and excellent partnership working with key stakeholders in the area including community councils. The main actions include:

- *creation of a Strategic & Enabling Housing Officer, funded by the local authority, to match strategic policy with delivery. Interim Planning Guidance issued by the Authority has given an up to date policy base for action;*
- *having a good assessment of local need using a range of sources, including the use of choice based lettings data;*
- *close working with the developing HAs in the area;*
- *using rural exceptions policy to identify local housing need;*
- *capturing the value of the land by using a detailed mechanism for ensuring that the price starts and stays low, including restrictions on the title and deed of covenant;*
- *applying Section 106 agreements to all housing developments (single units and above) to meet need in key settlement sites;*
- *applying the Code for Sustainable Homes Level 3 as a minimum standard to all new housing development in their area, by means of a planning condition;*

The Council has also developed a mechanism for retrieving a financial contribution from any affordable house that is subsequently sold on the open market. This contribution is recycled for other affordable housing developments.

Meeting environmental and design quality

21. The Welsh Assembly Government has set action on climate change as one of its top priorities and setting high environmental standards for affordable housing can make a significant contribution to both CO2 reduction and reducing fuel bills. To meet this ambition it is important that practical examples of environmentally sound housing are developed, and that efforts are made to deliver these limits within effective cost envelopes. There may be variable solutions depending on the geography of Wales and the scale of development. It should be noted that the Assembly Government has commissioned further work by the Sustainable

Development Commission in this area, but there are already some existing developments that are contributing to developing knowledge and experience.

CASE STUDY: USING HIGHER ENVIRONMENTAL STANDARDS -PENRHOS, CAERPHILLY

Within this mixed housing estate, the housing association homes built by United Welsh Housing Association are built to a higher environmental standard than the private market ones. A key element of the project has been the incorporation of various sustainability features including solar panels and timber frame construction which is achieving high levels of air tightness, all of which benefit tenants particularly through reduced energy costs. Although initial development costs are higher, the tenders received were competitive and reflected economies of scale within larger projects. Without special grant help the Association's homes have achieved a SAP level of 82-84 and reached overall EcoHome Good. United Welsh considers that the increasing demand for these technologies across the sector, combined with the benefits of working in a consortium with other HAs, will help to drive prices down, improve skills and training and create local jobs.

**CASE STUDY: QUALITY OF LIFE, QUALITY OF DESIGN
INTEGRATED CARE FOR THE ELDERLY AT PLAS Y MOR, BURRY PORT**

This project is an integrated care scheme, with 38 self-contained flats for the elderly, along with a Day-Centre and other facilities. The Centre is open to residents and the public alike and provides a focal point for elderly people in the local community. The accommodation consists of 20 1-bedroom flats, 18 2-bedroom flats, as well as a laundry, shop, hairdressers, chiropodists, communal lounges, assisted bathrooms, training kitchen, offices and other staff facilities. It was developed as a partnership between Gwalia Housing Group, Carmarthenshire CC and the Welsh Assembly Government who all contributed to the costs. Gwalia provided the project management and development expertise.

The scheme gives residents full independence if they wish but with the possibility of buying into the communal services available within the complex. The whole design is focused around a private internal garden that has a visual transparency to and from the outside community. It is based on the vernacular terraces typical of this part of Wales. It has an east/west orientation to the flats. The southerly aspect was developed in a way to maximise solar gain. The building is of traditional timber-frame construction, part clad in clay brick with lime mortar pointing, and part clad with untreated hardwood obtained from a sustainable source. A range of other environmental features are also included such as sensor controlled low-energy lighting, district heating by a central bio-mass boiler, 30m² of solar hot water panels that also feed into the central heating system and energy management systems for heating, lighting, and ventilation.

The total development costs of the scheme, including all the environmental technologies, was £3.7m. In the first year the total energy running costs for the whole building was just under £16,500. Total energy costs for a 2 bed flat is around £5.75 per week and includes heating, domestic hot water, cooking and all electricity.

Balanced Communities

22. Integration of tenure type across housing development is critical to avoiding hard boundaries between social ownership and owner occupied housing. Some of

the best examples of integrated housing rely on affordable housing being dispersed within full owner occupation housing.

CASE STUDY: LEARNING FROM INNOVATION – THE PRINCE’S FOUNDATION

The Prince’s Foundation has been set up to try new models for delivering sustainable communities. Developed over the last 15 years, Poundbury in Dorset, is an interesting model of creating a new community based on mixed tenure, mixed land use and sustainability principles. Affordable housing (20% socially rented through a local housing association, and 15% shared equity) is dispersed and integrated. On the ground, there is no visible distinction between different tenures and there have been no obvious issues or problems in social integration and on site management. All residents are expected to conform to the same neighbourly behaviour codes.

The Prince’s Foundation in Wales is applying the same principles used at Poundbury, and the experience of the last 15 years to its new large scale development Coed Darcy in Neath and Port Talbot. It is also currently working on pilot schemes in small communities across Wales to deliver low cost/ high value environmentally friendly affordable homes.

23. Moving across tenure is also a way of encouraging balanced communities. Set out below is an approach currently adapted by Mid Wales Housing Association, with the aim of being responsive to the changing circumstances of households without the necessity of moving house.

CASE STUDY: ACHIEVING TENURE NEUTRAL GUILDSFIELD POWYS:

Mid Wales Housing Association (MWAHA) has developed the first scheme in Wales where units are developed and allocated on the basis of need, so there is no separate waiting list. Once the tenants have moved in, MWAHA offers them the opportunity to “Homebuy” their property. For many, this just won’t be possible at the time, but circumstances can change and this offer remains. For those properties sold, should the owner decide to sell the property then MWAHA retains a right to re-purchase the property, (though it may choose not to). This protects the affordable housing stock for the future.

We feel this is a good scheme because MWAHA helps not only one family (with the initial unit) but also can help a second. If a property is purchased then Recycled Capital Grant Fund (RCGF) enables the development of a further unit. Key to this is ensuring that the RCGF is available for when it is needed – this is a problem if RCGF is “clawed back” after a 2 year period.

This means that a scheme of properties can be made up of some rented, some purchased properties. If you take this concept further then there should be no reason why a tenant could not move to become an owner, and possibly back to being a tenant, without moving house and in line with the various stages of their life. Schemes could then be mixed tenure and it would not be obvious which houses were sold and which were rented.

Housing and Wider Objectives

24. This report has emphasised that housing must be seen in the context of wider objectives in order to secure the maximisation of benefit and value. Housing

associations can play a pivotal role in driving this, making links with a variety of agencies and sectors and providing exemplars of transferable innovation.

25. Swansea Housing Association has been active in driving and delivering imaginative regeneration.

**CASE STUDY: HELPING THE REGENERATION OF INNER CITY AREAS
SWANSEA**

The City and County of Swansea's City Centre Strategy, drawn up in 1997, Addressed the problems of the High Street and Wind Street areas and sought Workable solutions to years of neglect and declining trade in this traditionally Commercial area.

Swansea Housing Association, recognised for the quality of its urban regeneration Work, has been at the forefront of successfully integrating social housing with Commercial and leisure developments in Wales, reflecting the need for quality 'city living' Accommodation, which is now the trend for all major cities.

Evidence of what can be done with careful investment, selective partnerships And most importantly, support from local authorities and the Welsh Assembly Government Added to lots of imagination, can be seen at The Old Post Office development in Wind Street where 49 flats, three office suites and two café bars now share the space Once occupied by the Royal Mail sorting office. Wherever possible, traditional façades And features are retained with any new build in keeping with the general character of the Street. The High Street is an important part of any town or city centre and Swansea Housing Association has also secured some £30million of private and Public sector investment for a new Urban Village.

Proposals include renovating a derelict four-storey Victorian warehouse, currently hidden Away off Kings Lane between High Street and The Strand, which will, in conjunction with Swansea Arts Forum, provide much needed new workshop and gallery facilities for up to 30 local artists. One hundred and seventy new one and two bedroom homes will be created, 95 of which will be for sale and 75 for City Living -apartments for rent for working people - alongside up to 1,300 sq m of new commercial space.

The High Street Urban Village will be a good example of how brownfield sites – underused And disused urban areas - can be redeveloped for housing and commercial use, relieving The pressure on building on greenfield sites. Combining retail outlets with housing to provide out of town lively, attractive centres where people want to spend time are the key factors.

26. Linking in with local economy activity both in terms of training and goods and service supply, based within the concept of community benefit has been the hallmark of Valleys to Coast, the first LSVT in Wales.

CASE STUDY: MAXIMISING ECONOMIC AND COMMUNITY BENEFITS BRIDGEND

In the first five years of activity V2C will invest more than £85m in the refurbishment of housing stock and associated public realm. V2C continues to develop and refine an integrated approach which attempts to both directly address the Standard whilst also leveraging in added benefits. Examples of this approach include:

- The development of two programmes (Estate Improvement Programme and Neighbourhood Improvement Fund) which seek to transform estate environments and create a more sustainable public realm. The programmes of physical improvements are founded on robust engagement with local communities to determine priorities for the redesign of streetscape and landscape and the use of public open space. Successful partnerships with Bridgend County Borough council (BCBC) and Sustrans have enabled V2C to increase investment and resources.*
- An increasing recognition of the links between regeneration and climate change agenda and with support from the Welsh Assembly Government, is cost modelling and testing the use of sustainable materials (low embodied carbon) in the refurbishment of non-traditional housing stock.*

Developing local jobs and skills

- V2C uses procurement mechanisms that oblige contractors to provide local labour. This secures and focuses the churn of wages in local communities; and helps to build sustainable local SMEs in the construction, refurbishment and associated sectors. Currently through these arrangements over 85% of labour employed in V2C's overall programme of works, is local.*
- Investment has been made in the creation of the Maesteg Construction Skills Centre. The centre provides training for local people in the multi-skill set required to obtain employment in housing repair and refurbishment. V2C and its supply chain provide work placement opportunities during training and have taken some trainees into full-time employment.*

Developing communities

- V2C utilise a procurement mechanism that obliges contractors to return a percentage of their annual contractual turnover to provide community benefit.*
- partnership working with the Communities First programme has created 'community hubs' where V2C has refurbished non residential premises to accommodate a range of stakeholders to deliver local services.*

Conclusion

This chapter reveals there are a host of good examples of approach and practice that give a firm base for implementation. The examples provided are not an exhaustive list but give an indication that there is already good practice from which we can learn. There must be clear and easy ways in Wales of transferring and mainstreaming good practice and supporting further development and innovation to secure progress and improvement.

Chapter 7 - Conclusions and Recommendations

General conclusions

1. This has been a wide ranging review of a complex area of housing policy, regeneration and practice and the many recommendations below reflect this. They are not a 'blueprint' – many require further consideration – but we believe that they represent an excellent starting point for the new partnership approach espoused throughout the Report. Housing is an area which is dynamic in nature and currently fast moving, with every indication that there will be an increased need for affordable housing in the coming years. It is not only fundamental to people's lives but is intrinsically linked to other experiences and activities in the wider environment. In simple terms tackling housing in the right way, government will be able to take massive strides in combating and influencing other important social, economic and environmental issues and objectives.
2. It is also very clear that to deliver sufficient affordable housing there needs to be a sustained political, organisational and financial commitment. The market alone will never be the complete answer to affordability. Integrated government intervention is essential and this intervention must be sustained and contribute to building up a stock of quality affordable housing in communities across Wales.
3. There is no agreed robust figure on current or projected housing need in Wales and whilst we believe that this must be rectified as a priority, the lack of an agreed figure should not constrain the commitment to go forward with a strong programme to increase the supply of affordable housing. The four year target of an additional 6500 homes in *One Wales* by 2007-2011 should be a target that gives the Government focus, but must not be seen as the finishing line. The changes that need to be put in place must aim to deliver more than that target figure and become the driver for sustained delivery that will match the real housing need figures when they are available.
4. Delivering beyond the target will need considerable drive and commitment across government and other organisations. Our diverse recommendations (for a range of bodies) reflect this and all need to be implemented in a cohesive and integrated way to achieve this outcome. Ultimately, meeting need will not be the result of one-off dramatic initiatives but rather an accumulation of comprehensive, innovative and sustained programmes and projects that together give the transformation required in Wales.

5. We have set out below more specific conclusions from the review and our detailed recommendations, which we have organised under a number of different headings.

Creating a dynamic information base

6. Delivering sufficient, good quality affordable housing in Wales requires accurate, up-to-date and robust information about the nature and extent of the issue and how this is changing and is projected to change.

7. We are concerned that in this respect there is a serious lack of reliable information in Wales regarding current and future housing requirements and in particular the need for and supply of additional affordable housing. This lack of accurate information is particularly true at an all Wales level. Given Wales is developing a new national strategy for housing, and the need for policies to address the provision of affordable housing at national, regional, sub-regional and local levels, then there is an urgent requirement to improve the evidence base and quality of analysis of affordable housing need across Wales. However we do not recommend that the Strategy is put on hold while the data problems are resolved, but rather they are developed in tandem.

Recommendation 1

- *That the Welsh Assembly Government give immediate consideration to how an adequate, up-to-date and dynamic information base on housing needs, demand and supply could be developed covering different spatial scales in Wales;*
- *That it considers commissioning an up-to-date and ongoing national/regional assessment of current and future housing requirements in Wales;*
- *Capacity needs to be built across Wales to undertake this work so in dialogue with other organisations (e.g. Local Government Data Unit, Office of National Statistics, Welsh Local Government Association, Community Housing Cymru) and bringing together core policy areas such as housing and planning etc the Assembly government should consider urgently the case for establishing a specific unit within the Assembly Government to:*
 - *develop authoritative assessments of affordable housing need*
 - *support and work with local authorities' strategic housing fora across Wales.*
 - *provide and publish advice on developing methodologies for assessing local housing markets, measuring the local need for affordable housing and the translation of needs in to the delivery of additional affordable housing.*

Changing roles and 'Delivering the Connections' model

8. The Welsh Assembly Government's *Delivering the Connections* model, informed by *Beyond Boundaries* (Beecham Report), is based on the following characteristics:

- collaborative working from all stakeholders;
- outcome led decision-making for citizens;
- a proper performance framework;
- good information for evaluation and monitoring;
- accountability and best use of resources, based on efficiency and effectiveness.

9. The Group's view is this model needs to be applied urgently to Wales if we are to deliver on affordable housing. The Group believe that for the reasons explored throughout the Report the current regime is no longer 'fit for purpose'. Changes need to be made now covering processes, attitudes and ways of working, but also alignment of purpose and delivery across organisations.

10. This is not to imply a need for wholesale disruption – that would be counter productive to achieving the targets - or that good things are not happening in the housing world, but there needs to be an early implementation of a planned programme of change that sees the Welsh Assembly Government take a strong role as a strategic enabler. This new way of working needs a clear vision and a partnership approach with key housing organisations and agencies based on trust, transparency, mutual respect and clarity of roles. This is not a 'cuts' agenda but a refocusing of staff time and resources to ensure the government agenda for housing is met.

Recommendation 2

The Welsh Assembly Government must immediately put in place a change programme to enable and support Housing Division to fulfil its proper strategic role and meet the challenging targets set out in One Wales.

11. The need for change has been recognised in previous reviews of housing division but has not been carried through. The starting point now should be a reassessment of existing activity with a view to freeing up resources that could be refocused on delivery, accountability and promoting positive practice and innovation. Such refocusing would also give reassurance to key housing stakeholders such as private lenders that the regime in Wales is in good health, being given proper attention and is focused on delivery.

12. The Welsh Assembly Government needs to play a much more prominent role in the overseeing of the health and performance of the HAs in Wales, in order to give assurance that the development programme on affordable housing can be delivered and that quality assurance can be given.

Recommendation 3

The Group recommends that Housing Division stops any activities that do not add significant value or do not complement a role at strategic level eg detailed appraisals of development schemes, in order to cut out unnecessary bureaucracy and release staff to carry out more important activities.

13. Working in partnership will be crucial to achieving deliverability, particularly recognising the importance of local government throughout Wales and the housing association movement.

Recommendation 4

The Assembly Government must establish a team of people within the Housing Division that includes Relationship Managers and those with specific financial expertise, to properly oversee financial and governance arrangements within HAs and to offer partnership and support to associations, local authorities and other key organisations and agencies.

Role of local authorities

14. The role of local authorities as strategic housing enablers and community leaders must be given more prominence, particularly within local authorities themselves, *regardless of whether they are still managing their own stock of homes.* Having good, well located affordable housing, needs to be recognised as a core requirement for all local authorities not least because of its importance to the well-being agenda. Affordable housing should be provided in line with the findings of housing need surveys, local housing market assessments and the regional framework of the Spatial Plan. The work of Affordable Housing Officers and Housing Enablers is crucial and the Group believes that Housing Enablers would be valuable in urban areas in addition to rural areas.

Recommendation 5

We welcome the Minister's decision to fund additional Rural Housing Enablers and we recommend the concept of Housing Enablers is extended across Wales.

15. Good practice currently operating in some local authorities in Wales needs to be mainstreamed. Every local authority should put in place an officer working team which brings together housing, planning, finance and estates based around a core group of affordable housing officers, housing enablers and Section 106 negotiators. This team should also have direct links to work going on in wider housing areas e.g. stock transfers, the private rented sector and development planning. The team should be the driving force being the implementation of the Affordable Housing Delivery Plan (AHDP) and Social Housing Grant (SHG) bids and have reporting links to the Community Plan process.

Recommendation 6

Every local authority should put in place an officer working team that reports and works to the Council's Affordable Housing Working Group (see Recommendation 7) and keeps close working relationships with others in the region.

16. Local authorities working together across geographical areas are pivotal in understanding housing markets and the requirements for sustainable communities. A partnership approach to meeting need must cross geographical and sectoral boundaries. A co-ordinating group made up of other key players in the region (eg HAs, health and social services, private sector organisations) should strongly relate to the AHDPs. It will be crucial that this Group acts within the context of the Spatial Plan and is alert to wider opportunities for regeneration and sustainable development.

Recommendation 7

Local authorities must ensure they have capacity to work across traditional boundaries. Every local authority should have a co-ordinating housing forum that focuses on policy, programmes and deliverability of affordable housing. HAs and the Welsh Assembly Government would be core members alongside other involved agencies. The group should:

- *develop programmes of action at both unitary authority level and regional/sub regional levels. These will include consideration of housing market studies, local need assessments, land supply, quality standards, action on empty housing and making better use of existing housing, planning policies and developments including section 106s, potential RSL schemes, use of social housing grant, homelessness, housing for the elderly etc;*
- *ensure continuous attention to progress and change. No programme should remain static; needs change and opportunities arise;*
- *chase progress so that partners stay alert to the reality of delivery and can introduce change where necessary to make sure that grant use and windfall opportunities are maximised.*

Performance Monitoring

17. Setting national and local targets requires an effective delivery and performance management system. The AHDPs will be a mechanism at the local/regional level for concentrating on delivery. Performance mechanisms need to be introduced to give focus and attention to affordable housing and be the basis for continued adjustment and responsiveness. The Beecham Report emphasised the need for greater attention to performance in Wales and using the *Delivering the Connections* model in tackling affordable housing, will aid the performance focus.

Recommendation 8

For the immediate future, local authorities are recommended to put in place a simple template/matrix that allows them to monitor performance and delivery until the AHDP is produced.

Recommendation 9

For those areas where the affordable housing deficit is significant:

- *the Local Service Board must see this as a priority and ensure representatives of local housing associations are members of the Board. The work of the local Affordable Housing Group (see Recommendation 5) should directly feed into the Local Service Board;*
- *the relevant Scrutiny Committee should monitor performance on the delivery of affordable housing against targets; and*
- *this performance information should be feed back to the Regional Spatial Plan Group to monitor progress at the regional level in Wales.*

18. In order that the Minister and the Welsh Assembly Government can be assured of progress on meeting affordable housing targets, a process needs to be put in place which can aggregate information on local/regional progress to give a regular and periodic update. This mechanism should not just be about delivering on numbers but a means of gaining a total picture of change and activity throughout Wales. As we are in a particularly dynamic and unpredictable situation, which is likely to last some time, it is critical that this information flow comes through to Ministerial level, to influence policy and resource allocation where necessary.

Recommendation 10

On the basis of partnership, the Minister needs to regularly meet with all the key partners involved in affordable housing and share performance information etc, so that, if necessary, delivery and investment can be better aligned. Progress on affordable housing and additional housing delivery, in general, should be included in the Governments key indicators.

Recommendation 11

In order to keep a political focus on affordable housing, the National Assembly's Communities and Culture Committee should take an active interest in the issue and have an overview of performance and delivery.

A healthy housing association sector.

19. There is greater scope in Wales for HAs to develop their role as social enterprises, to play a more active role in community and economic activity and to have a more defined profile in the community than has been the case to date. Many associations both big and small have individually proved their ability to develop in this way, but there could be more scope within Wales for this to happen *within a clear and appropriate regulatory framework*.

20. The Review Group has already made recommendations to the Minister in its earlier Progress Report about how some restrictions for housing associations could be removed and the Minister has consulted on these.

Recommendation 12

That there is an early progress on the proposals contained in the Review Group's Progress Report

21. However these changes must be complemented by a wider review of the current regulatory framework to ensure it is fit for purpose. In our view the change needed does not mean starting afresh. The current Regulatory Code provides a sensible starting point for the new regime and it broadly covers most of the issues and areas we think should be there, **but** it will need:

- a careful review and reworking in the light of the proposals set out here;
- to take better account of transfer associations;
- to consider the case for more strongly testing finance and governance issues; and
- be undertaken in partnership with key stakeholders

Recommendation 13

The Regulatory framework for HAs in Wales must be urgently revised and updated to ensure it is fit for purpose.

Recommendation 14

The Welsh Assembly Government must play a much more prominent role in the overseeing of the health and performance of HAs in Wales, in order to give assurance that the development programme on affordable housing can be delivered and that quality assurance can be given (Recommendation 4).

Recommendation 15

Within the parameters described above the new regime must:

- *ensure associations assess their performance on an annual cycle;*
- *require each association to offer a self assessment of their own strengths and weaknesses, to be signed off by their Board. This assessment should be discussed with a representative group of tenants and residents;*
- *provide for copies of the self assessment to be made available to stakeholders, including tenants and lenders;*
- *require the Welsh Assembly Government to take a more proactive role through:*
 - *monitoring and evaluating performance data, including self assessment reviews and accounts by using risk models to identify the need for further consideration;*
 - *benchmarking associations in Wales with each other and (where appropriate) with those from further afield;*
 - *undertaking more detailed checks on a number of associations each year on a risk and exceptions basis;*
 - *holding annual review meetings with each association and key stakeholders;*
- *the Assembly Government should adopt the current English financial viability review process (FVR);*
- *Associations should prepare an improvement plan as part of their annual business planning process and these should be agreed and signed off with the Welsh Assembly Government. If there is no agreement on this plan then the Welsh Assembly Government should consider using its intervention powers;*
- *The Welsh Assembly Government must update its intervention powers and align them with those in England and Scotland. This would cover the appointment of statutory appointees to individual HA Boards and the power to direct an enquiry which could result in a transfer of engagements;*
- *Regulatory support to transfer associations needs to be increased. Permanent and contract based staff working in this area could move across to regulation roles as additional transfers are completed.*

22. Inspection needs to be a core part of the new regulatory regime. Independent inspection is important in showing what associations are achieving and providing the basis for the regulator to develop a dialogue with associations and where necessary to enforce improvements. It is our view that the current arrangements are only adequate and extend more widely than a consideration of landlord and tenant services. Changes are needed urgently to tighten and improve arrangements.

Recommendation 16

That the regime in Wales is changed so that:

- *Inspection and audit work is risk based; and the work is contracted out subject to tender on a regular basis;*
- *The Welsh Assembly Government has a call down facility to undertake urgent inspections triggered by complaints/advice from other parties such as tenants or its own regulatory staff;*
- *Inspection becomes more selective and focused and covers:*
 - *Issues prompted by the self assessments;*
 - *Associations that the Welsh Assembly Government has decided are performing poorly or where there is need for intervention;*
 - *New transfer associations to ensure they are progressing appropriately;*
 - *Service areas across a group of associations; and*
 - *Group structures or consortia.*

23. In addition, there needs to be a mechanism put in place in Wales to ensure that the regulation regime is maintained and improved appropriately. This would include consideration of how Welsh associations are performing compared to those elsewhere in the UK.

24. It is also crucial that representative organisations and tenants/residents are a central part of the new model in terms of quality assurance and performance.

25. Moving to a new model for regulating and overseeing will need investment in capacity and skills, both within the Assembly Government and HAs.

Recommendation 17

Overseeing the new regulatory process would be a new advisory Regulatory Board as exists in Scotland, comprising relevant interests such as the Welsh Assembly Government, the Inspection provider, WLGA, CHC, TPAS Cymru, WTF plus two independent members one of whom will be Chair. There may be other key stakeholders who should be invited to participate. The Board would meet at least four times a year with a remit to receive and discuss reports on Welsh Assembly Government regulatory activity and performance and the performance of the sector as a whole.

The Board would advise the Minister on the outcome of its deliberations and publish an annual review of regulation in Wales on how the regulator has discharged its powers. This would be circulated to relevant stakeholders.

Recommendation 18

The Welsh Assembly Government should:

- *Complete the review all of the existing circulars setting out controls and requirements for housing associations undertaken in 2006 and 2007;*
- *Produce annually the global accounts of associations in Wales and a short review of the private finance market in a timely manner so that they can inform the market;*
- *Undertake a closer scrutiny of planned and existing mergers, consortia and group structures with a view to ensuring they offer enhanced value for money;*
- *Hold an annual meeting with lenders where the annual private finance and regulation reviews will be discussed. This meeting would coincide with, and be linked to, a meeting of the Regulatory Board.*

26. The new model of operation gives a greater emphasis to the role of Board members of Has in terms of monitoring the well-being of their organisations, giving greater attention to performance management and community leadership. This will inevitably mean a greater profile for the Has and their Boards, perhaps with more time commitment, particularly for the Chair.

Recommendation 19

An urgent assessment needs to be made of the capacity building requirements in the sector. These needs should be linked to the recommendations of the Griffiths Report on the governance of Has, so that a complete package of measures is defined and the necessary funding put in place.

27. There was a mixed response to the idea of payment of Board members with strong argument on both sides. In line with the principle of giving has more freedom to operate, the Review Group thought that on balance, each HA should be able to exercise its own judgement on this. There should be the ability to pay Board Members (within limits) if that was the decision of the Has, particularly where it was difficult to recruit appropriate Board members or where individuals (eg the Chair) were expected to take on onerous responsibilities requiring a significant time commitment.

Recommendation 20

That the Assembly Government carries out a separate consultation on whether individual Has should have the freedom to make a payment for the time commitment of Board members, set within clear parameters.

Achieving quality across the system

28. The six consortia established in Wales, encouraging collaborative working between Has, joint procurement and efficiency savings are variable in their effectiveness and more thought needs to be given to their development if they are all to deliver quality standards. Responses received by the Group suggest that the consortia would have been more effective if they had been set up on a regional basis and with clearer objectives. However, radical overhaul of consortia is not suggested at this point, as considerable efforts have been made by some to make these work. The recommendations that follow are about making the existing arrangements more effective. At best consortia should be a major force in delivering the higher environmental building standards required by the Assembly Government, reducing costs, securing good design and making efficiency savings.

Recommendation 21

That Housing Division in partnership with CHC should:

- *encourage consortia to work together to allow the building up of specialist expertise and gain the benefits of procurement;*
- *take a more active involvement in helping to set clear objectives for each of the consortia, with the aim that they can provide a variety of technical expertise to support high quality development;*
- *assist the consortia to reach expected standards and become the key mechanism for ensuring quality assurance on technical aspects of association work by giving advice and support on issues such as design, procurement, management and value for money;*
- *assist consortia to carry out quality assurance for public expenditure and undertake post audit checks on development schemes;*
- *consider whether the consortia can be modified to better reflect the regional geography of Wales;*

Those undertaking this work should consider the effectiveness of consortium arrangements as a matter of priority in order to assess their ability to work to this model.

29. There is a considerable variation in the size and nature of housing associations. The Group welcomes the diversity of the sector in Wales recognising that it offers responsiveness, capacity and knowledge to meet many and varied challenges. The evidence is that excellence is not about the size of the association but the ability to deliver, and quality assurance must be built into the system across every aspect of the sector's performance. Our proposals for an improved regulation and inspection system, and for effective consortia, must be used for identifying weaknesses and building the capacity for improvement.

Recommendation 22

Where associations cannot meet defined quality thresholds they should contract these services to alternative providers who can, in order to achieve and sustain adequate quality standards.

Aligning the Planning System

30. Effective land use planning is crucial to achieving the aims set out in One Wales. National guidance needs to underpin the aims of One Wales and development plan guidance, design briefs and development decisions need to be aligned. Policies on section 106 agreements and affordable housing need to be able to deliver affordable housing of the right type in the right place. Opportunities to use section 106 agreements have not been maximised in Wales but we have shown in Chapter 6 (South Shropshire District Council case study) shows that appropriate policies backed by effective implementation can deliver both housing (including affordable housing), and high environmental standards. The Review Group can see no obvious reason why such an approach could not work successfully in Wales.

31. The Assembly Government has already shown its intentions to follow up with local authorities in the delivery of affordable housing in the use of section 106 agreements and that is to be commended. However the affordable housing issue is inter-related to the whole issue of sustainable communities and there may be a need for more fundamental consideration to be given in order to bring forward land at less than market value which is a critical element in the delivery of affordable housing where it is needed.

Recommendation 23

That the Minister for Environment, Sustainability and Housing

- *considers as a matter of urgency, whether the planning approach used in the South Shropshire model, could be useful for implementation in Wales, and*
- *whether the rural exception policy could be applied across Wales(i.e. not just to rural areas), in order to take a pro-active approach in bringing land forward for affordable housing.*

32. In addition, there needs to be an easier/speedier mechanism that enables local authorities to amend policies on affordable housing quotas and thresholds in relation to demonstrable changes in housing need.

Recommendation 24

In order to make quick progress on affordable housing targets local authorities should, where appropriate on the basis of evidence of housing need be able to;

- *introduce interim policy changes, including revising their affordable housing thresholds and targets; and*
- *negotiate with developers for the provision of affordable housing an individual housing and mixed use sites as part of the development control process.*

33. In developing local authority priorities, there needs to be cross authority boundary consultation within the framework of the Regional Spatial Plan areas, to ensure that developments respond to wider issues of housing needs and demand and housing market change.

Recommendation 25

Policies across the Spatial Plan, Community Plan and Local Development Plans should be complementary and aligned.

Using Existing Housing

34. There is a strong need to maximise the use of existing housing property both privately owned and owned by social landlords. Local authorities should develop have an up to date picture of the scale and nature of empty property in their areas through their council tax data base and should also have a programme of action on tackling long term empty property, working with landlord organisations and housing associations where appropriate. They should also give consideration to how existing housing may be converted to give more/better units, or non residential buildings could be renovated or converted. In addition there may be opportunities for area and estate reconfiguration that could add housing numbers and/or a better mixed tenure.

Recommendation 26

Local authorities should develop an ongoing programme of tackling empty private housing in their area, working with landlords, housing associations and developers where appropriate.

Recommendation 27

For existing social housing, either council or housing association owned, efforts should be made to reduce vacancy rates using choice based marketing approaches and to consider how appropriate investment, perhaps coupled with the reconfiguration of particular estates/developments could tackle the problems of vacancy. .

Making Best Use Of Private Rented Housing

35. The private rented sector will continue to be a very important source of affordable housing. It must be recognised that the scale of the sector will always reflect market conditions but it is nevertheless important that local authorities, in particular, work closely with private landlords and their representatives in order to maximise the availability of good quality, well managed affordable accommodation. They should also make best use of the powers they have in this regard. To support this, and in order to monitor activity in the private rented market, some method of local accreditation would be desirable.

Recommendation 28

Local housing authorities should set up a local private landlord forum and - working with individual landlords, managing agents and key representative bodies - use this to help develop strategies/policies to tackle empty housing achieve quality standards.

Recommendation 29

That the Assembly Government should investigate ways of introducing a registration system of Letting Agencies and look into ways of bringing in an All Wales accreditation system for landlords who own more than five properties.

Homelessness

36. There has been good work in tackling homelessness in Wales, but rapid changes in the wider housing market can introduce sudden and difficult pressures. The current financial situation is giving rise to considerable fear of increased mortgage, and possible growth in landlord, repossessions which together will place additional pressure on affordable housing supply. It is important that councils and housing associations working together have the freedom to respond to these pressures, and the recent announcement from the Minister on supportive buy back schemes is to be welcomed. Allowing housing associations to purchase appropriate existing properties in areas of housing need, recently announced as part of the Progress Report 'Quick Wins', will help.

Recommendation 30

- *That urgent work is undertaken by the Assembly Government, local authorities, CHC, Shelter Cymru, the Council of Mortgage Lenders and others to put in place a plan of potential action, including flexible responses to deal with the outcomes of the present financial uncertainty.*
- *The Minister convenes a working group that meets regularly, to keep up-to-date with the changing housing market situation to best respond to the difficulties, and at times opportunities, this presents in Wales.*

Resourcing affordable housing

37. Building more homes in Wales will require more resources. In the report we considered a number of ways extra resources can be leveraged in. We think there needs to be a mixture of approaches.

Recommendation 31

The Assembly Government should use its Strategic Capital Investment Board to develop affordable housing as part of a programme of delivering wider regeneration, social justice, health and well being and sustainability objectives.

38. Despite the best intentions of the Assembly Government's Land Protocol, this is not yet delivering new sites for affordable housing. This is largely due to those sites having an asset value on the balance sheets of Government Departments and agencies, which may be expected to be realised. There urgently needs to be an intervention process that resolves this issue in a fair and transparent way to remove the blockage to land coming forward.

Recommendation 32

The Assembly Government must urgently use its recently established Community of Finance Directors to ensure its assets are best used to enable affordable housing to be achieved. The Assembly Government, in collaboration with others, should use its finance function to give a central equalisation capacity to enable the transfer of land and property assets.

39. There have been some very good examples of local authorities bringing land forward for social housing development and for aiding regeneration.

Recommendation 33

Local authorities should do their utmost to use their own land resources to lever in additional outside investment to deliver affordable housing.

40. Social Housing Grant (SHG) is central to the provision of additional affordable housing, and the evidence of increased spending is welcome. The Review has also examined a number of ways in which it might be possible to secure additional funding to support an expanded affordable housing programme in Wales. It is critical that every opportunity is taken to maximise investment.

Recommendation 34

Other opportunities and mechanisms for maximising investment in affordable housing and regeneration need to be urgently investigated. These include:

- *Maximising borrowing by HAs*
- *Low Cost Home Ownership;*
- *Local Housing Companies;*
- *European Funds for wider regeneration;*
- *Exploring additional support through the EIB*

41. Given the point we have made above about the importance of maximising the borrowing potential of HAs, there is a need to think carefully about the current arrangements for setting rents in the sector and reviewing cost guidelines. Any review would need to consider the potential negative impacts. Nevertheless in our view there is a strong case for an early and fundamental review of the current arrangements.

Recommendation 35

It should be an early priority for the Welsh Assembly Government, in partnership with CHC, to look in detail at the current rent regime for HAs in Wales. There should also be a review of the ACG arrangements. These reviews should consider:

- *Impact and effectiveness at the local level;*
- *The potential for adjusting the rent bands; and*
- *The interaction between the rent regime and ACG and possible improvements*

42. We have noted (Chapter 5) that a review of the local authority HRA system is underway in England, with potential impacts for Wales. This will consider how local authorities might use the HRA to support the provision of new social housing. This should be both an opportunity and mechanism for the Welsh Assembly Government, in partnership with WLGA, to influence this review of the HRA system.

Recommendation 36

Wales needs to be represented on the Working Party on the future of Housing Revenue Accounts set up by the UK Government. Early discussions need to be held with the WLGA on the preferred direction for Wales.

Streamlining Social Housing Grant Delivery

43. Social Housing Grant, over the next three years, is seen by all to be the central part of affordable housing provision in Wales. The use of this funding should be targeted to respond to housing need and regeneration opportunities and to deliver worthwhile schemes that can only happen with public sector support. Deliverability, capacity and quality must be aligned and developed to respond to this need, and there should be intervention where this capacity and quality does not exist in order to secure desired outcomes.

44. It is absolutely crucial that affordable housing is developed in response to identified need both in type of housing and location. Achieving target numbers of housing units must be equally matched by the objective of achieving the right type and quality of housing units in the right place. Location must not be sacrificed to easy deliverability, otherwise we will distort the concept of sustainable communities.

45. The Welsh Assembly Government should move towards setting standards for new construction and managing the overall framework of grant allocation. It should pass responsibility to associations/consortia for compliance with those standards via self certification and audit with arrangements in place for non compliance. The current 'rules' by which funds are allocated need to be reviewed and redrawn in conjunction with the sector with a view to securing agreement about how best to achieve the *One Wales*' outcomes.

Recommendation 37

- *Social Housing Grant must be allocated through a three year rolling cash programme, with much greater freedom for housing associations to develop, within general guidance, individual schemes, once priorities have been agreed by the Minister;*
- *Local authorities need to use a formal assessment process as a basis for determining the local priorities for Social Housing Grant and complementary investment opportunities. The local authority priority ranking based on need and deliverability should be the basis for grant approval, subject to the Minister's final decision;.*
- *The current system of vetting individual schemes in great detail by the Assembly Government should cease and emphasis on design, quality and value for money should be taken on by the consortia;*
- *The consortia and individual housing associations must take responsibility for deliverability according to the local authorities' agreed priorities. There should be a system of post audit checks of a proportion of developments;*
- *Approved Social Housing Grant will be directly passed to the housing association concerned;*
- *Homebuy should be an option for SHG funding but work needs to be done before it's reintroduced to make sure that it's properly targeted and gives value for money;*
- The Assembly Government needs to work with the housing association sector to agree a framework and timescale for these changes to be implemented.

Sustainable communities and housing tenure mix

46. In terms of social inclusion, new models of development that include tenure mix can give greater social integration and visual harmony. There needs to be more opportunity for movement between and within tenures. Growth in house prices, and a decline in the percentage of social housing units, have not helped this, and this has led to a perceived increased polarisation of tenure. A single social housing tenure is a desirable objective to allow better social mobility but will be extremely difficult to achieve without a rational approach to rent setting in the sector, to achieve greater local consistency. In the current financial situation, shared ownership schemes of various types are proving more difficult, as levels of joint rent and mortgage contributions are high. Nevertheless the principle of flexibility is important to respond to market change, different housing needs and household aspirations.

Recommendation 38

Where possible affordable housing units should be dispersed and integrated into housing developments. Large areas of 100% social housing should be avoided. Housing associations should be encouraged to develop greater capacity for flexible tenure.

47. *Schemes delivering good mixed use developments aid physical regeneration and social cohesion, but also can be a major component in delivering economic and community regeneration, building conservation, and sustainability. Geographically defined areas such as the Heads of the Valleys could benefit from greater emphasis being given to housing-led regeneration. HAs work on community development and social enterprise could be further mainstreamed and developed as an intrinsic part of communities policy.*

Recommendation 39

Further work should be carried out, probably in the context of the Wales Spatial Plan, to give greater clarity to the concept of Sustainable Communities.

48. Adequate social housing in a variety of forms is also an important component of social care policy and housing associations should be recognised for the vital job they are doing across Wales in meeting the whole agenda of supporting people. Supported housing provided by housing associations is a critical component of meeting housing need for the most vulnerable. The funding for extra care for the elderly and not for profit nursing homes over the next few years will help to achieve many social and health objectives for the Assembly Government, whilst at the same time providing more residential accommodation for the elderly and those with particular healthcare needs. It also has the potential for freeing up existing affordable housing.

Recommendation 40

In collaboration with housing associations, the extra care and 'not for profit' nursing home models should be developed by the Welsh Assembly Government to complement other forms of housing provision and provide a sustainable solution to pressing demographic demands of older persons and those with support needs. The two funding streams should be joined together.

The Welsh Housing Quality Standard and Partial Stock Transfer

49. The achievement of WHQS has been the driving force behind the move towards stock transfer. The Assembly Government has in general only allowed the one option of total stock transfer to be voted on by tenants and so far seven councils have seen a yes vote, while two councils have seen a "no" vote. The Review Group was asked to consider the issue of partial stock transfer, particularly for those authorities that have had a "no" vote.

50. The Group felt that it would be inappropriate at this stage for the Government to completely change policy in relation to the options for achieving WHQS. However appropriate solutions are needed for council tenants to ensure they are not living long term in poor quality accommodation.

Recommendation 41

As the ultimate goal is to ensure that social housing reaches the WHQS, partial stock transfer should be an option where the business case is sound and where there has already been a "no" vote within the local authority on the option of large-scale voluntary transfers. In these circumstances a partial stock transfer ballot should go forward where tenants indicate that they wish this to happen.

Design and Environmental Standards

51. The Welsh Assembly Government should be congratulated for its determination to raise environmental standards in housing as an intrinsic part of its action plan on climate change. In terms of affordable housing, well designed, carbon free, low energy housing can significantly help in reducing fuel poverty. There is a real need to develop showcase initiatives across the social housing sector to stimulate development options, building on existing good practice examples in Wales and elsewhere.

52. In our earlier Progress Report, we recommended that SHG could help to do this. Concern over initial development costs could be dealt with by coordinated action across the sector on procurement and innovative action on supply chains. Large scale procurement is a critical means of reducing unit costs. At the same time WHQS should reflect current and changing environmental considerations. Good design in affordable housing should be recognised, encouraged and rewarded with best practice mainstreamed where applicable, especially where they make contributions to sustainable living.

Recommendation 42

- *The Assembly Government should pursue its determination to progress code level standards to meet the Assembly Government's zero carbon objectives in the house building sector, in collaboration with the housing sector and the construction industry, and in line with the recommendations and analysis set out in the recent Wales Ecological Footprint report (SEI, 2008);*
- *For social housing, funding needs to be available and prioritised from the Assembly Government for achieving this, both through traditional housing grant but also through use of economic development grants;*
- *design & quality standard guidance needs to be streamlined and proportionate. The WHQS needs to be reassessed urgently to consider its contribution to meeting the challenge of climate change;*
- *Energy efficiency should be given priority and standards should be set for new or improved affordable housing in the public and private sectors.*

53. Housing should be recognised as a key driver for community and economic regeneration and for its wider benefit to wellbeing. Policies, systems and grant mechanisms need to be aligned to give maximum value.

Recommendation 43

- *The Assembly Government must look at ways of better linking affordable housing policy and action with its economic, social and environmental other priorities;*
- *Stronger links need to be made between housing policies and practices and regeneration in its widest sense. In particular grant regimes need to be aligned, to allow more joint working across the private and affordable housing sectors to drive local economic, environmental and community regeneration*

APPENDICES

Appendix A	Contributing organisations and individuals
Appendix B	Minister's consultation document on 'Quick Wins'
Appendix C	Partial Ownership
Appendix D	Glossary of terms
Appendix E	References

Contributing organisations and individuals

- Abbey
- Addleshaws Solicitors
- Audit Commission Housing Inspectorate
- Barclays Bank
- Barbara Castle
- Bevan Foundation
- Bridgend County Borough Council
- Bron Afon Community Housing
- Cadwyn Housing Association
- Cardiff Community Housing Association
- Cardiff County Borough Council
- Cardiff Institute for Housing
- Carmarthenshire County Council
- Chartered Institute of Housing Cymru
- Community Housing Cymru
- Communities and Local Government Department, England
- Council of Mortgage Lenders
- Cwmdeithas Tai Clwyd
- Cymdeithas Tai Eryri
- Cynon Taf Community Housing Group
- Denbighshire County Borough Council
- Dewi Sant Housing Association Ltd
- Family Housing Association (Wales) Ltd.
- Grwp Gwalia Cyf
- Gwynedd County Council
- Hafod Hendre
- HBOS
- Home Builders Federation, Wales
- Housing Forum Cymru
- Hugh James Solicitors
- Janice Gregory AM
- John Bader
- Joseph Rowntree Foundation
- Land For People
- Linc-Cymru Housing Association
- Lovell
- Mark Isherwood AM
- Merlin
- Merthyr Tydfil Housing Association
- Mid-Wales Housing Association
- National Housing Federation, England
- National Landlords Association for Wales
- Nationwide Building Society

- Neath Port Talbot County Council
- Newport City Council
- OPEN Communities
- Pembrokeshire County Council
- Pembrokeshire Housing Association
- Pembrokeshire Coast National Park Authority
- Pennaf Housing Group
- Peter Black AM
- PriceWaterhouseCoopers
- Principality Building Society
- Public Participation Consultation and Research (PPCR)
- RCT Homes
- Rhonda Housing Association
- Royal Bank of Scotland
- Seren Group Ltd
- Shelter Cymru
- South Shropshire District Council
- Swansea County Borough Council
- Swansea Housing Associations
- Taff Housing Association
- Tamsin Stirling Associates Ltd
- Torfaen County Borough Council
- TPAS Cymru
- United Welsh
- Valleys to Coast
- Wales Audit Office
- Welsh Assembly Government including staff in Housing, Making the Connections, Climate Change and Water, Governance Team, Planning, Finance & Local Government Finance, Statistics
- Welsh Local Government Association
- Welsh Local Government Data Unit
- Welsh Tenants Federation

Appendix B

Minister's consultation document on 'Quick Wins'

Jocelyn Davies AC/AM
Y Dirprwy Weinidog dros Dai
Deputy Minister for Housing



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Eich cyf/Your ref yourref
Ein cyf/Our ref ourref

23/04/08

Dear

TASK & FINISH GROUP ON AFFORDABLE HOUSING IN WALES: PROPOSED 'QUICK WINS'

1. In October 2007 I commissioned a review into affordable housing in Wales. The Task and Finish Group headed by Sue Essex is due to present their full report to me next month. However having taken extensive evidence from the sector and interested parties they suggested to me that there are five issues that could be addressed now, in advance of the main report. I think that these offer a sensible way forward but would like to take the views of the housing sector and interested parties before I proceed to implementation.

2. The five proposals are as follows:

a. Registered Social Landlords (RSLs) should have the ability to buy housing stock

Currently RSLs do not buy existing properties unless they meet the Welsh Housing Quality Standard (WHQS). The Group has suggested that I should encourage RSLs to purchase such properties in areas in need of regeneration or to meet housing need in existing communities.

I propose to implement this recommendation where an existing dwelling is strategically important to a local authority in meeting housing need. The fact

that it does not meet WHQS should not deter its purchase. However I would expect that, as far as is practical, these properties would be brought up to the Standard within five years of purchase.

b. RSLs should no longer need to get individual approval of Physical Adaptation Grants (PAGs) over the value of £3,000

In the light of the backlog to process existing claims I am putting in place a temporary solution (an interim "fast track" procedure for defined categories of work) for this purpose, details of which will be sent to RSLs shortly.

However the Group's progress report suggested a new approach to PAGs, that will no longer require RSLs to obtain individual approvals and I am inclined to accept their recommendations as a long term solution. The proposal is to allocate resources to individual associations on the basis of defined need. In the first year the size of the allocation to each RSL will be determined by the pattern of expenditure over the last three years. In order to protect RSLs who have not previously made a claim, it is proposed that there should be a 10% top-slice of the 2008/9 programme available for this purpose.

To ensure value for money I propose a system of post audit checks on 5% of work undertaken.

c. To amend the practice on Section 9 (Housing Act 1996) disposals to eliminate the need as far as possible for individual consents

Section 9 of the Housing Act 1996 requires an RSL in Wales to obtain consent from the Welsh Ministers for any disposal of land by a Registered Social Landlord. This may be given generally to all RSLs or to a particular landlord or description of landlords (section 9(2)(a)); in relation to particular land or in relation to a particular description of land (section 9(2)(b)), and may be given subject to conditions.

The Review Group believes that the current system needs to be improved to streamline processes and eliminate the need for individual consents. They have suggested that amending the current general consent, already under review by Assembly Government officials, may be the way forward. I would welcome your views on whether this is the right way forward.

d. To allow RSLs to set up more flexible group structures

I welcome the opportunity to remove any unnecessary barriers to RSLs contributing more widely to the regeneration of communities. To help to achieve this, the Review Group has suggested that Circular RSL02/06 on Group Structures is revised, and that paragraph 5.2 be amended or deleted. Our aim would be to facilitate RSLs to develop social enterprises, build houses for outright sale and secure effective tax planning and I would

welcome views on whether the proposed amendment of the circular will suffice.

e. To introduce a policy change to use Social Housing Grant to support low carbon and carbon free housing projects in sustainable communities

I am pleased to see the innovation undertaken to date within the RSL sector to help us meet the challenge of reducing Wales's carbon footprint, but the size of the challenge means we need to do more. The Group has highlighted the costs of meeting the higher standards as a major barrier.

I plan progressively to strengthen development standards over the funding period but in the meantime I wish to encourage RSLs to consider approaches that will reduce costs of low carbon building and help us mainstream innovation.

I am looking to earmark a proportion of the SHG programme over the next three years to low carbon building and I'd be grateful for your thoughts on what such a proportion should be. Successful projects would be entitled to grant at existing rates for extra costs of innovation. I am particularly keen to see projects designed from the start as sustainable, low carbon developments and consortia working to minimise additional construction costs.

3. In order to make quick progress with these recommendations, and in view of the discussions that have already taken place between the sector and the Review Group, I am asking for your comments **by Friday 16 May 2008**. I would be grateful if you could send your comments to

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Or email them to anthea.fielding@wales.gsi.gov.uk

4. Perhaps you would let me know whether you agree with the proposals and approaches in this letter. If not perhaps you would give me your reasons. I am also interested in any other ideas you may have in each of these areas to improve the way we work together in order to meet One Wales commitments. Could you also indicate whether you are happy for the response to be made publicly available alongside decisions on the proposals?

I look forward to hearing from you.

Yours Sincerely



Jocelyn Davies

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Partial Ownership

1. This concept has been developed in a paper by Madoc Batcup (see Appendix 2). In his paper ***A Structure for Welsh Housing Investment*** he identifies three key pressures on councils in relation to improving their housing stock:

- the need to improve housing standards by 2012, under the WHQS;
- their legal inability to borrow against their housing stock to do this; and
- the unpopularity of housing stock transfer to HAs.

2. Recognising the impasse, he explores other ways authorities might raise capital based on their housing stock which at the same time does not involve transfer of the housing stock to housing associations. He identifies selling a partial interest in the houses comprising a local authority's portfolio as a way forward. A new not for profit body would raise funds in its own right from the market to buy a partial interest in the portfolio of housing stock owned by the relevant local authority. The new company would service this debt from that part of rentals it received from the tenants, and it would charge its portion of the properties as an additional security for the debt.

3. On the basis of evidence of low debt given in the IWA report (page 3) it is thought there would be scope for selling a partial interest in the housing portfolio and then to service the obligations from the increased rental income resulting from the improvements. The value of the houses being improved would rise, thereby improving the collateral of the transaction as they were made.

4. The detail of the arrangement was as follows;

- The local authority would sell a partial interest in the property to the company, Welsh Housing Renewal (WHR). Both the authority and WHR would have legal rights in the property as tenants in common
- The terms of the sale would permit the authority, if it so wished, to execute a buy back agreement with WHR to repurchase the property. An alternative would be the grant of a long term lease (e.g. 25 years) to WHR.
- Under the terms of the sale WHR would get a proportion of the rents paid by the tenants (this could be greater than its ownership proportion to enable it to repay the debt it took out to purchase part of the property) and this share of the rents would be guaranteed by the authority and secured by a charge over the property portfolio.
- The proceeds of the sale/lease would be used to improve the properties up to WHQS and the rentals would then rise to this.
- The local authority would get part of the rent as a continuing part owner of the property. It would collect the rentals due to WHR in respect of its partial ownership.
- WHR would then have an income stream from the rental income of the properties secured by a charge on the council house and guaranteed by the local authority.

- WHR would issue bonds (or possibly arrange a banking facility in whole or in part, depending on the size of the transaction, and the degree to which buffer financing was required to meet right-to-buy cashflows) to finance the acquisition. The investors would have partial ownership of the property portfolio, a charge over it and the rental income to service and secure the obligations of WHR.

5. The effect of the arrangement from the point of view of the local authority was that it would not lose its housing stock, and would still be responsible for collecting the rents etc. Day to day control of the estate would not change. Since it is not borrowing money, but merely undertaking a partial sale of its assets, Batcup suggests it may leave more scope for it to undertake 'prudential borrowing' for other requirements, since it will have some scope to vary council tax.

6. From the point of the Treasury he argued these transactions would not add to the PSBR if WHR and the transaction are properly structured, and would essentially achieve the Treasury's goal of accessing private sector funds for the improvement of the housing stock. From the point of view of the capital markets it was suggested WHR would have sufficient security to ensure repayment of the proceeds and meet its payment obligations.

7. In discussion we identified a number of unresolved questions including;

- The degree to which transfer of an estate from an authority to an RSL can result in debt forgiveness (by the Treasury) of existing local authority indebtedness incurred to construct the estate in the first place, and who determines this. To what extent is the RSL also subsidised by the Welsh Assembly Government in respect of the negative endowment of any transfer?
- To what extent a local authority able to increase rents or other charges, eg, council tax, to reflect improvements to its properties?
- To what extent is a local authority able to use the receipts of any sales of council properties for the refurbishment of its existing estate, or potentially the construction of new housing?
- Although technically a ballot would not be needed there is a view that politically it would. This might be quite a challenging scheme to sell to tenants?
- There is a general view that the structure is complex and could be difficult operationally. Also there may be reluctance of both the Local Authorities and tenants to opt for a partial ownership model. There are questions regarding how partial ownership would be viewed in terms of use of receipts, whether WHR would be viewed as a local authority controlled company, how the apportionment of existing debt would work, the sale price of the property, the continuing entitlement to the Major Repairs Allowance and what might happen in the event of insolvency.

- One view is that although partial ownership might be used to lever in private finance, local authorities have the capacity to use any rental surplus to engage in prudential borrowing which would be at a lower rate. Improvements would lower maintenance costs and thus free up further capacity. A note on prudential borrowing can be found on the Welsh Assembly Government website

Glossary

Definition of Key Terms

Affordable Housing

This is housing provided to those whose needs are not met by the open market.

Affordable housing should:

- meet the needs of eligible households, including availability at low enough cost for them to afford, determined with regard to local incomes and local house prices; and
- include provision for the home to remain affordable for future eligible households, or if a home ceases to be affordable, or staircasing to full ownership takes place, any subsidy should generally be recycled to provide replacement affordable housing.

Affordable housing can be considered in two categories:

- social rented housing – provided by local authorities and registered social landlords (RSLs) – the latter also referred to more commonly as housing associations (see below);
- intermediate housing – where prices or rents are above those of social rented housing but below market housing prices or rents. This can include equity sharing schemes (for example Homebuy). Intermediate housing differs from low-cost market housing, which the Assembly Government does not consider to be affordable for the purpose of the land-use planning system.

Source: Welsh Assembly Government (2006) Technical Advice Note 2: Planning and Affordable Housing, Cardiff, WAG, June 2006.

Housing Associations

Housing associations are independent, not-for-profit social businesses established with the primary aim of providing affordable homes for people in housing need. Some associations offer support for people with a range of needs including older people, those with disabilities or learning difficulties and people who have been homeless. Many are involved in community initiatives such as regeneration, employment training and projects with young people. They can operate across a number of local authorities or own and manage properties in just one area. Most provide homes for rent, while others provide accommodation on a (part) ownership basis.

Although not part of the public sector, many are in receipt of government funding (e.g. for building new homes), but they are also able to borrow on the private market against the value of their property assets.

Housing associations in Wales are registered with and regulated by the Welsh Assembly Government. They are also referred to as Registered Social Landlords (RSLs). The majority of RSLs are housing associations.

The housing association sector in Wales in March 2007 accounted for around 5% of the housing stock. However, the sector is growing, not only as a result of development activity by traditional associations but also as new organisations are being created to take on the ownership and management of former local authority homes.

Wherever possible throughout this report we have tried to use the generic term “housing association” when referring to registered social landlords, except where quoting from other sources.

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