



Ministry of Housing,
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Dear Clive,

**SELECT COMMITTEE REPORT LONG-TERM DELIVERY OF SOCIAL AND AFFORDABLE
RENTED HOUSING**

Thank you for your letter to the Secretary of State on 20th October; it has been passed to me to respond. I want to reiterate our appreciation for your original report and the research behind it.

I am sure that in reading the response, it was clear that this Government and this Department understand and agree that there is a need for increased delivery of social and affordable housing. The Department is committed to increasing the supply of affordable housing and that is why we recently announced that we will be investing £12.2bn in affordable housing from 2021-2026. This represents the highest single funding commitment to affordable housing in a decade. The investment includes the new £11.5bn Affordable Homes Programme (AHP) that will provide up to 180,000 new homes across the country, should economic conditions allow. This is just one way in which we have demonstrated the commitment to getting more affordable homes built. I refer you to the original response which gave more details of the other ways in which this government has helped ensure we deliver more homes for those in the greatest need.

You noted that the delivery target is lower than that of the current programme, in which we have made £9bn available to deliver 250,000 new homes. Delivery targets for the new programme take into account the effect of COVID-19 on the economy and the different types of homes we will be delivering. The new programme will deliver more homes for social rent, which needs more funding given the larger subsidy required compared to other tenures. The lower target also recognises the higher costs incurred with supporting delivery of the new model for Shared Ownership.

You asked for further response on points 53(54), 54(67), 90, 91, 92 in your report, which are responded to in turn below.

It is disappointing that the Government does not have a published plan on social housing, nor has its own assessment of social housing need. We regard an estimate of need to be essential to calculating how much investment the Government may need to make to meet social housing need and deliver such a “step change”. (Paragraph 54)

We do not place a top-down target on need because it is a complex and ever-changing picture that is better defined at a local level. As set out in the Government response, the National Planning Policy Framework clearly states that local authorities should consider and identify the size, type and tenure of housing needed for different groups in the community, including those who require affordable housing, and reflect this in planning policies.

While we do not give a target for the number of affordable homes which need to be built each year, the Government is committed both to increasing the supply of new affordable homes and to ensuring that we build the right homes in the right places.

Our *Planning for the Future* white paper, published in August, proposes a more streamlined and accessible planning system, including a binding housing requirement on local authorities, and the replacement of the existing developer contributions regime – which is discretionary, and subject to renegotiations based on viability assessments – with a new, consolidated ‘Infrastructure Levy’. This new Infrastructure Levy will aim to raise at least as much revenue and deliver at least as much on-site affordable housing as at present, in order to get a fairer contribution from developers. We will continue to engage with relevant stakeholders to develop these proposals in more detail.

The cross-subsidy model has reached its limit. Without grant funding from central Government, providers will be vulnerable to the economic effect of COVID-19. Housing associations have commendably made up for reduced Government grant investment in the last decade by developing homes for sale and investing these proceeds, but the subsidy gap remains high for social rent. The Government believes housing associations can continue to financially innovate to build more homes, despite registered providers telling Ministers they have reached the limit of their flexibility. If the Government does not increase grant funding, social rent housebuilding will not increase and may drop even further. (Paragraph 67)

We recognise both the financial limits of Registered Providers and Local Authorities and the unique challenges presented by COVID-19. That is why the new AHP 21-26 is providing more grant-per-unit than the current SOAHP 16-21, whilst making sure we only provide the amount needed for each home. The new programme will also deliver more social rent homes than the current programme.

A new £3bn Affordable Homes Guarantee Scheme (AHGS 2020) was announced at Spring Statement 2019. The scheme builds on the success of the existing £3.24bn AHGS and will support the delivery of new-build affordable homes. It will provide cost-effective loans that will not just support the delivery of new affordable homes but also increase the viability of developing affordable housing. The scheme will be open for business by the end of 2020, and draft scheme rules are now available on gov.uk for potential borrowers to consider. We anticipate the first loans being provided in early 2021.

It is time for the Government to invest so the country can build 90,000 social rent homes a year. We appreciate that even with the funding we set out below, any programme will take time to scale up, but we expect the Government should be able to increase delivery to 90,000 within five years. (Paragraph 90)

The Government recognises the desire for social rented homes and has delivered 142,100 social rent homes since 2010. We continue to support delivery of social rent homes, and as I have set out above, the new Affordable Homes Programme will deliver more social rent than the current programme.

However, as set out in the previous response, we are committed to delivering affordable homes of different tenures to support a range of people in different circumstances and stages in their lives.

90,000 homes for social rent is a crude calculation of need that assumes everyone that wants a home for social rent should have one.

Affordable Rent works in many areas of the country and allows us to maximise taxpayers' money, so more people in housing need can have access to a good quality home at a sub-market rent. Offering flexibility to Registered Providers and Local Authorities to deliver the tenures they need locally balances the need to maximise overall supply and providing social rent where it is needed the most.

What is more, survey data shows that 87% of people would choose to own their home if they had the choice. Shared Ownership, Rent to Buy and First Homes will make home ownership a reality for people on low to medium incomes who would otherwise struggle to realise their dream of home ownership.

The Private Rented Sector also has a role to play for those that can afford to pay market rates.

The sector estimates that £12.8 billion a year in grant funding will be needed to deliver 90,000 social rent homes every year, alongside continued support for affordable rent and shared ownership. Central government grant funding is necessary because the current funding model is not delivering the numbers required to meet demand. The removal of the borrowing cap for local authorities will contribute only a small percentage of what is needed. This is around a £10 billion increase on current future funding for affordable housing. (Paragraph 91)

We know that there are a number of studies that assess how many affordable homes are needed and estimate how much they will cost, such as the figures referenced in your report. As I have set out above, the Government is committed to providing homes in a range of tenures, and we do not believe that social rent is right in every circumstance. A mixture of social rent, affordable rent, and affordable home ownership balances out maximising overall supply with ensuring that much needed social rent accommodation can also be built where it is needed the most.

As highlighted here and in the original response, we recently announced the biggest investment in affordable housing in a decade, and we have given councils a comprehensive range of tools to enable them to build a new generation of council housing. As well as abolishing the Housing Revenue Account borrowing cap, we have introduced a lower interest rate for new loans issued by the Public Works Loan Board for councils to build social and affordable housing within their Housing Revenue Account, making it cheaper for them to borrow for building.

We estimate that land value reform could reduce the cost of the programme by up to 40 per cent. By building more social housing on Government-owned public land, the overall cost of the programme could be further reduced. Some of the money could also be redistributed from existing budgets within the Department, and the rest could be borrowed while interest rates are historically low. While the overall savings gained from the long-term reduction in the housing benefit bill are difficult to quantify, it is clear that, over time, as the programme delivers social rent homes, the Government could use savings in housing benefit to subsidise the programme. Therefore, although there are many factors that might effect the overall cost of the programme, it is unlikely to cost £10 billion in extra spending. (Paragraph 92)

As announced by the Prime Minister on 30 June 2020, work will begin on a new, ambitious cross-Government strategy to look at how public sector land can be managed and released so it can be put to better use. This will include home building, improving the environment, contributing to net-zero goals, and injecting growth opportunities into communities across the country.

The Department will be writing to the Public Accounts Committee following the review to set out the approach to affordable homes on public sector land.

Redistributing funding from existing departmental budgets would not be a sustainable approach to funding long term projects such as housing. We rarely have underspends, our CDEL budgets are agreed with HMT, and though there are sometimes in-year underspends, these are often needed in later years. Where there are genuine underspends in the department, they occur late in the financial year. Housing projects need forward planning and often multi-year funding, which means underspends are not the best route.

As outlined above, we have acted to keep the cost of borrowing for housebuilding low for local authorities.

I hope this additional response has helped to further set out the Government position on your report.

*Yours Ever
Chris*

RT HON CHRISTOPHER PINCHER MP

