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Levelling Up, Housing and Communities Committee

The Finances and Sustainability of the Social Housing Sector

Sixth Report of Session 2023–24

Report, together with formal minutes relating to the report

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Levelling Up, Housing and Communities Committee

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Summary

The social housing sector is crucial for providing shelter and support for millions of households. The sector is, however, under serious financial pressure, although it remains resilient for the time being. The sector has been presented with massive bills for decarbonisation, fire safety and regenerating old homes. At the same time, the maximum rent social housing providers can charge has been unexpectedly capped by the Government.

In order to deal with the financial headwinds, social housing providers have cut the amount they plan to spend on building new social homes. This reduction in new building has been necessary for social housing providers to remain financially secure.

However, this comes at a time when the country needs to build significantly more social housing and if this continues it will present a major problem for individuals that need social housing. Moreover, all stakeholders are clear that England has been facing a chronic shortage of social housing which must be addressed.

- **We therefore once again call on the Government to invest to build the social homes the country needs. The Government's current use of grant to fund mainly affordable rent and shared ownership is inefficient when these homes can be financially viable with no direct grant: we recommend that the Government should conduct an early assessment of the adequacy of grant funding allocations and how much social rent is to be supported. The Government should also assess the role of appropriate private investment providing affordable rent or other forms of tenure in order to free up grant funding to better support more social housing provision. As a first step the Government should set and publish a target for the number of social rent homes it intends to build each year.**

Although we have heard of encouraging signs that private investors are able to fund the building of more social homes, it is imperative that these investors are properly regulated and committed to long-term investment in the sector. In addition, land value capture presents an opportunity to finance social housing. We recommend that:

- **Land value capture should be used as a tool to support social housing. The Government and local authorities should use their planning powers to ensure that the price of land does not inhibit the development of new social homes and the Secretary of State must be prepared to be flexible with the powers provided by the Levelling up and Regeneration Act.**

As well as the financing of social housing development, our report also raises issues with the costs of maintaining social housing and the different financial risks faced by registered providers, as well as related issues.

As well as the cost of delivering new homes, the social housing sector also has to make expensive improvements to the homes it has, and has received too little help from the Government to meet these costs. We must improve the energy efficiency of homes for the UK to meet its climate change objectives, but Government funding for social housing decarbonisation is insufficient. Many social homes, like other buildings, need

to find money for fire safety work, but the Government still refuses to provide the social housing sector with the same fire safety funding as the private sector: this must be changed.

- **We once again reiterate the recommendation from our 2020 Report, The Regulation of Social Housing, that "Social housing providers must have exactly the same access to funds for building safety remediation as private sector landlords."**

In many cases social housing providers are faced with the challenge that some homes would cost more to remediate than the homes are worth. These homes need wholesale regeneration, but this is expensive. Homes England is becoming more flexible about the funding it provides for projects like these but it is restricted by the Government's net additionality guidelines from funding refit and refurbishment projects.

- **We therefore recommend that the Government give greater weight to the positive benefits of regeneration so more funding can be made available for regeneration, and that Homes England should increase the flexibility it offers housing providers on funding for replacing homes.**

Finally, the level of financial risk varies significantly across the sector. This requires the Regulator of Social Housing to take a clearer and more proactive approach to regulating individual providers. Where registered providers have significant financial reserves, the Regulator should be more ambitious in its expectations for how they can support tenants by making improvements to their homes. However, the possibility of even one housing association defaulting on its loans could have a knock-on effect on rest of the social housing sector's ability to attract investment.

- **Where registered providers face more financial risk, we recommend that the Regulator should engage with them more regularly.**

1 Introduction

Background on social housing

1. The social housing sector in England houses around one fifth of households in the country.[1] It provides eligible tenants with homes at a lower rate than the open market. The level of discount varies: the social housing sector includes social rent homes, where rents are on average 50% cheaper than market rent, as well as affordable rent homes, where rents are between 50–20% cheaper than the open market.[2] (For a more detailed explanation of the different types of housing in the sector see Annex A: Glossary of Terms.)

2. England's roughly 4.1 million social homes are largely provided by housing associations (private not-for-profit organisations[3] who are responsible for around 2.5 million homes), local authorities (1.6 million homes) and a small number of for-profit companies, who have begun to provide social housing in recent years (21,000 homes[4]).[5]

3. Most of these social housing providers (including all local authorities) are registered with and regulated by the Regulator of Social Housing; these are referred to as "registered providers" (the for-profit ones are called "for-profit registered providers" or FPRPs).[6]

4. This means that, with the exception of local authorities, most social housing providers are private organisations which manage their own finances. In the past a small number of social housing providers have become or have come very close to being insolvent, by being unable to meet payments on loans (e.g. Ujima) or by having insufficient cash to cover their costs (e.g. Cosmopolitan).[7] Both Ujima and Cosmopolitan housing associations were ultimately rescued by merging with other housing providers which prevented them from breaching the terms of their loans, protecting their tenants and properties, and keeping both in the social housing sector.[8]

Our inquiry

5. Prior to this inquiry, we have undertaken two inquiries into the social housing sector during this Parliament, one into *Building More Social Housing* in 2020 and one into *The Regulation of Social Housing* in 2022. Our 2022 Report noted the increasing complexity of the financial arrangements in the sector. We concluded that "[The fact that] nothing

1 Department for Levelling Up, Housing and Communities, Social housing lettings in England tenants: April 2021 to March 2022, 19 February 2024

2 What is affordable housing, Research Briefing CBP07747, House of Commons Library, July 2023

3 National Housing Federation, About Housing Associations, accessed 11 April 2024

4 National Housing Federation (FSS0032)

5 Department for Levelling Up, Housing and Communities, Dwelling Stock Estimates, England: 31 March 2022, 23 May 2023

6 Although some social housing providers have chosen not to register with the Regulator, we have focused in this inquiry on registered providers. We have learned in a previous inquiry that most non-registered social landlords are small or provide only a small number of homes with sub-market rents (Chartered Institute of Housing (RSH0037); National Housing Federation (RSH0088)) and we have been told by financial experts in this inquiry that investors make a significant distinction between registered and non-registered bodies, and that the collapse of a non-registered body would have very different implications for the sector's financial stability (Q191 [Simon Century, Felix Ejgel]; Q241 [Jonathan Walters]

7 Homes and Communities Agency, With the Benefit of Hindsight: Learning from problem cases: volume 4, June 2015

8 Altair, Cosmopolitan Housing Group: Lessons learned, June 2014

has gone seriously wrong yet should be no cause for complacency, especially as we enter a period of rising inflation and interest rates. A single failure in the sector could be catastrophic”.[9]

6. We launched this inquiry into *The Finances and Sustainability of the Social Housing Sector* on 28 March 2023. We received 79 pieces of written evidence and held four evidence sessions. Our witnesses included academics, housing associations and for-profit providers, financial organisations and investors, local authorities, and ratings agencies. We held an evidence session with representatives of the Regulator of Social Housing and Homes England and the Parliamentary Under Secretary of State (Social Housing and Faith), Baroness Scott, and the Director for Social Housing and Resettlement, Emma Payne.

7. We would like to thank everyone who gave written or oral evidence to our inquiry. We are also grateful to our Special Advisers, Ian Cole, Emeritus Professor of Housing Studies at the Centre for Regional Economic and Social Research at Sheffield Hallam University, and Aileen Murphie, Honorary Professor, Department of Accounting, University of Durham. We would also like to express our gratitude to Christine Whitehead, Emeritus Professor of Housing Economics at the London School of Economics and Political Science, who was a Specialist Adviser during the start of this inquiry.[10]

Structure of the report

8. The subsequent chapters of this report will examine the financial challenges the social housing sector faces and the impact these challenges have had on the sector as a whole. In Chapter 2, we summarise the main reason why the country needs a financially stable social housing sector, which is the need to address the chronic shortage of social housing in England.

9. In Chapters 3–6, we review the current state of the social housing sector’s finances and the main drivers affecting them. In Chapter 3, we make an overall assessment of the sector’s financial health. In Chapter 4 we cover the most significant additional costs the sector faces. We cover the sector’s income from rent in Chapter 5. Then, in Chapter 6, we discuss the growth of new financing models, and the impact they have had on the sector’s financial stability.

10. In Chapters 7 and 8, we consider what effect these financial changes have had or might have. In Chapter 7, we review the main impact of the financial pressure on the sector, a reduction in new social housing development, and how this could be addressed. Finally, in Chapter 8, we consider areas of heightened financial risk within the sector, and the potential impact of an individual housing provider becoming insolvent or defaulting on its loans.

9 Levelling Up, Housing and Communities Committee, First Report of the Session 2022–23, *The Regulation of Social Housing*, HC 18, para 183

10 The declared interests of the specialist advisers to the Committee are set out in the Committee’s formal minutes.

2 The need for social housing

The importance of social housing

11. In 2020, our Report *Building more social housing*[11] found that there was a shortage of social housing in England and that more social homes needed to be built. Following this, in 2022, the Government's Levelling Up White Paper agreed that there is "significant unmet need for social housing" and promised to "increase the amount of social housing available over time to provide the most affordable housing to those who need it."[12]

12. This inquiry found that little has changed in the last four years. This was apparent from the written evidence we received, with Lloyds Bank warning that "The UK needs to address the chronic shortage of social housing"[13] and Legal & General agreeing that "it is more important than ever that we deliver the houses that our society needs to address structural shortages across every dimension of the market."[14] Written evidence from the Local Government Association, Crisis and four housing association all warned of shortages in social housing.[15]

13. Figures published by the Department also show that the situation is not improving. The number of households on local authority waiting lists for social housing increased 2% to 1.21 million from 2022/21 to 2021/22 (the latest figures available).[16] In January 2024 a report from the National Housing Federation said that "England is in a housing emergency."[17]

14. It is the job of the social housing sector to deliver the social housing the country needs. Indeed, as Bernadette Conroy, Chair of the Regulator of Social Housing, told us in December 2023:

> The two fundamental roles for social housing landlords [are] firstly, to provide safe, well-maintained homes for your tenants and secondly, to provide more homes for those who need them. […] New housing supply is much needed and the sector's role in contributing to it remains highly valued.[18]

11 Housing, Communities and Local Government Committee, Third Report of Session 2019–21, *Building More Social Housing*, HC 173, paras 53 and 90
12 Department for Levelling Up, Housing and Communities, *Levelling Up the United Kingdom*, CP 604, pp223–4
13 Lloyds Banking Group (FSS0054)
14 Legal & General (FSS0020)
15 Midland Heart (FSS0014), Crisis (FSS0012), Johnnie Johnson Housing (FSS0021), Local Government Association (FSS0030), National Federation of ALMOs, Association of Retained Council Housing (FSS0033), Places for People (FSS0044), and VIVID (FSS0069).
16 Department for Levelling Up, Housing and Communities, Social housing lettings in England, tenants: April 2021 to March 2022, 19 February 2024
17 National Housing Federation, Let's fix the housing crisis: Delivering a long-term plan for housing, January 2024
18 Regulator of Social Housing, Bernadette Conroy's speech: Social Housing Annual Conference, 1 December 2022 (accessed 12 March 2024)

How much more social housing is needed?

15. Our 2020 Report considered the question of how large the gap in social housing provision was. The Report noted a 2018 study by Professor Glen Bramley, which concluded that to meet social housing need in England required annual delivery of 90,000 social rent homes.[19] Consequently, our 2020 Report concluded:

> There is compelling evidence that England needs at least 90,000 net additional social rent homes a year.
>
> [..] It is time for the Government to invest so the country can build 90,000 social rent homes a year. We appreciate that … 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.[20]

16. More recently, in April 2024, Professor Bramley considered the capacity to deliver a mix of homes up to and after 2030 in light of current constraints. He concluded "that it is reasonable to plan on the basis of a total supply of at least 300,000 new homes, including 60,000–70,000 social rented homes in the initial period" [to 2030]. "From 2030, the conclusion is that output should rise to 350,000, of which 90,000 should be for social rent."[21] This still needs to be significantly higher than the actual number of social rent homes being delivered: in 2022–23 only 9,561 social rent homes were built in England.[22]

17. **The problem of a continuing chronic shortage of social housing that we identified in our 2020 Report, Building More Social Housing, remains. In line with the conclusions of our 2020 report, we conclude that the Government must support, regulate and invest in the social housing sector so that the country can increase delivery to 90,000 social rent homes a year.** ***The Government should consider and publish its assessment of the capacity of and targets for the delivery of the overall housing market and social housing in particular. This should be carried out on an annual basis.***

19 Professor Glen Bramley, Housing supply requirements across Great Britain: for low-income households and homeless people, December 2018. These figures were endorsed by Professor Ian Cole (Oral evidence taken on 9 September 2019, HC (2017–2019) 2314, Q51). As noted above Professor Cole is a Specialist Adviser to this inquiry. These figures were also supported by three separate, independent assessments which produced similar estimates (Shelter, A vision for social housing: the final report of Shelter's commission on the future of social housing, January 2019; Affordable Housing Commission, Making housing affordable again: rebalancing the nation's housing system, 23 March 2020; Oral evidence taken on 9 March 2020, HC (2019–2021) 173, Q4 [George Clarke])

20 Housing, Communities and Local Government Committee, Third Report of Session 2019–21, *Building More Social Housing*, HC 173, paras 53 and 90

21 Bramley, G. (2024) 'How much housing do we need and how should we provide it?' in M. Stephens, J. Perry, P. Williams and G. Young, UK Housing Review 2024

22 Department for Levelling Up, Housing and Communities, Table 1000, additional affordable homes provided by type of scheme, England, accessed 16 April 2024

3 A financial health check

Overview: The sector remains resilient but financial challenges remain

18. Almost all of the written evidence—including from the Department for Levelling Up, Housing and Communities—agreed that significant financial pressures have left the social housing sector's finances, taken as a whole, stretched but resilient.[23]

19. For example, several witnesses noted that the sector as a whole was still able to borrow the money it needed as part of its business model at relatively favourable terms. This has been attributed to the sector being strongly regulated,[24] the fact that no housing association has defaulted on loans (to date),[25] the "long-term, high-quality nature of the cashflows that are derived from the rent",[26] and the fact that investors assume the sector is ultimately backed by the Government.[27]

20. Despite the sector's overall resilience, throughout our inquiry we have heard that the sector is still having to manage higher costs and lower income which in combination have put pressure on its finances. In this Chapter, we provide an overview of what has driven these changes. We review particular elements of these financial challenges in more detail in the next two chapters: Chapter 4 looks at some of the increased costs and Chapter 5 looks at the reduction in income from rental policy changes.

Financial pressures on social housing

21. The social housing sector faces two types of increased costs:

- increased operational costs (e.g. higher energy prices); and
- improvements that are now required for the properties they maintain (e.g. energy efficiency measures).

22. The increased operational costs have come from a variety of sources. The principal ones have been high levels of inflation, which have been even higher for housing providers'

23 MORhomes PLC (FSS0008); The Housing Finance Corporation (FSS0010); Regulator of Social Housing (FSS0017); Peabody (FSS0023); Northern Housing Consortium (FSS0026); PlaceShapers (FSS0031); Chartered Institute of Housing (FSS0035); Orbit (FSS0043); Sovereign Housing Association (FSS0048); Great Places Housing Group (FSS0025); Thirteen Housing Group (FSS0029); The Guinness Partnership (FSS0036); Department for Levelling Up, Housing and Communities (FSS0062)

24 Q67 [Piers Williamson]; Q31 [Kate Henderson]

25 Q31 [Kate Henderson]

26 Quote from Gemma Bourne (Q135) supported by Q67 [Piers Williamson, John Marr, Jamie Kellett]

27 Q10 [Professor Crook]; Q31 [Kate Henderson]

costs (e.g. construction materials and staff wages) than for the economy as a whole,[28] and increased interest rates and borrowing costs.[29] In addition, social housing providers have reported the following:

- increased energy prices, which have led to higher energy costs and service charges for housing associations;[30]
- increased insurance costs reflecting increased market costs relating to building safety and related issues;[31]
- legacy COVID costs as a result of delayed maintenance and other works due to COVID;[32] and
- greater costs supporting social housing tenants with increasingly complex social needs, such as mental health problems,[33] and the rising cost of living.[34]

23. Moreover, the social housing sector is also being required to make costly enhancements to its properties to meet decarbonisation goals, fire safety measures, and the decent homes standard. Our 2022 Report found that the age and design of social housing stock made it extremely expensive to ensure homes are decent, and that fire safety and decarbonisation are competing financial pressures.[35] These are addressed in more detail in the next Chapter.

24. Alongside these unexpected additional pressures relating to fire safety, decarbonisation and Covid repairs catch up costs together with energy spikes and insurances hikes, there has been an unexpected reduction in the rent charging mechanism which has had the effect of reducing or capping the amount which social housing landlords can charge for rent. We discuss this further in Chapter 5.

Local authorities and Right to Buy

25. Furthermore, we have heard that local authorities which provide social housing are facing these same financial pressures[36] but that they must also contend with additional challenges of their own, in particular from the rules around Right to Buy, under which eligible tenants in a local authority owned property are entitled to purchase their homes at a discount.[37]

28 Q139 [Gemma Bourne]; Q30 [Kate Wareing and Fiona Fletcher-Smith]; Eastlight Community Homes (FSS0022); G15 (FSS0016); The Housing Finance Corporation (FSS0010); Midland Heart (FSS0014); Papworth Trust (FSS0015); G15 (FSS0016); Eastlight Community Homes (FSS0022); Great Places Housing Group (FSS0025); Northern Housing Consortium (FSS0026); Greater Manchester Housing Providers (FSS0027); GreenSquareAccord (FSS0028); Local Government Association (FSS0030); PlaceShapers (FSS0031); The Guinness Partnership (FSS0036); Your Housing Group (FSS0037); Orbit (FSS0043); Southern Housing (FSS0059)

29 Midland Heart (FSS0014); Papworth Trust (FSS0015); Eastlight Community Homes (FSS0022); Greater Manchester Housing Providers (FSS0027); GreenSquareAccord (FSS0028); Southern Housing (FSS0059); London Councils (FSS0018); Thirteen Housing Group (FSS0029)

30 Eastlight Community Homes (FSS0022); Northern Housing Consortium (FSS0026); Orbit (FSS0043)

31 G15 (FSS0016); Peabody (FSS0023); Northern Housing Consortium (FSS0026)

32 London Councils (FSS0018); Peabody (FSS0023)

33 MSV Housing (FSS0005); Jigsaw Housing Group (FSS0003)

34 Q30 [Fiona Fletcher-Smith]; Greater Manchester Housing Providers (FSS0027); Orbit (FSS0043); Places for People (FSS0044)

35 Levelling Up, Housing and Communities Committee, First Report of Session 2022–23, *The Regulation of Social Housing*, HC 18, para 20.

36 Q96 [Councillor Heylings] London Councils (FSS0018)

37 Department for Levelling Up, Housing and Communities, *Your Right to Buy Your Home*, April 2024

26. These rules can make it challenging for local authorities to replace the social homes that they have had to sell because a proportion of the money from those sales is remitted to HM Treasury (during COVID councils were permitted to keep 100% of Right to Buy receipts, but this policy ended in April 2024[38]), and local authorities are only permitted to use the remaining profit to fund up to 40% of the cost of building a new social home[39] (increased to 50% in the Spring Budget 2024[40]). This has caused some criticism with, for example, Councillor Pippa Heylings, representing the LGA, stressing that housing associations are much less restricted in how they spend any money they make from selling social housing properties.[41]

27. **The social housing sector as a whole remains relatively financially resilient. However, it does face the simultaneous financial pressures of higher costs and lower income. Despite the sector's overall resilience this is a clear and direct challenge to individual social housing providers' business models and financial stability that must be taken seriously: this cannot be ignored. In addition, damaging restrictions on how local authorities use money from sales under the Right to Buy scheme place further constraints on councils' housing budgets and ability to fund much needed development.**

38 Housing Today, DLUHC confirms end of policy enabling councils to keep 100% of Right to Buy receipts, 12 March 2024

39 Local Government Association (FSS0030); Q97 [Councillor Heylings]; Q101 [Kathryn Jenkins, Michael Scorer]

40 HM Treasury, *Spring Budget 2024*, HC 560, March 2024, para 5.71

41 Q99

4 Cost of improving properties

Overview: costs associated with decarbonisation, fire safety & housing decency improvements

28. The social housing sector faces significant costs especially from decarbonisation, fire safety and regenerating old housing stock.[42] These are challenging to meet through borrowing or private investment as these financial routes do not usually return cost savings for the investor, except in some specific circumstances, generally when non-viable housing is returned to use. These challenges are compounded when the underlying value of the home is less than the cost of improvements.

29. Spending on improving the fabric of a building, whether to improve the home's energy efficiency, fire safety, or decency (i.e. the state of repair a home is in), is ultimately part of the operational cost of running and maintaining the property and is not regarded as an investment. Several witnesses have told us that in general housing providers should only borrow to invest, and not to cover operational costs like these.[43] Piers Williamson told us that "most [housing providers] would say there is a golden rule to that effect."[44]

Decarbonisation

30. The expected cost of decarbonising the social housing sector is significant. Although a specific figure has been hard to identify, overall, as Mr Meseck informed us, "It is not a small number; it is in the billions".[45] The estimated cost of decarbonisation for housing associations is an additional £36 billion on top of existing spending plans,[46] while for local authorities it is at least £23 billion.[47]

31. John Marr of UK Finance noted that the longer time frame around decarbonisation meant that the housing sector might be able to prioritise meeting other spending requirements first.[48] Ultimately, however, decarbonisation and energy efficiency improvements will be crucial to combatting climate change. Our Local Government and Net Zero Report found that the retrofitting of existing homes is essential for ensuring the UK reaches net zero by 2050.[49]

32. Witnesses have stressed that it is challenging to raise private investment to fund energy efficiency and decarbonisation costs. The financial savings from energy efficiency measures generally accrue to the tenant, making it challenging to generate a return on investment.[50] Gemma Bourne noted that although "I really hope that private impact

42 Q31 [Kate Henderson]; Q30 [Paul Fiddaman]; Q117 [Councillor Heylings]
43 Q66 [John Marr]; Q120 [Michael Scorer]
44 Q66
45 Q136
46 Q34 [Kate Henderson]
47 Q96 [Councillor Heylings]
48 Q73 He noted that the decarbonisation timeframe is out to 2050, with a commitment by most of the sector to achieve EPC C by 2030. Kate Wareing also noted that long-term investment in meeting net zero was one of the areas her housing association might have to cut, along with development, if interest rates rose (Q30).
49 Housing Communities and Local Government Committee, Fifth Report of Session 2021–22, *Local government and the path to net zero*, HC 34, para 69
50 Q162 [Gemma Bourne, Dave Meseck]

capital can step up and help be part of the solution here as well"[51] accessing investment to meet net zero would require dedicated collaboration from Government, the social housing sector and private impact investors and "I have not seen it done at scale."[52]

33. Given the challenges noted above about borrowing to fund operational costs like energy efficiency and decarbonisation, Jamie Kellett of Abrdn suggested that borrowing for this should be limited to capital raised by an investor taking an equity stake (i.e. owning part of the business) and where the quality of properties is improved so they can be let again.[53] Similarly, Dave Meseck, an environmental consultant, demonstrated how models like this could work: he outlined the example of one investment model he had been working on under which investors take on and improve a property and lease it back to a provider over a 30 to 40-year period.[54]

Grant funding for decarbonisation

34. We have heard that there is a clear need for grant funding for decarbonisation. For example, in its written evidence, Eastlight Community Homes stated that "It will be difficult to achieve Government aims [for decarbonisation] fully without clear policy frameworks and some forms of indirect subsidy".[55] The Minister, Baroness Scott, agreed that some of the funding for decarbonisation must come from Government.[56]

35. Some grant funding, such as the Government's Social Housing Decarbonisation Fund is available. The Minister, Baroness Scott, told us this fund had dispersed £1 billion pounds of the promised £3.8 billion, and had been increased by £1.25 billion up to 2028.[57] However, we have heard concerns that grant funding is not sufficient to cover the anticipated costs of decarbonisation or difficult for some housing providers to access.[58] Michael Scorer of Southwark Council noted that "this funding has quite a number of strings attached and is quite detailed and quite specific. We end up potentially chasing lots of pots of money. Some co-ordination would be better."[59]

36. We noted challenges with the Government's Social Housing Decarbonisation Fund in our Report on *Local Government and the Path to Net Zero*, in particular that funding was "trickled out" over 10 years, that many social housing providers were unaware and that the competition for funding was ineffective.[60] As part of this inquiry, Kate Henderson reiterated to us that the release of funds in one and two-year tranches was challenging when retrofitting a street could take many years.[61]

37. **Making social housing more energy efficient is crucial for the country's decarbonisation goals, but, of course, it is also a significant cost for social housing providers. Because energy efficiency improvements do not return savings to social**

51 Q159
52 Ibid.
53 Q66
54 Qq138–9, 156–9
55 Eastlight Community Homes (FSS0022)
56 Q270
57 Q257
58 London Borough of Enfield (FSS0049); Johnnie Johnson Housing (FSS0021); Greater Manchester Housing Providers (FSS0027); Labour Campaign for Council Housing (FSS0011); Papworth Trust (FSS0015)
59 Q101
60 Housing Communities and Local Government Committee, Fifth Report of Session 2021–22, *Local government and the path to net zero*, HC 34, paras 59–60
61 Q46

housing providers or private investors, there is little, if any, scope for borrowing to fund decarbonisation measures and private finance is not well developed. The Government must deliver grant funding to cover decarbonisation if these costs are not to be paid for by social housing providers or their residents. Although Government funding exists to cover a fraction of the costs it is insufficient, and therefore puts social housing providers under financial pressure. ***To mitigate this the Government must bring forward the next tranches of the Social Housing Decarbonisation Fund urgently.***

38. ***Noting that the role of private investment in decarbonisation has so far been limited, we encourage the Government to review what role private investment might play in meeting net zero, noting the advice from witnesses that this could involve the use of equity rather than debt and should result in more homes becoming available to rent, for example by returning homes that could not previously be rented to the market.***

39. ***We also reaffirm the conclusion of our Local Government and Net Zero report that the Government should set out its longer-term funding plans beyond 2025, and to encourage and outline the share of funding for retrofitting it anticipates will come from private investment. The Government has acted on our recommendation to encourage the UK Infrastructure Bank to support private financing of retrofitting: it should now investigate how to bring in other sources of private financing.***

Fire Safety

40. Similarly, many social housing providers also face significant costs from new fire safety standards. Sanctuary housing association's written evidence said that "New legislative requirements, including those arising from the Fire Safety Act and Building Safety Act, have significantly increased the compliance checks and remedial works that we carry out."[62]

41. The Department acknowledged in its written evidence that:

> [T]he Building Safety Act, which provides important protections for innocent leaseholders from unacceptably high bills, will have resulted in a larger share of the costs of remediation falling on [registered provider] building owners.

It also encouraged registered providers to try and reclaim costs from those who were responsible for defective work."[63] Kate Henderson told us that, as a result of fire and building safety costs, there has been at least one housing association that is now no longer financially viable and therefore it had to seek a merger to rescue it.[64]

Managing fire safety costs

42. Housing associations have very different abilities to manage fire safety and related costs. Great Places Housing Group and Thirteen Housing Group told us in written evidence that that costs of addressing building safety requirements "were far exceeding

62 Sanctuary (FSS0041)
63 Department for Levelling Up, Housing and Communities (FSS0062)
64 Qq43 and 50

what they had planned",[65] while Eastlight Community Homes and Peabody told us that they were "committed to maintaining and improving our existing housing and fully funds the expected costs internally".[66]

43. The Government has provided some funding to cover fire safety costs, but registered providers are still more restricted than private sector landlords in their ability to access the funding they continue to need. Government grant under the building safety funds is available to cover the costs of buildings owned by leaseholders, but not those whose residents are social housing tenants.[67]

44. We asked the Minister, Baroness Scott, about the disparity between fire safety funding available for the private sector and social housing.[68] She reiterated that the Government held social housing providers "responsible for ensuring that their buildings are made safe in a proportionate and timely way" and confirmed to us that the Building Safety Fund had provided £2.1 billion of funding for fire safety remediation in the private sector, compared to £214 million for social housing.[69]

45. **Necessary fire safety work has resulted in significant additional costs for social housing providers, as the Government has acknowledged in its written evidence.**

46. **The Government's focus on holding social housing providers responsible for remediating building safety work is producing an unhelpful disparity between the private and social housing sectors. There is no justification for private sector landlords to be treated more favourably.** ***We once again reiterate the recommendation from our 2020 Report, The Regulation of Social Housing, that "Social housing providers must have exactly the same access to funds for building safety remediation as private sector landlords."***

Regeneration of old housing stock

47. Many housing associations have told us that the one of the main challenges in remedying energy efficiency, decency (a home's state of repair) and safety issues in homes is the age of the housing stock. In particular, Paul Fiddaman of Karbon Homes explained how in many cases the costs of remedying issues in homes exceeds the value of the homes themselves:

> I will give you an example from our portfolio. We have an estate where the average net present value—the value to us of the homes—is less than £10,000. They were built in the 1930s and they have significant needs in achieving net zero of about £40,000. The economics of that don't work.[70]

65 Quote from Great Places Housing Group (FSS0025); Thirteen Housing Group (FSS0029) concurred
66 Quote from Eastlight Community Homes (FSS0022); Peabody (FSS0023) concurred
67 Q43 [Fiona Fletcher-Smith]
68 Q271
69 Letter from the Parliamentary Under Secretary of State to the Chair regarding the finances and sustainability of the social housing sector, dated 05 February 2024
70 Q31

48. Mr Fiddaman, along with Councillor Pippa Heylings and Kate Wareing of Soha Housing proposed that the solution would be for older homes, where the cost of remediation exceeds the value of the housing, to be demolished and replaced.[71] However, Peabody warned that although this approach would be effective "the finances involved make it extremely challenging to deliver."[72]

49. Furthermore, Kate Henderson argued that to address the financial challenges involved, the Government should allow the Affordable Homes Programme to fund regeneration projects as well as new homes.[73]

50. Currently, the Affordable Homes Programme cannot be used to finance projects that do not deliver a net increase in new homes.[74] We have been told that this "net additionality rule" is set by the Treasury.[75] The Northern Housing Consortium informed us that "The additionality guidance has curtailed a number of opportunities across the North West which would have been deliverable under previous grant funding regimes."[76]

51. There have been positive indications that Homes England, one of the agencies responsible for administering the Affordable Homes Programme, may be beginning to show more flexibility. Kate Wareing told us that Homes England's strategy was now about "reframing Homes England as a housing and regeneration agency."[77]

52. Peter Denton of Homes England confirmed to us that "while the name has not changed, the emphasis is on both housing and regeneration."[78] However, he confirmed that the flexibility they are able to offer on regeneration is essentially limited to homes "at the end of their natural life", and typically where some additionality is also possible. Shahi Islam confirmed "At the moment, that flexibility does not extend to refit or refurbishment of existing homes."[79]

53. The recent Homes England Public Bodies Review encouraged Homes England to go even further. It advised that the organisation should take a bolder role in regeneration, and that the Treasury should give it "flexibility to support regeneration objectives, for example on replacement homes."[80] Paul Fiddaman told us that more flexibility from Homes England on replacement homes could have a significant impact: "It seems to me that with a little bit of flexibility in interpretation of [moribund housing], we probably have enough in our locker to be able to do something about it."[81]

71 Q31 [Paul Fiddaman], Q105 [Councillor Heylings] and Q49 [Kate Wareing]
72 Peabody (FSS0023)
73 Q31
74 Q101 [Kathryn Jones]; Qq105–9 [Councillor Heylings, Kathryn Jones, Michael Scorer, Deborah Heenan]
75 Greater Manchester Housing Providers (FSS0027); Peabody (FSS0023); Northern Housing Consortium (FSS0026); Thirteen Housing Group (FSS0029); Local Government Association (FSS0030); PlaceShapers (FSS0031)
76 Northern Housing Consortium (FSS0026)
77 Q49
78 Q212
79 Q215
80 Department for Levelling Up Housing and Communities, *Homes England Public Bodies Review 2023*, March 2024, Recommendations 16 and 14
81 Q49

54. **We welcome Homes England's flexibility on additionality for regeneration funding where that has been possible.** ***The Government must give greater weight to the positive benefits of regeneration so more funding can be made available for regeneration. Homes England should increase the flexibility it offers housing providers on replacing housing that it is not financially viable to remediate.***

55. It has been highlighted to us that despite the financial pressures they are facing, many of the traditional not-for-profit registered providers continue to make significant surpluses. Neil Brown of Inclusion Group cited a gross surplus in the sector of 25%,[82] although the Regulator noted that these margins had declined to 16% in 2023.[83]

56. This income could be put towards remediation and regeneration costs, and it often is. For example, the Regulator's Deputy CEO, Jonathan Walters, noted that registered providers' expenditure on maintaining existing stock rose 76% from 2020–2023.[84] Moreover, the Chair, Bernadette Conroy, indicated that the Regulator would be willing to examine how surpluses are being used to cover remediation costs, saying that when it came to registered providers' use of their surpluses "Existing quality is very much on our agenda."[85]

57. **The ultimate responsibility for ensuring that existing and future social housing is fit for habitation lies with the housing providers. Those housing providers facing the highest maintenance costs may not be the most financially resilient.** ***Nonetheless, where registered housing providers have homes that require major improvements and significant reserves, the Regulator of Social Housing should encourage them to deploy their reserves to remediate and regenerate their existing properties, or to replace them with new ones if necessary. In response to this Report, the Regulator should set out what steps it is doing to achieve this and its assessment of how successful it believes the steps that it has taken have been.***

Impact of regeneration on tenants

58. Some witnesses have expressed concerns about large scale regeneration projects. Although in many cases large scale regeneration may be the only financially efficient way to improve the housing stock, it can cause disruption and loss of amenities for existing tenants, both while the regeneration is ongoing, and once it is completed. The Housing Quality Network, a social housing consultancy, noted that tenants may often have different priorities to housing providers or to one another:

> Some residents may only want repairs and modest improvements while others may favour full-scale regeneration. Councils often want to build more homes (or intensify) the estates to get people out of temporary accommodation. This is not always popular with existing residents as the new homes can result in the loss of parks and gardens, which there is little enough of already.[86]

82 Q172 [Neil Brown]
83 Q245 [Jonathan Walters]
84 Q246
85 Q245
86 HQN Limited (FSS0052)

59. Kate Wareing also stressed the importance of involving tenants in regeneration decisions, saying "Those decisions have to be made carefully and respectfully with the people they impact on most, and that is the people who live there. As much as possible they have to be made with their active consent."[87]

60. Furthermore, Bernadette Conroy explained what the Regulator was doing to ensure tenants were included in regeneration decisions. She noted the introduction in April of consumer gradings in the Regulator's regulatory judgements, which assess how well a provider is delivering against a new set of consumer standards.[88] Ms Conroy said that these new standards will be used "to make sure that landlords are actually talking to tenants" and that, when it comes to regeneration:

> We want to make sure that a dialogue goes on early so that tenants in existing accommodation understand how it will be done and how it will affect them, so they have an opportunity to bring forward their views. Some of the things that you allude to are things they understand themselves and that they can put forward to make sure developers take those on board going forward.[89]

61. **Regeneration should respect the experience of existing tenants, whose lives will be disrupted, as well as those who will benefit from the new or additional homes in the future. An additional challenge is presented when estates contain both social housing tenants and leaseholders, who may be in a more challenging position when looking to move to an alternative property.** ***When the Government, Homes England or the Regulator of Social Housing are involved in regeneration projects, they should insist that the regeneration takes full account of and meets existing tenants' needs wherever possible.***

62. **We welcome the Regulator's efforts to ensure that regeneration projects are properly explained to tenants, and that tenants have had some opportunity to share their views.** ***However, we believe the Regulator must go further to ensure registered providers not only listen to, but appropriately act on, tenants' views, by considering the level of input tenants have in any regeneration projects as part of its consumer standards and requiring that the developers take on board priorities that have been agreed with existing tenants as part of the standard.***

87 Q56
88 The Regulator of Social Housing, *How we approach regulatory judgements*, accessed 17 April 2024
89 Q216

5 Rent

63. One of housing providers' primary sources of income is the rents charged for social housing, which underpin the financial health of the sector.[90] As noted in Chapter 3, the main reason social housing providers' income has reduced is because rents have not increased in line with high inflation. Throughout our inquiry, the sector has called for the Government to quickly agree new rules on rent increases indexed to inflation. However, it must always be remembered that rent increases lead to greater costs for social housing tenants.

The impact of governments' policies on rent

64. The maximum amount social housing tenants pay in rent is set by the Government. Social housing providers make business plans and attract investment based on their anticipated rental income, but in recent years the Government has repeatedly reduced expected limits on rent levels at short notice. The current rules on how much rent social housing providers can charge were set to expire in 2025, but have now been extended to 2026.

Inflation and the rent cap

65. Many witnesses to our inquiry including a large number of housing associations have stressed that, following a decade of steady rent rises, for roughly half of the last decade government policies have unexpectedly reduced social housing rent or capped it below inflation (see Annex B for more detail).[91] The Government has explicitly recognised that "the scale of the financial challenge" is partly due to the rent cap in 2023–24, which limited rent increases to 7%.[92] Under the rent settlement policy the Government instituted for the sector in 2020, the maximum rent registered providers could charge had been expected to rise each year by inflation (as measured by the Consumer Price Index) + 1 percentage point until 2025. Given concerns about the effect of the high rate of inflation on social housing tenants finances, the Government instead capped the maximum permitted rent increases below inflation at 7%.[93]

66. In addition to the rent cap, the social housing sector also had to navigate the rent reduction from 2015 to 2020. Under this policy a planned CPI + 1% annual increase in maximum rent levels was replaced unexpectedly by a requirement on social housing providers to reduce their rents by 1% each year for four years. Piers Williamson told us that this "had a more adverse financial impact in its own way than the current rent cap."[94]

90 Other sources of income include diversification into market sales, student housing, portfolios of commercial property, specialist care, and other areas. (Regulator of Social Housing, *Sector risk profile 2023*, 14 November 2023, para 2.9)

91 Legal & General (FSS0020); Peabody (FSS0023); Great Places Housing Group (FSS0025); Northern Housing Consortium (FSS0026); Greater Manchester Housing Providers (FSS0027); Local Government Association (FSS0030); PlaceShapers (FSS0031); Chartered Institute of Housing (FSS0035); Sanctuary (FSS0041); London Borough of Enfield (FSS0049); Stockport Homes Group (FSS0055); Southern Housing (FSS0059); Clarion (FSS0068); Karbon Homes (FSS0073); Q78 [Piers Williamson]; Q101 [Councillor Heylings]

92 Department for Levelling Up, Housing and Communities (FSS0062)

93 Department for Levelling Up, Housing and Communities (FSS0062)

94 Q78

The impact of this is still being felt today as the reductions lower the starting base for all future percentage increases, meaning that future rents are lower than they would have been.[95]

67. Witnesses from the Chartered Institute of Housing, Newham Council and the Regulator, supported by written evidence from housing associations and other organisations, have all said that rent cap policy was unexpected and the resulting uncertainty make it much harder for the social housing sector to plan ahead and develop their business plans.[96]

68. Changes to rent levels also affect private investment in the sector. For example, Gemma Bourne of Big Society Capital noted that "long-term investors really like certainty over rent-setting, because the less volatility or uncertainty there is in the rents, the more their costs of capital come down, since it enables them to plan for the future".[97] Similarly, Simon Century of Legal and General noted that uncertainty restricted social housing providers' ability to borrow money:

> Ultimately, if a rent settlement is either drastically not what people expected or not what Government had previously said it would be, as was the case in 2015, it leads to an undermining of confidence. Lower levels of confidence lead to less certainty around what the future looks like. That leads to a higher range of possible outcomes, and therefore ultimately the probability, if you are a lender in the sector, that your capital will be repaid goes down. It has a very direct impact.[98]

The rent settlement

69. The current programme of permitted rent increases, referred to as the rent settlement, was set to run from 2020–2025. The Government has yet to announce whether or by how much it intends to allow rent to rise after it ends. Several witnesses have argued that the Government therefore needs to agree a new multi-year rent settlement quickly in order to provide the sector with predictability about its income.[99] For example, Kate Henderson of the National Federation of Housing told us:

> We would like to see Government come forward and consult on the next rent policy for the '25 framework this year. I think that will give us more confidence to be able to respond to that in an evidence-based way so we can see the direction of travel, and work with our investors, our lenders and the credit rating agencies, to give some confidence now, while the market is already in a fairly uncertain position. Ideally we would like to see it come forward now.[100]

95 Clarion (FSS0068)
96 Q3 [James Prestwich]; Q102 [Conrad Hall]; Q207 [Jonathan Walters]; Positive Money (FSS0019); Legal & General (FSS0020); Eastlight Community Homes (FSS0022); Peabody (FSS0023); Big Society Capital (FSS0058)
97 Q139
98 Q187; Piers Williamson concurred (Q91)
99 Q3 [James Prestwich]; PlaceShapers (FSS0031); Sanctuary (FSS0041); Places for People (FSS0044); VIVID (FSS0069)
100 Q32

70. The Government has already acknowledged the need to agree a new rent settlement quicky. In September 2023, then-Housing Minister Rachael Maclean said that a post-2025 social rent settlement will be decided in the first half of 2024.[101] However, the current Minister, Baroness Scott, told us in January 2024 that the Government was now only planning to begin consultations on the settlement "as soon as we possibly can".[102]

71. In April 2024, the Government announced that the current rent settlement, permitting rent increases of CPI + 1 percentage point, will be rolled over for an additional year to cover 2025–2026.[103]

72. Witnesses have suggested that the next rent settlement be indexed to inflation and should last for five to ten years in order to provide certainty to the sector.[104] Peter Denton of Homes England, noted that the fact that social housing is typically inflation linked is a key part of what makes the sector attractive to investors, particularly very long-term annuity funds, such as pensions, and insurance.[105] When we questioned Baroness Scott about this, she told us that the Government "still support the principle that social housing rents should be index-linked over the long term" (as noted above, the Government had capped rent increases below inflation for 2023–24 due to concerns about the impact of the cost of living).[106]

73. Some witnesses have also argued that the rent settlement should include an additional level of increase in order for social housing providers to make up the income lost under the rent cap. Written evidence from London Councils said, "The social housing sector should be enabled to implement a catch-up period following the rent ceiling period so that rents can gradually rise to the position they would have been."[107] Baroness Scott subsequently told us that this was being considered.[108]

74. **The Government's policy on social housing rent increases, and the rent settlement it puts in place to implement this, are the basis of the social housing sector's finances. It is undoubtedly the case that uncertainty about future rental income makes business planning more difficult. Sudden changes to planned rental income, such as the Government's decisions to rescind the planned index linked permitted rent increases and cap permitted rent increases below inflation, caused an increased level of uncertainty and required unplanned business changes for the sector. Rent certainty, particularly for the long term, is greatly valued by private finance and housing providers alike.**

75. ***Accordingly, the next rent settlement should be set for at least five years and should also be linked to inflation. As part of setting the rent settlement, the Government should publish a non-exhaustive list of the types of events that would, in its view, likely lead to the reintroduction of rent caps in the future.***

101 *Post-2025 rent settlement coming in 2024, says housing minister*, hqn, 14 September 2023
102 Q274
103 Department for Levelling Up, Housing and Communities, *New regime to deliver decent homes for social housing residents*, 3 April 2024
104 Liverpool City Region Housing Associations, Onward Homes (FSS0034); Q32 [Kate Henderson]; Q76 [Piers Williamson]
105 Q217
106 Q274
107 London Councils (FSS0018); National Housing Federation (FSS0032); Local Government Association (FSS0030); Qq30 and 33 [Kate Henderson]
108 Q274

The impact of rent increases

76. Rent increases inherently lead to greater costs for tenants. Consequently, witnesses to our inquiry have stressed that tenants should be involved in discussions about setting rent levels. For example, Kate Henderson of the National Housing Federation said that tenants should be "at the heart" of housing strategy and rent policy.[109] Similarly, Jamie Kellett of Abrdn noted that there was also a financial incentive to ensure that rent increases were sustainable "because you would never want to price out your occupiers, and even more so with the social housing sector."[110]

77. As noted in Chapter 4, many housing associations have had high operating margins and been able to build up significant surpluses: Kate Wareing told us that these operating margins had given her housing association the flexibility to hold down rents for some tenants. She stressed that decisions on whether a housing associations' surpluses might be used in this way should be driven by its board.[111] Kate Henderson noted that not every housing association would choose or be able to hold down rents in the way Ms Wareing had described, and that as a result conversations between tenants and landlords really mattered.[112] Fiona Fletcher Smith stressed that "The conversation with residents is important at an individual level because there will be lots of individual circumstances", and argued that these conversations would allow providers and tenants to prioritise competing demands like repairing existing housing or building new homes.[113]

78. **We remain very concerned about the impact of rent increases on social housing tenants. These are some of the most financially vulnerable people in our society. We believe housing associations must bear this in mind when they are setting rent levels, and reflect on the levels of their reserves they may be able to use to hold down rents.**

79. ***Social housing providers should involve their tenants in discussions about rent levels. When rent rises are being considered providers should explain to residents why such rises may be necessary. The Regulator should proactively assess how registered providers use their reserves not only as an indication of financial viability, but also as an indication of providers' governance, value for money and responsiveness to tenants.***

80. We are also aware that a significant percentage of rent is ultimately paid for by Government. Kate Wareing of Soha told us that "In my operating area I see more and more groups of people's housing costs being met by Government expenditure that is Home Office spend or it is about spend coming out of care leaver budgets."[114] One witness estimated that the Department for Work and Pensions covers roughly 60% of social housing rents..[115]

81. **A significant percentage of rent in the social housing sector is ultimately borne by the Department for Work and Pensions through benefits. As a result, rent increases could end up transferring costs onto central Government finances.**

109 Q34 Paul Fiddaman agreed that a rent settlement focused on affordability for residents was "the right way to go" (Q37)
110 Q70
111 Q36
112 Q37
113 Qq31 and 37
114 Q31
115 Q68 [Piers Williamson]

82. ***The Government should set out in its response to this report what role the Department for Work and Pensions will have in future discussions about rent settlements. When a rent settlement is agreed, the Government should write to us to inform us what impact it expects the change in rent to have on housing benefit costs.***

6 New financing models

83. For-profit investment already has an important role in financing social housing. Historically, this has been through traditional commercial lending like bank loans. However, more recently, there has been a growing number of new financing models employed in the social housing sector including equity investment[116] and for-profit registered providers[117] (FPRPs) of social housing. These new financing models are complex and diverse: our inquiry has looked in particular at FPRPs as this is a form of equity investment that has been raised by witnesses as the biggest shift for how the sector is financed. Although witnesses were divided on whether new financing models had increased financial risk for themselves or the sector, there was general agreement that FPRPs and registered providers using new financing models both face different risks to traditional not-for-profit registered providers.

History of for-profit financing in social housing

Traditional commercial lending

84. Most registered providers are not-for-profit organisations, generally housing associations, but for-profit financing already plays an important role in providing money for social housing through the traditional commercial lending of loans and bonds. John Marr of UK Finance told us that "we have total agreed private borrowing of around £123 billion in the sector at the end of March this year [2023]. Of that, around 49%, or £60 billion, is traditional bank lending, and 48% is from capital markets."[118] James Prestwich of the Chartered Institute for Housing told us that "housing associations, particularly in recent years, have increasingly used the bond market, either public or private placement, but loans remain a key part of the way in which a housing association sets out to fund its development and its business plans".[119] (A brief summary of the different types of investment can be found in Annex A: Glossary of Terms)

New financing models and for-profit social housing providers

85. In recent years, new financing models have emerged in the social housing sector through equity investment. Within the context of social housing, this is generally understood to mean an investor owning or funding the development of the underlying assets, typically the properties themselves. They would then work with a housing association or local authority to manage the properties.[120] This can involve organisations establishing and financing their own for-profit registered provider (FPRPs).[121]

86. FPRPs are currently a very small part of the sector, making up only 0.7% of total social housing stock in 2021/22.[122] The Regulator of Social Housing told us that as of

116 As explained in more detail below and in Annex A, equity investment is when the investor takes ownership of part of the organisation through the investment.

117 As outlined in Chapter 1, a registered provider is an organisation registered with and regulated by the Regulator of Social Housing. Although some providers, both for-profit and not-for-profit, are not registered with the Regulator, our inquiry has focused on registered providers.

118 Q61

119 Q2

120 Qq62–3 [Jamie Kellett]

121 Ibid.

122 Savills, *Spotlight: Private Capital and Affordable Housing*, 2 May 2023

March 2022, there were 69 FPRPs with "a combined stock holding of 21,000 properties and total combined equity and debt investment of £3.2bn." It stressed that in contrast "large not-for-profit private registered providers had 2.8 million properties valued at £173bn as at March 2022."[123]

87. However, we have been told that FPRPs are growing at a significantly faster rate than not for-profit housing providers: for-profit providers made up only 4% of the register but 22% of new registrations.[124]

Comparative risk of for-profit and not-for-profit social housing

88. The increasing complexity of how housing providers raise money influences the financial risk they are exposed to and the complexity of regulating the providers both individually and as a sector. In recognising this, the Regulator has stated that equity investment "will carry different risks and rewards from the traditional debt-funded model" and that the difference between for-profit and not-for-profit providers must be considered as part of their governance and financial viability assessments.[125] It notes in particular that "for-profit providers have different capital structures and cash flow dynamics and are often part of wider groups of connected companies rather than standalone organisations."[126]

89. Some of the evidence we have received has argued that the increasing role of new financing models in the social housing sector poses a risk to the financial stability of the sector. Positive Money, an advocacy group, has stated that "Overseas examples of the medium and long term impact of private equity investment and for-profit development indicate that in fact these structures are highly risky."[127]

90. In contrast, the Aster Group, a housing association, said that they "do not necessarily see [equity investors] as a challenge to the sector" and that they "do not find that for-profit providers have an impact on our own development programme or our financial resilience as overall demand for affordable homes significantly outstrips the sector's development programmes."[128]

91. In addition, some for-profit investment, both traditional commercial lending and new financing models, will act to de-risk the housing providers involved. Piers Williamson and Jamie Kellett both noted that investors wanted to ensure that the social housing providers they financed were financially stable.[129] Paul Fiddaman told us:

> [T]he sector is a huge borrower of money from banks, building societies and financial institutions and that comes with an obligation to demonstrate the ability to pay that back, which ultimately boils down to a measure of financial performance that they will expect to see and build into loan covenants.[130]

123 Regulator of Social Housing (FSS0017)
124 Positive Money (FSS0019)
125 Regulator of Social Housing (FSS0017)
126 Ibid.
127 Positive Money (FSS0019)
128 Aster Group (FSS0047)
129 Q70; Neil Brown agreed (Q143 and 169)
130 Q43 John Marr and Piers Williamson agreed that associations that borrowed money were subject to effective scrutiny from their investors and credit rating agencies (Q88).

92. The Regulator of Social Housing told us that their view was that "for-profit providers do not have a significant effect on the sector's overall financial performance and robustness" based on the fact that FPRPs remain a very small part of the sector.[131] They had rigorous safeguards for any organisation attempting to set up as a registered provider of affordable housing, and the UK's restrictions on rent increases and the sale of social housing on the open market would protect against the situations Positive Money had warned about.[132] Steve Collins of RentPlus, agreed that the UK already had appropriate safeguards in place to manage the risks of for-profit investment in the sector, without the need for further legislation.[133]

93. Steve Collins added that the financial risks a provider faced depended on their own individual arrangements.[134] John Marr concurred, and stressed that it was the responsibility of each housing provider's board to ensure that it had "the right skills, the right experience and the right mix of those to suit the business."[135]

94. **The for-profit financial models involved in social housing are evolving and can be more complicated than traditional financing models. However, we are optimistic that new financing models have some role to play in generating the investment that the sector as a whole needs, although these new models do need careful and effective regulation.**

The Regulator's understanding of for-profit investments

95. During our inquiry, we have had concerns that the Regulator of Social Housing does not have the ability to understand and oversee the new FPRP and equity investment models. In particular, witnesses have expressed concern about:

- the level of oversight of for-profit structures;[136]
- the Regulator's ability to act swiftly;[137]
- a focus on information gathering over proper understanding and analysis;[138] and
- whether the Regulator had adequate expertise, including staff with a commercial background and experience regulating a for-profit sector.[139]

96. Several witnesses noted that the main challenge that the Regulator faced was the need to keep up with the speed of change and increasing complexity in the sector's financial arrangements.[140] For example, John Marr said there was "a need for the regulator's skills and resources to be able to keep pace and probably to be one step ahead of where the sector is going " and predicted that this would require the Regulator to raise fees to cover

131 Regulator of Social Housing (FSS0017)
132 Q221, Q225
133 Qq167–8
134 Ibid.
135 Q86
136 Positive Money (FSS0019)
137 Savills Investment Management, Simply Affordable Homes RP Limited (FSS0057)
138 Q163
139 Optivo (RSH0044)
140 Eastlight Community Homes (FSS0022); Q82 [Piers Williamson]

increased oversight costs.[141] Furthermore, Neil Brown of Inclusion Group specifically criticised the Regulator in this regard, claiming that its attitude is "let us not adapt to the new models coming forward."[142]

97. In response to these concerns, we asked the Regulator what they had done to ensure that it had the resources necessary to understand and regulate FPRPs. Jonathan Walters, Deputy Chief Executive at the Regulator, told us:

> We have had a dedicated team that we have recruited. We attract people from across a range of sectors. We have a lot of accountants and a lot of ex-auditors. We have a lot of people who have that commercial experience on our teams.[143]

98. We also questioned the Minister, Baroness Scott, about this. The Minister told us that she had been reassured by the Regulator that it has "clearly understood what is happening and they are controlling those providers."[144]

99. **We are pleased that the Regulator has taken steps to ensure that it has the adequate skills and resources which are required for it to have an effective understanding and scrutiny of the new financing models emerging in the sector, particularly equity investment and for-profit registered providers. Nonetheless, for the Regulator to properly understand the role of new financing models it will need to adopt a rigorous process of continuous improvement, including assessing whether its skills and resources remain adequate.**

100. ***Accordingly, we recommend that the Regulator must regularly conduct reviews of its own understanding of and ability to scrutinise new financing models in the social housing sector. These reviews must be published biannually in order to provide reassurance and transparently share some of the key challenges that the Regulator faces.***

101. ***Furthermore, the Regulator must ensure that, as part of its governance ratings, it examines whether registered providers' boards and executive teams have individuals with sufficient expertise in the financial models the provider is using. Registered providers must demonstrate that they properly understand any capital markets and financial products they are exposed to.***

141 Q80
142 Q163
143 Q221
144 Q261

7 The result of financial pressure: fewer new homes

102. As noted in Chapter 2, there is a clear consensus that more social housing must be built in England. However, the main impact of the financial pressures on the social housing sector is that many social housing providers are building fewer new social homes. Although these housing associations have been able to remain financially secure as a result of reducing their spending on building new social homes, this has only exacerbated the existing chronic shortage of social housing.

103. In this Chapter, we discuss the extent to which social housing providers are reducing the number of new homes they are building. We then discuss the following possible ways of increasing funding for social housing development and how these can be most effectively targeted:

- Government grant;
- Private investment; and
- Land value capture.

We also discuss the particular challenges that local authorities face when seeking to build social homes around housing debt, and solutions to them.

Deprioritising development

104. Several witnesses have suggested that, as a result of reduced income, social housing providers are having to choose which spending plans to cut "in order to remain viable in the long term".[145] We have heard that, at least broadly, providers have started to prioritise spending on fire safety, making homes decent, and energy efficiency -- and therefore they have cut back their spending on the development of new social homes.[146] For example, Fiona Fletcher-Smith told us that her housing association, L&Q,:

> are prioritising investment in existing homes' safety. We still continue to build [new social homes], but at a much lesser rate than we have in the past. […] In the affordable housing programme that finished in 2021, we built 11,000 new homes in London. This year, in this programme, we are bidding for 1,000. It is a dramatic drop.[147]

105. Similarly, Jonathan Walters, Deputy CEO of the Regulator of Social Housing, confirmed that the Regulator was seeing this issue occur across the social housing sector. He told us that:

145 Quote from Johnnie Johnson Housing (FSS0021). Similar comments were made by Great Places Housing Group (FSS0025), Jonathan Walters, Deputy CEO of the Regulator of Social Housing (Q246) and Kate Wareing, SOHA (Q30)

146 Johnnie Johnson Housing (FSS0021); Eastlight Community Homes (FSS0022); Peabody (FSS0023); Northern Housing Consortium (FSS0026); GreenSquareAccord (FSS0028); Thirteen Housing Group (FSS0029); PlaceShapers (FSS0031); Liverpool City Region Housing Associations, Onward Homes (FSS0034); Chartered Institute of Housing (FSS0035); Homes for the North (FSS0040)

147 Q30

> What we are seeing at the moment is that the sector is beginning to balance away a little bit from new supply. Typically, we are seeing organisations looking to build slightly fewer homes but still looking at building tens of thousands of homes each year.[148]

106. **It is deeply concerning that as a result of financial pressures on social housing providers less new social housing will be built. This will further exacerbate the chronic shortage of social housing and will place further unacceptable pressure on those in need of social housing.**

How to address the drop in new homes

107. Throughout our inquiry, we have heard that the only way to address this worsening shortage of social housing is for social housing providers to receive additional support for development. We have heard proposals for supporting development through government grant, private investment, land value capture, or a combination of all three. In addition, we have heard about how local authorities could be provided with relief from housing debt, to enable them to better build more social homes.

Government grant

108. A Government grant is when the Government provides direct payments to fund the construction of new social homes. A principal source of this is the Affordable Homes Programme which, outside of London, is delivered by Homes England with £7.39 bn of funding expected to be made available between 2021 and 2026.[149]

109. Several housing associations have told us that current Government grants are not sufficiently meeting their needs. For example, Fiona Fletcher-Smith told us "Grants for new building are available but they are not big enough, simply not big enough."[150] Similarly, James Prestwich told us that "the last time that we were building, as a nation, the homes that we needed … was when the state played a significant role, [with] large-scale local authority house building and preferable grant rates to enable us to develop".[151]

110. Witnesses have emphasised to us that the level of grant available for building social housing has decreased steadily over recent decades.[152] For example, Piers Williamson of The Housing Finance Corporation told us that in 1987 development of social housing was funded 90% by grant, reducing to 50% by the early 2000s, and 15% in recent years. The reduction in grant was generally replaced by borrowing money (the traditional commercial lending described in Chapter 6).[153]

111. When we asked the Minister, Baroness Scott, what the Government would do to help social housing providers build more social housing she said:

148 Q207

149 Department for Levelling Up, Housing and Communities, *Apply for affordable housing funding*, 11 December 2023. Inside London the Affordable Homes Programme is delivered by the Greater London Authority.

150 Q46 Paul Fiddaman agreed (Q31)

151 Q27

152 The National Housing Federation (FSS0032), Q12 [James Prestwich]; Q45 [Fiona Fletcher-Smith]; Q109 [Conrad Hall]

153 Q67

> [W]e [the Government] do not believe there is any funding gap at the moment. That does not mean to say that we do not recognise that resources in the sector are not unlimited. […] The Government does help, and will continue to help, with grant on specific issues. It has been difficult, but I do think the sector is managing things, and has managed things, and we will continue to support them.

112. **The current low levels of direct Government grant available to housing associations to build new social homes has received justified criticism from housing associations for being inadequate. We reiterate the conclusion in our 2020 report that the Government must invest significantly to fund the building of new social homes.**

113. ***The Government should make an assessment of the extent to which a significant increase in grant funding for social housing development would allow the sector to build more homes and the overall balance of revenue and capital funding together with other sources of private finance and available subsidies.***

114. ***The Government must also calculate the increase in grant funding for social housing that would begin to have a significant impact on the provision of more new homes.***

Private investment and for-profit registered providers

115. During our inquiry, we have also heard that private investment, including for-profit registered providers (FPRPs) present an opportunity to fill the gap in social housing development. For example, Simon Century told us that private sector investors (the source of much of the money behind the new financing models we have described above) could do a lot to fill the gap in social house building.[154] Gemma Bourne also agreed, specifically noting the potential of private impact capital (investments that aim to both return a profit and solve a social issue).[155]

116. For-profit registered providers in particular are disproportionately important in the delivery of new social housing. Recognising this, the Regulator of Social Housing told us that, even though FPRPs make up only a small percentage of social housing providers, they "are starting to have an impact at a sector level in terms of the proportion of new supply they are delivering."[156]

117. Moreover, witnesses have told us that this is because, as new entrants into the sector, FRPR do not face the same financial pressures as long-established social housing providers. For example, Midland Heart housing association have explained that:

> Legacy social landlords face not only the cost of developing additional supply, but also the costs detailed above as they are required to remediate and improve their existing homes. This may mean that 'for profit' RPs and other new entrants to the sector become the primary vehicles for new development as others struggle with the increased costs and limited incomes discussed. … There is a risk that [for-profit providers] become

154 Q183
155 Qq135–136
156 Regulator of Social Housing (FSS0017)

> the primary developers of affordable housing and current social landlords become managers of deteriorating stock. In our view, this would be to the detriment of the sector.[157]

118. As well as FPRP, we have also received written evidence detailing how partnerships and joint ventures between housing associations and investors "can contribute to the delivery of new affordable homes".[158] The Chartered Institute of Housing provided examples in written evidence of investors buying and leasing homes to registered providers for a set period, investors jointly owning some social homes with a housing association, or investors purchasing blocks of established shared ownership homes from a housing associations. They told us that all of these examples provide income for housing associations that could be used to fund development of new housing.[159]

119. However, some witnesses have warned that not all investors would be appropriate partners. Badly designed investment models, such as Home REIT, can lead to poor outcomes for tenants and poor housing quality in order to maximise the return on investment.[160] Jamie Kellett told us that the social housing sector "is not the place" for investors looking for high returns, who aren't intending to invest in the sector for the long-term.[161] Gemma Bourne warned that investors entering the sector needed to come in with the right motivations: "it is not just a financial solution that is needed. Any private capital coming into the sector would benefit from a more impact-focused approach."[162] Simon Century agreed that "it is right that we are careful, as a sector, about the types of investors that should be playing in the sector and those that probably should not."[163]

120. When we questioned, the Minister, Baroness Scott, about this she told us that the Government would support more institutional and other private sector investment to deliver additional social housing. However, she did add that this was on the basis " that they [FPRPs] are regulated properly".[164]

121. However, Steve Collins and Dave Meseck both reported that there were challenges getting local authorities to engage with private investment.[165] Mr Collins argued that the Government could encourage more private investment by making it clear to local authorities that it was safe and supported. He told us that local authorities:

> do not trust institutional investment funds because they do not really understand these models. … The resolution is quite simple: a letter from Government to local authorities, giving them confidence that institutional investments are okay and confirming that these innovative models, if they can demonstrate that they are compliant with the National Planning Policy Framework, should be delivered to meet the needs of a growing and variable demographic within that local area.[166]

157 Midland Heart (FSS0014)
158 G15 (FSS0016)
159 Chartered Institute of Housing (FSS0035)
160 Q172 [Gemma Bourne]
161 Q94
162 Q145 She defined "impact investing" as "contributing to solutions" (Q136).
163 Q183
164 Q262
165 Q180 [Steve Collins] Q136 [Dave Meseck]
166 Q180

122. The Minister also agreed that local authorities should work more closely with for-profit social housing providers "but I think they are a bit scared of it at the moment. We perhaps need to hold their hands a little more with it." She noted that the Department was supporting local authorities to do this and was open to providing any further assistance they needed.[167]

123. **Properly motivated and regulated private investors present a real opportunity to increase the building of social housing.** ***The Government should set out its assessment of how many new social homes for-profit registered providers can be expected to build over the short and long term. In addition, the Government should engage with local authorities to explain the role it wants institutional investors to play in the social housing sector.***

Allocation of Government grant and private investment

124. Much of the evidence that we have received has raised concerns that the government grant and private investment is not allocated as efficiently as it otherwise could be. However, it has been highlighted to us that if the Government properly targeted the funding available by social housing tenure then this could deliver social housing more efficiently.

125. Witnesses have argued that private investment including for-profit providers could deliver a large amount of affordable rent housing without grant funding.[168] Steve Collins of RentPlus explained to us that:

> Some [social housing] products do indeed require grant to make them stack up, and I would argue that social rented properties and high-dependency, supported living-type accommodation are paramount and should be receiving high levels of grant.
>
> Affordable rent, rent-to-buy and shared ownership do not need grants. We have demonstrated that we can deliver an affordable rented product for up to 20 years and convert people into home ownership without the need for Government grant whatsoever.[169]

(For clarification of the distinction between social rent and affordable rent see Annex A: Glossary of Terms.)

126. Mr Collins also estimated that the £11.5 billion-worth of Affordable Homes Programme grant allocated to affordable housing in the 2021 to 2026 programme could instead deliver anywhere between 200–300,000 additional social rent properties.[170]

127. Peter Denton of Homes England agreed that private investment could complement the not-for-profit sector and therefore this could "fill the gaps, I would say, where the housing associations have put focus elsewhere." However, he said that he would expect

167 Q265
168 Qq136, 145–6, 151 [Neil Brown]; Q151 [Gemma Bourne, Steve Collins] We note that, although they do not receive grant from government, the examples we have seen have involved buying homes built under section 106 agreements (Q148 [Steve Collins]), or rent paid by housing benefit (Q179 [Neil Brown]), which are sometimes considered forms of indirect grant.
169 Q138
170 Q138

not-for-profit housing providers to cover both social and affordable rent, while for-profit organisations provided shared ownership accommodation.[171] Jonathan Walters also agreed that shared ownership was "a very natural home" for FPRP and equity investment.[172]

128. However, despite this, we were told that government grant is currently focused on affordable rent and shared ownership.[173] In particular, Simon Century of Legal and General said:

> At the moment, subsidy provision, both under section 106 agreements and via the grant programme utilised by Homes England and the GLA, is far more weighted towards affordable rent and shared ownership than social rent.[174]

129. We asked the Minister, Baroness Scott, why government grant wasn't targeted at developing social rent homes. She told us "I think we need a mixed tenure. [Social rent] is the most difficult to fund, but there is also a necessity for affordable housing. … [M] any people in this country aspire to getting on the housing ladder, and some affordable homes will help them to do that, so we do have to have a balance. But I would agree with you that, at this time, social housing for rent is one of the biggest challenges we face in the housing market."[175]

130. There would also be some challenges with refocusing grant on social rent. Peter Denton of Homes England noted that, although the Affordable Homes Programme was now prioritising social rent housing, "that is a message that has not been heard for a while" and would require significant changes to housing associations' business models.[176]

131. Despite Homes England and the Regulator telling us that housing associations require a clear message on how much social housing they will be expected to provide, the Government has been unclear about its targets for social rent. The Secretary of State has recently reiterated an ambition for 30,000 net additions of social rent homes a year, which he called "a stretching but achievable goal".[177] However, when we asked the Minister, Baroness Scott, how many social rent homes would be built in the current Affordable Homes Programme period, she told us "I am not going to give you a figure for how many. We will do as many as we can".[178]

132. Emma Payne, Director for Social Housing and Resettlement, told us that the Government is still working on agreeing revised targets for the Affordable Homes Programme with delivery partners and that they would be announced "in due course".[179] The Permanent Secretary has since confirmed that these new targets "will include targets for tenure".[180]

171 Q226–228
172 Q220
173 Crisis (FSS0012); Q14 [James Prestwich]
174 Q184
175 Q267
176 Q229 Bernadette Conroy of the Regulator of Social Housing, was also cautious about the changes it would require to housing associations' business models (Q230)
177 *The Inside Housing interview with Michael Gove: cross-party realisation we need more social rent*, Inside Housing, 5 March 2024
178 Q250
179 Qq252–253
180 Letter from the Permanent Secretary, DLUHC, to the Chair dated 22 March 2024 responding to the Chair's letter of 1 March

133. We also asked Baroness Scott what steps the Government was taking to ensure that the grant was focused on social rent homes. She highlighted that the Government "is now looking at having a much greater focus on using that [Affordable Homes Programme] money for socially rented homes" but said that it was "up to Homes England" to ensure best value for money on grant allocation.[181]

134. **The Government has failed to set out the rationale for the decision to focus the inadequate grant on developing affordable rent homes. *There should be an early assessment of the adequacy of grant funding allocations within the remaining Affordable Homes Programme and how much social rent is to be supported, together with an assessment of the role of appropriate private investment providing affordable rent or other forms of tenure in order to free up grant funding to better support more social housing provision.***

135. ***The Government must start by providing a clear direction for the social housing sector: it should publish a target for how many social rent homes it intends to secure, and explain the reasoning behind it. The confusion and delay around targets must end now. The Government should set clear targets for net additions of social rent, affordable rent and shared ownership under the Affordable Homes Programme and should provide these in its response to this report.***

Land Value Capture

136. Broadly, land value capture policies, e.g. section 106 agreements, use the change in the financial value of land as of result of granting planning permission to fund Government objectives including the building of social homes. Both national and local land value capture policies have an important role in the financing of social housing development. However, there are concerns that the new Infrastructure Levy, a specific land value capture policy, will be less effective than the system it replaces.

137. Land value capture is a significant form of funding for social housing: section 106 agreements have accounted for between two thirds and one third of social housing over the years, and is now responsible for around 43% of social housing. Professor Tony Crook has described this as "landowners who benefit from planning permission effectively paying for the affordable housing we need" by getting a lower price for their land.[182]

138. Kate Wareing of Soha Housing noted the importance of local, as well as national, planning policies. She suggested that requiring all section 106 homes to be social rent would reduce the cost of social housing, especially in more expensive areas. She told us:

> That suppresses the land value. If it is done with notice, it is not the building companies in the middle who are in a difficult position. All it means is they reduce the price that they would pay for their land.[183]

139. Our 2020 Report identified the opportunity for the Government to reduce the costs of building social housing through land value capture reforms and changes to the Land Compensation Act 1961. Accordingly, our Report recommended:

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181 Qq266–7
182 Qq22–24 [Prof Tony Crook and James Prestwich]
183 Q31

The Government should amend the Land Compensation Act 1961 so local authorities and development corporations have the power to compulsorily purchase land at a fairer price. The present right of landowners to receive 'hope value' reduces revenues and opportunities for social housing.[184]

140. The Levelling Up and Regeneration Act went some way to removing hope value, by allowing hope value to be ignored for compulsory purchase orders (CPO) for housing. When making a CPO, local authorities will be able to apply to the Secretary of State for permission to value the land without taking account of any future planning permissions.[185]

141. ***The Government and local authorities should more actively use their planning powers to ensure that the price of land does not inhibit the development of new social homes. We believe that land value capture should be part of the process for funding new social housing, especially for new towns and large sites. We recognise that the Government has gone some way towards this in the Levelling up and Regeneration Act and the Secretary of State should now be prepared to demonstrate greater flexibility in granting permission for local authorities to adjust value mechanisms under the Act.***

Infrastructure Levy

142. The Infrastructure Levy is a change to the current system of section 106 agreements and other developer contributions introduced by the Levelling Up and Regeneration Bill, and which is currently being piloted in some areas. The Levy is likely to make social housing development harder because it will reduce the amount of money spent on social housing. The Government response to our 2020 report said that it expected the Levy to raise more revenue that section 106,[186] but this inquiry has found this is unlikely to be the case.

143. Multiple witnesses have expressed concern that the introduction of the Infrastructure Levy and removal of section 106 provisions may reduce the amount of funding available for new social housing.[187] Prof Tony Crook told us "I am not convinced personally that the levy will secure at least as much affordable housing."[188]

144. Analysis by Legal and General indicated that levies like the Infrastructure Levy would reduce the number of affordable homes built because they resulted in a sizeable portion of the contributions developers had to make being held as cash and left unspent.[189]

184 Housing, Communities and Local Government Committee, Third Report of Session 2019–21, *Building More Social Housing*, HC 173, para 36. Hope value is a valuation of land based on what it could be used for. It reflects how likely that land is to receive planning permission for a use that could increase its value, e.g. if it was likely that a planning authority would allow housebuilding on a field currently used for crops, the land's hope value would be significantly higher than its current value as farmland.

185 Levelling Up and Regeneration Act 2023, section 190

186 Department for Housing, Communities and Local Government, Government Response to the Housing, Communities and Local Government Select Committee report on the Long-term Delivery of Social and Affordable Rented Housing, October 2020, CP 299, page 5

187 Q91 (John Marr); Eastlight Community Homes (FSS0022); Peabody (FSS0023); Great Places Housing Group (FSS0025); Greater Manchester Housing Providers (FSS0027); Chartered Institute of Housing (FSS0035); The Guinness Partnership (FSS0036); Greater Manchester Combined Authority (FSS0064); London Councils (FSS0018); London Borough of Enfield (FSS0049)

188 Q19

189 Legal & General (FSS0020)

145. The Minister, Baroness Scott, rejected concerns that the Infrastructure Levy would lead to a reduction in social housing delivery. However, although she said that changes had been made to make housing a greater part of the Levy and that she expected this to include social housing, she did not explain what mechanisms were in place to achieve this other than that social housing would be “part of the discussion”.[190]

146. We have received various suggestions for how the Infrastructure Levy could be improved.[191] In particular, James Prestwich told us “the key point is it is probably not too late for reforming section 106 and I think that is where the industry would like us to get to.”[192] Prof Tony Crook agreed, saying “My personal view—I emphasise “personal”; I am sorry to be slightly tight about that—is that it might be much better to retain section 106 and CIL, and undertake the reforms that are necessary, so that we can secure the affordable housing and infrastructure that we need. Many developers I know are saying that”.[193]

147. ***The Government should critically review the results of the Infrastructure Levy pilots and carefully consider suggestions for improvement, including a possible requirement to deliver a certain amount of the Levy as on-site social housing. This should include the possibility of replacing the Levy with a reformed section 106 system.***

Local authority housing debt

148. Witnesses have suggested that one effective way to provide more funding for social housing development would be cancelling all or some of local authorities’ historic housing debt.

149. Southwark Council suggested in written evidence that some historic debt that had come onto some local authorities’ accounts in 2012 as part of a change in how local authorities’ social housing was financed could be cancelled, freeing up more money to fund social house building.[194] Conrad Hall from Newham Council noted that debt cancellation had financial advantages for local authorities over increasing grants for building by the same amount:

> [M]oney is money. […] It does not really matter, from my point of view, whether it is a reduction in debt or an increase in grant in order to fund activities.
>
> There is a really significant point of distinction from the local authority side, though. If you cancel debt as opposed to giving grant, once it is cancelled, it is cancelled for good. It comes back to my point about long-term certainty. We then know that we have a different financial base from which to work and we can make plans on that accordingly.[195]

190 Qq278–280
191 Q25 [James Prestwich]; Homes for the North (FSS0040); Stonewater Ltd (FSS0039); Community Land Trust Network (FSS0006)
192 Q25
193 Q19
194 London Borough of Southwark (Southwark Council) (FSS0072)
195 Q119

150. David Hall, a former housing association finance professional, told us in written evidence that in 2012 around £8bn was added to local authority housing debt when changes were made to the way social housing in local authorities was accounted for and financed as part of a plan to allow local authorities to operate more like housing associations:

> The original principle behind the proposal … was to redistribute the existing local authority housing debt of around £18.8bn across remaining authorities …
>
> However, the final consultation proposals capitalised an additional £8bn of notional future revenue to the exchequer leading to a total debt of £26.8bn being distributed to local authorities in 2012. … The £8bn was effectively a payment to government which went into the wider government coffers at the time rather than the social housing sector.[196]

151. **Reducing local authorities' debt could be an effective way for some authorities to provide greater funding for building social housing. It may be possible to cancel some of the additional £8bn debt attributed to local authorities in 2012. We were not able to ask the Minister for the Government's position on this.** ***We recommend that this is reviewed on a case-by-case basis.***

196 David Hall (FSS0071)

8 The results of financial pressure: risk of individual insolvencies

152. As noted through this Report, the social housing sector as a whole is resilient, but some housing providers are under more financial pressure than others. If an individual registered provider became insolvent and defaulted on its loans it could have a further negative impact on the finances of other social housing providers because if would decrease investors' confidence in the sector and raise social housing providers' borrowing costs.

Financial viability of individual housing providers

153. Despite the fact that the sector as a whole has been able to demonstrate resilience under significant financial pressures, there is an increased chance some social housing providers may encounter serious financial difficulties, potentially becoming insolvent and unable to repay loans or pay bills.

154. Many witnesses have noted that the Social Housing Regulator has downgraded the financial viability ratings of a number of social housing registered providers from its highest financial viability rating (V1) to its second highest (V2) which indicates greater financial risk. Moreover, the number of V2 ratings has increased from 30% of registered providers to 60% over the last few years.[197]

155. Furthermore, Jonathan Walters, Deputy Chief Executive of the Social Housing Regulator, emphasised his concern about housing associations with a V3 rating. He explained:

> We now have a small number of traditional housing associations at V3, which is unusual. […] If you are at V3, you have, effectively, as an organisation, ceased to be able to determine your own future independently.[198]

156. More generally, some industry experts have also warned that financial risks are not spread evenly throughout the social housing sector. For example, Felix Ejgel of S&P Global Ratings explained:

> All other things being equal, bigger housing providers have more flexibility in managing the spending side, in particular. They can rearrange or delay things and can find savings here and there.
>
> […] At the same time, because they know they have flexibility, the larger providers tend to be involved in larger schemes and riskier activities. That is why we may find examples of relatively risky large providers and relatively safe small providers.[199]

197 Q233 [Jonathan Walters]; Great Places Housing Group (FSS0025); Greater Manchester Housing Providers (FSS0027); Thirteen Housing Group (FSS0029); The Guinness Partnership (FSS0036); Aster Group (FSS0047); Department for Levelling Up, Housing and Communities (FSS0062). The Regulator's financial viability ratings run from V1 to V4 and are defined here: Regulator of Social Housing, *How we approach regulatory judgements and gradings*, 29 February 2024

198 Qq233–234 A full description and definitions of the Regulator's economic viability ratings can be found here: Regulator of Social Housing, *Regulatory judgements and notices, and gradings under review*, 6 March 2024

199 Qq195–196

157. In particular, Jonathan Walters of the Regulator and Piers Williamson of the Housing Finance Corporation have both expressed concern about housing associations in London and other large cities with many flats that require extensive remediation work, particularly around fire safety.[200] Mr Williamson noted that these organisations "tend to have been the big volume developers of social and affordable housing and affordable home ownership. Their business model has been the most pushed."[201]

Housing Associations defaulting

158. Some witnesses raised the possibility that if an individual registered provider became insolvent and defaulted on its loans it could have a further negative impact on the finances of other social housing providers. In particular, witnesses warned that if an individual housing provider was unable to pay back its creditors, then this would undermine the sector's reputation for stability and make lenders more cautious about lending to other providers.[202] For example, the Aster Group told us in written evidence that this would have "a huge impact on the sector's ability to borrow at reasonable interest rates in the way we do now, risking our development programmes and our service delivery."[203]

159. Piers Williamson and John Marr both noted that insolvencies at individual housing associations are relatively rare and in most cases can be—and in the past have been—managed by investors, other housing associations and the Regulator. This has prevented any loss to investors through defaults on the loans. Nonetheless, Mr Williamson could not rule out an insolvency the sector could not manage:

> It would be wrong to say that housing associations do not go wrong. They do go wrong. The good thing is that, four times out of five, they go wrong slowly. … The one that you have to look out for is the fifth.[204]

160. However, Felix Ejgel of S&P Global was more positive, noting that, even if a housing association did default on its loans, it still was not certain that it would impact investment. He stressed that, although these concerns were real risks, they were yet to materialise: "It remains to be seen what would happen … if there were a default because the sector has not recorded any noticeable defaults so far." He added that the impact of a default would depend on the circumstances around it.[205]

The role of the Regulator if a housing provider defaulted

161. Two of the Regulator of Social Housing's stated responsibilities are to "ensure that [registered] providers of social housing, who are registered with us, are financially viable" and to "to support provision of social housing sufficient to meet reasonable demands (including by encouraging and promoting private investment in social housing)".[206] As such, the Regulator has a clear role in proactively supporting the financial viability of individual registered providers as well as the social housing sector as a whole.

200 Q65 [Piers Williamson]; Q238 [Jonathan Walters]
201 Q65 [Piers Williamson]
202 Q79 [Piers Williamson]; Simon Century agreed that if financial risk in the sector increased, ratings would drop and the cost of borrowing would increase (Q190)
203 Aster Group (FSS0047)
204 Q79
205 Q188
206 The Regulator of Social Housing, About Us, accessed 11 April 2024

162. Simon Century of Legal and General explained to us that the Regulator had a number of options for intervention if a housing provider was at risk of insolvency, some of which could be deployed early:

> Over several decades now, the Regulator's toolkit, which keeps getting perfected, has been extremely powerful. That toolkit is a vast array of things. It ultimately ends up with a quiet conversation in the background to try to lead to a white knight type situation. Before that, it starts off with things like your quarterly returns and your KPIs. "What is going on?" It is then your annual reports. It is a whole swathe of things.[207]

163. Historically, one of the main tools for rescuing a registered provider that had fallen into financial difficulties was to merge with a larger, better resourced housing association. However, several witnesses have noted that the sector "is concentrating into an increasingly small pool of larger providers"[208] and that as a result it may become increasingly challenging to find the larger housing association necessary for a merger.[209]

164. UK Finance has advised that in this situation a very large housing association might need to be split up.[210] The Housing Finance Corporation has said that the Regulator "has the appropriate framework in the HA Insolvency Regime to deal with a so-called "too big to fail".[211]

165. We asked the Regulator how they would manage the insolvency of a large housing organisation. Jonathan Walters told us that:

> [A] very large organisation would be rescuable, but it would be very hard work. It would be better for us all if we never got to the point where we were having to try to break up a very large organisation.

Consequently, he said that the Regulator was engaging more often with larger housing associations.[212]

166. **We recognise that the social housing sector is, as a whole, financially resilient. However there remains a very real possibility that individual housing associations may come close to insolvency. One housing association defaulting on its loans could have a knock-on effect on rest of the social housing sector's ability to attract investment and thereby increase the financial pressures other housing providers are under, especially regarding the very largest associations.**

167. **We are concerned that some of the largest housing associations may face more financial risk, because they have higher fire safety costs and they have been building more homes. At the same time, we are also concerned that the Regulator of Social Housing's ability to manage the insolvency of a large housing provider is limited.**

207 Q189; Kate Henderson (Q50), Piers Williamson (Q81) and John Marr (Q80) agreed that the regulator had the right tools to intervene if a registered provider were to be in financial risk.
208 Positive Money (FSS0019)
209 Greater Manchester Housing Providers (FSS0027); GreenSquareAccord (FSS0028); The Guinness Partnership (FSS0036)
210 UK Finance (FSS0046)
211 The Housing Finance Corporation (FSS0010)
212 Q239

Although we have been reassured that the sector has confidence that the Regulator has the tools to manage the insolvency of a large housing association, these tools are as yet untried and a situation where such tools are employed should be avoided.

168. ***We are pleased that the Regulator is already engaging more regularly with larger housing associations. However, the Regulator must specifically set out what early measures it would be able to take and by when in the event that this engagement identified any notable problems.***

Conclusions and recommendations

The need for social housing

1. The problem of a continuing chronic shortage of social housing that we identified in our 2020 Report, Building More Social Housing, remains. In line with the conclusions of our 2020 report, we conclude that the Government must support, regulate and invest in the social housing sector so that the country can increase delivery to 90,000 social rent homes a year. *The Government should consider and publish its assessment of the capacity of and targets for the delivery of the overall housing market and social housing in particular. This should be carried out on an annual basis.* (Paragraph 17)

A financial health check

2. The social housing sector as a whole remains relatively financially resilient. However, it does face the simultaneous financial pressures of higher costs and lower income. Despite the sector's overall resilience this is a clear and direct challenge to individual social housing providers' business models and financial stability that must be taken seriously: this cannot be ignored. In addition, damaging restrictions on how local authorities use money from sales under the Right to Buy scheme place further constraints on councils' housing budgets and ability to fund much needed development. (Paragraph 27)

Cost of improving properties

3. Making social housing more energy efficient is crucial for the country's decarbonisation goals, but, of course, it is also a significant cost for social housing providers. Because energy efficiency improvements do not return savings to social housing providers or private investors, there is little, if any, scope for borrowing to fund decarbonisation measures and private finance is not well developed. The Government must deliver grant funding to cover decarbonisation if these costs are not to be paid for by social housing providers or their residents. Although Government funding exists to cover a fraction of the costs it is insufficient, and therefore puts social housing providers under financial pressure. *To mitigate this the Government must bring forward the next tranches of the Social Housing Decarbonisation Fund urgently.* (Paragraph 37)

4. *Noting that the role of private investment in decarbonisation has so far been limited, we encourage the Government to review what role private investment might play in meeting net zero, noting the advice from witnesses that this could involve the use of equity rather than debt and should result in more homes becoming available to rent, for example by returning homes that could not previously be rented to the market.* (Paragraph 38)

5. *We also reaffirm the conclusion of our Local Government and Net Zero report that the Government should set out its longer-term funding plans beyond 2025, and to encourage and outline the share of funding for retrofitting it anticipates will come from*

private investment. The Government has acted on our recommendation to encourage the UK Infrastructure Bank to support private financing of retrofitting: it should now investigate how to bring in other sources of private financing. (Paragraph 39)

6. Necessary fire safety work has resulted in significant additional costs for social housing providers, as the Government has acknowledged in its written evidence. (Paragraph 45)

7. The Government's focus on holding social housing providers responsible for remediating building safety work is producing an unhelpful disparity between the private and social housing sectors. There is no justification for private sector landlords to be treated more favourably. *We once again reiterate the recommendation from our 2020 Report, The Regulation of Social Housing, that "Social housing providers must have exactly the same access to funds for building safety remediation as private sector landlords."* (Paragraph 46)

8. We welcome Homes England's flexibility on additionality for regeneration funding where that has been possible. *The Government must give greater weight to the positive benefits of regeneration so more funding can be made available for regeneration. Homes England should increase the flexibility it offers housing providers on replacing housing that it is not financially viable to remediate.* (Paragraph 54)

9. The ultimate responsibility for ensuring that existing and future social housing is fit for habitation lies with the housing providers. Those housing providers facing the highest maintenance costs may not be the most financially resilient. *Nonetheless, where registered housing providers have homes that require major improvements and significant reserves, the Regulator of Social Housing should encourage them to deploy their reserves to remediate and regenerate their existing properties, or to replace them with new ones if necessary. In response to this Report, the Regulator should set out what steps it is doing to achieve this and its assessment of how successful it believes the steps that it has taken have been.* (Paragraph 57)

10. Regeneration should respect the experience of existing tenants, whose lives will be disrupted, as well as those who will benefit from the new or additional homes in the future. An additional challenge is presented when estates contain both social housing tenants and leaseholders, who may be in a more challenging position when looking to move to an alternative property. *When the Government, Homes England or the Regulator of Social Housing are involved in regeneration projects, they should insist that the regeneration takes full account of and meets existing tenants' needs wherever possible.* (Paragraph 61)

11. We welcome the Regulator's efforts to ensure that regeneration projects are properly explained to tenants, and that tenants have had some opportunity to share their views. *However, we believe the Regulator must go further to ensure registered providers not only listen to, but appropriately act on, tenants' views, by considering the level of input tenants have in any regeneration projects as part of its consumer standards and requiring that the developers take on board priorities that have been agreed with existing tenants as part of the standard.* (Paragraph 62)

Rent

12. The Government's policy on social housing rent increases, and the rent settlement it puts in place to implement this, are the basis of the social housing sector's finances. It is undoubtedly the case that uncertainty about future rental income makes business planning more difficult. Sudden changes to planned rental income, such as the Government's decisions to rescind the planned index linked permitted rent increases and cap permitted rent increases below inflation, caused an increased level of uncertainty and required unplanned business changes for the sector. Rent certainty, particularly for the long term, is greatly valued by private finance and housing providers alike. (Paragraph 74)

13. *Accordingly, the next rent settlement should be set for at least five years and should also be linked to inflation. As part of setting the rent settlement, the Government should publish a non-exhaustive list of the types of events that would, in its view, likely lead to the reintroduction of rent caps in the future.* (Paragraph 75)

14. We remain very concerned about the impact of rent increases on social housing tenants. These are some of the most financially vulnerable people in our society. We believe housing associations must bear this in mind when they are setting rent levels, and reflect on the levels of their reserves they may be able to use to hold down rents. (Paragraph 78)

15. *Social housing providers should involve their tenants in discussions about rent levels. When rent rises are being considered providers should explain to residents why such rises may be necessary. The Regulator should proactively assess how registered providers use their reserves not only as an indication of financial viability, but also as an indication of providers' governance, value for money and responsiveness to tenants.* (Paragraph 79)

16. A significant percentage of rent in the social housing sector is ultimately borne by the Department for Work and Pensions through benefits. As a result, rent increases could end up transferring costs onto central Government finances. (Paragraph 81)

17. *The Government should set out in its response to this report what role the Department for Work and Pensions will have in future discussions about rent settlements. When a rent settlement is agreed, the Government should write to us to inform us what impact it expects the change in rent to have on housing benefit costs.* (Paragraph 82)

New financing models

18. The for-profit financial models involved in social housing are evolving and can be more complicated than traditional financing models. However, we are optimistic that new financing models have some role to play in generating the investment that the sector as a whole needs, although these new models do need careful and effective regulation. (Paragraph 94)

19. We are pleased that the Regulator has taken steps to ensure that it has the adequate skills and resources which are required for it to have an effective understanding and scrutiny of the new financing models emerging in the sector, particularly equity investment and for-profit registered providers. Nonetheless, for the Regulator

to properly understand the role of new financing models it will need to adopt a rigorous process of continuous improvement, including assessing whether its skills and resources remain adequate. (Paragraph 99)

20. *Accordingly, we recommend that the Regulator must regularly conduct reviews of its own understanding of and ability to scrutinise new financing models in the social housing sector. These reviews must be published biannually in order to provide reassurance and transparently share some of the key challenges that the Regulator faces.* (Paragraph 100)

21. *Furthermore, the Regulator must ensure that, as part of its governance ratings, it examines whether registered providers' boards and executive teams have individuals with sufficient expertise in the financial models the provider is using. Registered providers must demonstrate that they properly understand any capital markets and financial products they are exposed to.* (Paragraph 101)

The result of financial pressure: fewer new homes

22. It is deeply concerning that as a result of financial pressures on social housing providers less new social housing will be built. This will further exacerbate the chronic shortage of social housing and will place further unacceptable pressure on those in need of social housing. (Paragraph 106)

23. The current low levels of direct Government grant available to housing associations to build new social homes has received justified criticism from housing associations for being inadequate. We reiterate the conclusion in our 2020 report that the Government must invest significantly to fund the building of new social homes. (Paragraph 112)

24. *The Government should make an assessment of the extent to which a significant increase in grant funding for social housing development would allow the sector to build more homes and the overall balance of revenue and capital funding together with other sources of private finance and available subsidies.* (Paragraph 113)

25. *The Government must also calculate the increase in grant funding for social housing that would begin to have a significant impact on the provision of more new homes.* (Paragraph 114)

26. Properly motivated and regulated private investors present a real opportunity to increase the building of social housing. *The Government should set out its assessment of how many new social homes for-profit registered providers can be expected to build over the short and long term. In addition, the Government should engage with local authorities to explain the role it wants institutional investors to play in the social housing sector.* (Paragraph 123)

27. The Government has failed to set out the rationale for the decision to focus the inadequate grant on developing affordable rent homes. *There should be an early assessment of the adequacy of grant funding allocations within the remaining Affordable Homes Programme and how much social rent is to be supported, together*

with an assessment of the role of appropriate private investment providing affordable rent or other forms of tenure in order to free up grant funding to better support more social housing provision. (Paragraph 134)

28. *The Government must start by providing a clear direction for the social housing sector: it should publish a target for how many social rent homes it intends to secure, and explain the reasoning behind it. The confusion and delay around targets must end now. The Government should set clear targets for net additions of social rent, affordable rent and shared ownership under the Affordable Homes Programme and should provide these in its response to this report.* (Paragraph 135)

29. *The Government and local authorities should more actively use their planning powers to ensure that the price of land does not inhibit the development of new social homes. We believe that land value capture should be part of the process for funding new social housing, especially for new towns and large sites. We recognise that the Government has gone some way towards this in the Levelling up and Regeneration Act and the Secretary of State should now be prepared to demonstrate greater flexibility in granting permission for local authorities to adjust value mechanisms under the Act.* (Paragraph 141)

30. *The Government should critically review the results of the Infrastructure Levy pilots and carefully consider suggestions for improvement, including a possible requirement to deliver a certain amount of the Levy as on-site social housing. This should include the possibility of replacing the Levy with a reformed section 106 system.* (Paragraph 147)

31. Reducing local authorities' debt could be an effective way for some authorities to provide greater funding for building social housing. It may be possible to cancel some of the additional £8bn debt attributed to local authorities in 2012. We were not able to ask the Minister for the Government's position on this. *We recommend that this is reviewed on a case-by-case basis.* (Paragraph 151)

The results of financial pressure: risk of individual insolvencies

32. We recognise that the social housing sector is, as a whole, financially resilient. However there remains a very real possibility that individual housing associations may come close to insolvency. One housing association defaulting on its loans could have a knock-on effect on rest of the social housing sector's ability to attract investment and thereby increase the financial pressures other housing providers are under, especially regarding the very largest associations. (Paragraph 166)

33. We are concerned that some of the largest housing associations may face more financial risk, because they have higher fire safety costs and they have been building more homes. At the same time, we are also concerned that the Regulator of Social Housing's ability to manage the insolvency of a large housing provider is limited. Although we have been reassured that the sector has confidence that the Regulator has the tools to manage the insolvency of a large housing association, these tools are as yet untried and a situation where such tools are employed should be avoided. (Paragraph 167)

34. *We are pleased that the Regulator is already engaging more regularly with larger housing associations. However, the Regulator must specifically set out what early measures it would be able to take and by when in the event that this engagement identified any notable problems.* (Paragraph 168)

Annex A: Glossary of Terms

Types of housing tenure

There is no single statutory definition of affordable housing, social housing, council housing, and other terms. In this report we use "social housing" to cover all types of subsidised or affordable rented housing. We refer to the different types of social housing defined by the type of rent set as different tenures. The different tenures we mention specifically in this report are defined below:

Affordable Rent: Rents charged at up 80% of the private market rent in the local area (including service charges) to people eligible for social rent housing. Some conditions must be met before landlords can let new properties at affordable rent levels. Affordable rent was introduced by the Government in 2011 to fund the building of new homes in England.[213]

Intermediate Market Rent: Rent above social rent but below market rent. Rent is typically around 80% of market rent but is distinct from affordable housing.[214] Tenants are typically working households, particularly keyworkers, who have difficulty affording market rents or saving for a mortgage, but do not qualify for social rented housing.[215]

Shared Ownership: Properties where a resident owns a percentage of the property and pays rent on the remainder. The tenure was intended to allow households who could not afford a property outright to enter into home ownership.[216] We recently concluded a separate inquiry into shared ownership and published our report.[217]

Social Rent: Social rent set by a government formula. Social rents generally cost around 50–60% of the average local rent (although it can be as low as 30% in London[218]) and make up the majority of existing social housing. For most social rent properties, which are sometimes referred to as "formula rents", rent is calculated by a formula based on the value and size of the property and the ratio of local to national income levels.[219] For a small number of tenancies, all issued before 1989, rent levels are sent by a rent officer from the Valuation Office Agency and are referred to as "fair rents".[220]

Types of Commercial Finance

Loan: A loan is money borrowed from a bank or another financial institution. The money must then be paid back with interest. Some loans require the borrower to put up an asset as collateral, such as when individuals put up their house as part of a mortgage.[221]

213 What is affordable housing, Research Briefing CBP07747, House of Commons Library, July 2023
214 Ibid.
215 Department for Levelling Up, Housing and Communities, Policy statement of rents for social housing, accessed 5 March 2024
216 What is affordable housing, Research Briefing CBP07747, House of Commons Library, July 2023
217 Levelling Up, Housing and Communities Committee, Fifth Report of Session 2023–24, *Shared Ownership*, HC 61
218 Q36 [Kate Henderson]
219 What is affordable housing, Research Briefing CBP07747, House of Commons Library, July 2023
220 Department for Levelling Up, Housing and Communities, Policy statement of rents for social housing, accessed 5 March 2024
221 Corporate Finance Institute, Loans, accessed 14 March 2024

Bond: A bond is issued by an organisation to raise money. When an organisation issues a bond it "borrows capital from the bondholder and makes fixed payments to them at a fixed (or variable) interest rate for a specified period." At the end of the period, known as maturity, the initial sum borrowed, known as the principal, must be paid back. The interest paid on the bond will be affected by how much bondholders trust the organisation to be able to pay it back: "A bond with a high credit rating will pay a lower interest rate because the credit quality indicates the lower default risk of the business."[222]

Equity investment: Investing in a company by purchasing a stake in it. Outside the social housing sector this is normally done by buying shares in a company.[223] As housing associations do not issue shares, an investor might purchase homes and contract them to a housing association to run as social housing or by a lease and leaseback structure or other financing, ownership and management arrangement.[224]

222 Corporate Finance Institute, Bonds, accessed 14 March 2024
223 What is the Difference between a Shareholder vs. an Equity Holder?, The Motley Fool, 25 November 2016
224 Q63

Annex B: Rent Policies since 2002

The amount of rent paid by social housing tenants is determined by a formula set by the Government (the exact formula depends on the type of tenure - a brief summary is provided in Annex A). The Government has the power to determine how much rents can rise year-on-year, including requiring rents to decrease if they consider it appropriate, for housing associations, local authorities and other providers of social housing. Below is a brief summary of UK Governments' policies on rent increases over the last twenty years.

- **"Rent convergence" (2002–2015)** - Because historic differences in development, subsidy and rent policy decisions had led to differences between rents for similar properties, the then-Government decided to bring rents in social housing into alignment over a ten-year period. During this time rents rose until they were in line with a national formula rent, allowing for differences in the perceived value of the property like the number of bedrooms. The national formula rent itself rose annually by Retail Price Index (RPI) plus 0.5% (RPI plus 0.5% plus £2/week under the coalition Government).[225]

- **"Social rent reduction" (2015–2020)** - Social housing providers were required to reduce their rents by 1% each year for four years. This was a reversal of plans announced in 2013 for rents to rise by the Consumer Price Index (CPI) plus 1% each year from 2015–2025.[226]

- **"Long-term rent deal" (2020–2025)** - Landlords who had completed the four-year social rent reduction were permitted to raise rents annually by CPI plus 1 percentage point for five years.[227]

  - **"Rent cap" (FY2023/24)** - The CPI plus 1 percentage point rise in the long-term rent deal is capped for a year as high levels of inflation meant it was leading to significant rent increases. The Government therefore limited rent increases for social and affordable housing to 7%.[228]

225 Rent setting: social housing (England), CBP01090, House of Commons Library, December 2022

226 Department for Levelling Up, Housing and Communities, Policy statement of rents for social housing, accessed 5 March 2024; Rent setting: social housing (England), CBP01090, House of Commons Library, December 2022

227 Rent setting: social housing (England), CBP01090, House of Commons Library, December 2022

228 Department for Levelling Up, Housing and Communities, *Rent standard: 1 April 2023 - 31 March 2024*, 28 March 2024

Formal minutes

Monday 29 April 2024

Members present

Mr Clive Betts, in the Chair

Bob Blackman

Ian Byrne

Mrs Natalie Elphicke

Andrew Lewer

Mary Robinson

The Finances and Sustainability of the Social Housing Sector

Draft report (*The Finances and Sustainability of the Social Housing Sector*) proposed by the Chair, brought up and read.

Ordered, That the report be read a second time, paragraph by paragraph.

Paragraphs 1 to 168 read and agreed to.

Summary agreed to.

Annexes A-B agreed to.

Resolved, That the Report be the Sixth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjournment

Adjourned till Monday 13 May at 3.30pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Monday 12 June 2023

Professor Tony Crook, Professor Emeritus of Town and Regional Planning, University of Sheffield; **James Prestwich**, Director of Policy & External Affairs, Chartered Institute of Housing Q1–28

Kate Henderson, Chief Executive, National Housing Federation; **Fiona Fletcher Smith**, Chair, G15; **Paul Fiddaman**, Group Chief Executive, Karbon Homes; **Kate Wareing**, CEO, Soha Housing Q29–59

Monday 19 June 2023

Piers Williamson, Chief Executive, The Housing Finance Corporation; **John Marr**, Senior Policy Adviser, UK Finance; **Jamie Kellett**, Product Development Real Estate Private Markets, abrdn Q60–94

Councillor Pippa Heylings, Deputy Chair, Environment, Economy, Housing and Transport Board, Local Government Association; **Kathryn Jones**, Director for Housing & Communities, Dudley Council; **Michael Scorer**, Strategic Director, Housing and Modernisation, Southwark Council; **Deborah Heenan**, Chief Executive, Populo; **Conrad Hall**, Corporate Director of Resources, Newham Council Q95–133

Monday 11 September 2023

Steve Collins, Chief Executive, Rentplus-UK Ltd; **Neil Brown**, CEO, Inclusion Group; **Dave Meseck**, CEO, DMG Eco; **Gemma Bourne**, Managing Director, Head of Social and Affordable Housing, Big Society Capital Q134–181

Felix Ejgel, Senior Director, Sector Lead Sovereign & International Public Finance Ratings, S&P Global Ratings; **Simon Century**, Managing Director-Housing, Legal and General Q182–206

Monday 22 January 2024

Bernadette Conroy, Chair, Regulator of Social Housing; **Jonathan Walters**, Deputy CEO, Regulator of Social Housing; **Peter Denton**, CEO, Homes England; **Shahi Islam**, Affordable Housing Director, Homes England Q207247

Baroness Scott of Bybrook OBE, Parliamentary Under-Secretary of State for Social Housing, Department for Levelling Up, Housing and Communities; **Emma Payne**, Director for Social Housing and Resettlement, Department for Levelling Up, Housing and Communities Q248–284

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

FSS numbers are generated by the evidence processing system and so may not be complete.

1 Addleshaw Goddard (FSS0050)

2 Aster Group (FSS0047)

3 Big Society Capital (FSS0058)

4 British Property Federation (FSS0053)

5 Centre for Housing Policy, University of York (FSS0002)

6 Chartered Institute of Housing (FSS0035)

7 Clarion (FSS0068)

8 Community Land Trust Network (FSS0006)

9 Crisis (FSS0012)

10 Crook, Professor Tony (FSS0077)

11 Department for Levelling Up, Housing and Communties (FSS0062)

12 Eastlight Community Homes (FSS0022)

13 End Our Cladding Scandal (FSS0074)

14 G15 (FSS0016)

15 Great Places Housing Group (FSS0025)

16 Greater Manchester Combined Authority (FSS0064)

17 Greater Manchester Housing Providers (FSS0027)

18 GreenSquareAccord (FSS0028)

19 HQN Limited (FSS0052)

20 Hall, David (FSS0071)

21 Highbury Group on Housing Delivery (FSS0038)

22 Homes England (FSS0070)

23 Homes for the North (FSS0040)

24 Inclusion Group (FSS0079)

25 Inclusion Group (FSS0007)

26 Jigsaw Housing Group (FSS0003)

27 Johnnie Johnson Housing (FSS0021)

28 Karbon Homes (FSS0073)

29 Keswick Community Housing Trust (FSS0075)

30 Kingston upon Hull City Council (FSS0067)

31 Labour Campaign for Council Housing (FSS0011)

32 Legal & General (FSS0020)

33 Liverpool City Region Housing Associations; and Onward Homes (FSS0034)

34 Lloyds Banking Group (FSS0054)
35 Local Government Association (FSS0030)
36 London Borough of Enfield (FSS0049)
37 London Borough of Redbridge (FSS0066)
38 London Borough of Southwark (Southwark Council) (FSS0072)
39 London Councils (FSS0018)
40 London Tenants Federation (FSS0004)
41 MORhomes PLC (FSS0008)
42 MSV Housing (FSS0005)
43 Mayor of London (FSS0076)
44 Midland Heart (FSS0014)
45 Morris, W (FSS0001)
46 National Federation of ALMOs and Association of Retained Council Housing (FSS0033)
47 National Housing Federation (FSS0032)
48 Newcastle City Council (FSS0065)
49 Northern Housing Consortium (FSS0026)
50 Orbit (FSS0043)
51 Papworth Trust (FSS0015)
52 Peabody (FSS0023)
53 Perceval, Ms Gillian (FSS0056)
54 PlaceShapers (FSS0031)
55 Places for People (FSS0044)
56 Positive Money (FSS0019)
57 Regulator of Social Housing (FSS0017)
58 Rentplus-UK Ltd (FSS0051)
59 Resonance Ltd (FSS0060)
60 Sanctuary (FSS0041)
61 Savills Investment Management and Simply Affordable Homes RP Limited (FSS0057)
62 Shared Ownership Resources (FSS0013)
63 South Yorkshire Housing Partnership (FSS0078)
64 Southern Housing (FSS0059)
65 Sovereign Housing Association (FSS0048)
66 St Arthur Homes Ltd (FSS0024)
67 Stockport Homes Group (FSS0055)
68 Stonewater Ltd (FSS0039)
69 The Housing Finance Corporation (FSS0010)
70 The Guinness Partnership (FSS0036)

71 Thirteen Housing Group (FSS0029)

72 UK Finance (FSS0046)

73 VIVID (FSS0069)

74 Your Housing Group (FSS0037)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2023–24

Number	Title	Reference
1st	Financial Reporting and Audit in Local Authorities	HC 59
2nd	Council Tax Collection	HC 57
3rd	Financial distress in local authorities	HC 56
4th	Electoral Registration	HC 58
5th	Shared Ownership	HC 61
1st Special	Financial Reporting and Audit in Local Authorities: Government Response to the Committee's First Report	HC 536

Session 2022–23

Number	Title	Reference
1st	The regulation of social housing	HC 18
2nd	Long-term funding of adult social care	HC 19
3rd	Exempt Accommodation	HC 21
4th	Draft Strategy and Policy Statement for the Electoral Commission	HC 672
5th	Reforming the Private Rented Sector	HC 624
6th	Funding for Levelling-Up	HC 744
7th	Reforms to national planning policy	HC 1122
8th	Pre-appointment hearing for the role of Local Government and Social Care Ombudsman and Chair of the Commission for Local Administration in England	HC 1819

Session 2021–22

Number	Title	Reference
1st	The future of the planning system in England	HC 38
2nd	Local authority financial sustainability and the section 114 regime	HC 33
3rd	Permitted Development Rights	HC 32
4th	Progress on devolution in England	HC 36
5th	Local government and the path to net zero	HC 34

Number	Title	Reference
6th	Supporting our high streets after COVID-19	HC 37
7th	Building Safety: Remediation and Funding	HC 1063
8th	Appointment of the Chair of the Regulator of Social Housing	HC 1207

Session 2019–21

Number	Title	Reference
1st	Protecting rough sleepers and renters: Interim Report	HC 309
2nd	Cladding: progress of remediation	HC 172
3rd	Building more social housing	HC 173
4th	Appointment of the Chair of Homes England	HC 821
5th	Pre-legislative scrutiny of the Building Safety Bill	HC 466
6th	Protecting the homeless and the private rented sector: MHCLG's response to Covid-19	HC 1329
7th	Cladding Remediation—Follow-up	HC 1249