Chapter 4
Housing expenditure plans

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Table 2.4.1 **Summary of planned government support for affordable and private market new build investment in England, 2021/22-2024/25**

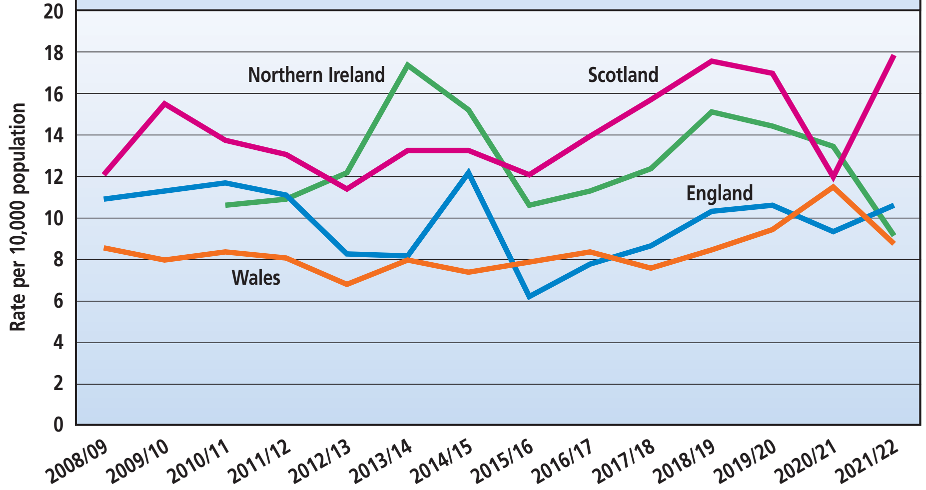
Programme	Period	Grant (£m)	Loan (£m)	Guarantee (£m)	Notes
Programmes aimed primarily at delivering new housing at social rent, Affordable Rent or for low-cost homeownership					
Affordable Homes Programme 2021/22-2025/26	2021/22 onwards	10,240	–	–	Current AHP announced in March 2020 Budget; total funding for the AHP 2016-23 and AHP 2021-26 programme is £10.24 billion between 2021/22-2024/25, with a further £2.74 billion planned in 2025/26.
Affordable Homes Guarantee Scheme	2020 onwards	–	–	3,000	A scheme to support affordable housing development; issued its first guarantees in November 2021.
Care and Support Specialised Housing Fund	2021/22 onwards	264	–	–	Delivery of specialist affordable housing for the Department of Health and Social Care. Updated allocations from 2022 Autumn Statement.
Removal of HRA borrowing caps	2018/19-2023/24	–	4,560	–	Spending forecast from OBR Economic and Fiscal Outlook 2018, last confirmed by OBR in December 2021.
Sub-total: Social rent, Affordable Rent and low-cost homeownership		**10,504**	**4,560**	**3,000**	**Sub-total: £18,064 million (41% of total)**
Support for housebuilding and house purchase in the private market					
Land and Infrastructure	2021/22-2025/26	5,410	2,256	–	Grant and loan funding announced in SR2020 and SR2021 to build homes and infrastructure; includes Brownfield Land Release Fund and loan funding for SMEs and Modern Methods of Construction. Figures reflect the SR2021 settlement for 22/23-25/26 budgets.
New Fund for Housing	2022/23-2024/25	1,800	–	–	Announced in SR2021: includes £300 million grant funding to unlock smaller brownfield sites and £1.5 billion to regenerate underused land and deliver transport links and community facilities.
Help to Buy Equity Loans	2021/22-2023/24	–	4,800	–	Equity loan support of up to 20% for first-time buyers (in London up to 40%); ends in 2022/23. Figures up to 23/24; exclude future loan repayments.
Help to Buy ISA	2015/2016 onwards	700	–	–	Government house-purchase bonus of up to £3,000 for ISAs held by FTBs. Figures from OBR/Treasury (not included in DLUHC budgets).
Lifetime ISA	2017/18 onwards	2,000	–	–	Potential FTBs aged 18-40 can pay in £4,000 per year and receive 25% bonus. Figures from OBR/Treasury (not included in DLUHC budgets).
ENABLE Build	2019/20 onwards	–	–	1,000	A scheme to support lenders to SME housebuilders, operated by the British Business Bank.
PRS Guarantee Scheme	2014/2015 onwards	–	–	3,500	Government debt-guarantee scheme to support private rental Build to Rent. The scheme closed to new applicants in 2018, but continues to work through a pipeline of applications
Financial guarantees for housebuilding	2018/19 onwards	–	–	4,000	Up to £8 billion in guarantee capacity agreed at Autumn Budget 2017. £3 billion was allocated to the Affordable Homes Guarantee Scheme (see above). £1 billion has been allocated to the ENABLE Build scheme (see above). The remainder is not yet allocated but DLUHC continues to consider proposals.
Sub-total: private market		**9,910**	**7,056**	**8,500**	**Sub-total: £25,466 million (59% of total)**
Overall total		**20,414**	**11,616**	**11,500**	**Overall total = £43,530 million**

Source: Compiled from the Spending Reviews 2020, 2021 and 2022 and other official sources, in consultation with DLUHC. Includes all programmes with spending in the period 2021/22-2024/25, omitting pre-2021/22 spending where it is possible to identify it separately.

By Spring 2022, housing investment programmes disrupted by the pandemic had recovered across much of the UK. However, the past year has seen new pressures on landlord finances. Many social landlords are shifting their focus towards improving the quality and safety of their existing stock, while they also face record increases in costs and new constraints on rental income, at least in the coming financial year. While the pandemic initially delayed progress on the new investment programmes that began in April 2021, achievement of their targets for delivering new affordable homes is now threatened by this new combination of factors.

This chapter of the *Review* therefore aims both to assess progress in investment in affordable housing in each of the four nations across the past year and consider the prospects for 2023/24 and beyond, against the backdrop of current economic uncertainty. It focuses on public sector investment while Contemporary Issues Chapter 3 examines developments in the use and availability of private finance for social housing.

Figure 2.4.1 **Affordable housing delivery per 10,000 population across the UK**



Source: Compendium Table 20f.

Cross-UK comparisons of government housing investment

Three different cross-UK comparisons show that England under-invests in affordable housing compared with the three other countries. For the first time, the 2022 edition of the *Review* compared levels of affordable housing output across the UK, by assessing delivery in terms of numbers of homes built per 10,000 population. The new version of the chart (Figure 2.4.1) clearly shows how Scotland leads in this measure of affordable output, and that England frequently lags behind both Scotland and Northern Ireland. A second, broad-brush indicator of the relative priority given to expenditure on housing is provided by Compendium Table 57, which shows that housing has a consistently lower share of government spending in England (1.6 per cent of total expenditure) than it does in the other three administrations (Northern Ireland is highest at 4.1 per cent).

A third indicator is the *Review's* annual assessment of all forms of government support for new housing investment, which also shows key differences between UK administrations. Table 2.4.1, with the analysis for England, covers the period to 2024/25 and, as in the 2022 edition of the *Review*, begins with the year 2021/22.

Over this four-year period the balance of support is 41 per cent for affordable housing and 59 per cent for the private market, differing slightly from last year's assessment where the split was 44:56. The assessment excludes investment in the existing stock, whether in the private or social sectors. As in previous years, England continues to be out-of-step with the rest of the UK in directing a high proportion of investment support towards the private market. In later sections of the chapter, it will be seen that the proportion of investment directed towards affordable housing supply is much higher in Scotland (90 per cent), Wales (87 per cent) and Northern Ireland (100 per cent), even though such comparisons cannot be made strictly on a like-for-like basis.

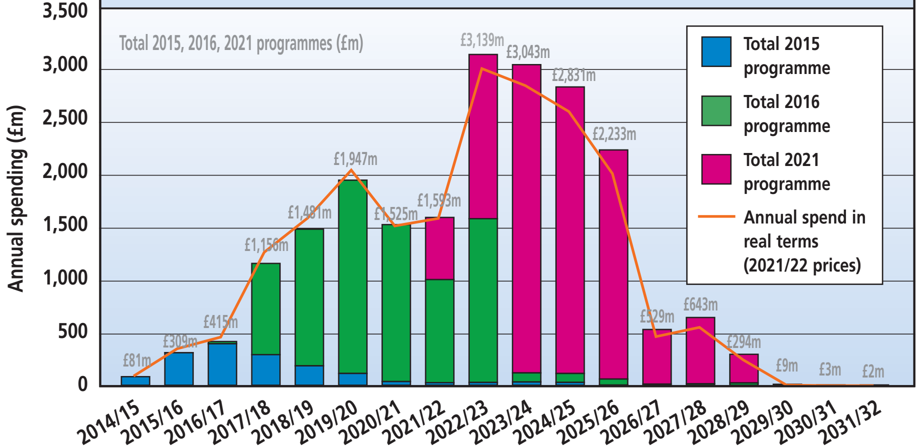
Affordable housing investment in England

Government investment plans for affordable housing in England were set in the Spending Review 2020 and have remained largely unchanged since then. They survived the public spending cuts made in the Spending Review 2022, although they may yet be threatened by the planned freezing of departmental capital budgets in real terms after 2024/25.

The government's main support for affordable housing is through the various editions of the Affordable Homes Programme. The new AHP 2021-26 began in April 2021, but it overlaps with the Shared Ownership and Affordable Homes Programme (SOAHP) 2016-21 and even slightly with the previous AHP, which continued to be spent in 2022/23 as a result of construction delays brought about by the pandemic. The England section of this chapter provides a final review of the outcome of the SOAHP and then turns to progress with the current AHP. As Table 2.4.1 shows, there are some other forms of support for affordable housing investment, the most important of which are referred to later.

In addition to the these overlapping editions of the AHP, another challenge in preparing this chapter of the *Review* is to bring together different datasets provide by Homes England and the Greater London Authority (GLA). This year's *Review* benefits from a recent appraisal of the AHP by the National Audit Office (NAO), which brings the datasets together and provides some of figures quoted below.[1]

Figure 2.4.2 **Actual and forecast spend under Affordable Homes Programmes in England**



Source: Data from National Audit Office, The Affordable Homes Programme since 2015.
Note: '2015 programme' is the Affordable Homes Programme 2015–18, the '2016 programme' is the Shared Ownership and Affordable Homes Programme 2016-21 and the '2021 programme' is the Affordable Homes Programme 2021-26.

Subsequently, the House of Commons Public Accounts Committee (PAC) published a report with its recommended actions following the NAO's appraisal, and some of these are also referred to below.[2] One feature of the NAO report is the data it has collated on actual and forecast spending on all the recent editions of the AHP, which is not normally available in consolidated form. This enables the *Review* to show graphically the effects of three stages of the AHP over an 18-year period (Figure 2.4.2). In addition, Compendium Tables 20a and 20b show the year-on-year output from recent editions of the AHP combined with other, non-grant sources of funding.

Shared Ownership and Affordable Homes Programme 2016-21

After various revisions and the extension of its timetable because of the pandemic, the SOAHP 2016-21 is expected to have invested approximately £8.5 billion in total, split almost equally between Homes England and the GLA. The headline target for the programme was to deliver 250,000 completed homes across England. The target for Homes England's share of the SOAHP was to 'start' 130,000 affordable homes by March 2022. By that date it had achieved 116,000 starts, or 89 per cent of the target. The GLA's share of the target was originally 120,000 starts, but this has now been set slightly lower at 116,000; by March, 2022 it had achieved 91,000, or 78 per cent. DLUHC has told the NAO that its central forecast is that the programme will achieve 241,000 housing starts by March 2023.

The *Review's* practice is to assess progress in terms of *completions*. On this basis, output is of course far lower. Table 2.4.2 shows almost 121,000 completions by March 2022. Of these, approximately 42 per cent are for homeownership and the remainder for rent – 47 per cent for Affordable Rent and just 11 per cent for social rent. DLUHC forecasts that 219,000 homes will be completed by March 2025, with the remaining 22,000, all in London, not being finished until much later (2032).

NAO data provide some extra information on land and building costs (outside London) under the SOAHP's strategic partnerships: land costs per unit vary regionally from £22,000 to £73,000 and building costs from £104,000 to £147,000.

Table 2.4.2 **Shared Ownership and Affordable Homes Programme 2016-21, England: Completions**

Reported completions by March 2022

Region	Affordable Homeownership homes		Affordable Rent homes		Social Rent homes		Total homes**		
	grant funded*	nil grant	grant funded*	nil grant	grant funded*	nil grant	grant funded*	nil grant	all
London	**9,088**	**5,679**	**3,201**	**3,976**	**5,291**	**3,140**	**17,597**	**12,928**	**30,525**
Rest of England	**24,341**	**9,443**	**20,328**	**25,299**	**3,274**	**625**	**54,678**	**35,598**	**90,276**
Total	**33,429**	**15,122**	**23,529**	**29,275**	**8,565**	**3,765**	**72,275**	**48,526**	**120,801**

Source: Calculated from data from National Audit Office, The Affordable Homes Programme since 2015.
Notes: *The 'grant funded' columns include small numbers of homes provided using grant from other programmes.
**The 'Total homes' columns include additional output not included in the preceding columns: in London because tenure was not ascribed to 150 homes; in the rest of England to include supported housing not included in the preceding columns.

Affordable Homes Programme 2021-26

The Affordable Homes Programme 2021-26, which started in April 2021, allocated £11.4 billion of new funding, split between the GLA (£4 billion for investment in London) and Homes England (£7.4 billion for the rest of England). The government's public target for the new programme is to achieve 180,000 starts by 2026 (with completions continuing until 2028), but it has told the NAO that what it calls its 'stretch target' is now to deliver 165,000 homes. Unlike the SOAHP, the targets only refer to grant-funded homes.

By May 2022, NAO reports that Homes England and the GLA had collectively allocated £9.2 billion of the 2021-26 programme to providers, covering 131,000 new homes. The DLUHC 'central' forecast is now that 157,000 new homes will be completed, rather fewer than its 'stretch target', and well below what was originally planned. At present, output is split almost evenly between rented homes and affordable homeownership (although the rented proportion seems likely to increase). It originally set targets of ten per cent of new homes being supported accommodation and ten per cent being in rural areas, but DLUHC expects providers to underperform on both.

DLUHC's running total of funding (see Table 2.4.1) is rather higher than the figures reported by the NAO, with £10.24 billion allocated for the period 2021/22-2024/25 and a further £2.74 billion planned in 2025/26; this likely includes underspending from other programmes.

Other sources of affordable housing investment in England

Grant funding remains a relatively small factor in driving housing association investment, with the Regulator for Social Housing (RSH) projecting it to provide only six per cent of overall development funding in 2022 (see Figure 2.4.2 in the 2021 *Review*: the RSH's assessment has not been updated).[3] Of the affordable homes completed in 2021/22, just 42 per cent were grant-funded.[4]

The NAO's assessment of dependency on grant is (unhelpfully) specific to those homes which are grant-funded, and shows that, under the current AHP, grant accounts for 25 per cent of costs in those cases. Debt accounts for the biggest share, at 46 per cent, with the remainder paid for from capital receipts and other sources. The role of debt and private finance in general is explored in more detail in Contemporary Issues Chapter 3.

Apart from grant, investment is also provided via these sources:

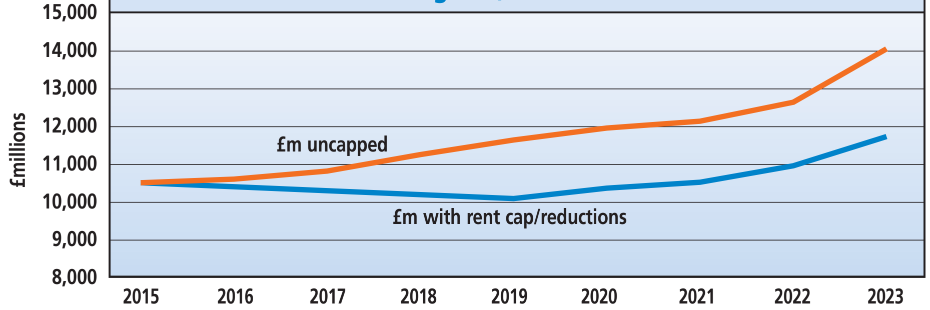
- *The Affordable Homes Guarantee Scheme (AHGS 2020)*. This began in 2020 and will provide £3 billion of guarantees, with a target to support delivery of 17,000 new homes, which in some cases will also have received grant funding. So far, about £400 million has been deployed towards delivery of 2,500 homes. ARA Venn, who administer the scheme, recently commented to the *Review* that demand is strong and deployment of guarantees is likely to accelerate in 2023. The government has an option to expand the AHGS 2020 to as much as £6 billion, if demand requires it.
- *Developer contributions ('section 106')*. These provided more than 26,000 affordable homes in 2021/22, all without any grant, forming 44 per cent of total output. Section 106 still has an uncertain future, depending on the final shape of measures in the Levelling Up and Regeneration Bill and also on the extent to which contributions are used to provide First Homes.
- *Direct investment by local authorities in new and existing stock*. This is an important contributor to affordable homes investment, exceeded £6 billion in both 2019/20 and 2020/21. In 2021/22 it rose to £7.3 billion (see Compendium Table 64). This includes some non-HRA capital spending and also spending by the GLA (which is nine per cent of the total). Borrowing for investment has increased since the removal of borrowing caps on Housing Revenue Accounts in October 2018, financed by recent growth in rental income. It remains to be seen if it will continue to grow in 2023/24 now that rent increases have been capped.
- *Local housing companies.* These companies reportedly exist in some form in four-fifths of local authorities, and also add to affordable (as well as market) output. Data on numbers of homes delivered are not reported separately, nor do they necessarily appear consistently as 'local authority' provision in national datasets, since individual councils decide (using available DLUHC guidance) how to categorise them in making their statistical returns.

New investment is constrained by rents policy and prioritising existing stock

Faced with the current cost-of-living crisis, the Westminster government has put a seven per cent cap on rent increases for 2023/24, reverting to a policy of holding rent increases below inflation. As was shown in the *UKHR Autumn Briefing Paper 2022*, this means, once again, that rents will not keep pace with cost increases, but also that the government has not kept to its own rent policies and commitments to the sector. There are of course very good reasons why the decision was made this time around, and the cap is not as severe as initially proposed, but it does mean there is a cumulative impact on the sector's ability to invest, both in new development and in the existing stock.

Figure 2.4.3 shows the impact on housing associations' income of restrictions on rents over the period since 2015/16. Income was lost from four years of obligatory one per cent rent reductions and further income will be lost from the below-inflation cap on rent increases for 2023/24. The cumulative impact of these two policy restraints, compared with rents rising at CPI+1 per cent, is to remove 20 per cent of rental growth from the sector over an eight-year period. For housing associations this is equivalent to a loss of £2.3 billion, which could have levered in £40-50 billion of new investment.[5]

Figure 2.4.3 **Impact of government rent interventions on housing association revenues in England, 2016-2023**



Source: Calculated by Ben Denton, Legal & General Affordable Homes.
Note: 'Uncapped' means forecast revenue if rents had been allowed to rise each year at CPI+1 per cent.

The AHP 2021-26 was based on the assumption that the rent policy which commenced in April 2020, of increases based on CPI+1 per cent, would still apply. The Public Accounts Committee points out that the achievement of the AHP targets for new homes is at 'significant risk', especially because of 'large increases in the cost of materials and labour'. The capping of rent increases, albeit so far only for one year, means an immediate loss of income equivalent to 3-5 per cent of operating costs.[6] This is likely to affect overall affordable output by limiting the extent to which providers can fund new homes from non-grant sources.

Restrictions on rent increases also coincide with intense pressure on landlords to invest in their existing stock and indeed calls from local authority landlords for more financial support to tackle a backlog of necessary work. Housing associations reported a record £6.5 billion of spending on their existing stock in 2022, up from £5.4 billion in the previous year. While this reflects some catching-up after delays during the pandemic, it also results from the new emphasis on building safety work.[7]

Impacts of investment in England on stock, tenure and rents

Two-thirds of the provision of new dwellings in England in 2021/22 consisted of rented homes, although just 13 per cent were for social rent; the remaining third of provision was for low-cost homeownership (see Compendium Table 20a). At 7,528 units, social rented output was the highest for six years, and is on course to meet the DLUHC target of 33,500 social rented homes under the AHP 2021-26. The GLA reports that 9,700 homes to let at social rent (or London Affordable Rent) were started in 2021/22, representing the 'highest number ever started in London'.[8]

But output is still well below the numbers needed to meet projected housing needs, or to keep pace with the loss of social rented stock (discussed in Commentary Chapter 2). The PAC remains 'concerned that the number of homes being built for social rent is not enough to meet demand'. Yet the NAO's report includes a DLUHC appraisal showing that investing in social rented homes provides the highest cost-benefit ratio of investment in any tenure: while, for the AHP as a whole, every £1 spent produces £2.70 of benefits, for social rent investment alone the benefits are as high as £3.40.

The AHP's emphasis on AR continues to change the balance within social landlords' total rented stock of 4.2 million homes. The stock let at higher, Affordable Rents by housing associations grew to 309,267 by March 2022, and by local authorities to 33,779.[9] The *Review* aims to report annually on average AR levels for new dwellings resulting from investment programmes. Currently, the available data are for average gross rents for all housing association AR lettings, rather than for new stock. These have now reached £137 per week (£201 per week in London alone); for local authority lettings the average is £132 (in London alone, £186).[10]

The specific data on Affordable Rents resulting from the SOAHP, set out in Table 2.4.4 in the 2022 edition of the *Review*, cannot be updated as no further monitoring reports have been published by Homes England; however, rent levels will not have changed significantly. The PAC comments adversely on the lack of regular, published monitoring reports on the AHP's progress and what it delivers in numbers of homes, tenure and location. The *Review* endorses the PAC's call for such reports to be provided publicly on a regular basis and is assured by Homes England that it will resume reporting for the current AHP.

Scotland's affordable housing investment

Scotland's strong emphasis on support for affordable housing continues, with a commitment to deliver 110,000 homes over the decade to 2032, with at least 70 per cent being for social rent. December's Scottish Budget did however see a fall in funding for 2023/24 compared with the current year (see Table 2.4.3). Spending in 2021/22 and 2022/23 was £831 million annually, but the £752 million planned for 2023/24 represents a cut of about 9.5 per cent. However, the Budget repeats an earlier commitment to invest £3.5 billion over the life of the parliament, 'to ensure as much certainty as possible'.

Table 2.4.3 **Budget for Scottish Government Affordable Housing Supply Programme (AHSP) 2021/22-2025/26**

Spending category	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
AHSP – DEL (spending on investment projects and capital grants)	675.37	605.20	489.10	480.90	516.70	2,767.27
Transfer of Management of Development Funding (TMDF)	92.25	92.25	92.25	92.25	92.25	461.25
AHSP – Financial Transactions (including TMDF – see below)	64.00	134.00	170.60	140.00	–	508.60
TOTAL AHSP	**831.62**	**831.45**	**751.95**	**713.15**	**608.95**	**3,737.12**

Source: Scottish Government.
Note: Totals may be affected slightly by rounding. DEL = Departmental Expenditure Limit; TMDF = Transfer of Management of Development Funding (i.e. AHSP funding administered directly by Glasgow and Edinburgh councils).

The previous, slightly lower, target of delivering 50,000 affordable dwellings over the five years to 2020/21, also required investment of approximately £3.5 billion. Table 2.4.4 shows that 41,355 units were actually delivered by the end of March 2021, with other completions towards the 50,000 target delayed until 2021/22 because of pandemic-related disruption. The Scottish Government reported that the 50,000 target was met by 23 March 2022, from which point it started its count of homes towards the new 110,000 target. Completions in 2021/22 were encouragingly high, the highest since 2000 (see Table 2.4.4); but they still fall short of the annual completion rate of 11,000 homes that will be required to meet the new target.

The AHSP is made up of a variety of different grant mechanisms and loan and equity funding, including smaller programmes and initiatives such as the Charitable Bond programme, the Local Affordable Rented Housing Trust, the Places for People MMR Fund and the Rural and Islands Housing Funds. Affordable housing is also supported through developer contributions (principally 'section 75' contributions). However, the form of the contributions in Scotland does not lend itself to ready identification of the extra homes that result (as happens in both England and Wales).

Figures supplied to the *Review* by the Scottish Government enable a comparison to be made of its support for affordable housing with that for the private market. For the five years up to 2020/21 reported in the 2020 *Review*, they showed 85 per cent of funding being directed towards affordable housing. Of the £929.6 million budgeted spend in 2021/22, 89 per cent was directed to affordable housing. Although figures are not yet available for 2022/23, the proportion is likely to be higher as two of the principal components of private market support, Help to Buy and the First Home Fund, have now closed.

Despite the strong priority being given to affordable housing investment, both CIH Scotland and the Scottish Federation of Housing Associations argue that additional resources will be needed if the 110,000 target is to be achieved. While setting a ten-year target indicates the government's ambition, it implies budget increases later in the cycle which will be decided by the next parliament.

Table 2.4.4 **Scottish Government Affordable Housing Supply Programme: completions 2016-2022**

Type of AHSP activity		Total (five years 2016/17-2020/21)	2021/22
RENT			
Social rent			
Housing association rent	New build	16,266	3,834
	Rehab	1,525	47
Council house rent	New build	6,581	2,621
	Rehab	465	26
HA/Council	Off the shelf	3,147	769
Home Owner Support Fund (rent)	Off the shelf	165	9
Total Social Rent		**28,149**	**7,306**
Affordable rent			
Other affordable rent	New build	4,260	1,167
	Off the shelf	592	104
	Rehab	127	11
Total Affordable Rent		**4,979**	**1,282**
AFFORDABLE HOMEOWNERSHIP			
New supply – shared equity and shared ownership	New build	835	135
	Off the shelf	5	0
	Rehab	0	0
Council shared equity	New build	32	12
Other affordable homeownership	New build	75	85
	Off the shelf	0	0
	Rehab	187	0
Open Market Shared Equity (OMSE)	Off the shelf	7,093	937
New Supply Shared Equity (Developers)	New build	0	0
Home Owner Support Fund (Shared Equity)	Off the shelf	0	0
Total Affordable Homeownership		**8,227**	**1,169**
TOTAL AFFORDABLE HOUSING SUPPLY		**41,355**	**9,757**

Source: Scottish Government Affordable Housing Supply Programme summary tables.

It also depends on the sector's continued ability to raise private finance. The Scottish Housing Regulator (SHR) assesses social landlords' finances as 'robust' but points to major challenges which could affect their ability to service current debt and raise new debt:

- *Rents.* In 2022/23, social landlords raised rents by amounts well below inflation (an average increase of 2.98 per cent, compared to inflation in April 2022 of six per cent).[11] For 2023/24, agreements with the Scottish Government will again lead to sub-inflation increases: housing associations will continue to decide their own rent levels (currently forecast by the SFHA to average 6.1 per cent) and local authorities will increase rents by an average of no more than £5 a week.
- *Grant benchmarks.* These are used to determine grant levels for schemes; they were raised in 2021 and are to be reviewed and updated for April 2023. The Scottish Budget notes that the AHSP continues to operate a flexible grant funding system, and that 'this means applicants should request the grant they require to make a project viable, and this will then be assessed to establish value for money'.
- *Quality standards for new homes.* More stringent requirements are to be placed on all new housing developments, notably that homes will have to meet a Scottish version of the *Passivhaus* standard, probably starting in 2024. SFHA supports the proposal but notes that it will require 'significant support'.

As in England, there are also pressures to invest more in the existing stock. The Scottish Housing Quality Standard (SHQS) remains the basic standard to be achieved. Compliance with the SHQS fell to 75 per cent in 2021/22, apparently because of pandemic-related delays and new requirements relating to fire alarms; landlords project higher compliance in the current year. The Scottish House Condition Survey (SHCS) typically reports much lower levels of compliance with the SHQS (see Compendium Table 26c). However, the figures are not directly comparable and SHCS data for 2020 onwards are still not available.

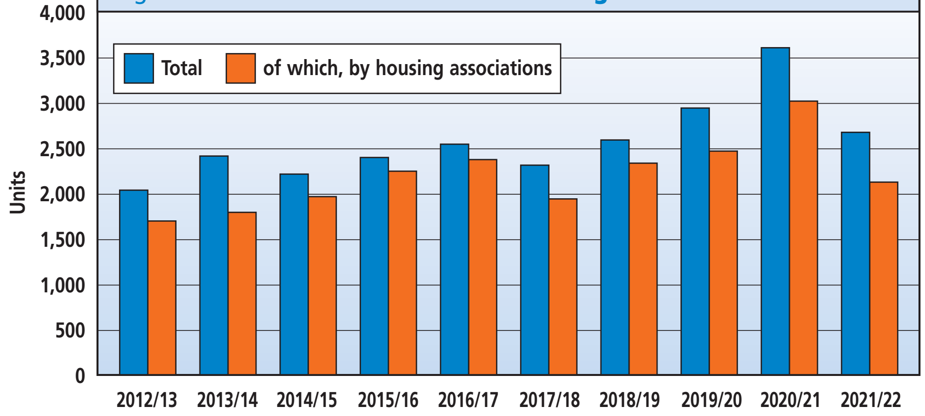
The Energy Efficiency Standard in Social Housing (EESSH) sets a minimum energy-efficiency rating according to property and fuel type. Social landlords had until December 2020 to meet the first EESSH 'milestone', and landlord reports indicate that 88 per cent of homes within the scope of the standard now meet it. A new standard (EESSH2) requires all social housing to meet, or be treated as meeting, EPC Band B, or to be as energy-efficient as practically possible by the end of December 2032 (within the limits of cost, technology and necessary consent). EESSH2 is being actively reviewed, and the 2032 milestone has been suspended while the review takes place.

Affordable housing investment in Wales

Wales's Programme for Government 2021 to 2026 has a strong emphasis on housing. It repeats the previous Senedd target to build 20,000 affordable homes over five years. This target was exceeded, with over 23,000 homes being built, once Help to Buy and similar schemes were included. The Welsh Government reports that, of this five-year total, 12,940 (or 56 per cent) were homes for rent in the social sector.[12]

The new programme marks a shift in priorities, with less emphasis on supporting homeownership and more on delivering 'homes for rent in the social sector'. Data for the first year of the new programme, 2021/22, show a 26 per cent fall in output compared with the previous year, particularly affecting the numbers provided by housing associations (Figure 2.4.4). This suggests that delivering the current programme's emphasis on homes for rent in the social sector is still challenging. Delivery of about 3,500 affordable homes annually is required to meet currently forecast levels of housing need.[13]

Figure 2.4.4 **Additional affordable housing in Wales to 2021/22**



Source: Affordable Housing Provision data collection, Welsh Government.

Table 2.4.5 **Summary of planned government support for affordable and private market housing investment in Wales, 2022/23-2024/25**

Programme	Grant/loan amounts (£m 2022/23	Grant/loan amounts (£m) 2023/24	Grant/loan amounts (£m) 2024/25	Notes
Programmes aimed primarily at delivering new housing at social rent, plus some low-cost homeownership				
Social Housing Grant	310	330	325	Includes Social Housing Grant plus several other smaller items.
Housing and Care Fund	61	61	61	Funding to integrate health, housing and social services.
Land for Housing	8	–	–	Recyclable loan funding for land acquisition.
Land and Buildings Development Fund	10	10	15	Funding to free-up difficult land and buildings for affordable housing development.
Social housing exemplar sites	10	10	10	Purchase of land for development.
Housing Finance Grant	13	13	13	Revenue support for HA capital investment.
Sub-total: social housing	**412**	**424**	**424**	**Sub-total = £1,260 million (87%)**
Programmes aimed primarily at supporting the private housing market				
Market housing and other schemes	–	25	25	Empty Homes Grant Scheme to bring long-term empty properties back into use.
Homebuy	2	3	4	
Regeneration	25	50	50	Aimed at regeneration generally so only part directed to housing.
Sub-total: private market support	**27**	**78**	**79**	**Sub-total = £184 million (13%)**
Total support for housing capital investment	**439**	**502**	**503**	**Total = £1,444 Million (100%)**

Source: Welsh Government Draft Budget December 2022.

The allocation of social housing grant in the Welsh Government Budget was £250 million in the first year of the new programme (2021/22) and rose to £310 million in 2022/23. Further provision of £330 million is being made in the Draft Budget for 2023/24 with £325 million provided for 2024/25 (see Table 2.4.5). Such substantial increases in grant funding suggest that a real shift towards more social rented provision is planned, although this funding will still cover intermediate rent and shared ownership. Landlords also welcomed the certainty of a longer-term programme instead of previous yearly allocations. However, there are new pressures on social landlords' incomes, with the Welsh Government having decided to cap rent increases for 2023/24 at 6.5 per cent, against a background of rising costs and the drive for higher standards in existing stock, including the heavy cost of decarbonisation.

The Welsh Quality Housing Standard (WHQS), applicable to existing social housing stock, was introduced in 2002 and has received £2 billion of funding since 2004. An energy-efficiency target of achieving EPC band D in the social housing stock has been in place since 2008 and by the end of 2022 had been met. A new version of the WHQS (WHQS2023) is currently subject to consultation. In August 2021, ambitious standards for new affordable housing were set out. Both these and the WHQS2023 focus strongly on affordable warmth and decarbonisation; new homes will target EPC A and will be built without using fossil-fuel boilers.

The Welsh Government's Draft Budget includes £1.8 billion over three years to create 'a greener Wales', part of which is £615 million of capital investment to 2024/25 to support the decarbonisation of existing social housing stock. This includes funding for social landlords via the Optimised Retrofit Programme (£70 million announced to date; £200 million committed until 2025). However, a stark analysis for the Future Generations Commissioner indicated that £15 billion (of which social housing's share is £5.5 billion) would be needed to retrofit the Welsh housing stock over this decade.[14]

Several separate funding streams remain. £82 million has been invested through the Land for Housing scheme which helps housing associations buy land, with a further £8 million allocated in 2022/23. This has resulted in a recycled loan value of over £200 million. A total of £375 million in capital and £21 million in revenue has been allocated to building safety, which will partly benefit social landlords.

Stock-retaining councils receive revenue funding (the major repairs allowance) to assist towards the costs of meeting the WHQS; housing associations formed through stock transfers from councils get dowry gap funding to underpin their investment generally. The Draft Budget maintains funding for them at the same level for the coming three years as was made available in 2021/22, i.e. £108 million annually to cover both support funds.

Table 2.4.5 repeats the assessment of the breakdown of investment support by the Welsh Government which first appeared in this chapter in the 2020 *Review*. The new table is based on the three-year allocations in the Welsh Government's Draft Budget for 2023/24, excluding expenditure on the existing stock. The Draft Budget shows a split between social sector support and private market support markedly in favour of the social sector, which accounts for 87 per cent of investment support, in part because the planned extension of Help to Buy Wales until 2025 has not yet been included.

Finally, the *Review* has commented favourably in the past on the use of section 106 developer contributions in Wales. Although figures are not yet available for 2021/22, it is notable that delivery of completed affordable housing through section 106 reached a recent peak in the previous year, at 920 homes.

Affordable housing investment in Northern Ireland

In February 2022, the power-sharing institutions in Northern Ireland collapsed over the future of the Northern Ireland Protocol and trade checks at the 'Irish Sea border', once again leaving Northern Ireland without its own assembly or government. Consequently, there is no agreed multi-year budget and progress on developing a new Housing Supply Strategy has been halted. A single-year 2022/23 Budget was approved as late as November. Despite the political impasse, work continues on the development of a new Housing Supply Strategy and the revitalisation of the Northern Ireland Housing Executive.

Northern Ireland's Social Housing Development Programme (SHDP) is a rolling, three-year programme to which £489 million was allocated over the period 2020/21-2022/23 and for which £168 million has so far been requested by the Department for Communities (DfC) for the period 2023/24-2025/26. The headline SHDP delivery target is to secure a minimum number of annual new social housing starts, which is set at 1,950 for 2022/23. The current intention is to incrementally increase the starts targets for the next three-year period to 2,000 units in 2023/24, 2,050 units in 2024/25 and 2,100 units in 2025/26 – subject to the availability of funding.

In the last decade, there were only three years when the relevant targets for starts were not achieved, including the 2019/20 year, when starts were adversely affected by the pandemic. For the 2022/23 programme year, a total of 429 starts under the SHDP had been confirmed by December 2022. Within what has traditionally been a 'back-loaded' programme, at the time of writing DfC considered it possible to achieve the overall starts target of 1,950 units during 2022/23.

To aid comparison with the rest of the UK, Table 2.4.6 shows SHDP *completions* for the period 2017/18-2021/22 (6,954 units). For the 2022/23 programme year, there had been 974 completions under the SHDP by December 2022. As noted previously in the *Review*, the five-year completions total is boosted considerably by 'off-the-shelf' and other property acquisitions, which account for around 20 per cent of the total. Although completions were lower than expected in 2021/22 (primarily due to the impact of Covid-19 on workforce patterns and the impact of pandemic recovery on the price and availability of construction materials), output appears to be returning to expected levels in 2022/23.

Table 2.4.6 **Northern Ireland Social Housing Development Programme – completions 2017/18-2022/23**

Type of provision	Total – five years 2017/18 – 2021/22	2022/23 (Apr-Dec)
New build	**5,295**	**721**
Off-the-shelf	**780**	**147**
Existing satisfactory purchase	**469**	**11**
Rehabilitation	**145**	**95**
Re-improvement	**265**	**0**
Totals	**6,954**	**974**

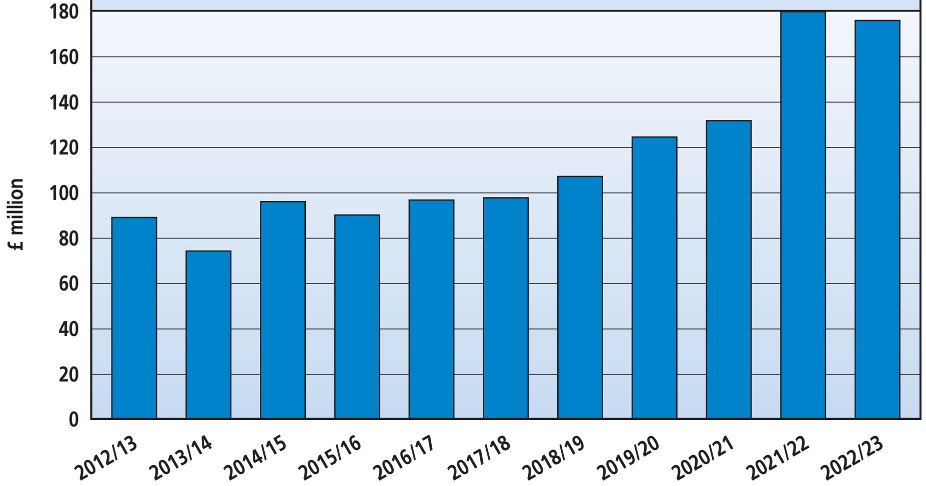
Source: Department for Communities, Northern Ireland Housing Bulletins and data supplied direct.

Figure 2.4.5 shows that the capital finance available for housing within the Northern Ireland Budget remained high, at £175.7 million in 2022/23 (net of receipts). The gross capital budget for this year is £243.9 million, which comprises:

- £174.6 million (72 per cent) for the SHDP (including £18.4 million for shared housing).
- £2.1 million for housing-led regeneration (under the Building Successful Communities housing-led regeneration pilot).
- £67.2 million in other NIHE Budgets for planned maintenance, adaptations, etc.

Unlike England, Scotland and Wales, therefore, 100 per cent of Northern Ireland's housing capital investment is for affordable provision, although some of the items above clearly relate to investment in the existing stock.

Figure 2.4.5 **Net housing capital investment in Northern Ireland, 2012-23**



Source: Department for Communities.
Note: Net capital is budgeted expenditure minus receipts. It excludes Financial Transactions Capital (FTC) funding allocated by the UK Government. FTC can be used as loans or equity investment for capital projects delivered by private sector bodies. Totals also include spending on private sector renovation grants.

A further £36.25 million in Financial Transactions Capital (FTC) was allocated to co-ownership homes in 2022/23 as part of a four-year funding programme totalling £158 million. A further £8 million was awarded in March 2022 to pilot an over-55s shared ownership product, and Northern Ireland is also actively looking at options for an intermediate rent product, also likely to be funded through FTCs.

In 2021, the DfC published a 15-year draft Housing Supply Strategy 2022-2037, with the aim of delivering 'upwards of 100,000 homes over its lifetime'. One-third of these would be social housing, implying an annual target of over 2,200 new social homes. A further aim was to deliver 'a significant number' of intermediate homes. Unfortunately, although consultations on the strategy have closed, it remains in draft with an uncertain future given that the assembly is still suspended. The strategy remains ambitious given that recent performance has been well below the targets it proposes. The strategy will need to be strengthened and made more specific when the proposed action plans are prepared.

A positive development in affordable housing provision is the growing use of Section 76 of the Planning Act (Northern Ireland) 2011, as part of local development plans being prepared by the eleven local authorities. Section 76 planning agreements are the equivalent of Section 106 agreements in England and Wales (Section 75 in Scotland). An example is Belfast City Council's policy requiring any development with more than five units to have a planning agreement to provide 20 per cent affordable housing. So far, no statistics are available to monitor the use of Section 76 and assess its significance.

The *Review* has regularly pointed out the significant investment challenge facing the Housing Executive. This is a longstanding issue, recognised within the 2020 *New Decade, New Approach* deal between the UK and Irish Governments.[15] Solutions are being developed through a Housing Executive 'Revitalisation Programme', aimed at creating 'a revitalised Strategic Housing Authority and sustainable social landlord that can maintain and provide good quality and affordable homes for current tenants and future generations'. Previously, the communities minister promised that NIHE will not be privatised and gave an assurance that options for its future will involve only limit change. Ideally, the Housing Executive would strengthen its strategic role while having access to borrowing additional borrowing. However, with senior civil servants controlling the nine government departments but with limited powers, squaring this circle inevitably depends on resolution of the political impasse.

In 2018, the investment needed in NIHE stock was assessed as more than £7 billion over 30 years, a backlog now certain to have grown significantly, to address retrofit and building safety requirements. In 2021/22, the Housing Executive invested over £190 million – the highest amount since 2008 – in maintaining and improving homes and was on track to increase this beyond £200 million in 2022/23. But it is running hard to stand still: the NIHE's stock compliance against the Decent Homes Standard has fallen from almost 100 per cent in 2015 to closer to 90 per cent.[16] The current situation risks the creation of a two-tier housing system where Housing Executive properties are maintained to lower standards than those of housing associations.

A further challenge for the Housing Executive is that the organisation has been subject to regular rent freezes, with a resulting impact on the ability to provide more income. In 2020/21 and 2021/22 it was allowed to make increases equivalent to CPI+1 per cent, albeit delayed until later in the respective financial years. In response to the cost-of-living crisis, there was a new freeze in 2022/23. NIHE's annual report noted that rental income is insufficient to provide the financial capacity needed to improve the housing stock and, to its relief, it will be allowed to raise rents by seven per cent for 2023/24. Meanwhile, unlike the position in England and Wales, housing associations will decide their own rent levels.

Delivery of higher standards of energy efficiency for new social homes is viewed as vital by the Housing Executive and DfC, with an optional energy-efficiency multiplier to support the more sustainable design for new homes delivered via the SHDP. But as in the rest of the UK, the decarbonisation of the existing stock is a huge challenge. The costs of achieving EPC C for the 26,000 social sector homes currently below that level are estimated at £100 million, with a much higher cost to achieve band B.[17] The Department of Finance's *Path to Net Zero* promised 'substantially enhanced levels of tailored support' for retrofit and a significant pilot domestic retrofit scheme in 2022. However, the report also acknowledges that spending needs to run at three times current levels if targets are to be achieved. In 2021/22, £37 million was spent on retrofitting NIHE dwellings, and the aim is to raise this to over £40 million annually.

Notes and references

1 National Audit Office (2022) *The Affordable Homes Programme since 2015*. London: NAO (subsequent references to NAO are to this report).

2 Public Accounts Committee (2022) *The Affordable Homes Programme since 2015*. London: House of Commons (subsequent references to PAC are to this report).

3 Regulator of Social Housing (2020) *Sector Risk Profile 2019*, updated in March 2020. London: RSH.

4 Calculation from DLUHC Live Table 1000c.

5 Denton, B. (2022) 'Rent restrictions plus market turmoil point to challenging times,' in *Social Housing*, 1 December.

6 Assessment by Savills for the CIH response to the social housing rents consultation (see www.cih.org/media/nbonzu1k/cih-social-housing-rents-consultation-response-final.pdf).

7 Compendium Table 71d shows expenditure recorded in associations' global accounts. To the total of £4.3 billion spent on maintenance and major repairs in 2021/22 can be added £2.2 billion of capitalised investment in existing stock.

8 GLA (2022) *Housing in London 2022*. London: GLA.

9 Data from RSH returns for 2021/22 (see www.gov.uk/government/organisations/regulator-of-social-housing/about/statistics).

10 *Ibid*.

11 See www.housingregulator.gov.scot/publications/helen-shaw-sfha-finance-conference-8-november-2022#

12 Correspondence with Welsh Government.

13 See https://gov.wales/estimates-housing-need-2019-based

14 See www.futuregenerations.wales/wp-content/uploads/2021/07/ENG-Exec-Summary-Financing-the-decarbonisation-of-housing-in-Wales.pdf

15 UK and Irish Governments (2020) *New Decade, New Approach* (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/856998/2020-01-08_a_new_decade__a_new_approach.pdf).

16 Estimates provide by NIHE.

17 Building Research Establishment Ltd (2021) *Cost of carbon savings in Northern Ireland's housing stock*. Belfast: NIHE.