



## **Affordable Housing Commission**

### **Midland Heart response**

**March 2019**



## Top line

Midland Heart is a leading affordable housing provider. We are expanding our development programme so we can build more affordable homes to address the shortage. The main barriers we face are the limited capacity of local authorities to facilitate development and the difficulty of accessing viable land.

## Introduction

Midland Heart is a leading housing organisation, delivering homes and services across the Midlands that enable people to live independently. We own and manage 33,000 homes and are dedicated to providing decent, affordable homes combined with excellent services to over 70,000 customers. Founded in 1925, we are a trusted not-for-profit organisation whose social purpose drives us to reinvest all our surplus back into our customers, staff and homes.

We have an expanding development programme with an ambition to deliver over 600 new homes a year. We build homes principally for low-cost rent, in line with our social purpose. We are also committed to spending £100m over five years to improve the condition of our existing homes.

## Key points

- Local authorities and combined authorities need greater resources and powers to support the delivery of good quality affordable homes.
- The planning system needs to support the development ambitions of housing providers across the country, not just in the South East.
- Fostering balanced and sustainable communities is also critical for addressing the shortage of affordable homes.

## Detailed responses

### 1. Understanding the affordability challenge

#### *What does affordability mean for different people in different places?*

The rent or mortgage is not the only cost involved in maintaining a home; bills, service charges and basic living costs are equally critical. Where housing costs exceed the generally-accepted benchmark of 1/3 of monthly income, households begin to experience difficulty.

We need to increase the supply of low-cost housing to enable those on lower incomes to cover their living costs without risking debt or hardship. This may mean homes for affordable rent, social rent, shared ownership or other affordable options.

Affordable housing should be of high quality design and well situated for local amenities and transport links.

The local housing offer needs to include sufficient variety to enable people to move into more suitable housing as their circumstances change, and to remain there as long as they need. With an aging population, we also need to ensure a sufficient supply of good quality specialist housing that enables older people to maintain their independence.

As well as developing general needs affordable homes across the Midlands, we are investing in our retirement living offer to ensure that we continue to offer homes that meet older people's needs.

### *Why is housing unaffordable?*

Housebuilding has long fallen short of demand, and the UK's housing stock is now among the oldest in Europe. Land supply is constrained by restrictions on green belt and insufficient coordination of the remediation and regeneration of brownfield sites to make them viable. This has created a sellers' market for land.

High land values, in particular 'hope value' (which incorporates anticipated uplift and future property price rises), combined with a restrictive planning framework, make it difficult for housing providers like Midland Heart to access viable sites for development. Hope value also has to be captured as part of compulsory purchases which limits the ability of local authorities to play a more active role in facilitating housing development.

### *Costs and consequences of unaffordable housing – what's at stake and who are the priority groups that most need support?*

Inability to access suitable housing affordably affects a substantial number of people, including those on moderate as well as lower incomes. Our own waiting list illustrates the scale of the problem. We are one of several local housing providers using an online choice-based lettings system known as Homes Direct to manage incoming bids across the Midlands. Over 36,000 households in need of rehousing are registered on this site. We receive an average of 99 bids for every home that becomes available. Almost half of our bids come from families with children.

The impact of this scarcity of good quality affordable homes is stark. According to the most recent English Housing Survey, overcrowding continues to rise with more than one in 20 rented homes now considered overcrowded. Thankfully the proportion of non-decent homes is continuing to fall but it still remains far too high, especially in the private sector where a quarter of homes are considered non-decent and more than one in 10 contain a Category 1 hazard.

The limited supply of social housing stock also impacts on the wider community, with councils nominating increasingly high proportions of households with severe vulnerabilities or high levels of support needs. In some areas this has exacerbated problems with antisocial behaviour and led to high rates of tenancy turnover which in

turn perpetuates cycles of homelessness. As well as seeking to increase supply, we need to pay closer attention to nurturing balanced and sustainable communities.

*What is being done, is it working, and what are the implications and policy trade-offs?*

We welcome recent investment commitments aimed at supporting housing delivery including the Housing Infrastructure Fund and funding to remediate land. The West Midlands Combined Authority has been successful at leveraging in significant funding packages to facilitate more ambitious housing growth across the region. However, this approach does not go far enough, we need closer co-ordination of activity between local authorities and the combined authority to maximise the delivery of good quality homes on previously developed land.

Homes England are becoming more innovative through strategic partnerships. We believe that guaranteeing levels of grant with Housing Associations in return for levels of supply is a good idea that will prove very effective. Grant secures affordable housing; and, through its recycling, delivers more newbuild housing.

There has also been some positive reform to the planning system with greater transparency over viability testing and greater accountability of local authority performance through the Housing Delivery Test. However, these provisions do not go far enough and we would like to see bolder reform to the planning system as explained below.

## **2. Towards a new affordable housing offer: increasing supply**

*What role should housing providers play and what products old and new should be backed by government and how?*

The National Housing Federation estimates the need for new affordable homes at 145,000 per annum, which represents a mixture of different tenures.

Homes for social rent play a vital role in ensuring everyone can access a decent home and we welcome the Government's commitment to reinvesting in this tenure. Other forms of low-cost submarket rent and affordable home ownership products also play an important role in meeting the needs of communities. Midland Heart is committed to developing homes primarily for low cost rent but is also seeking to increase development of shared ownership housing to 25% of our output over the next five years. We have strictly limited our exposure to market defined products.

A significant proportion of our shared owners go on to complete their home purchase via staircasing. Looking ahead beyond the end of the Help To Buy programme, further Government support for shared ownership could allow this tenure to play a major role in assisting people onto the property ladder. The social sector is ideally placed to take the lead on upscaling provision, as we already have a strong track record in this field.

Greater use of offsite construction may prove effective at reducing construction costs and could help increase build out rates. For modern methods of construction (MMC) to become more commonplace, the market needs lenders prepared to secure loans

against MMC homes. MMC products may increasingly gain the trust of investors, mortgage lenders and consumers as they become more commonplace, but for this to happen the Government must first work closely with lenders to bring MMC further into the mainstream.

### *What planning reforms would deliver more affordable housing?*

Local authorities need to have the power to set ambitious housing targets to meet the needs of their communities. The current MHCLG formula for calculating housing need is flawed because of its overreliance on property prices. Presuming need from perceived existing market pressures will simply exert more pressure on overheated markets in the South East, when what is needed is a rebalancing of the economy and a drive to regenerate parts of the country that have been left behind. Housing is an essential contributor to economic growth; disregarding growth projections is a missed opportunity to take a more balanced approach.

We would also like to see stronger nationally set targets for affordable homes on large sites and more robust provision to ensure local authorities work across boundaries to tackle the undersupply of land.

Access to land is a huge barrier to development. We concur with recent recommendations by UK Onward and the Raynsford Review of Planning, which encourage a system whereby local authorities might compulsorily purchase large strategic sites at current value, retaining land value uplift upon planning permission in order to fund infrastructure and subsidised housing. We would like a cross-party consensus on this issue to deliver real change beyond a single parliamentary cycle.

As discussed above, the West Midlands Combined Authority has received funding to unlock brownfield sites across the region, but devolution's full potential to boost housebuilding remains untapped. We need a full spatial plan that enables our combined authority to work more closely with local authorities to assemble land for development including where it crosses boundaries. Combined authorities must have a level of strategic planning power to make optimum use of their spending power.

The Letwin Review identified a practice of preserving property prices via artificially slow build-out rates and recommended legislating to ensure a wider range of tenures and property types on every large development, to enable faster construction without flooding the market. Encouragingly, several local development plans in the Midlands area feature large-scale urban extensions which could form an ideal setting for the proposed new mandatory diversity.

### *How can government support the funding and financing of affordable housing and what needs to change with the current system?*

We welcome the Chancellor's recent announcement of a new £3billion Affordable Homes Guarantee Scheme. Being able to borrow at favourable rates increases our ability to access viable sites for development. We also welcome the Government's renewed support for social rent. However, the primary barrier to increasing development output is access to land. We would like to see a continued focus on

funding initiatives that open up previously non-viable land for development through remediation and new infrastructure and amenities.

*What needs to change to ensure the skills and capabilities are in place to deliver more affordable housing?*

Midland Heart works closely with local authorities to identify new opportunities for development. Local authorities facing ongoing budget cuts have sought to reduce staffing costs over time, and in many cases this has led to a drop in experienced employees within planning departments. In order to better meet the housing needs of local communities, councils need to invest more in attracting and retaining skilled planning officers. Poorly resourced, though undoubtedly well intentioned, planning departments are often holding back development opportunities and sometimes failing to hold big developers to account over their provision of affordable housing.

We recently developed our first housing scheme using MMC products, with four new homes delivered in a single weekend in Coventry. We believe there is considerable untapped potential for MMC to help increase the supply of new homes, but this will require a workforce skilled in its assembly.

### **3. Towards a new affordable housing offer: managing demand**

*How can we ensure the better use of existing stock?*

Recent welfare reforms have sought to help housing providers make better use of stock but there is little evidence that this has been successful. In our experience, the removal of the 'spare room subsidy' has led to very few households downsizing as there are limited properties available for underoccupiers to move into. Around a quarter of applicants to Homes Direct are seeking to downsize. The policy has, however, led to difficulties letting certain property types in some areas, especially small two-bedroom flats that were previously considered ideal for single people. We would like to see the removal of the spare room subsidy policy abolished and a return to the previous approach, where housing providers were allowed more flexibility to make the best use of their stock when allocating homes.

We discussed above the need for a greater focus on balanced and sustainable communities. Our inability in many cases to influence the profile of the household being allocated to one of our homes has led to a high proportion of people with acute support needs being concentrated in certain areas. This leads to increased tenancy turnover and inefficient use of housing stock. We believe housing providers should have greater flexibility to allocate their homes in the interests of local communities, whilst continuing to meet the needs of those who most need rehousing. The underprovision of specialist support services to help residents overcome issues such as addiction and substance misuse is also creating problems for tenancy sustainability and hampering efficient use of stock. Increasing the availability of these important services should be a top priority for tackling homelessness.

*How can the welfare system ensure that those on low incomes, with particular needs or those experiencing financial shocks have the right level of support in a timely way to reduce housing stress?*

Currently councils face immense pressure to move people on from expensive temporary accommodation into general needs social housing as quickly as possible in order to reduce the housing benefit bill. Whilst this is often a very positive move for individuals and families, there are far too many cases where people have been moved into general needs accommodation before they are sufficiently independent to be able to sustain a tenancy. An acceptance of the need for some people to spend longer in more expensive temporary accommodation, combined better resourced specialist support services would help ensure that allocations of social housing are successful for both applicants and existing communities. This in turn would break cycles of homelessness more effectively and help to develop sustainable communities.

We welcome the Government's ambition to simplify the welfare system through the roll-out of Universal Credit. However, we are concerned that provisions within the new benefit rules will make it harder for some of our tenants to meet their housing costs. A recent Freedom of Information request to the DWP has revealed that at present, 53% of Universal Credit claims are subject to direct deductions toward repayment of debts. Under current DWP guidelines, up to 40% of a personal allowance may be deducted, even if the claimant is not receiving their personal allowance in full.

Where the monthly benefit award is reduced by other income, deductions can eat into the housing element, which can also affect direct payments to landlords where these are in place. An indebted claimant may struggle to make up a rent shortfall, and our money advice team is increasingly finding arrears cases resulting from benefit deductions. Whilst we welcome the recent announcement that the deduction cap is soon to drop from 40% to 30% in cases where debts were not incurred through fraud, we would welcome further changes specifically to protect Universal Credit recipients from deductions to elements of their benefits that are essential for meeting their basic housing costs.

#### **4. What else needs to change?**

*What other areas of policy need to change, such as reforms to the machinery of government, governance of housing providers, place-making and public realm?*

We believe housing providers have an important role to play in supporting place-making and a positive public realm through the development of quality new homes and the careful management of existing ones. At Midland Heart we are about to commence a new five year investment programme to upgrade our homes, focussing particularly on homes with a weaker kerb-appeal, and modernise our retirement living offer. We are also expanding our development programme with an ambitious but realistic target to deliver 600 homes a year, focussing on affordable, family homes that we know are needed most by local communities.

We do not believe that increasing the burden of regulation will help housing providers achieve our aims. We are working with the national Housing Federation to shape a new 'Together with Tenants' offer to ensure high levels of transparency and accountability, building on our successful record of providing a comprehensive programme of tenant scrutiny activity which has a demonstrable impact on decision making. It is right that the housing sector should have the opportunity to produce its own plan for tenant empowerment before considering the need for greater regulation

Whilst housing providers have a key role to play in place-making they can only achieve success in partnership with other local agencies. This has become increasingly difficult as public spending reductions have eroded the provision of local services across the spectrum from neighbourhood policing to social services and from local amenities such as libraries and leisure centres. We would like to see a full review of the impact of this shift on communities and a renewed commitment to ensuring local authorities have the resources they need to support communities most likely to be left behind.

*How can an agenda for change get backing from the public and what should others (beyond government and the housing world) be doing to help?*

Shelter and others have argued that winning support for more new housing depends on the considered application of planning policies to create high quality public spaces and attractive new homes. Discussions with our customers and colleagues in response to the Green Paper further concluded that the stigma of social housing had to be tackled by addressing its root causes. This could be done via improvements to kerb appeal, and most importantly by improved processes to tackle antisocial behaviour.

As well as exploring how we could allocate homes differently to support balanced communities, we are calling for specialist Housing Courts to reduce backlogs and offer landlords and tenants ready access to specialist advice. Swifter action against problem tenants could reduce tenancy turnover and disruption to communities.

## **Conclusion**

Housing providers like Midland Heart have a key role to play in addressing the shortage of affordable homes. We are responding to the challenge with an ambitious development programme, designed to deliver the types of homes that local communities need most. The biggest barrier is the planning system, which continues to restrict access to land for development and fails to promote sufficiently ambitious housing growth, except in the South East where the market is already overheated. Reforms should focus on rebalancing development activity across the country.

Poor management of existing housing stock is also a contributing factor to the shortage of affordable homes. Housing providers must invest in maintaining their existing homes to a high standard but there also needs to be a wider conversation about how different local agencies can work together to create more balanced

communities where people want to live and can be properly supported to sustain their tenancies. Otherwise we will simply perpetuate high levels of tenancy turnover and cycles of homelessness.

## **Contact**

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