Housing Market
& Housing
Delivery

Minutes of the Roundtable with Jonathan Walters, Deputy Chief Executive at the Regulator of Social Housing

Tuesday, 25th October 2022, 10:00am, virtual.

In attendance

Ben Everitt MP (BE)—Chair
APPG Secretariat
Jonathan Walters (JW)—Speaker
Jim Bennett - Assistant Director of Policy and Communications at RSH
Aster
Settle
LPDF
Karbon Homes
Sage Homes

Approval of motions

Meeting started at 10:00am Participants gave introductions and then the Chair gave an introduction and update on the APPG and recent political events.

Q: The sort of tone since conference has changed quite markedly in some sense from the economic point of view, how do you think that might affect agendas such as this and wider agendas for housing and housing delivery?

> BE: It is going to be a real challenge for us, we need to keep making the case for long term investment, we need to make sure that we are clear that in an age where capital is clearly going to be squeezed there is an economic return on investment for investing in housing of all tenures. Not just in terms of building new houses but in terms of existing stock as well via whatever means. It is very challenging right now and in terms of the impact we know that the government and treasury in particular are looking very hard at the balance sheet trying to make sure that all the outgoings

are trimmed as much as possible and unfortunately housing is a huge part of the balance sheet at the moment.

Comment: The other thing affecting housing associations is the rent cap and the latest thinking on that, and if the rent cap is happening, more details about it are needed. There was talk of a grant to help fund key aspects such as repairs so it would be good to know what will be coming from central government.

Comment: It would be useful for us to affirm messages around the fact that certainly with social housing we are counter cyclical and we can be part of the solution so maintaining that level of investment and keeping industries going through these difficult times is a really important message to get across. The investment keeps coming in and we will continue to use it to benefit everyone; the local economy and keeping jobs and skills going, which is a huge contribution from the sector.

Comment: I think it is important to remember the positive contributions as well as the investment into the economy from the sector and to discuss social value and the calculator of social value which is always important to bring up with housing associations and what we do.

BE: There are so many reasons housebuilding is a good thing and there are many aspects that are overlooked and we need to be making the case any way we can when it comes to the treasury tightening the purse strings.

JW joined the call -

BE: The purpose of this is to provide evidence for the APPG to make recommendations to the government. We are the APPG for Housing Market & Housing Delivery, there are two strands, not just the delivery of new homes but the existing stock and the relationship between the two. This is increasingly evident in unlocking what is referred to as the housing crisis which is actually the condition of existing stock and who lives in it, what tenure and what mobility we have between new and existing.

JW: We have just released the 'Sector risk profile 2022' on the challenges and risks we see in the sector. Housing associations are experiencing significant cost inflation and labour scarcity for delivering core services such as maintenance repairs, housing management support and care. The cost of capital for new debt you wish to raise has probably tripled in the past six to eight months, housing associations were raising debt at two and a half per cent compared to a projected seven or eight per cent now. The Government is grappling with the cost of living but we do not know what that means for the social housing sector and what this means for rents. It is a difficult question, to balance protecting the most vulnerable in society, their rent increases and the significant impact on housing association business plans if you allow rents to rise too slowly or too quickly. In the housing association sector, where we have a responsibility for the viability and good governance of those organisations, this is presenting a real challenge to the delivery of new homes and the investment in existing stock.

We are seeing margins being squeezed quite significantly in businesses. Over the past four to five years, and post-Grenfell, we have seen a steady year on year increase of investment on the existing stock so every year associations are stepping up the amount they are spending as they are dealing with building safety challenges, moving into zero carbon and a recognition that the decent homes standard in itself is very much a minimum standard with associations looking to spend more than the core minimum. All of this has squeezed margins with grant rates still relatively low compared to historic norms that has associations borrowing more, leading to significantly more debt meaning they have to build more homes to sell outright .

All of that has introduced more risk and we have therefore seen associations drift down in their creditworthiness. On top of all of those challenges, how do you build new homes, maintain the stock in that space along with the economic uncertainty at the moment. We expect to see more mergers as you need quite a resilient balance sheet to cope with some of the headwinds, and our job as a regulator is to spot where there are providers who are going to struggle, as tenants potentially being put at risk of losing their homes would be a social and economic disaster. We are working hard to try and intervene early enough so they can find a safe harbour and their businesses can be turned around and that will become increasingly challenging.

Comment: We are looking at the opportunities out there, there is a lot of investment with which we need to make sure we can continue. We need to be making the case for maintaining levels of investment while we work through what will be a slow down and we have the ability to do that we just need the investment to be committed to and honoured.

> JW: The social housing sector is really keeping the housebuilding sector going and all of those jobs. In 2009/10 half of all new homes being built in that year were from

social landlords. The counter cyclical nature of the sector gets the industry going, keeps the supply chains going and contractor chains going and would be a real shame not to learn that lesson the second time around.

Q: As the regulator, what kind of avenues into central government have you got to make that case?

A: We meet regularly with the Department for Levelling Up, Housing and Communities and the Treasury and we have been sharing the business plans and analysis we've done based on those business plans at various rent levels and various caps that might be put in place.We have done a lot of modelling around putting not just the rent cap but also the change in inflation, the change in cost of capital all of that together to look at what does that do to organisations, what does that do to the sector as well as feeding in all the information we have from our regular engagement with organisations, ,ost landlords we talk to want to carry on building homes and they want to really focus on the existing stock as well but they get such a housing crisis if they stop building homes to focus on existing stock will just make everything worse so we are trying to relay that very clearly, obviously it's politicians that make the decisions but we're trying to give them a really good evidence base about what those different decisions and trade offs might be.

Q - I recognise all the issues you've talked about, just an observation really in terms of the tensions between affordability and rent increases and the need to maintain income to sustain investment. The reflection we have is increasingly the whole situation is bringing into focus the sector has become reliant because of the current rent regime on above inflation increases and as a long term financial model that isn't really sustainable, so in the medium and longer term there's certainly merit in looking at a settlement that moves the emphasis away from above inflation increases and probably implies an increase in grant funding.

A: What we've been saying for a while is that carrying on with RPI or CPI+1 is one thing, but forever just wont work. In some places we have social rent at the same level as market rent and that really isn't sustainable, in the longer term one of the issues for everyone to think about is if you change the rent settlement , if you change the grant settlement there'll be winners and there'll be losers and it's having enough time to come to a sensible discussion, it often feels like council tax reform everyone knows it will be a good idea doing it it's just incredibly difficult and it's the same with the rent settlement.

Comment: The rent cap is causing some significant concerns across businesses and the sector. We are being called on for more and more with less money, we are exposed to inflation and have no control over our income. It becomes difficult and will come to a point where we will have to say, 'do we deliver more homes or do we keep delivering and maintaining stock?' We have to remember our business plans are committed two, three, four years ahead and it cannot be switched off overnight. I know the immediate reaction is that you can stop developing but we know that is not how it works, I wanted to know if they are aware of that in the government, that we cannot just get rid of our development team.

My second point is about the rent settlement. If the rent cap comes in place this will be the second time that the rent settlement we've had across the sector has been completely ripped up. Again, that makes financial planning a challenge and makes it difficult to maximise our resources as we feel we need to keep something back in case the rent settlement changes, meaning we are not producing the aggregate we could produce. If we had proper certainty and a real promise that the settlement they give us will stay, we can plan ahead and cope with the other things that will happen.

JW: On your first point, we have been really clear with the government and the public about the impact of a rent cap. The first thing that will take the hit is major repair spending as that is easier to stop, your development spend for the next year or two is probably committed. The first thing you would do in 2023/24 would be to pull back on your major repair spend depending on the eventual rent settlement then I think you look at how you scale back development. My best guess, in the future you will look at anything you can push back, zero carbon spend could be pushed back to the 2030s, cyclical programmes will come under pressure. We may get to a point where companies will have to say we will stop doing 'x' so we can focus on 'a' and 'b', going into some of those more difficult trade offs.

On your second point, I thought the SNP note on rents was really interesting, they were clear on the point you made that this is the second rent settlement on which the government has chosen not to follow through. It introduces more political risk into the sector for providers as there is no certainty as to how long you can rely on the government.

Comment: Referring to a provider who delivers policy compliant schemes which would have high percentages of affordable housing and on occasion work with your regulated entities to deliver 100 percent affordable housing. Our view is that affordable housing is an essential piece of the housing market and housing delivery overall, and I have been speaking for a while to a lot of registered housing providers concerned about the environment in which they are operating and having to run their businesses and the difficulty from a financial planning point of view. Our volume house builder colleagues are in a very different position to the one they were in in the financial crisis. They have got exceptional balance sheet capacity to continue development which they were not in previously. That is very different from the small and medium housebuilders. I think this dichotomy is something of which the government needs to be aware.

Q: One of the interesting interplays is the interplay between the funding that goes into the sector directly and the funding of housing benefits. It strikes me that we have settlements over a five year period, I think the Homes England settlement for the affordable housing programme was nine billion pounds over a five year period, yet we are paying out seventeen billion pounds in housing benefit and to me that does not seem like an economically rational thing to be doing, surely we should build more affordable homes and lessen housing benefit payments.

> JW - Over the years there has been quite a lot of analysis on the benefit to the public purse of investing in grants upfront so grant rates allow to build more homes and housing benefit costs become lower in the future. When you have tight fiscal positions some of those tradeoffs are very difficult to make.Treasury has been sceptical for a long time on the idea that spending more now will save money later so landing that argument with the government would be tricky.

Comment: That's slightly different from an investment, there is a more direct taxpayer understanding on how much we payout and on what the future benefit would be compared to an infrastructure investment like HS2. Would we not have been better off putting money into housing as we could have calculated what we would save in the future with greater certainty than what we can with hypothetical benefits?

Comment: I wanted to talk about the role our private developers are playing and how closely we work with private developers. We are their biggest customers and developers have very strong relationships with housing associations and the contributions on their schemes. They see it as a positive contribution, we cashflow their schemes and are consistent and when there is a downturn in the market they come to us and build us out first. We are not part of different providers, we are all providing the same thing, just different tenures.

> JW: There are a lot of myths around the supposed tension between developers and affordable housing providers, you often see synergies and a real benefit from them coming together rather than stand off as is often how it is represented.

Comment: I had a conversation with the CNI and British Chambers of Commerce and they were both adamant of the benefit of affordable housing delivery on the ability of businesses to grow and saw it as critical. The case needs to be made very clearly that if there was ever infrastructure investment that is critical, it is affordable housing.

Comment: I think what we will see is a big need for insulation in our homes this winter, we are working with other housing providers bidding for decarbonisation money. We will be insulating homes over winter as quickly as we can which is not quick enough and the idea we might have to cut back on existing stock is worrying as it has an immediate impact on our residents.

Comment: It is not just about the numbers, we have been looking at some modern methods of construction and that is the section of the industry in which we are really interested. There is a lot of investment going, new job creation, investment into research and development for better technology. All of the homes we are building at the moment are all electric, they meet modern space standards producing really good quality new homes and we are starting to support a new area of the industry which will help with the other issues like net zero being pushed back. If we pull back on budgets we are going to impact the work we are doing around emerging industries and zero carbon which is a shame as there is a lot of investment going into them at the moment. It is about making sure we do not think that one size fits all.

> JW - I agree and some of those trade offs will be really difficult and it will be such a shame if we drop the ball again on zero carbon which happened in the early 2010s and we lost ten years as a result.

Comment: If you are going to take away our income we need some grant funding specifically focused on the sector to help us continue to keep doing what we are doing.