SUBMISSION TO SOCIAL HOUSING FINANCES AND SUSTAINABILITY INQUIRY

WHO WE ARE

The Community Land Trust Network is the official charity supporting Community Land Trusts (CLTs) in England and Wales. We are a membership body and represent 350 CLTs with over 1,800 homes and other assets, and which together have plans to deliver 7,000 homes by 2026.

CLTs are best known as a form of Community Led Housing, along with housing co-operatives, cohousing communities, development trusts and self-help housing groups.

Community Land Trusts are democratic, not-for-profit community organisations. They are established for a specified local community. Anyone who lives or works there, and who supports the CLT's objects, can become a member. The members jointly own, and democratically control, the CLT. It may only use its assets for the social, environmental and economic benefit of the local community. CLTs provide communities with a participatory democratic capacity at the local level, complementary to the representative democratic function of local councils.

For further information on CLTs and this response please contact Tom Chance, Chief Executive of the National CLT Network, at tom@communitylandtrusts.org.uk.

RESPONSE

Section 1: The current state of financial resilience of social housing providers

Question 1: How would you assess the financial resilience of the social housing sector currently? Are increasing pressures and requirements putting financial viability at risk?

The majority of the 350 CLTs in England have either already completed or are aiming to build new homes for social or affordable rent, having looked at the range of local needs and designed projects to meet them. They are all ‘small’ providers, as the Regulator for Social Housing categorises them - fewer than 1,000 homes. But they vary from managing over 600 to just two.

The finances of established CLTs - be that CLTs that are managing homes or partnering with another RP - are holding up to current pressures. They have been able to withstand rising interest rates, labour and material costs, and the below-inflation cap on rent increases. Most CLTs own and manage homes built in the last decade, to high standards, and so repair costs are relatively low. This is a very positive reflection on the ability of the sector to develop in a financially robust way. However, there is broad recognition that this resilience is being stretched, and that if economic pressures continue at this rate, or increase, challenges will arise.

The principal impact on CLT finances has been reduced surpluses, which would be invested into new projects or distributed to the community in other beneficial ways. There has not yet been any serious threat to the viability of CLTs per se.

Question 2: What pressure has high inflation, increased energy costs and any other additional costs placed on the finances of social housing providers?

The main challenges CLTs are facing are:

- Higher interest rates
- Soaring construction costs
- Lack of labour and competition

CLTs that develop directly, themselves, already face relatively high finance costs. Most borrow from a small number of interested lenders such as the Ecology Building Society and Triodos Bank at rates that are several percentage points higher than the financing costs of larger organisations. As the Bank of England has raised the base rate this has put serious pressure on the finances of CLTs with mortgages that were linked to the base rate and not fixed.

Soaring construction costs, the lack of labour and the continued decline in competition in the smaller end of construction market have also had significant impacts on CLTs looking to develop new homes.

CLTs want to work with local SME businesses to build their projects, but due to labour shortages the pool is getting smaller. This has led to challenges for CLTs as a lack of competition for tenders can mean contractors charge inflated prices or choose not to submit an expression of interest at all. In many cases, CLTs have only found one contractor to choose from.

CLTs and housing associations have developed strong and reliable relationships with local SME contractors over the years. For CLTs and HAs relationships with SMEs are more productive and two-way and better results are achieved with the build.

The continued drop in SME builders is a concern. Larger developers are less interested in smaller development projects as the value isn't there for them.

Question 3: To what extent can social housing providers maintain output levels in housing development to provide a counter-cyclical balance in otherwise tightening market conditions?

There are cases where viability assessments are borderline and this is leading to a small number of CLT projects being shelved due to construction costs and inflation. We have heard reports of this in Cornwall, Sussex and Lincolnshire. This is a difficult decision for all CLTs, especially where many years of work will have taken place, sites secured and community-backing has been achieved. From our research CLTs operate in the most expensive areas to the most deprived - the homes are desperately needed.

We are also concerned that CLTs will be value-engineering down standards, leading to possible retrofit costs in future years to bring them up to required standards e.g. for energy efficiency. Our research published in 2021 found that CLTs were tending to exceed local and national policy requirements in this area already, helping to build the supply chains and skills to deliver on net zero[1]. But this will be less likely in the current market conditions.

We understand that Homes England is generally taking a pragmatic approach to grant levels of keep development moving forward. This is most effective for larger housing associations.

Some CLTs have chosen to seek a partnership with a large housing association to rescue projects. But the financial resilience of the wider housing sector (housing associations, local authorities, developers, and contractors) can also impact partnership projects. We are hearing that some smaller housing associations have pulled out of CLT partnerships and we are concerned that future projects could face challenges linked to this too.

Emerging CLTs are facing additional challenges. There is a serious lack of funding available to groups designing projects and navigating the process (investigating and securing land; paying professional fees, obtaining planning permission). The Community Housing Fund has provided groups with this risk capital, but it has been closed since December 2021. In many cases, plans are also having to be altered to ensure a scheme's financial viability.

Many CLTs, especially those in our small market towns and villages are building small numbers of homes - but these are homes that would unlikely get built by housing associations and large developers because of the scheme's small size.

In many of these areas, there is also a lack of infrastructure and the cost to provide new roads, sewage systems and other services is off-putting for many traditional providers. Previous phases of the Community Housing Fund included grants for small scale infrastructure and we would like to see this renewed.

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1 https://www.communitylandtrusts.org.uk/wp-content/uploads/2021/11/Leading_to_Net_Zero.pdf

Question 4: What impact have changes in the housing market in recent years had on the strength of housing associations' balance sheets?

A small number of CLTs have told us that they posted losses for the first time last year, or were only just above breaking even. But their balance sheets are generally resilient. They are increasingly downgrading their assumptions about future income in the short to medium term.

Question 8: The Affordable Homes Programme includes a high proportion of shared ownership properties. To what extent is this form of tenure desirable for potential purchasers and for social housing providers?

We have heard mixed reports of this. In the south west, where traditionally CLT-housing association partnership schemes would include a mixture of affordable rent and shared ownership properties, they are increasingly focused solely on social rent. This reflects the need identified through Strategic Housing Market Assessments and local housing needs surveys. Shared ownership is simply too expensive, or unsuitable, for those in housing need in those communities. In the north east, we understand CLTs and other providers find it hard to sell shared ownership properties.

One of the particular challenges for CLTs lies in the inability to maintain the affordability of shared ownership properties over time.

One reason is that, outside designated protected areas, it is not possible to cap staircasing at 80% and to include local occupancy clauses. One CLT in the Lake District has been lobbying, via their MP, for national parks, the broads and AONBs to be included alongside designated protected areas as places where such restrictions are possible. These matter to CLTs because local people will only volunteer their time to develop the homes, and landowners will only sell at a viable price, if they are assured that the homes will remain affordable in perpetuity for local people. The wider market of shared ownership providers have moved away from these more restrictive products in response to limited retail mortgage lending and the greater difficulty in selling the homes, but this has only weakened support for the tenure especially in rural areas.

The other reason that CLTs dislike shared ownership is that the value rises in line with the housing market, which can mean prices rising far faster than incomes. So a home sold initially to a household on an income of £30k might, on resale, be totally unaffordable to a similar household. A number CLTs have, for some time, been building homes for Discount Market Sale, with discounts initially calculated to make the homes for households on median local incomes, and resale prices discounted either on the same basis or by linking increases from the first sale to an inflationary index like CPIH.

Section 2: New challenges to the social housing sector:

Question 10: Will the introduction of the Infrastructure Levy and changes to section 106 significantly affect the capacity to develop affordable housing?

We support the concerns of the National Housing Federation and others that this might lead to a reduction in affordable housing.

There is, however, an opportunity for the new Infrastructure Levy to increase levels of community led affordable housing. We have responded to question 36 in the government's technical consultation on the infrastructure levy, on arrangements for spending the neighbourhood share in unparished areas. We believe that CLTs could also receive the community element of the infrastructure levy.

As was noted in the Levelling Up and Regeneration Bill's bill committee debate on the 23rd June, at present, nearly two-thirds of England (63%) is not covered by a town or parish council. This includes most urban areas, where significant Infrastructure Levy proceeds will only be made available to neighbourhoods at the discretion of the local authority. Neighbourhood forums have been proposed as another type of body eligible to receive the neighbourhood share, and we support this suggestion. But they, too, have limited geographical coverage.

There are other equally democratic local structures that could also receive the community element of the infrastructure levy, achieving greater devolution to neighbourhood-level governance. Community Land Trusts are one such option. Unlike neighbourhood forums, their principal purpose is not making plans but enacting them - developing land and assets for local benefit. So they would be a suitable alternative for communities that need a vehicle with which to receive, hold and spend the community element of the infrastructure levy on local priorities. By contrast with parished areas and neighbourhood forums, the 350 existing Community Land Trusts are well distributed across England, and over-represented in deprived and 'left behind' areas[2].

Legislation or regulations could stipulate that Community Land Trusts must be designated as suitable bodies by the local planning authority. They should be required to meet the same standards as Neighbourhood Forums, as set out in section 61F(5) of the Town and Country Planning Act 1990 as applied to neighbourhood plans by section 38A of the Planning and Compulsory Purchase Act 2004 (as amended by the Localism Act).

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[2] Unpublished analysis for Local Trust, referenced in CLTN (2023), State of the Sector 2023, https://www.communitylandtrusts.org.uk/news-and-events/new-research-shows-potential-for-278000-more-community-led-homes/

The statutory definition of the Community Land Trust in the Housing and Regeneration Act 2008, s79, already aligns to requirements set out in the aforementioned TCPA act - specifically subsections 61F(5a) (purposes promoting or improving the social, economic and environmental well-being of an area), 61F(5b) (membership open to those who live or work in the area) and 61F(5d) (having a written constitution). The Government could further require that Community Land Trusts have a membership of at least 21 individuals as set out in 61F(5c), and require local planning authorities to test whether the Community Land Trust has taken reasonable steps in building its membership as set out in 61F(7a). Given that our proposal would also result in significant financial transfers to communities, not relevant and so not considered by the legislation for neighbourhood forums, we would also support requirements that local planning authorities test the financial governance and management capabilities of the Community Land Trust. Guidance could set out how this test should be applied.

Our experience and research has found that Community Land Trusts provide those parts of a community that are pro-development with a tool to improve their area. Connecting the significant financial windfalls from other development to CLTs would therefore strengthen local incentives to accept development, and to undertake further development of affordable housing in the local area.

Section 3: What are the policy and regulatory challenges to the Department and the Regulator?

Question 4: Is the current range of grant funding available appropriate to address the issues and challenges that the social housing sector faces?

There is a critical gap in the grant funding aimed at new housing development, which puts the Affordable Homes Programme (AHP) tantalisingly out of reach for small providers. Small providers, and especially new entrants, lack the risk capital to develop new projects - they either simply have no working capital, as new bodies, or couldn't carry the risk of developing a project that failed to complete.

The Community Housing Fund (CHF) fixed this problem for community led providers. It provided revenue grants to groups to establish a new body, if applicable, and to then undertake the pre-development work required to secure a site and obtain a planning consent. At this point, they are able to apply to the AHP and access private finance to take the construction phase forward. We believe that in most cases, revenue grants awarded through the CHF were in effect deducted from the later AHP capital grants – the CHF simply brought some part of the grant forward to enable that risky pre-development work.

The CHF is closed, however, and was only open to bids in two brief windows: from July 2018 to March 2020, and then August to December 2021. Even these short windows helped to stimulate a pipeline of 11,818 homes[3]. But many of these projects at earlier stages have been stuck waiting for the CHF to re–open.

Many of these projects are in places with a significant need for affordable homes that isn't being met by the larger social housing providers, but which those providers are willing to partner on delivering with CLTs if the latter can bring the projects forward. They are often in small and remote rural communities, for example, afflicted by the impact of holiday homes or by low values in a 'left behind' seaside town. The National Audit Office identified the low levels of rural delivery as a particular risk for the AHP[4], and more generally noted that the way the programme is designed means homes may not be built where they are needed most. Communities, meanwhile, are trying to bring affordable homes forward in those places, but the AHP isn't designed to enabled them to do so.

Ministers have frequently responded to lobbying from MPs, and written Parliamentary Questions, by acknowledging the success of the CHF and saying it is under review. The committee should add its voice to this message.

The committee might also propose that future rounds of the AHP incorporate the CHF into its design. That is, smaller providers could bid into a 'risk capital' stream to bring forward new projects, funding which would be deducted from later capital grants. We have proposed this could be on a per-project basis, or in the form of strategic partnerships with enabler bodies in our sector that support a number of projects in a geographic region.

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3 https://www.communitylandtrusts.org.uk/wp-content/uploads/2021/09/Delivering-the-Community-Led-Housing-Pipeline-in-England_Final-Copy.pdf

4 https://www.nao.org.uk/reports/the-affordable-homes-programme-since-2015/#report-conclusions