

# Community Housing Cymru



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Cartrefi Cymunedol Cymru / Community Housing Cymru

## Finance Committee Call for Information – Welsh Government Draft Budget 2023/24

### About Community Housing Cymru

Community Housing Cymru is the voice of housing associations in Wales. We represent and support 36 housing associations and community mutuals. Our members provide almost 165,000 homes to 10% of the Welsh population.

### Summary of our response

In March 2023, the Welsh government confirmed a record breaking long term investment package of almost £2 billion in capital and £700m in revenue investment for housing and homelessness prevention support. We are confident that this will make a significant difference to the Welsh economy and to the wellbeing and outcomes of people in Wales, but given the ever increasing challenges caused by the cost of living crisis we must be agile and smart in the way we invest it.

The housing association sector in Wales requires three things from the Welsh government budget in 2023/24:

#### **1. A long term investment programme to deliver new, low carbon, affordable homes for people in Wales**

Building homes has never been more difficult in Wales. There is much to do to unblock the immediate barriers that are slowing down and halting development in some areas. However, unless our approach to tackling the climate and nature emergencies is in lockstep with our efforts to tackle the housing crisis we will be trapped in a cycle of short term measures that only get us so far.

We need a long term investment programme to support us to build new low carbon homes, to decarbonise existing homes, and to provide the infrastructure we need for environmental and nutrient management.

Capital funding for new, low carbon, affordable homes for social rent through the Social Housing Grant must be protected in the 2023/24 budget.



Investment is also needed now in local capacity to build a land, planning and environmental management system in Wales that has the delivery of affordable homes for people in Wales at its heart.

Decarbonisation of the social housing sector requires a fully funded and deliverable plan. This plan must take advantage of changes in technology, maximise the opportunity to build a Welsh based supply chain and provide an economic boost to Welsh communities.

## **2. A more agile and pragmatic approach to funding so that we can be responsive to the dynamic and challenging environment we find ourselves in**

We have seen some real progress in establishing an agile and pragmatic approach to addressing the urgent challenges we face through the Transitional Accommodation Capital Programme and a move to programme funding via the Optimised Retrofit programme. We would like to see this approach rolled out more widely to enable us to make the biggest difference to increasing the accessibility and quality of social housing.

It will be crucial to include funding for this within the 2023/24 Welsh Government Budget as part of a balanced investment programme that gets the most out of every pound spent and benefits the health and wellbeing of the whole nation - both now and for future generations.

## **3. A reinvigorated focus on prevention**

We know this is difficult during a crisis. However, it is because we are in a crisis that we must invest in prevention. Losing focus on this will result in devastating consequences for individuals and huge additional costs for the state for years to come.

Proper upstream prevention through support and investment in existing homes is the way to provide real help and support as well as to reduce pressures on the NHS and local government.

To do this, we would like to see an inflationary increase to the Housing Support Grant and the Homelessness Prevention Grant. In addition, commissioners must have funds at their disposal to provide funding for social care providers that meet the true cost of providing quality care, helps them weather the storm of the cost of living crisis and pay their staff the Real Living Wage.

*We are delighted to take this opportunity to respond to the Finance Committee's call for information to inform the next Welsh Government Budget. We have provided more detail on our response in answer to the specific consultation questions below.*



## Consultation questions

**1. What, in your opinion, has been the impact of the Welsh Government's 2022-23 Budget, including funding related to the recovery of the pandemic? Have Welsh Government business support policies been effective as the economic outlook for 2023-24 continues to worsen?**

### Increasing the supply of affordable housing

#### Building new homes

The 2022/23 Welsh government budget provided much needed certainty around longer term spend on affordable housing development. The following commitments were particularly welcomed by the social housing sector:

- A £965m allocation of Social Housing Grant (SHG) over 3 years: £310m in 2022/23; £330m in 2023/24; £325m in 2024/25.
- An additional £8m for the Land for Housing scheme to enable the sector to secure land sites and support the housing development supply chain.
- £1m investment in the development of Unnos, the National Construction Company.

This substantial investment has allowed the housing association sector to continue to build new, energy efficient homes and contribute to making Wales a fairer and greener place. However, like many other sectors, home builders have experienced significant headwinds this year. The impact of this has been a delay to social housing schemes despite the best efforts of housing associations to solve problems and resolve barriers. The most significant contributing factors to this have been:

- Inflationary cost increases and supply chain disruption, and their impact on the construction market in Wales.
- Post Covid retention and recruitment challenges, leading to lack of skilled specialists and other core staff across planning, environmental management and construction.
- Lack of strategic oversight and drive to tackle the housing crisis across key stakeholders that can influence the delivery of social housing development.
- Misalignment between environmental management approvals and the planning system.

This reinforces the need to protect planned Social Housing Grant capital spend of £330m in 2023/24, and £325m in 2024/25, so that housing associations can build the new, low carbon affordable homes that people in Wales so urgently need.



We are pleased to note that the Welsh Government is responding in an agile and pragmatic way. This includes:

- A planned review of the standard viability model to reflect the changed external environment.
- Action to address the impact of inflationary costs on the affordable housing construction sector. This includes investment to tackle increases in costs for development through the Material Cost Increase (MCI) programme.
- The Transitional Capital Accommodation Programme which has helped make more social homes available through refurbishment, renovation and acquisition. We would like to see this pragmatic approach become part of the core approach to funding social housing moving forward.

In 2023/24, a holistic Welsh government strategy is required to bring together all of the positive work that is being done to increase the availability of social housing. This will help us to ensure that we are not duplicating activity or working at cross purposes. Given the current challenges, this should include a strategic plan to increase capacity and quality in relation to temporary, transitional and settled accommodation in the context of the recommendations of the Homelessness Action Group.

Investment will also be needed in 2023/24 and beyond to improve environmental management infrastructure and bring greater capacity into the planning system.

## **Prevention of homelessness and hardship for individuals**

### **Homelessness and housing support**

In 2022/23, the Welsh government maintained the Housing Support Grant at a baseline of £166m for the next three years. This was warmly welcomed by the housing association sector as a vital investment in core preventative services.

Unfortunately, the capacity of this investment to support services has been negatively affected by the cost of living crisis and the extreme inflationary environment. As a result, funding has not been sufficient to allow a meaningful increase in staff wages. In September 2022, CHCs partner organisation Cymorth published a [report](#) which exposed the financial challenges facing frontline homelessness and housing support workers. This showed that even before the cost-of-living increases this autumn:

- 79% of frontline workers were not putting on the heating in order to save money
- 44% were struggling to pay bills
- 7% were using food banks.

In addition, Cymorth has highlighted the concerns of homelessness and housing support providers about the cost of running services. Accommodation-based services such as temporary and supported accommodation have particular concerns about the increase in energy bills, which are often paid centrally by the support provider.



## **Housing association social care providers**

The considerations above are also pressing concerns for housing associations that provide social care services.

Welsh government commitments to the Real Living Wage (RLW) for those working in social care is a significant step forward in valuing the social care workforce. Unfortunately though, there has been considerable uncertainty during 2022/23 around funding settlements to pay the RLW in relation to the sustainability of service

During 2022/23, housing association care providers have received no uplifts in funding from commissioners to help pay for the RLW or to address cost inflation. These additional pressures come on top of well documented funding challenges. As a result, contracts and services are likely to move further into deficit, risking provider exit. This represents a significant risk to the ability of housing associations to continue to provide care services.

As a priority, the Welsh Government must increase social care funding for local authorities to ensure:

- Fees cover the real cost of delivering high quality, person-centred care
- All care workers in Wales are paid at least the Real Living Wage
- Care workers have progression opportunities and pay differentials, based on qualifications, skills and responsibilities.

## **Financial support for individuals**

When the Welsh Government 2022-23 was first published, a £162 million package of measures was announced on a time-limited one year basis. There have also been additional in year increases to this. The purpose of this funding was to help low income households to meet the immediate pressures on living cost this winter and to reduce the impact of the cut to Universal Credit, Working Tax Credit and the rising cost of energy.

The package included:

- £90m investment to extend the current provision of the Winter Fuel Support Scheme for a further year to run next winter. The Welsh Government is keen to ensure more people can access this fund and will widen the range of eligible low-income households.
- An additional £15m has been made available to extend the Discretionary Assistance Fund (DAF) to 31 March 2023. This was extended to help with some energy costs (off-grid energy costs).
- £1.6m has been provided for the Single Advice Fund, which will offer advice and support on income maximisation
- £2.9m to create sustainable food packages. This funding includes £1m allocation for local



action to tackle growing levels of food poverty

CHC supported Welsh government calls on the UK government during 2022 to reverse cuts to Discretionary Housing Payments (DHPs), which provide much needed support to people who receive housing benefit or Universal Credit but experience difficulties in paying their rent due to financial hardship. In 2023/24, we hope that the UK government will reinstate full funding to DHPs, and that the Welsh government will exercise its right to top up this fund to target support at those in most need.

In addition, we understand that part of the Homelessness Prevention Grant provided to local authorities has been allocated as a discretionary fund to local authorities, in order to provide similar support for renters who do not receive benefits. During 2023/24 we hope to see greater clarity on how housing associations can work with local authorities to ensure that this funding reaches those that need it and acts as a truly preventative funding stream.

## **Decarbonisation**

In March 2022, the Welsh government confirmed a new three year Infrastructure Finance Plan which provides a total of £1.8bn investment in creating a greener Wales. This included £35m to test the use of new funding models through the Optimised Retrofit Programme, alongside the £72m general capital to help accelerate the scale and pace of the decarbonisation of Welsh homes

### **Optimised Retrofit Programme**

We welcome the formula based allocations within the Optimised Retrofit Programme (ORP) that we have seen in 2022/23 which will bring certainty and clarity for housing associations to invest.

This flexible approach to the programme is positive and represents a vote of confidence in the ability of the sector to determine the most effective approaches to retrofitting properties.

At this time, we are awaiting formal confirmation that ORP 3 includes certain types of accommodation that were previously excluded, such as extra care housing. This would be a hugely positive step forward in a time when these types of housing are experiencing major increases, and communal energy costs that could render some unaffordable. Self-funding energy efficiency measures at this scale has the potential to divert some of the preventative support from health and social care settings.

However, the social housing sector is still awaiting a decision on the long term approach to decarbonisation at scale. We need a fully costed plan and deliverable timetable and strategy which allows investment to be retained in Wales to support the local economy.

### **Wales Housing Quality Standard 2023**

During 2022, the Welsh government issued a consultation on the Wales Housing Quality Standard (WHQS) 2023. This included plans to require the social housing sector to achieve a higher standard of EPC A / SAP 92 ahead of other parts of the UK.



CHC provided a response on behalf of the social housing sector which explained that WHQS 2023 proposals were simply not deliverable. They would have placed colossal unfunded pressures on housing associations. With no financial package attached to them, the proposals would have resulted in housing association covenants being breached. This would threaten the viability of the sector and reduce its attractiveness to private borrowing.

In order to make sufficient progress at the pace required, the housing association sector is clear that there must be: an ambitious but achievable target date; a long term grant programme; and a complementary skills strategy. Further details on what this might look like are included in our response to question 4 below.

## **2. How should/could the Welsh Government support the economy and business following the pandemic, Brexit and inflationary and other economic pressures?**

### **Housing association contribution to the Welsh economy in 2023/24**

In 2023/24, we will need a balanced investment programme that gets the most out of every pound spent and benefits the health and wellbeing of the whole nation - now and for future generations.

Housing associations are private businesses that exist for public good. In 2021/22, housing associations invested £395m in new homes in Wales and for every £1 received from the Welsh Government, housing associations brought just under £6 into the Welsh economy.

They are also major employers. In 2021/22, housing associations directly employed around 11,000 FTE jobs in Wales and this figure rises to around 27,000 if indirect sources of employment are also considered.<sup>1</sup>

To ensure housing associations are able to contribute maximum benefit to the economy in the 2023/24 budget, it is crucial that Welsh government should:

- Protect planned £330,000 million in 2023/24 for the Social Housing Grant capital spend on building the new, low carbon affordable homes that people in Wales so urgently need.
- Reaffirm the agile approach to placing funding where it is most needed to end homelessness and provide sanctuary, through investment in the next stage of Transitional Accommodation Capital Funding programme.
- Bring pace and certainty to the development process by allocating additional funding:
  - To allow local authorities to invest in services that enable economic activity and investment, such as planning.
  - To significantly increase the speed of infrastructure to support environmental management, including nutrient management and flood prevention.
- Commit sufficient funding to social care to allow commissioners to support providers in

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<sup>1</sup> CHC Global Accounts, 2021/22





paying the Real Living Wage and meeting current huge inflationary cost increases to ensure these businesses remain viable.

### **3. With inflation and costs of living issues continuing to escalate, what action should the Welsh Government take to help households cope with this latest crisis?**

#### **Increased support for social housing tenants experiencing financial hardship**

Housing associations provide almost 165,000 homes to 10% of the Welsh population. Our vision is a Wales where decent housing is a basic right for all, and the collective mission of our members is to provide good quality, affordable homes in communities across Wales. Social housing tenants in Wales are among those who have been hit hardest by the cost of living crisis during 2022/23.

Housing associations in Wales are seeing the cumulative impact of this first hand. They take their responsibility for supporting tenants very seriously, and so are directing a great deal of resources towards helping their communities through this extremely difficult time. To support tenants on the frontline, they employ skilled and experienced staff members who provide advice, guidance and support in a range of different ways, including with accessing financial support and signposting to partner services.

In September 2022, we spoke to 16 housing associations to gain a better understanding of the demand for financial support amongst their tenants. They told us that:

- Across their organisations, 1300 tenants had been referred for financial support between August and September 2022 - so in just one month.
- 13 of the 16 associations operate a hardship fund that provides money directly to tenants. Total funding for this rose from £403,000 in 2021 to £525,000 in 2022.

Increasingly, housing association staff are reporting that they are reaching the limits of what they can do to help. Every option for tenants has been explored and no further savings or routes to financial support can be identified or support offered.

In the 2023/24 Budget, Welsh government should continue to support individuals by:

- Provide clarity on support for individuals experiencing financial hardship, to make routes to support more accessible for social housing tenants and to enable partnership working between housing associations and local authorities. In particular, this should enable greater consistency in access to support for self payers through the Homelessness Prevention Grant and to those who receive benefits through Discretionary Housing Payments.
- Continuing to fund vital initiatives that target fuel and food poverty, and that support higher rates of benefit take up.





## **Pressures on private rented sector tenants and homeowners**

Housing associations have welcomed an increase in Welsh government focus on keeping people in their home through mortgage and rent rescue during 2022/23. Funding for the continuation of this work in the 2023/24 financial year would be welcome, in order to prevent rising mortgage rates and private landlord exit from the marketplace from driving an increase in homelessness.

## **Homelessness prevention and support services**

With record numbers in temporary accommodation and immense pressure on housing support services, there is a very real risk that providers will be unable to retain enough staff to maintain service delivery. Unless funding is increased to enable an increase in wages, frontline workers will be pushed further into poverty, or will continue to leave the sector for better paid jobs.

In order to ensure that services are able to deliver vital services targeted at the prevention and alleviation of homelessness, the Welsh government must provide an inflationary increase to the Housing Support Grant and Homelessness Prevention Grant.

**4. Are Welsh Government plans to build a greener economy clear and sufficiently ambitious? Do you think there is enough investment being targeted at tackling the climate change and nature emergency? Are there any potential skill gaps that need to be addressed to achieve these plans?**

## **Wales Housing Quality Standard 2023**

CHC provided a response to the WHQS 2023 consultation on behalf of the social housing sector which explained that proposals were simply not deliverable. They would have placed colossal unfunded pressures on housing associations. With no financial package attached to them, the proposals would have resulted in housing association covenants being breached. This would threaten the viability of the sector and reduce its attractiveness to private borrowing.

We know that the cost of living and energy crises mean that we must redouble our efforts to reduce fuel poverty and health inequalities. This will support our wider and longer term ambitions to reduce carbon emissions across the social housing stock in Wales and make a difference to those that are struggling with impossible choices.

We would like to work with the Welsh Government to develop an alternative approach which prioritises investment for fuel poor communities and takes a phased, practical approach to further retrofit of homes over a longer time period. This approach will enable us to remain agile and take advantage of new technology and support a sustainable and local supply chain - keeping the investment in Wales to support Wales.



In order to make the progress we need, the 2023/24 Welsh government budget must provide investment to support the following:

- **An ambitious but achievable target date:** The 10 year programme was initially proposed in very different economic conditions to the one facing tenants and housing associations today. We would like to work with the Welsh Government to develop an alternative roadmap which delivers a workable programme. This should balance investment to provide support to fuel poor households and further investment over a deliverable time period that allows the supply chain to scale up alongside the demand.
- **A long term grant programme:** Achieving EPC A / SAP92 / EIR92, as well as other elements of the proposed standard will incur significant costs. The cost of retrofitting every property in the social housing sector in Wales is conservatively estimated at between £4-£5bn over a 10 year period. Modelling by CHC shows that achieving EPC A by 2033 will cost housing associations at least £2.05bn. We need a funded plan which brings forward significant long term government investment. It is impractical for a standard to be introduced without a funding mechanism in place.
- **A complementary skills strategy:** Supply chain pressures and escalating costs are a key challenge facing housing associations. CIH Cymru<sup>1</sup> found that 90% of those surveyed were having significant or moderate issues with supply chains for building new homes, day to day maintenance and retrofitting. Proceeding with the proposals as outlined in the consultation will exacerbate an already challenging environment. There is however, an opportunity to grow our workforce, provide certainty to SMEs to support them to scale up and invest locally. Smoothing the delivery over a longer time period, alongside a complementary skills strategy enables Wales to reap the full economic and environmental benefits of retrofit. The forthcoming net zero skills strategy provides an opportunity to align this work.
- **Space and time to learn and implement effective tenant engagement.** Tenants need to be effectively engaged with and supported on decarbonisation which allows them the time to understand the changes that will take place in their homes. The Optimised Retrofit Programme has rightly required that methods for effective tenant engagement be integrated into programmes so that the learning acquired can feed into future programmes. We are still learning how best to engage with tenants on decarbonisation and this process cannot and should not be rushed

## **An aligned approach to achieve our shared ambitions on climate, nature and low carbon affordable homes**

At present, Welsh government strategies to address the climate and nature emergencies are working at cross purposes with strategies to end homelessness and tackle the housing crisis. This does not have to be the case.

In 2023/24, the Welsh government should target investment to build an environmental



management infrastructure in Wales that has both people and nature at its heart. Housing associations are already delivering innovative work in Wales to ensure that new homes and communities can be built in a way that enhances the natural environment, has a positive impact on biodiversity, and reduces carbon emissions and pollution (e.g. through active travel options). However, the strategies of other stakeholders tasked with protecting the natural environment in Wales are not being developed with this in mind. This means that vital new homes for the increasing number of people who are homeless, seeking sanctuary, in unsuitable accommodation and in financial hardship are not being built. It also means that innovation is stifled, and new approaches and technologies that would contribute to the protection of the natural environment are not being developed quickly enough.

One example of this is the approach to ensuring phosphate levels for all river Special Areas of Conservation (SACs) across Wales are at appropriate levels. During 2022/23, guidance on this from Natural Resources Wales has resulted in a complete cessation of social housing development in key areas of affordable housing need, such as Gwent, Monmouthshire and Wrexham.

While we appreciate the focus that was provided on this issue by the First Ministers' River Summit in July 2022, housing associations do not have confidence that the measures announced following the summit are likely to have a material impact on their ability to move forward with the development of affordable homes in the next three years. The commitments do not target social housing development, and those that do have the potential to make an impact would be incremental and slow to deliver

In order to address this, the Welsh government should allocate investment in the 2023/24 budget to provide Welsh Water with additional funding to bring forward investment in phosphates stripping capacity now rather than waiting for the next Asset Management Plan in 2025.

**6. Is the Welsh Government using the financial mechanisms available to it around borrowing and taxation?**

No comment on this question

**7. The Committee would like to focus on a number of other specific areas in the scrutiny of the Budget. Do you have any specific comments on any of the areas identified below?**

We have provided our response to these points in our answers to the questions above.