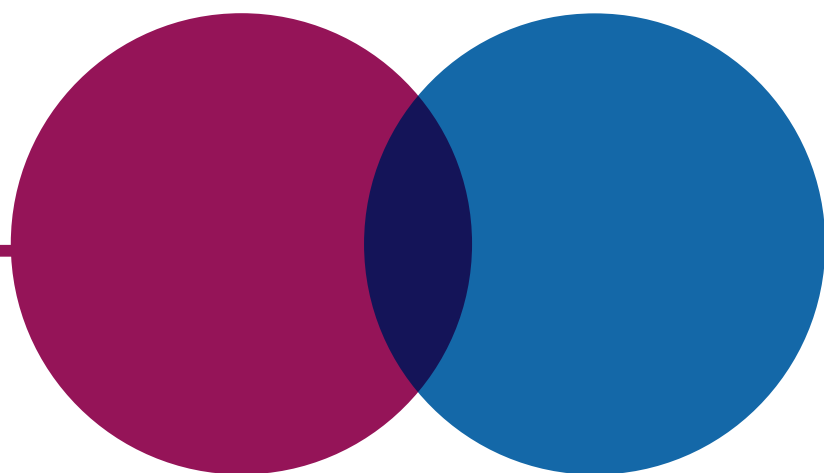




National Audit Office



The Affordable Homes Programme since 2015

Department for Levelling up, Housing & Communities

REPORT

**by the Comptroller
and Auditor General**

**SESSION 2022-23
8 SEPTEMBER 2022
HC 652**

Key facts

£20.7bn





forecast total spend in 2021-22 prices on the Affordable Homes Programme (the Programme) from 2015 onwards, as at May 2022

32,000

forecast shortfall in the number of homes expected compared with published targets across the 2016 and 2021 programmes, as at May 2022

£12.2 billion forecast spend by Homes England on the 2015 programme and subsequent programmes, in 2021-22 prices, as at May 2022

£8.5 billion forecast spend by the Greater London Authority on the 2015 programme and subsequent programmes, from April 2015 in 2021-22 prices, as at May 2022

 Programme	 Forecast real-terms total spend (in 2021-22 prices)	 Grant- funded homes (forecast number of new homes to be delivered across England)	 Of which for rent (including specialist and supported homes)
	(bn)		(%)
2015	£1.7	45,500	80
2016	£8.5	160,500	58
2021	£10.5	157,000	51

Summary

Introduction

1 The Department for Levelling Up, Housing & Communities (the Department) intervenes in the housing market to try to ensure there is sufficient supply of affordable housing. A lack of affordable homes causes social inequalities and can increase cost pressures elsewhere in central and local government, such as on housing benefit payments and temporary accommodation.

2 Affordable housing is housing for rent or sale intended for those whose needs the market does not meet. (Affordable and social rented homes are homes let by local authorities or registered providers, often housing associations. Affordable rent is up to 80% of local market rents. Social rent is calculated by a formula, typically resulting outside London in rent of around 50%-60% of local market rents. Affordable home ownership includes shared ownership.) The Affordable Homes Programme (the Programme) provides grant funding to housing providers in England to support the costs of delivering affordable homes. The Programme has distinct iterations based on funding periods or policy changes. This report focuses on two iterations of the Programme that run concurrently, the Shared Ownership and Affordable Homes Programme 2016–2023 (2016 programme) and the Affordable Homes Programme 2021–2026 (2021 programme). It also touches on the short-lived Affordable Homes Programme 2015–2018 (2015 programme).

3 The Department oversees the Programme for England. It delegates management of the Programme to Homes England (outside London) and to the Greater London Authority (GLA) in London. The Department is responsible for securing funding from HM Treasury and sets overall housing targets. Housing providers (often housing associations) bid for grant funding from Homes England and the GLA to help finance the delivery of new homes. Homes England and the GLA run strategic bidding rounds (in which housing providers bid for funding to deliver on multiple sites across a region) and continuous bidding (in which housing providers bid for funding on a site-by-site basis).

4 The Department forecasts it will spend around £20.7 billion (2021-22 prices) on 363,000 grant-funded homes, which will all be completed between April 2015 and March 2032. It expects to spend around £12.2 billion (2021-22 prices) on 258,500 grant-funded homes outside London and £8.5 billion on around 104,500 grant-funded homes in London.

5 Throughout the report, we use two terms:

- Housing start – this is when a housing provider begins to build a new home.
- Housing completion – this is recorded when a housing provider finishes building a home and it is ready for occupation.

Scope of the report

6 This report assesses how effectively the Department discharges its responsibilities for the Programme, and how it oversees Homes England and the GLA. We also examine Homes England's management of its part of the Programme. We do not assess the GLA's management of its part of the Programme as it is not a central government organisation that we audit, and the London Assembly instead provides local scrutiny.

7 Unless stated, all data for housing starts and housing completions are as at 31 March 2022. Data for housing forecasts are as at May 2022.

8 Our report examines:

- whether the Department set the 2016 programme up well and whether it is likely to achieve the intended benefits (Part One);
- whether the Department set up the 2021 programme well and whether it forecasts achieving the intended benefits (Part Two);
- whether the Department and Homes England are overseeing and managing the Programme effectively (Part Three); and
- how well the Programme contributes to wider government objectives (Part Four).

We do not cover wider issues that influence the delivery of housing, such as developer profit, developer contributions or the wider land market.

Key findings

The set-up of the Programme

9 The Programme's targets focus on the number of new homes built, and there are few targets based on wider factors such as quality. The Department sets targets for the number of new homes that it wants housing providers to deliver, within a fixed budget. Under the 2021 programme (more than for the 2016 programme), the Department further specifies what tenure (type of housing) it wants housing providers to deliver. However, the Programme has no targets for the quality or size of homes, or environmental standards, and instead relies on existing building regulations and standards as well as planning permission to determine these factors. In addition to the 2021 programme's existing targets, in January 2022, the Department set out 17 outcomes it expected from it, including reduced fuel poverty and creation of mixed communities, but it did not fully define or quantify these outcomes or what would constitute success (paragraphs 1.9, 2.3, 2.5, 2.9, and 2.10, Figure 6).

10 The Department's modelling shows that the economic benefits of affordable housing outweigh the costs. The Department produces economic modelling, in line with its guidance. Under the 2021 programme, for every £1 spent, the Department expects £2.70 of benefits, with 89% of the programme's gross economic benefit arising from increasing land values. Given the Programme's size, we would expect the Department to consider commissioning an external review of its internal modelling (paragraphs 2.7 to 2.8 and Figure 5).

11 At the start of the 2016 programme, the Department agreed targets that it could not meet. At the 2015 Spending Review, the Department agreed with HM Treasury that the 2016 programme would deliver nearly twice the number of new homes for ownership than the Department's original proposal of 75,000. The Department launched the 2016 programme and publicly committed to deliver 153,000 homes, including 145,000 for ownership, for £4.7 billion. The Department told us that, with hindsight, it could not deliver the original aims of the 2016 programme, although at the time it did not seek a ministerial direction on the grounds of feasibility. Homes England initially allocated funding to providers for just 35,000 homes for ownership. From July 2016, the Department reset the programme, with a change in policy that increased the proportion of homes for rent (paragraphs 1.6 to 1.8).

12 The Department produced a full business case for the 2021 programme, but this did not follow best practice. Improving on the 2016 programme, the Department wrote a full business case for the 2021 programme. However, the Department produced the full business case after ministers had already decided to continue with a grant programme, determined funding levels and set delivery targets. Contrary to HM Treasury guidance, the Department did not consider any options other than a grant programme. Its business case did not sufficiently consider delivery risks or whether it had adequate arrangements to oversee the programme (paragraphs 1.5, 2.4 to 2.6, Figure 4).

Achieving the Programme's intended benefits

13 Under the 2016 programme, the Department forecasts that it will achieve 96% of its target for housing starts, but some of these homes will not be completed until 2032.

The Department's central forecast is that Homes England and the GLA will collectively achieve 241,000 starts, compared with a published target to deliver 250,000 starts, by March 2023. Of these, 160,500 are forecast to be grant-funded. The Department forecasts that 219,000 of the expected homes will complete by March 2025, with the remaining 22,000 homes, all in London, completing by March 2032. The Department did not set a deadline for completions (paragraphs 1.13 and 1.14, Figure 3).

14 Under the 2021 programme the Department does not now expect to fully deliver the intended benefits. The Department's central forecast is that 157,000 new homes will complete, compared with its published target of "up to 180,000 should economic conditions allow" (all grant-funded). On current forecasts, the Department does not expect to meet its sub-targets for supported homes (homes with support, supervision or care provided alongside) and is at high risk of not meeting a sub-target for rural homes. Homes England is working towards achieving an equal number of homes for rent and for ownership. So far, Homes England has allocated funding so that 47% of homes are for ownership. Housing providers have expressed interest to Homes England to deliver a higher proportion of homes for rent, if funding allowed (paragraphs 2.12 to 2.14).

15 There are significant risks that could affect both programmes which could mean fewer homes are completed than currently forecast. These include: building cost inflation; a shortage of materials and labour; planning authorities' lack of resources; delays with local utilities and highways; and the risk that housing providers may have to focus on retrospective work to ensure the safety of existing homes, such as replacing or removing cladding (paragraph 1.15).

16 The Department does not plan to carry out an evaluation of the 2016 programme but intends to evaluate the 2021 programme. While the Department does not plan to evaluate the 2016 programme, Homes England has done its own interim evaluation and intends to publish its findings later in 2022. The Department plans to conduct a formal evaluation of the 2021 programme. It intends to publish an interim update by the end of 2023 and a final report at the end of 2027 (paragraphs 1.16 and 2.11).

Homes England's Programme management (we do not assess the GLA's management of the Programme)

17 Homes England has reasonable processes to enable it to set an appropriate level of grant funding for housing providers. Homes England considers and reviews the benchmark levels of grant funding that housing providers need to deliver new homes. Grant funding is part of a wider funding mix to deliver new homes, which also includes housing providers borrowing money and using their own resources. The percentage of funding to deliver a new home that comes from grant funding has increased from an average of 18% under the 2015 programme to 25% under the 2021 programme's strategic bidding round. Homes England told us that grant funding has increased for several reasons, including for example, housing providers facing significant uncertainty about how much money they need to set aside to meet the costs of net-zero (paragraphs 3.2, 3.7 to 3.9, Figures 8 and 11).

18 Since the start of the 2021 programme, Homes England has had robust processes in place for assessing bids. In 2018, to help it meet revised delivery targets, Homes England introduced strategic (multi-site) bidding. At that time, it used less formal processes, with no objective scoring system and it selectively invited housing providers to bid. The process under the 2021 programme is robust, with an objective scoring and assessment system. Throughout the Programme, Homes England has had robust processes in place to assess bids through continuous (site-by-site) bidding (paragraphs 3.3 to 3.6, Figures 9 and 10).

The Department's oversight of the Programme

19 The Department had inadequate oversight of the GLA during the 2015 and 2016 programmes. Our review of a selection of the performance reports received by the Department from the GLA between April 2016 and April 2021 found that they provided the Department with insufficient information on the GLA's management of the Programme, for example, they lacked information on spending. When preparing for the 2021 Spending Review, the Department detected that between April 2015 and October 2021 it had given the GLA a total of £1.8 billion of funding that the GLA had committed but not yet used to pay housing providers. The Department accepts these payments were a basic error of programme management, caused by a lack of understanding within the Department and the GLA about when funding should be transferred. In October 2021, the Department identified the error, and it has since agreed with the GLA how it will reduce this balance, with funding used for the Programme. In London the GLA did not sign contracts with housing providers under the 2021 programme until the Department and GLA resolved this. As at 31 March 2022, the GLA had achieved no housing starts under the 2021 programme (paragraphs 3.14 and 3.15).

20 The Department has now identified and started to implement improvements to its governance and oversight of the Programme. The Department accepts that it needs to make improvements around data and performance reporting. It needs to develop a consistent approach to forecasting housing starts, completions and spend by Homes England and the GLA and improve its capability to stress-test and report these. The Department has two programme boards – one with Homes England, the other with the GLA – that look at the Programme exclusively. Since April 2021, the Department has an overarching programme board which monitors overall Programme delivery. The Department has applied for the 2021 programme to join the Government’s Major Projects Portfolio (paragraphs 3.10 to 3.13, 3.16 to 3.18 and Figure 12).

Contribution to wider government objectives

21 There is a lack of strong incentives for housing providers to deliver affordable homes in areas of high housing need or in the most unaffordable areas. The Department does not specify how many affordable homes local areas need, but it uses a formula to assess how many homes in total each area needs. There is not a strong match between the areas of high housing need and the areas where housing providers are delivering affordable homes under the Programme. Furthermore, housing providers are currently delivering fewer homes in more unaffordable areas – as measured by the difference between local house prices and wages. The Department directs the delivery of homes for social rent to unaffordable areas but does not direct delivery for other tenures. After the Department agrees a set amount of funding for the Programme, it must manage trade-offs between maximising the number of new homes, their type and where to deliver them (paragraphs 4.2 to 4.6, Figures 13 and 14).

22 The Programme could bring greater value to other parts of government. When designing the 2021 programme, the Department considered how it could generate cross-government benefits in relation to housing benefit spend, reducing the number of people in temporary accommodation and adult social care.¹ However, it did not include savings in temporary accommodation or adult social care costs from providing supported housing in its economic modelling. Potential savings in these areas are not factored into the way the Department allocates the programme’s funding and the kind of homes delivered. Furthermore, the government does not have a coordinated vision for the delivery of housing with care. The Department’s modelling shows that delivering new homes for social rent in London leads to significant savings in future housing benefit costs, while in five of the other eight English regions, delivering a new home for social rent increases the forecast future housing benefit cost (paragraphs 4.7 to 4.14, Figure 15).

1 All references to housing benefit include the Universal Credit housing element.

23 The Department did not set out to use the Programme to advance the government's net zero objectives. In June 2019, the government passed legislation committing it to achieving net zero greenhouse gas emissions by 2050. The Department and Homes England did not include any specific targets relating to reducing emissions for the 2021 programme, relying on planning regulations to advance progress. The GLA, by contrast, specified that all developments of 10 or more homes under the 2021 programme, must be net zero-carbon and air quality neutral (paragraphs 4.15 and 4.16).

Conclusion on value for money

24 Since 2015, the Department has made improvements to the running of the Programme, but there are still areas it needs to address, such as data gaps, developing business cases in line with guidance and its governance and oversight. The Department has demonstrated that the 2021 programme provides economic benefits but it does not expect the programme to fully deliver on its targets. Even if the targets are met, the way the programme is designed means homes may not be built where they are needed most. The Department could be more ambitious in how the Programme supports wider government objectives, in particular how it contributes to the government's net zero commitments.

Recommendations

25 Before the end of 2022, the Department should:

- a** develop internal contingency plans in response to risks such as rising construction costs and a lack of bids from housing providers to deliver rural housing, to ensure it can fully meet objectives under the 2021 programme;
- b** detail how it will transparently report, at least annually, on the Programme's progress; and
- c** continue to implement its improvements to Programme oversight and review that they are effective.

- 26** Before the next iteration of the Programme, the Department should:
- d** consider what information it needs to improve its understanding of housing need in local areas so it can use this information to better target areas for new housing;
 - e** discuss with Homes England and the GLA what data gaps it has and how to address them in a proportionate way. This includes data to support its economic modelling, evaluate benefits and ensure adequate oversight;
 - f** gain external quality assurance over its economic modelling, and review and update its assumptions;
 - g** set out how it intends to engage with Homes England, the GLA and housing providers, before setting delivery targets; and
 - h** review how the Department sets and monitors the Programme's targets and sub targets and be clear how the Programme is contributing, when feasible, to wider government objectives, such as net zero and savings for other departments and local government.