

Affordable housing

September 2024



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Key facts

20,000 – the number of new low carbon social homes for rent targeted between April 2021 and March 2026.

Between 8,859 and 9,197 – the number of homes that count towards the target delivered by March 2024, based on Welsh Government estimates.

19,913 – the number of homes that count towards the target delivered or in the pipeline for potential delivery by March 2026.



£1.27 billion – Welsh Government spending between 2021-22 and 2023-24 on schemes that contribute to the target (excluding some loan support), of which:

- £1.10 billion covers the core schemes that directly fund the construction or acquisition of affordable homes; and
- £166.5 million covers schemes that indirectly support the delivery of the target.

£730 million – the notional capital budget for schemes that directly fund the construction or acquisition of affordable homes through 2024-25 and 2025-26 (with £380 million agreed for 2024-25 and a notional £350 million for 2025-26).



£580 million to £740 million – our estimate of the amount that could be needed on top of existing budget assumptions to deliver all homes in the pipeline¹.

15,860 to 16,670 – our estimate of the number of homes that could be delivered by March 2026 without the additional funding².



Notes:

- 1 Estimate uses average grant rates rather than the actual costs of delivering schemes.
- 2 Estimate uses actual figures for 2021-22 and 2022-23, Welsh Government estimates for 2023-24, and modelled estimates for 2024-25 and 2025-26.

Key messages

Context

- 1 Access to good quality, affordable housing is a cornerstone of health and well-being and a long-standing policy priority. The Welsh Government has set a target of building 20,000 new low carbon social homes¹ by March 2026. The target builds on a previous commitment to deliver 20,000 affordable homes in the previous Senedd term. The Welsh Government exceeded that target, but a different definition makes the current target more challenging.
- 2 The Welsh Government provides funding that contributes to the delivery of homes that count towards the target through various means, primarily the Social Housing Grant (SHG) and more recently the Transitional Accommodation Capital Programme (TACP). Social landlords deliver most of the homes that count towards the target. Social landlords are local authorities or Registered Social Landlords (RSLs)².
- 3 This report considers spending and performance against the 20,000 social homes target and the underpinning governance and management arrangements. **Appendix 1** provides more information about our work.

Overall conclusion

- 4 The delivery of affordable homes has been slow and more expensive than initially expected, partly due to pressures outside of the Welsh Government's control. If the Welsh Government is to meet the 20,000 social homes target by March 2026 it will need to spend significantly more than planned. It will also need to deliver all the schemes in its pipeline, some of which are considered risky, and a small number more.
- 5 There are positive aspects to the underpinning governance and management arrangements, including a collaborative approach and the core processes for managing grant funding. There are also areas for improvement around a more long-term approach to need, planning and funding, and doing more to ensure investment in affordable housing contributes to wider policy objectives.

1 We refer specifically to the Welsh Government's 'social homes' target where relevant. More generally, we refer to delivery of 'affordable housing'. All additional social homes that count towards the target classify as affordable housing. However, the social homes target excludes some affordable homes. **Appendix 1** provides further explanation.

2 Also known as housing associations.

Key issues

Spending and performance against the 20,000 social homes target

- 6 The Welsh Government's ambition to increase affordable housing supply is clear. The Programme for Government says that the Welsh Government will build 20,000 new low carbon social homes for rent. In practice, the Welsh Government has clarified that it counts some homes that are not new builds and that are not low carbon.
- 7 By the end of 2023-24, three years into a five-year programme, the Welsh Government estimates that it had secured fewer than half (between 8,859 and 9,197) of the 20,000 social homes³. It has sought to offset slow progress in building new homes with an increased focus on acquiring existing properties. Nonetheless, the 19,913 homes delivered or in the pipeline for delivery by March 2026 falls just short of the target. There is a high probability that some of the riskier schemes in the pipeline will not deliver in time or at all, regardless of funding.
- 8 Rising costs have meant that spend on affordable housing has been higher than initially expected. In 2021, the Welsh Government estimated it would spend around £1.6 billion on core capital schemes to deliver the target.
- 9 As at the end of March 2024, the Welsh Government had spent £1.10 billion on schemes – primarily SHG and TACP – that directly fund the construction of homes that contribute to the target. It also spent £166.5 million on schemes that indirectly support the delivery of the target. This £1.27 billion in total does not include some additional loan funding to social landlords through other means.
- 10 For 2024-25, the Welsh Government has a budget of £330 million for SHG and currently £50 million for TACP. While no budget has yet been set for 2025-26, officials base their planning on a notional budget of £300 million for SHG and £50 million for TACP.
- 11 Modelling how much it will cost the Welsh Government to deliver its remaining pipeline is complicated. We estimate that the Welsh Government could need as much as £580 million to £740 million extra capital on top of existing budget assumptions to deliver all projects in its pipeline to March 2026. Without additional funding, we estimate that the Welsh Government and partners will deliver between 15,860 and 16,670 homes that count towards the 20,000 target.

3 Figure based on official statistics for 2021-22 and 2022-23, and estimates for 2023-24.

- 12 Options for making funding stretch further include shifting the balance further towards acquisitions, relying more on intermediate rather than social rent housing and reducing building standards. However, these options may not offer better value for money in the round and/or over the longer-term.

Governance and management arrangements

- 13 The Welsh Government understands the immediate need for affordable housing, with high numbers of people in temporary accommodation. However, it lacks a longer-term assessment and national estimates potentially understate need and demand. Also, the pattern of delivery of affordable housing does not match the estimates of need.
- 14 Since 2021, the Welsh Government has improved its understanding of local affordable housing need by requiring local authorities to produce and update a housing prospectus. It is also strengthening the framework for overall local housing need assessment through an updated Local Housing Market Assessment (LHMA) process. However, implementation has been delayed which has meant local planning authorities have generally been updating their Local Development Plans without an updated assessment.
- 15 The Welsh Government's arrangements for managing the Social Housing Grant, are generally sound and have been strengthened with the aim of securing better value for money. Changes include a new approach to assessing the grant funding needed for individual schemes.
- 16 The Welsh Government generally collaborates well with partners, helping it respond to some emerging risks and issues. These include inflationary cost pressures and the impact of regulations on river pollution and urban drainage. However, there remains a lack of a collective and coherent approach to addressing capacity constraints in local planning services.
- 17 The Welsh Government has strengthened its monitoring data. In 2023, it developed a data portal which allows social landlords to provide up to date information on the status of schemes; giving an improved real-time overview of overall progress. However, the Welsh Government has not done enough to ensure affordable housing investment contributes to wider policy objectives from the outset.



Price inflation has hit the affordable housing programme hard. The Welsh Government now faces difficult choices about its funding priorities and approach if it remains committed to meeting or getting close to its 20,000 social homes target by March 2026.

How the Welsh Government responds will further test its application of the ways of working expected under the Well-being of Future Generations (Wales) Act 2015. This includes how it balances short-term and long-term needs, builds on its collaborative approach, and looks to maximise positive outcomes from the significant public expenditure in this area.

Adrian Crompton
Auditor General for Wales





Recommendations

Recommendations

Delivery of the current target

- R1 The Welsh Government should conduct detailed scenario planning to provide a clear and early indication of funding for the key affordable housing schemes in 2025-26. Scenario planning should include:
- the likely outcomes, in terms of homes delivered;
 - the costs and benefits of changing the balance between new build and acquisitions, particularly through the Social Housing Grant; and
 - an assessment of funding required in 2025-26 to progress schemes that will deliver outside the target period, if a cliff edge is to be avoided.
- R2 To support transparency and scrutiny of progress against the Programme for Government commitment, the Welsh Government should publicly report how many of the homes counted towards the target are new build and low carbon.

Recommendations

Developing a long-term approach to delivering affordable housing

- R3 The Welsh Government should assess and set out the options for continuing to meet the need for affordable housing over the longer-term. This should include consideration of the merits of continuing to have a target that is not consistent with the definition of affordable housing for national statistics.
- R4 The Welsh Government should review the approach to housing needs assessment, including:
- assessing why national estimates appear to have significantly underestimated the scale of existing need and how that can be rectified;
 - developing its understanding of underlying demand, as well as need, as part of its assessment methods;
 - identifying and acting on lessons from the rollout of the updated approach to Local Housing Market Assessments; and
 - how to align its funding for affordable housing to identified need.

Recommendations

- R5 The Welsh Government should develop a full business case for continued investment in affordable housing. This should include key components of good practice in programme appraisal, such as:
- options appraisal, including the relative merits of new build and acquisitions, including the long-term costs and short-term savings from reducing the use of temporary accommodation;
 - sensitivity analysis, to include the impacts on costs and delivery should there be changes in design specifications or further inflationary cost pressures;
 - benefits realisation planning, including aligning the investment objectives with the well-being goals, identifying methods to embed benefits into grant and contract payments, and a system of reporting and monitoring the full range of benefits from the investment; and
 - a full integrated impact assessment, including equality impact assessment.
- R6 The Welsh Government should develop a long-term approach to funding affordable housing, learning lessons from the programme for school and further education buildings, with a view to smoothing out peaks and troughs in delivery.
- R7 In line with its commitments in response to previous Auditor General and Public Accounts Committee recommendations, the Welsh Government should work with local government partners to develop sustainable solutions to the capacity and delivery constraints in local government planning services, including options for developing the planning profession and greater regional working.



**Spending and
performance
against the 20,000
social homes target**

01

- 1.1 This part of the report looks at progress towards the 20,000 social homes target since 2021 and prospects for the next two years.

What we looked for

We looked for evidence of an adequate pipeline of schemes and sufficient resources for the Welsh Government to deliver its social homes target by March 2026.

The ambition to increase affordable housing supply is clear, but the Programme for Government does not accurately describe the 20,000 target

- 1.2 The Welsh Government's Programme for Government includes a target to 'build 20,000 new low carbon social homes for rent' between 2021 and 2026⁴. However, in June 2021 the then Minister for Climate Change made clear that the Welsh Government would count some homes that do not fit that definition.
- 1.3 **The Welsh Government counts some homes that are not new builds.** New builds include social housing delivered by social landlords⁵. They also include affordable homes on private developments secured through 'section 106 agreements' under the Town and County Planning Act 1990⁶. However, the Welsh Government also counts acquisitions of existing properties and long-term leases on privately owned properties that local authorities secure through Leasing Scheme Wales (see **paragraphs 1.12 to 1.14**). Acquisitions counted towards the previous 20,000 homes target.
- 1.4 **The Welsh Government counts some homes that are not low carbon.** Welsh Government funded new builds must meet low carbon standards (**Exhibit 1**). New builds from section 106 agreements and homes provided through acquisitions and leasing do not need to meet the same standards. Over time, section 106 homes may need to meet the Welsh Housing Quality Standard (WHQS)⁷, but this is not required to count towards the social homes target. **Paragraph 1.15** sets out the standards in relation to acquisitions.

4 The 20,000 target is a gross figure. Each year some affordable housing is lost to sales and demolitions. Therefore, the net increase in affordable housing will be less than the number of homes delivered through the target (see **paragraph 2.6**).

5 By 'social landlords' we mean local authorities (11 of which still hold social housing stock) and Registered Social Landlords (RSLs, commonly known as housing associations. There are 31 active RSLs in Wales but not all provide additional affordable housing each year.

6 In some cases, the developer can make a payment in lieu of delivering new housing. The amount of such funding held in reserves by local authorities rose from £19.8 million in March 2021 to £27.0 million in March 2023.

7 The WHQS sets minimum standards for the quality of social housing, including on energy efficiency. A new WHQS came into operation in 2023 with associated guidance since updated: Welsh Government, [The Welsh Housing Quality Standard 2023](#), April 2024.

Exhibit 1: strengthened standards for new build affordable housing

The Welsh Government updated the Welsh Development Quality Requirements (WDQR) for affordable housing in 2021, for the first time since 2005.

WDQR includes specific requirements for all publicly funded new or rehabilitated affordable homes that were not in the 2005 standards:

- non-fossil-fuel heating systems;
- very low carbon emissions; and
- gigabit-ready broadband.

Homes not publicly funded – for example, affordable homes on private developments under section 106 agreements – are subject only to the WDQR minimum space standards. These space standards are broadly the same as 2005, although bedrooms now need to be a little larger.

The Welsh Government estimated in 2021 that the new requirements add around 13% to the cost of new-build social homes.

Source: Audit Wales summary

- 1.5 **'Social homes' includes homes that are not for social rent.** Consistent with the previous 20,000 homes target, homes must be available for rent at below market rates. That includes:
- those for social rent, with rents subject to Welsh Government regulation;
 - intermediate rent, where rents are higher than social rents but still below market rents (which may include social and privately rented housing); and
 - shared ownership, where the tenant buys a share and rents the remaining share from a social landlord.
- 1.6 The current target remains more challenging than the 2016-2021 target. That target was to deliver 20,000 affordable homes but the end of period count of 23,061 included 187 shared equity homes and 8,875 Help to Buy⁸ homes. The current target excludes these categories.

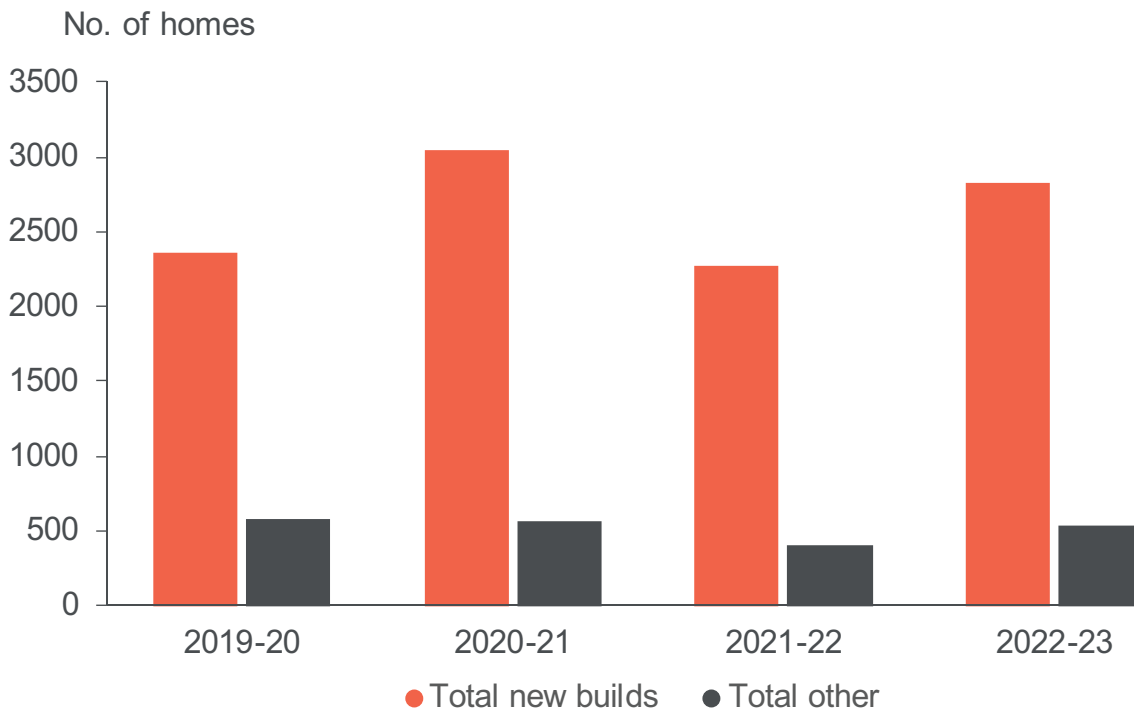
⁸ Help to Buy (Wales) provides a shared equity loan to eligible buyers of new-build homes.

The Welsh Government has responded to slow progress with new builds by increasing acquisitions but does not have enough schemes in the pipeline to meet the target

For various reasons, progress building new affordable homes has been slow

1.7 With a challenging target emphasising new builds, the Welsh Government needed to increase the construction of affordable homes. However, construction has fallen since 2020-21, when there were 3,045 new build affordable homes (**Exhibit 2**). The drop off was particularly sharp in 2021-22 when there were 2,278 new builds. There was some recovery to 2,829 in 2022-23.

Exhibit 2: affordable homes delivered, 2019-20 to 2022-23



Source: Welsh Government annual [affordable housing statistical releases](#)

1.8 Potential barriers to progressing new builds include environmental constraints around sustainable drainage and phosphate discharge requirements, land supply issues, and capacity in the planning system. **Part 2** of this report considers these issues in more detail.

The Welsh Government has acted to mitigate the shortfall in new-build housing by setting up schemes to fund more acquisitions and long-term leases

1.9 The Welsh Government has looked to increase acquisitions. It has removed a cap on the amount of Social Housing Grant that can be used for acquisitions. It has also set up the Transitional Accommodation Capital Programme (TACP) and Leasing Scheme Wales. The feedback we received indicated that local authorities welcomed the additional funding and flexibility of the schemes. Additionally, Community Housing Cymru has highlighted positive feedback from RSLs about the TACP⁹.

TACP

1.10 The Welsh Government launched TACP in 2022 to meet pressures on temporary accommodation from rising homelessness. Initial phases focused on refurbishing unoccupied social housing to bring it into use. The Welsh Government has since expanded the programme to include acquisitions of private properties and innovative solutions like modular housing for temporary use on sites awaiting permanent development ('meanwhile use').

1.11 Across 2022-23 and 2023-24, the Welsh Government approved TACP grants for 1,724 properties. Of these, 1,110 contribute towards the social homes target excluding 614 refurbished empty homes already part of the social housing stock.

Leasing Scheme Wales

1.12 The Welsh Government launched Leasing Scheme Wales in 2022-23 following a two-year pilot in three local authorities. The scheme offers incentives for private landlords to lease property to a local authority, which sub-lets to tenants in housing need. Rents are capped at the Local Housing Allowance¹⁰ rate for the area. Those rates are now well below market rates and allow properties to count as affordable housing. Landlords benefit from long-term leases of 5 to 20 years, guaranteed rental income, and maintenance managed and funded by the local authority.

1.13 Leasing Scheme Wales will run until the end of 2026-27 with a target of securing 1% of the private rented housing stock in the areas it operates, equating currently to 1,601 properties¹¹. The scheme delivered 70 properties in 2022-23, 4 less than the target of 74 and 124 properties in 2023-24 against a target of 155. Overall, delivery across the two years represents 12% of the total 5-year target.

9 [Community Housing Cymru, Response to the Local Government & Housing Committee's inquiry into social housing supply, April 2024](#)

10 Local Housing Allowance is used to calculate the maximum amount people renting from a private landlord can claim in Housing Benefit or Universal Credit.

11 The target would be 2,179 properties if all local authorities joined the scheme; 16 had joined by the end of 2023-24. One authority is due to join during 2024-25 and two run separate but comparable schemes.

1.14 Officials expect delivery to increase rapidly in later years as the programme scales up. The 16 local authorities participating, as at the end of March 2024, will deliver 961 affordable homes by March 2026 if they all achieve their milestone targets and catch-up on earlier shortfalls.

In response to pressures on temporary accommodation, the Welsh Government amended quality standards for acquisitions to enable a wider range of properties to be purchased

1.15 In July 2023, the Welsh Government changed the standards for acquisitions to enable a wider range of properties to be purchased¹². 'Meanwhile use' properties (**see paragraph 1.10**) must simply be fit for human habitation. For all other acquisitions, where WDQR 2021 or WHQS is not achievable at the outset¹³, the property may still be purchased if it meets the minimum standard for rented property of being fit for human habitation and (in order of preference):

- it is capable of meeting WDQR or WHQS within 10 years; or
- it is not capable of meeting WDQR or WHQS within 10 years, in which case it can still be purchased and used for a minimum of 5 years and a maximum of 10 years when it must be sold in the open market.

1.16 Welsh Government officials emphasised to us that the change was a response to calls for pragmatism and consistency in the face of high numbers of people in temporary accommodation. It sought to balance the impetus to secure more accommodation with minimum standards to protect dignity and tenant well-being.

¹² There was a slight further relaxation in September 2023 to allow smaller bedrooms where remodelling is not practical, and the room would only be occupied by a child aged under 10.

¹³ Where a property is being demolished and rebuilt or remodelled, WDQR should apply (**Exhibit 1**). For acquisitions of existing dwellings or minor remodelling, the standard is WHQS.

The Welsh Government does not have quite enough pipeline schemes to meet the target and getting close depends on faster delivery in the final two years including completion of a significant number of riskier schemes

- 1.17 Between 2021-22 and 2022-23, social landlords delivered 5,775 properties within the definition of the target (**Exhibit 3**). Welsh Government projections suggest that between 3,084 and 3,422 affordable homes that count towards the target were delivered in 2023-24. The total number of homes delivered in line with the target from 2021-22 to 2023-24 would therefore have been between 8,859 and 9,197 homes.
- 1.18 The Welsh Government has risk-rated pipeline schemes, drawing from local plans (see **paragraphs 2.11 and 2.12**). As at June 2024, if all pipeline schemes are delivered by the end of 2025-26, including 2,871 amber and 1,001 red risk rated ones, this would deliver 19,913 affordable homes. The Welsh Government has limited options to increase delivery and manage the high probability that some amber or red risk schemes do not deliver in time or at all, regardless of funding (see **paragraphs 1.42 to 1.46**). Most new build schemes that could realistically deliver by March 2026 are already in the pipeline.

Exhibit 3: delivery of affordable housing, actual and projected by risk rating¹, 2021-22 to 2025-26² (as at June 2024)

Exhibit 3a: annual delivery

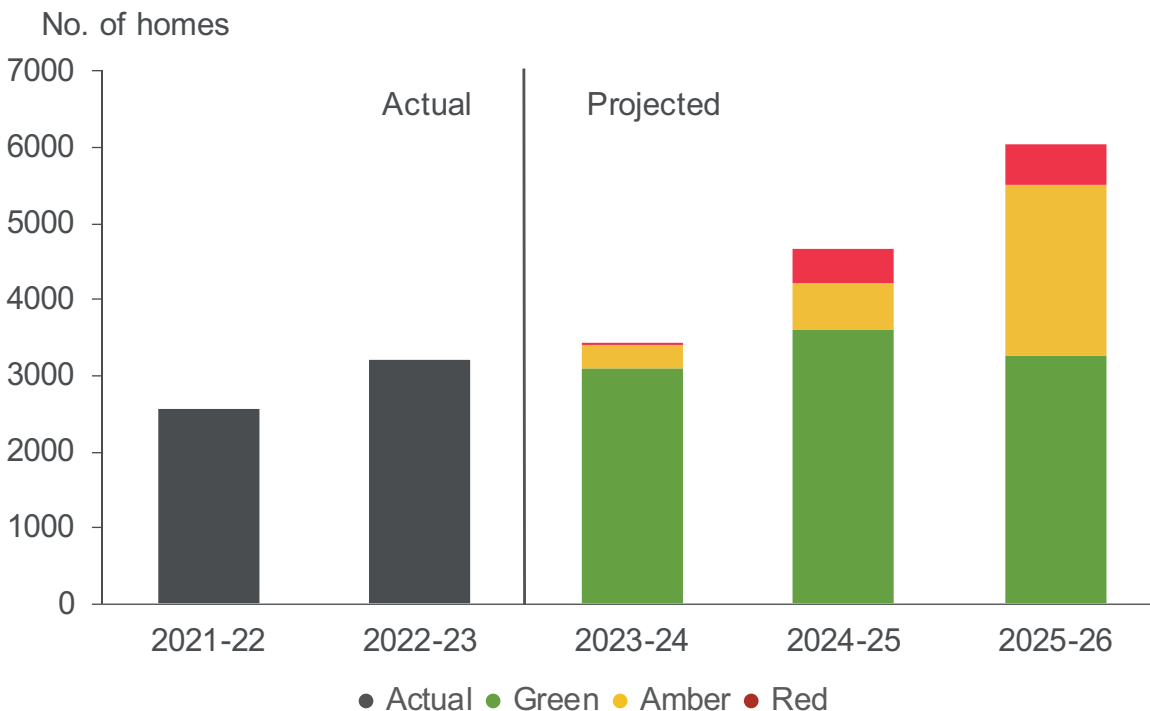
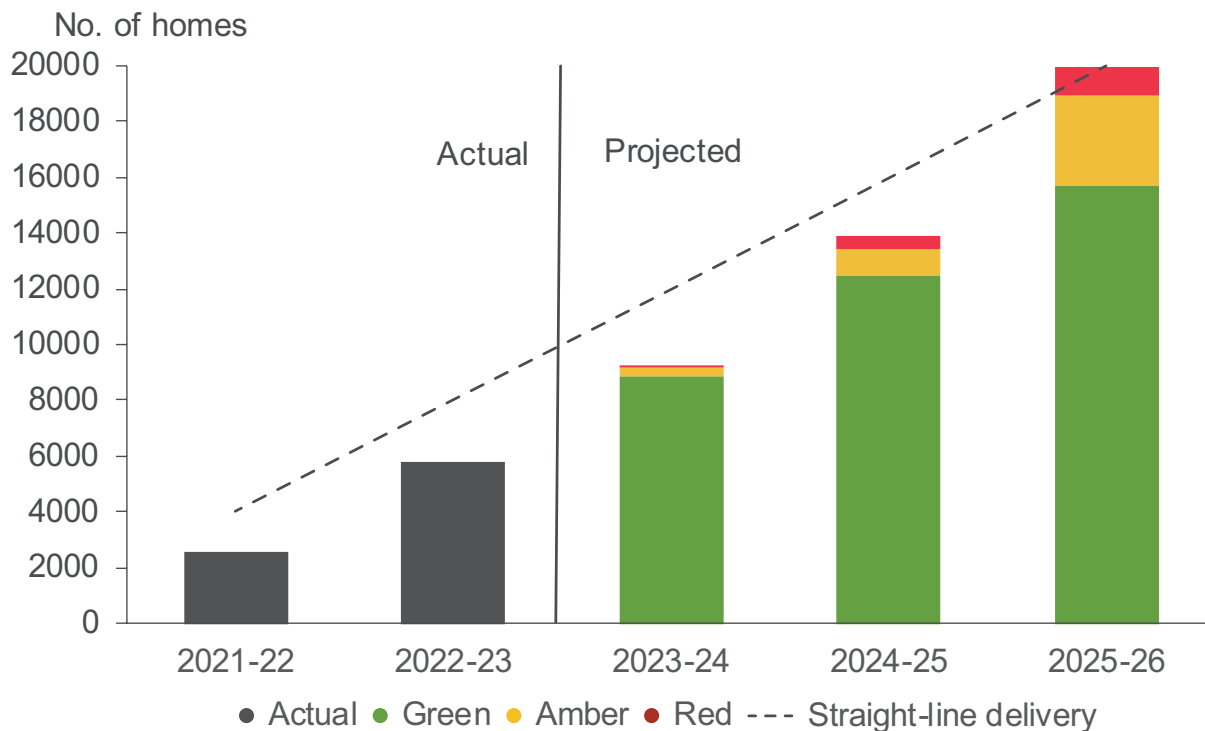


Exhibit 3b: cumulative delivery



Notes:

- 1 For local authorities the risk rating reflects risks to delivery by March 2026. For RSLs, it reflects the risk to delivery in the forecast timeframe. The figures and ratings represent the available data as at June 2024 but draw in large part on data supplied by social landlords in Autumn 2023.
- 2 Figures for 2021-22 and 2022-23 represent outturn. For consistency we have used the Welsh Government’s pipeline figures for 2023-24 to 2025-26 projections. The actual numbers delivered for 2023-24 will be reported in Autumn 2024. For the November 2023 statistical release, social landlords had separately estimated they would deliver 3,135 affordable homes in 2023-24 (including shared equity schemes that would not count towards the target).
- 3 ‘Straight line delivery’ represents equal delivery at 4,000 homes a year. The Welsh Government did not expect a uniform pattern. **Paragraphs 2.21 to 2.25** consider challenges from the uneven delivery profile.

Source: Audit Wales analysis of Welsh Government data

The Welsh Government has spent £1.27 billion on schemes that contribute to the target, with costs higher than expected due mostly to external pressures

Between 2021-22 and 2023-24, the Welsh Government spent £1.27 billion on schemes that contribute to the target

- 1.19 Between 2021-22 and 2023-24, the Welsh Government spent around £1.10 billion on schemes that directly contribute to the construction or acquisition of homes that counts towards the target. It provided a further £166.5 million on schemes that indirectly support delivery. These figures exclude loans to RSLs funded from financial transactions capital¹⁴.
- 1.20 We sought to examine how that spending compares to its initial plans set out in 2021. However, such analysis is complicated by the fact that the Welsh Government introduced new funding streams which were not envisaged in 2021.
- 1.21 Also, while the 2021 plan included full detail on the core SHG funding, it did not include a full account of the costs of schemes that would indirectly contribute to the target. Therefore, the analysis that follows initially looks at the core funding that directly contributes to meeting the target and separately examines the funding streams that contribute indirectly.

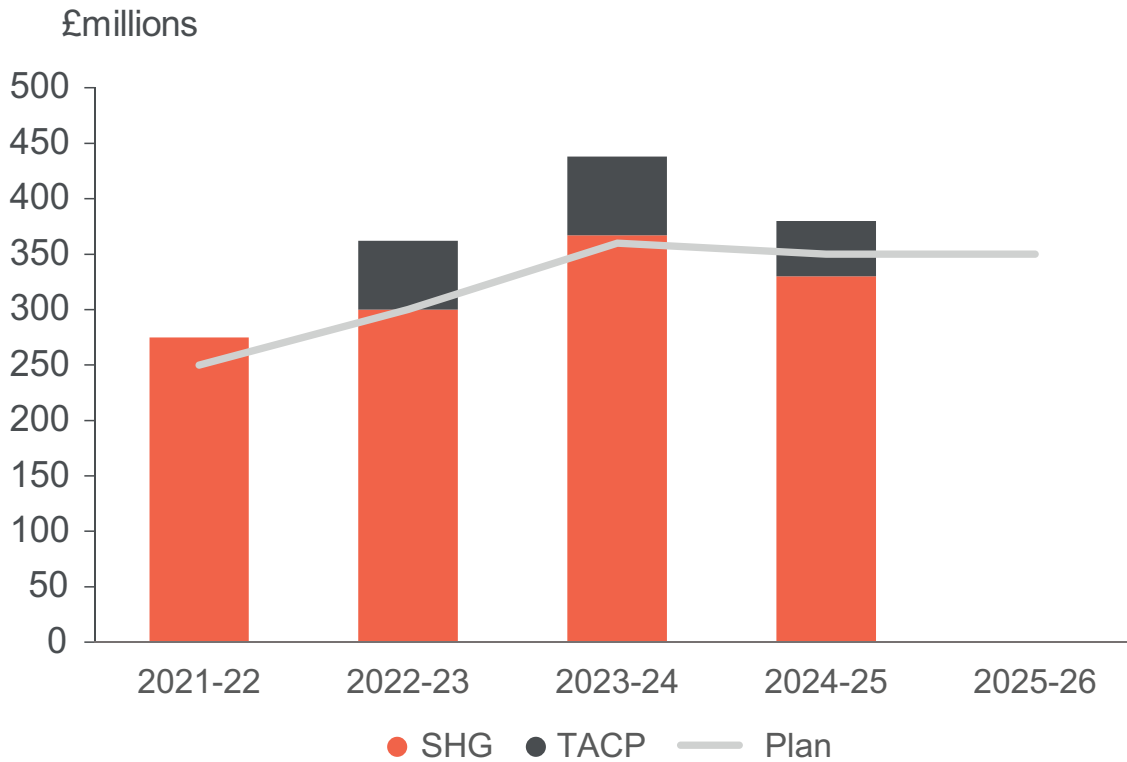
Schemes that directly fund the construction or acquisition of homes

- 1.22 Most of the Welsh Government's core funding of affordable housing schemes comes from the Social Housing Grant (SHG) budget and the Transitional Accommodation Capital Programme (TACP). The schemes are only available to social landlords and not private developers. The grants are intended to cover the 'viability gap' between a social landlord's own resources and the amount needed for a project to proceed, based on a standard viability model (see **paragraph 2.18**)¹⁵.
- 1.23 In 2021, the Welsh Government estimated that £1.6 billion of SHG capital funding would be needed over five years to deliver 17,500 of the 20,000 homes target. It expected the remaining 2,500 homes to come from social landlords' own funds or section 106 agreements. The estimate pre-dated the creation of TACP, which has become a core source of funding for delivery of the target.
- 1.24 The Welsh Government spent £1.10 billion on SHG and TACP between 2021-22 and 2023-24 (**Exhibit 4**). This compared to an initial assessment of £910 million of SHG needed for that period.

¹⁴ Financial transactions capital can only be used for loan and equity investments in the private sector and at least 80% must be repaid to HM Treasury.

¹⁵ The viability model does not apply to acquisitions that bring empty social homes back into use. In those cases the grant is limited to 80% of the cost.

Exhibit 4: spend or budget for SHG and TACP compared to initial estimated core capital budget requirements for affordable housing, 2021-22 to 2025-26^{1, 2, 3}



Notes:

- 1 Figures for 2021-22, 2022-23 and 2023-24 are actual expenditure. Figures for 2024-25 are the budget. The Welsh Government has not yet set a budget for 2025-26.
- 2 For 2022-23, we have separated out SHG and TACP although the Welsh Government classified TACP as part of SHG that year. For 2023-24, TACP had its own budget. The TACP figures only cover spend on homes that count towards the target. Expenditure on bringing existing social homes back into use has been removed.
- 3 Figures for SHG include repayable loans to RSLs worth £25 million in 2021-22 and £6 million in 2023-24 (there were no loans in 2022-23).

Source: Audit Wales analysis of Welsh Government data

- 1.25 On top of the general capital funding through SHG and TACP, the Welsh Government provides RSLs with repayable loans to support construction of new homes, funded from financial transactions capital. For example, the Welsh Government provided £56 million such loans in 2023-24.
- 1.26 The Welsh Government also provides revenue funding to support the delivery of the target. It provides £13.1 million a year to social landlords to support long-term borrowing costs. Some of this funding pays for homes built under previous targets and some supports homes delivered as part of the current target.

1.27 The Welsh Government also spent £0.5 million revenue funding in 2022-23 and £1.10 million in 2023-24 on Leasing Scheme Wales, which directly contributes to the target. It has budgeted £1.5 million for the scheme for 2024-25.

Schemes that indirectly support delivery of the target

1.28 Other funding sources indirectly support delivery of the target on top of the core schemes (**Exhibit 5**). Between 2021-22 and 2023-24, the Welsh Government has spent £166.5 million on schemes that indirectly contribute to the target. It has budgeted £81 million for these schemes in 2024-25.

Exhibit 5: Welsh Government schemes that indirectly support delivery of the social homes target, 2021-22 to 2024-25

Scheme	Description	Spend: 2021-22 to 2023-24	Budget: 2024-25
Housing with Care Fund	Supports independent living for people with care and support needs.	£113.2 million	£60.5 million
	Funds the capital cost of new schemes, usually alongside SHG.	of which 2021-22 = £38.9 million ¹	
		2022-23 = £31.2 million	
	Funding flows through health boards who develop plans with Regional Partnership Board partners.	2023-24 = £43.1 million	
Land and Buildings Development Fund	Capital grant funding to develop public sector land for use for housing, primarily affordable housing.	£53.3 million	£20.5 million
		of which 2021-22 = £26.6 million	
		2022-23 = £22.2 million	
		2023-24 = £4.5 million	
Totals		£166.5 million	£81 million

Note:

1 The Housing with Care Fund was set up in 2022-23. The figure for 2021-22 is the equivalent budget from the predecessor Integrated Care Fund.

Source: Audit Wales analysis of Welsh Government data

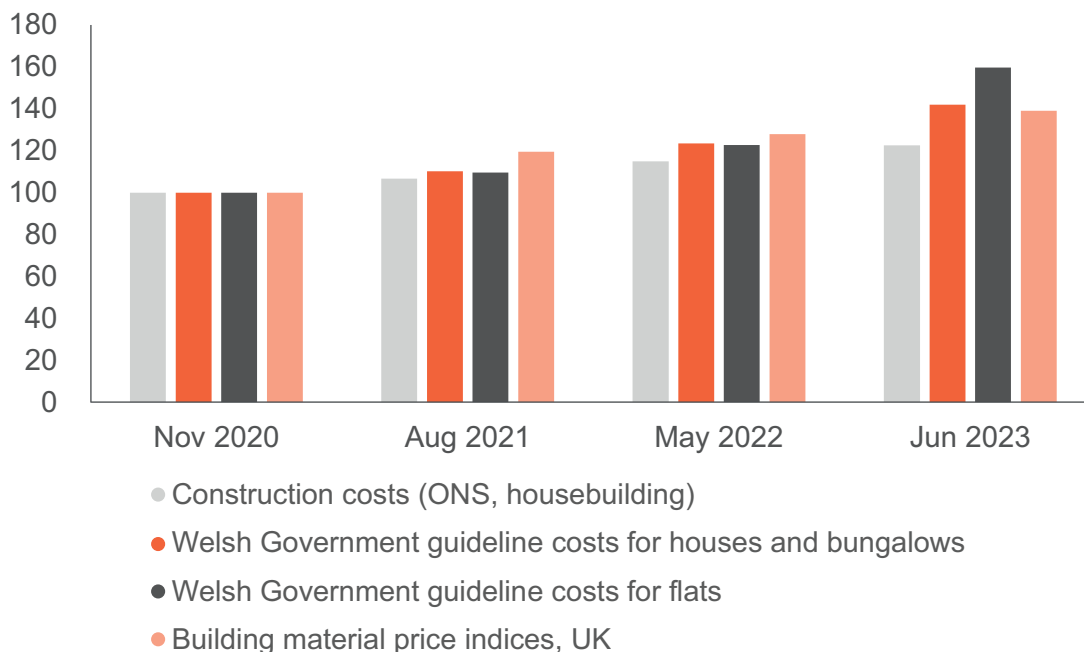
- 1.29 The Welsh Government also provides loans to RSLs to acquire and prepare land for affordable housing in advance of SHG being approved. The loan is usually re-paid and recycled within the year. For example, in 2023-24 the Welsh Government provided £38.4 million in such loans from financial transaction capital.
- 1.30 On top of Welsh Government funded schemes, funding from social landlords themselves and private developers contributes to the target. In addition, where social landlords dispose of SHG funded housing, they must recycle capital receipts into additional affordable housing. This funding may be used to supplement SHG or on affordable housing that is not eligible for SHG, such as new shared equity properties. We have not examined the use or scale of these sources of funding.

A combination of factors, mostly outside the Welsh Government's control, have driven up new build costs

Price inflation driven by global events

- 1.31 Economic impacts from the COVID-19 pandemic and the war in Ukraine have pushed up construction costs. The Welsh Government has significantly increased the guideline works costs of delivering new build affordable housing, which it uses to determine grant funding. **Exhibit 6** show how these rises compare to UK indices of cost pressures on construction.

Exhibit 6: changes in construction costs and guideline costs for social housing, November 2020 to June 2023^{1,2}



Notes:

- 1 This Exhibit compares how each measure has increased in percentage terms since November 2020 (100). The subsequent dates reflect when the Welsh Government changed its guideline costs.
- 2 Guideline costs are a benchmark for the overall construction cost (works only) of general needs properties of different sizes and types. They are updated periodically to reflect current prices, regulations and design quality requirements, and tender submissions. They are based on a 'reasonable' site without abnormal costs or stringent planning requirements.

Source: Office for National Statistics, Construction Output Price Indices, May 2024 update; UK Government, Building materials and components statistics: May 2024, June 2024; and Welsh Government, Acceptable Costs / On-costs For Use With Social Housing Grant Funded Housing in Wales, June 2023 and previous May 2022, August 2021 and November 2020 versions

- 1.32 Guideline costs for houses and bungalows went up by 42%, and flats by 60%, between November 2020 and June 2023. The Welsh Government told us the increases in part reflect the impact of new building standards from 2021. It also told us that the sharper increase in the guideline costs of flats rectifies a historic underestimate of these costs.
- 1.33 The Welsh Government provided additional SHG funding through a Materials Cost Initiative (MCI) to cover 40-45% of the unexpected additional costs of existing contracts. Social landlords funded about the same amount and contractors bore the remainder of the cost. The MCI cost the Welsh Government £10.6 million in 2021-22 and £17.0 million in 2022-23.

- 1.34 The Welsh Government could have required contractors to cover the increased costs on existing contracts. However, it was concerned about a short-term risk that contractors would go bankrupt.
- 1.35 The Welsh Government has now asked grant applicants to use price fluctuation clauses to manage cost increases. These clauses should mean contractors do not need to factor in large risk premiums to bids because they will be protected against significant cost increases beyond their control.

Rising interest rates

- 1.36 Interest rates have increased the cost of servicing debt that social landlords typically use to fund their contribution to affordable housing schemes. Bank of England base rate increases have fed through to higher rates from commercial lenders for RSLs and from the Public Works Loan Board for local authorities.
- 1.37 The Welsh Government's funding model uses an assumed interest rate based on average rates achieved by RSLs acquiring new debt. This rate has risen significantly from 3.75% in April 2022 to 5.50% from June 2023 (**Exhibit 7**). The loan rate for local authorities has risen from 2.50% to 3.87% over the same period.

Exhibit 7: changes in the borrowing rates faced by social landlords, April 2022 to June 2023



Source: Audit Wales analysis of Welsh Government data

Rent settlements

- 1.38 The Welsh Government introduced a social rent policy in 2019. The policy capped the overall increase in social rents for each social landlord at inflation, as measured by the Consumer Prices Index (CPI), plus 1% for five years from 2020-21. However, if inflation exceeds 3%, the Minister responsible for housing would decide the cap.
- 1.39 For 2022-23, the Welsh Government capped the maximum overall increase at CPI inflation of 3.1%. Considering cost-of-living pressures, the Welsh Government capped the maximum overall increase below inflation at 6.5% for 2023-24 (CPI inflation was 10.1%) and at inflation of 6.7% for 2024-25¹⁶. These lower increases impact the revenue that social landlords use to match-fund the cost of new development. That in turn reduces the viability of each scheme, increasing the level of grant required from the Welsh Government.

¹⁶ Social rents are set at the start of the financial year based on inflation trends in the previous year.

Overall impacts on unit costs

- 1.40 The cost pressures listed above, combined with the new building standards (**Exhibit 1**), have caused the grant required for each new general needs property to rise. It increased by 75% between 2020-21 and 2023-24, from around £93,000 to around £163,000. The grant required for supported housing for groups with special needs increased by 41% between 2020-21 and 2023-24, from around £140,500 to around £197,500.
- 1.41 The Welsh Government grant required to buy existing properties is considerably lower than new build. Grants averaged around £120,000 per property in 2023-24, up from £99,000 in 2022-23.

To get close to delivering the target, the Welsh Government will need to significantly increase spending, while options to make available funding go further may not be desirable

- 1.42 The Welsh Government set a budget of £330 million for SHG and £50 million for TACP in 2024-25¹⁷. It has not yet set a 2025-26 budget. However, for planning purposes officials have assumed a notional budget of £300 million for SHG and £50 million for TACP.
- 1.43 Modelling how much it will cost the Welsh Government to deliver its remaining pipeline is complicated. Projects funded in one year are not usually completed until the next. That means many homes delivered early in this target period were funded, at least in part, before 2021-22. Conversely, schemes funded for the first time in 2025-26 are unlikely to be completed by March 2026.
- 1.44 Building on Welsh Government analysis, we estimate that the Welsh Government could need to find as much as £580 million to £740 million extra to deliver its pipeline to March 2026¹⁸. **Appendix 1** sets out the full basis for our estimates.
- 1.45 We estimate that without additional funding, there would be between 15,860 and 16,670 homes within the target definition by March 2026. This assumes delivery in 2023-24 matched the upper end of the Welsh Government's estimate (see **paragraph 1.17**). Both scenarios would leave the Welsh Government well short of the 20,000 target.

17 While the TACP budget is £50 million, the Welsh Government has asked social landlords to identify £100 million worth of potential acquisitions as a contingency should funding become available.

18 We assume all 2024-25 SHG funding and TACP funding in 2024-25 and 2025-26 supports schemes that are completed by March 2026. Our base case assumes around 20% of the notional £300 million SHG funding in 2025-26 contributes to schemes that complete within the year. Our pessimistic case assumes none of that funding contributes to the target.

1.46 There are options for the Welsh Government to make funding stretch further (**Exhibit 8**). However, these may not offer better value for money in the round and/or over the longer-term. The pressure to secure homes is not simply about meeting the target. There is a pressing need for affordable homes due to very high numbers of people in temporary accommodation (see **paragraph 2.4**). These short-term pressures sit alongside the need to sustain delivery of new build low-carbon affordable homes beyond March 2026.

Exhibit 8: main options for delivering more housing units at lower cost

Increasing acquisitions and leasing	<p>We estimate that the additional funding requirement to achieve the target would fall by between £110 million and £140 million if 50% of general needs provision was met by acquiring existing properties.</p> <p>Such acquisitions are easier to secure. However, higher maintenance costs for older properties and any investment to meet carbon reduction goals could wipe out initial capital cost savings.</p> <p>The Welsh Government could also acquire new off the shelf properties. But the average unit cost to the Welsh Government is higher than new builds delivered by social landlords.</p> <p>Acquisitions of existing properties do not add to the usable housing stock in the same way as new build unless they bring empty homes into use. Welsh Government officials told us that around two-thirds of the 70 homes provided in the first year of Leasing Scheme Wales had been empty for more than six months. The first phase of TACP brought 374 empty social homes into occupation, although these do not count towards the target.</p>
Reducing quality standards	<p>Capital costs for new builds could be reduced by relaxing environmental and space standards. For example, in 2021 the Welsh Government estimated that fossil-fuel-free heating systems would require an additional £5,775 in grant.</p> <p>Such changes may deliver short-term savings but would jar with the longer-term policy focus on quality and delivery of low carbon homes.</p>
Changing the balance of tenure	<p>Social housing is the most expensive tenure, with grant rate typically over 60%. In contrast, shared ownership is capped at a 25% grant rate, while intermediate rental is between the two figures.</p> <p>Shifting the balance of tenure could enable the Welsh Government to secure more units for its funding, However, it would involve tenants paying more of the costs through their rent.</p>



Governance and management arrangements

02

- 2.1 This part of the report looks at the Welsh Government's arrangements to support delivery of its affordable housing ambitions.

What we looked for

We looked for evidence of a good understanding of need and demand for affordable housing, appropriate systems to appraise funded projects and oversee delivery including securing wider benefits, and effective partnership working to address barriers to progress.

Overall, the Welsh Government understands the immediate need for affordable housing but long-term need is unclear and the pattern of delivery does not match the needs assessment

The Welsh Government recognises the immediate need for affordable housing but lacks a longer-term assessment and national estimates potentially understate need and demand

- 2.2 The Welsh Government's most recent assessment says that between 2019-20 and 2023-24, an average of 3,510 additional affordable homes per year were needed¹⁹. This was based on newly arising needs, due to population growth, and meeting existing needs of people living in temporary accommodation or 'concealed' in overcrowded homes.
- 2.3 The assessment also said that roughly 73,000 additional homes would be needed between 2024 and 2039 but did not say how many would need to be affordable. The Welsh Government considers that it is unreasonable to split beyond five years given uncertainties in the economics of the housing market.
- 2.4 The estimates assumed that existing unmet need would have been eradicated by 2023-24²⁰. They identified 2,229 households in temporary accommodation in June 2019. However, by September 2023, that had more than doubled to 5,700.

¹⁹ Welsh Government, [Estimates of Additional Housing Need in Wales \(2019-based\)](#) August 2020. The definition of affordable housing in the estimates covers all types of affordable housing, some of which do not count towards the 20,000 target. We have used figures from the national assessments of needs here. Totals from these national figures are not consistent with those from the regional figures reported for both affordable and market housing needs. The estimates also showed that an average of 3,857 market houses would be needed each year.

²⁰ The estimates recognised that by the end of the five-year period a new backlog may have built up.

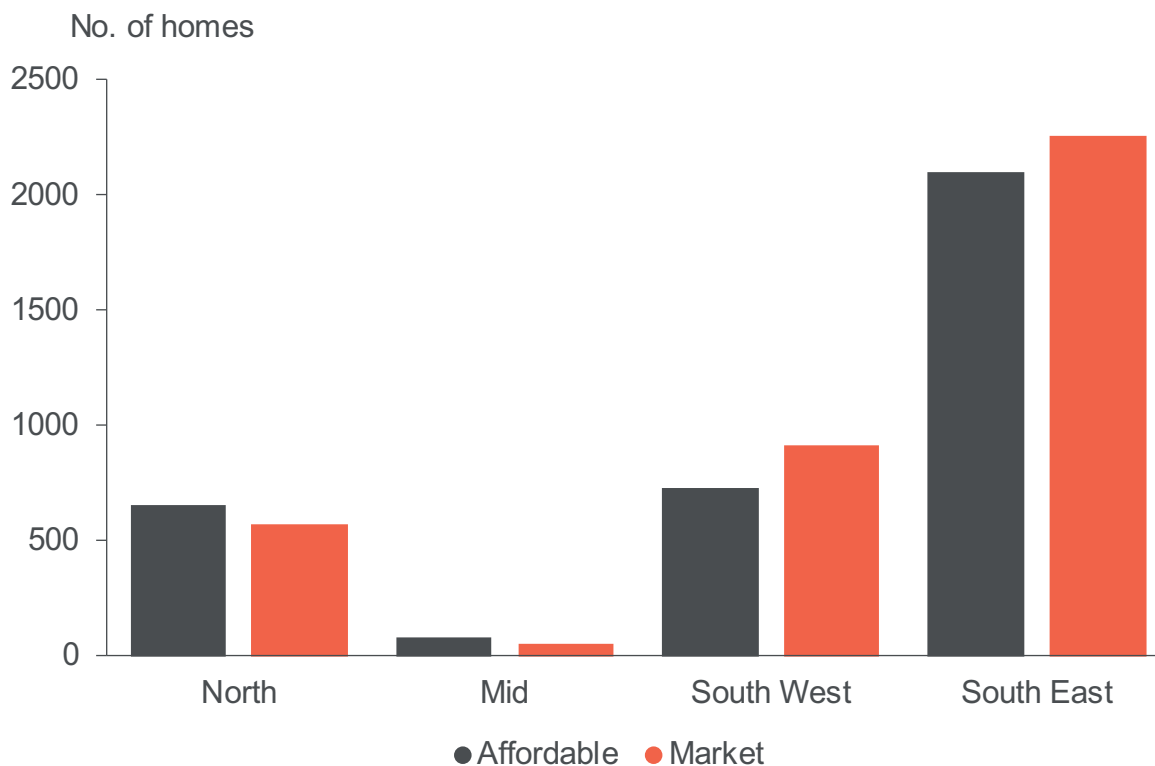
- 2.5 Between 2019-20 and 2022-23, 12,590 additional affordable homes were delivered against the need assessment of 14,048. The total shortfall of 1,458 homes can only partially explain why existing unmet need increased by so much. The Welsh Government told us that events since the assessments were developed impacted the level of need, notably the COVID-19 pandemic, cost of living crisis, and its decision to welcome Ukrainians fleeing war.
- 2.6 The estimates also potentially understate how many additional affordable homes are needed because they do not account for affordable housing that is lost, for example through sales or demolitions. The Welsh Government does not gather data on net changes in the affordable housing stock. It does report on the size of the social housing stock. While that stock is growing, it grows by less than the amount of affordable housing delivered each year²¹.
- 2.7 Also, the estimates are based on need rather than potential demand. Existing unmet need is tightly defined and does not include those wanting alternative types of housing or who are in unsuitable accommodation. Newly arising need is based on population projections and historic trends of household formation.

The pattern of delivery of affordable housing does not match the estimates of need

- 2.8 The Welsh Government allocates SHG to local authorities based on a formula agreed in 2011, using data on household projections, affordability, and historic expenditure. It allocates TACP funding to match existing need, based on the number of people in temporary accommodation.
- 2.9 Officials emphasised that there is a need for affordable housing everywhere. Nonetheless, the Welsh Government's estimates showed that around 59% of the need between 2019-20 and 2023-24 was in South East Wales (**Exhibit 9**). That is higher than its population share of 49%.

²¹ We estimate that the gap between affordable housing delivered and the growth of the social housing stock is around 1,000 homes each year. However, because not all affordable housing is classed as social housing that figure may overstate the losses to the social housing stock.

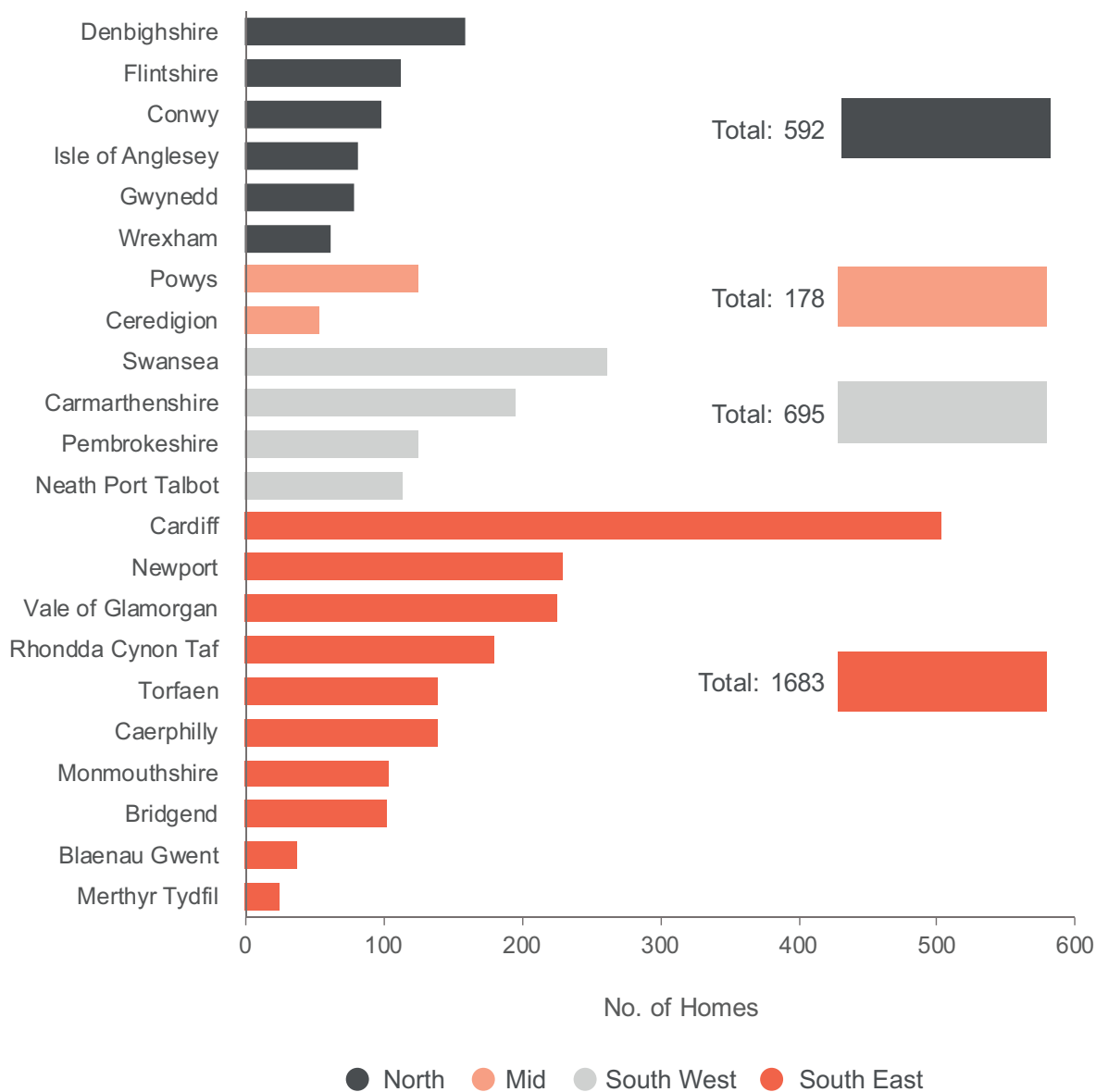
Exhibit 9: Welsh Government estimates of annual housing need per region for 2019-20 to 2023-24



Source: Welsh Government, Estimates of Additional Housing Need in Wales (2019-based), August 2020

2.10 There has been significantly more affordable housing delivered in South East Wales than other areas (**Exhibit 10**). However, the delivery pattern does not match the relative levels of need in the estimates. Between 2019-20 and 2022-23, South East Wales accounted for 53% of affordable homes delivered but had 59% of need. All other regions had a higher proportion of the new homes delivered than the needs assessment suggests. But an overall shortfall meant that in three of the four regions delivery did not meet the number needed. In Mid Wales, the 178 homes delivered on average each year was more than double the estimated need of 75.

Exhibit 10: average number of affordable homes delivered each year by local authority area, 2019-20 to 2022-23



Source: StatsWales, [Additional affordable housing provision by location and year](#), November 2023 update

The Welsh Government has improved its understanding of local affordable housing need and is strengthening the framework for overall local housing need assessment although implementation has been delayed

- 2.11 Since 2021, the Welsh Government has required local authorities to submit a housing prospectus based on evidence in their Local Housing Market Assessment (LHMA). The prospectus briefly describes strategic housing priorities, current stock, and expected need for different types of affordable housing. It also describes how the local authority will prioritise and monitor affordable housing schemes in its three-year rolling programme development plan, including RSLs' schemes.
- 2.12 The Welsh Government expects local authorities to update the prospectus each year if required. Local authorities currently update the programme development plans on a quarterly basis through the Welsh Government's data portal (see **paragraph 2.45**). We reviewed a sample of five prospectuses and found they gave the Welsh Government a good basis to understand local affordable housing needs.
- 2.13 In response to the Independent Review of Affordable Housing Supply, the Welsh Government has worked with partners to develop a consistent method for assessing overall local housing need. The updated LHMA covers market and affordable housing and builds on the method for the national estimates. However, it also requires local authorities to draw on local evidence of need and the views of partners and the public. Local authorities have been supportive of the updated LHMA in principle but have found the process and data tools frustrating and burdensome in some respects.
- 2.14 Delays have led to a mismatch in timings for the updated LHMA and updates to Local Development Plans (LDP). The LHMA should inform the LDPs. During the COVID-19 pandemic the Welsh Government postponed issuing LHMA guidance from October 2020 to March 2022. Local authorities were then due to complete LHMA by March 2024, but only a few did so. The Welsh Government told us that at the start of June 2024 all local authorities had submitted at least a draft LHMA. Nonetheless, most local planning authorities have been developing updated LDPs before their updated LHMA²².

²² Planning authorities are the 22 local authorities and three national park authorities. Two authorities have adopted their updated LDPs. Seven have a final draft at deposit plan stage. Twelve are well advanced in developing their updated LDPs. The remaining four are not due to update their LDPs until 2026 or later.

The Welsh Government's arrangements for managing SHG are generally sound and have been strengthened with the aim of securing better value for money

2.15 We focused our review of grant appraisal and management on SHG as the largest funding source. Local authorities select which schemes to put forward from their programme development plan (see **paragraph 2.11**), though most are developed and delivered by RSLs. The Welsh Government's appraisal process focuses primarily on ensuring compliance with quality and design standards and cost control (**Exhibit 11**).

Exhibit 11: core appraisal and monitoring process for Social Housing Grant funding

Stage	Process
Pre-appraisal	<p>Architects in the Welsh Government's Housing Quality and Standards Team provide advice on the concept design and later confirm that the detailed design meets quality requirements.</p> <p>The ultimate decision on location and design rests with the social landlord, subject to local planning requirements.</p>
Appraisal	<p>The Welsh Government's Housing Funding Team oversees the appraisal process and issues grant approvals after confirming:</p> <ul style="list-style-type: none"> • the scheme is in the local authority's programme development plan and matches the needs identified in the housing prospectus; • the scheme meets quality requirements; • the cost of the scheme is acceptable; • the grant is limited to the minimum needed to proceed; • that land or property acquisitions are independently valued and purchased at or below market value; and • that new-build projects have secured planning and sustainable drainage approvals.
Post appraisal checks	<p>Checks on a sample of schemes post-completion consider compliance with conditions and identify lessons. Social landlords must keep a full record of progress, including contract details and surveyor reports.</p>

Source: Audit Wales summary

- 2.16 We received positive feedback from local authorities about relationships with Welsh Government officials as part of the appraisal process. More generally, we have concluded that, in terms of securing affordable housing within standard/cost parameters, the system is sound and consistently applied for the reasons below. However, the approach is not designed to consider the delivery of wider benefits from the investment (see also **paragraphs 2.46 to 2.52**).
- 2.17 **There are effective methods to manage costs.** The Welsh Government publishes guidance on acceptable costs for general needs housing of different sizes and types, which it updates regularly and uses to determine how much funding to apply (see **paragraph 1.31**). There is a tolerance of up to 20% on top for complicated schemes. There is a further 7% for non-fossil fuel schemes and 10% for those using modern methods of construction. The maximum grant is therefore 137% of the acceptable costs.
- 2.18 **The Welsh Government has introduced a new funding model to limit its contribution to individual schemes to the minimum needed.** The standard viability model, introduced in response to the Independent Review of Affordable Housing Supply, has been positively received by stakeholders. It is designed to limit Welsh Government funding to the minimum required for a scheme to proceed. The model replaces the fixed grant rate of 58% of eligible costs in place until April 2021 for local authorities and April 2022 for RSLs.
- 2.19 **There are controls to prevent waste and fraud.** The Welsh Government requires independent valuations to support the purchase of land and buildings. It has a legal charge on grant-funded properties, ensuring social landlords recycle sale proceeds into new affordable housing. Grant agreements require competitive procurement of building contractors and procurement is checked as part of post-completion reviews.
- 2.20 **The Welsh Government has updated the SHG appraisal process to make it more efficient and easier to follow.** The process has been split into stages (**Exhibit 11**). There is a strengthened focus on advice on compliance in the pre-appraisal stage. Officials have cut back the amount of supporting documentation required at the appraisal stage. And while the Welsh Government assumes social landlords will deliver in line with funding conditions, there is an updated sample-based post-completion review stage.

The lack of a long-term approach to affordable housing hampers progress and contributes to an unstable pattern of spending and delivery

- 2.21 There is no formal long-term plan or strategy for delivering affordable housing. Beyond the five-year period of the target, the only formal commitment is in the overall development plan for Wales²³. The plan states, 'The Welsh Government will increase delivery of affordable homes by ensuring that funding for these homes is effectively allocated and utilised'. However, there is no formal long-term commitment to funding beyond the current target.
- 2.22 The five-year target period approach risks embedding an unsustainable delivery pattern, where delivery is lower early in the period and then ramped up later. This pattern complicates financial planning and management and creates the risk of underspending early in the cycle and a shortfall later. Annual spending limits mean these patterns cannot easily be smoothed by rolling funding from one year to the next.
- 2.23 Some local authority respondents to our call for evidence reported that they lost funding because they were unable to spend their allocated funding in-year due to delays outside their control. We have not examined why, in such circumstances, authorities have been unable to move funding within their own pipelines. The Welsh Government has got better at anticipating underspends and is now engaging with local authorities earlier in the year. It has also worked with local authorities to strengthen local pipelines, including through the programme development plans (see **paragraph 2.11**).
- 2.24 Nonetheless, we found that the volatility around re-directing funding in year causes frustration for social landlords. It also risks funding being re-allocated to areas with 'shovel-ready' projects, rather than based on population or need. To address these concerns, in 2023-24 the Welsh Government introduced a new strategic framework for local authorities to give up part of their annual financial allocation that they are unlikely to spend and get the money back in a later year if they can then spend it.
- 2.25 Even an annual cycle should not prevent the Welsh Government from having a broad long-term funding commitment and a fuller project pipeline that runs well beyond the target period. The Welsh Government has such an approach to its school and further education building programme which has recently moved to a rolling nine-year planning period. The Independent Review of Affordable Housing Supply recommended a five-year approach to funding as part of wider funding reforms. While the Welsh Government reformed the funding model (see **paragraph 2.18**) and set a three-year budget for SHG, it did not introduce a five-year approach.

23 Welsh Government, Future Wales: The National Plan 2040, February 2021

The Welsh Government generally collaborates well with partners, helping it respond to some emerging risks and issues, although there is still no collective approach to capacity constraints in local planning services

- 2.26 We found that stakeholders are generally positive about the Welsh Government's collaborative approach. It has included the Welsh Local Government Association and Community Housing Cymru in its Programme Board which oversees delivery. It has also worked collaboratively in response to the Independent Review of Affordable Housing Supply, for example on the new funding model and LHMA process.
- 2.27 The Welsh Government has also worked with partners to understand and address the issues set out below and the recent cost pressures (see **paragraphs 1.31 to 1.41**). However, there remains a lack of a coherent collective approach to address capacity constraints in local planning services.

Sustainable drainage

- 2.28 The Welsh Government introduced new Sustainable Urban Drainage Systems (SuDS) standards which came into force in 2019²⁴. Issues relating to SuDS were the most cited concerns in our call for evidence. In Autumn 2023, the Welsh Government reviewed pipeline schemes rated amber or red risk where social landlords cited planning as the cause of delays. The review found that half had problems related to SuDS.
- 2.29 Respondents to our call for evidence tended to emphasise the lack of specialist capacity within local authorities as a key source of concern and delay. The Welsh Government's review identified poor advice to applicants as an issue. It also found some delays were down to applicants. These included delayed responses to planning officers' enquiries and applicants not making good use of the pre-application process.

24 Welsh Government, Statutory standards for sustainable drainage systems – designing, constructing, operating and maintaining surface water drainage systems (SuDS), October 2018

2.30 A July 2023 post-implementation review of the regulations²⁵ made recommendations to improve the assessment process. The then Minister for Climate Change committed to several actions, pending full consideration of the report²⁶. Those actions, which have since been included in the workplan for the SuDS Community of Practice²⁷, include:

- delivering further training for SuDS Approval Bodies;
- investigating the implications of including new and existing highways under the regulations to tackle road run-off;
- developing improved data collection and reporting;
- consolidating all SuDS guidance document into a single document and improving clarity and consistency; and
- establishing a SuDS advisory group.

River phosphates

2.31 Phosphates are nutrients that enter rivers primarily from wastewater and agriculture. In early 2021, Natural Resources Wales issued advice to local planning authorities to adopt a policy of 'nutrient neutrality' in Special Areas of Conservation (SAC) rivers. As a result, some authorities, notably those around the Wye and Dee river catchment areas, abruptly paused new housing developments.

2.32 The Welsh Government has brought together stakeholders in 'river pollution summits' to develop solutions without further compromising river quality. Following the first summit in July 2022, the Welsh Government developed an action plan which includes short- and longer-term measures²⁸. Four further summits took place between March 2023 and July 2024.

2.33 Actions have included: establishing Nutrient Management Boards to produce Nutrient Management Plans in each failing SAC river; developing an all-Wales nutrient calculator; and creating a 'menu' of potential mitigating measures such as nutrient offsetting, and nature-based solutions.

25 Arup (for the Welsh Government), [Sustainable Drainage Systems \(SuDS\) Schedule 3 Post Implementation Review](#), July 2023

26 Welsh Government, [Written Statement: Securing greater nature, environmental and community benefits through Sustainable Drainage Systems \(SuDS\) - publication of the Welsh Government's review and the way forward](#), July 2023

27 The Community of Practice meets quarterly and brings together sector experts.

28 Welsh Government, [Relieving pressures on Special Areas of Conservation \(SAC\) river catchments to support delivery of affordable housing: action plan](#), March 2023

- 2.34 The Welsh Government told us that, initially, social landlords identified 68 sites with a total of 2,010 homes (market and affordable) as on hold due to phosphates. As at June 2024, just five sites were reported as delayed due to phosphates²⁹. We found that stakeholders were generally positive about the collaborative action, but some expressed frustration at a gap of over a year from the guidance being issued to work on a plan getting underway.
- 2.35 Natural Resources Wales is currently assessing the impacts nitrate pollution may have on marine SACs and will be considering what the findings may mean for development planning. Should further action be needed, the Welsh Government and Natural Resources Wales intend to apply lessons from water quality work in SAC river catchments.

Planning

- 2.36 Several respondents to our call for evidence identified concerns about the planning process, particularly the impact of delays to applications. Respondents highlighted overall workforce shortages, with specific concerns about a lack of experienced planning officers. Some said the situation is exacerbated by the complexity of the planning data tools and the range of planning guidance and standards. Respondents did, however, praise planning officers within local authorities, recognising the capacity and delivery constraints they face.
- 2.37 We highlighted planning service capacity issues in national reports on flood risk management in 2022³⁰ and on local planning authorities in 2019³¹. Our 2019 report made recommendations to local authorities to strengthen capacity, including through more regional working. In June 2020, the Senedd Public Accounts Committee recommended the Welsh Government use its powers to ensure local planning authorities collaborate and merge to improve resilience and build capacity³².
- 2.38 Responding to the Public Accounts Committee, the Welsh Government emphasised that Corporate Joint Committees would provide a mechanism for regional collaboration, including in areas such as strategic land-use planning. It also indicated that a governance framework would be introduced to allow for greater collaboration between local planning authorities to improve resilience and capacity. We have not looked specifically at the implementation of these recommendations as part of this review, although we have reported previously on the overall development of Corporate Joint Committees³³.

29 Some of the schemes previously put on hold are not proceeding for reasons not directly connected with phosphates.

30 Auditor General for Wales, [A Picture of Flood Risk Management](#), December 2022

31 Auditor General for Wales, [The Effectiveness of Local Planning Authorities in Wales](#), June 2019

32 Public Accounts Committee, [Effectiveness of Local Planning Authorities in Wales](#), June 2020

33 Auditor General for Wales, [Corporate Joint Committees – commentary on their progress](#), November 2023

- 2.39 It is clear from the feedback we received that the problems persist. There is still not a coherent collective approach to addressing the capacity issues in the planning system. Respondents to our call for evidence identified potential solutions, some of which reflected themes from the earlier recommendations. These included further regional collaboration, increasing the routes into planning such as the planning officer apprenticeship programme developed in England, and work on retaining staff who may leave for consultancies or out of the profession altogether.
- 2.40 Issues relating to the planning system – including the length, cost, and complexity of the process – also featured in a recent Competition and Markets Authority report on wider market housebuilding. The report set out proposed options on reform of the planning system for the Welsh Government’s consideration³⁴.

Land supply

- 2.41 Existing Local Development Plans suggest sufficient land is available, although many of these plans are being updated (see **paragraph 2.14**) which may paint a different picture. However, we received feedback suggesting that a lot of that land is unsuitable, is not in areas of high need, and that landowners are not releasing the land for development.
- 2.42 A study in March 2020 estimated there was enough land on stalled residential sites³⁵ in Wales to build 32,680 market and affordable homes³⁶. Some respondents to our call for evidence expressed frustration at having to take small, sub-optimal sites rejected by major housebuilders. There is also concern that land prices are being driven up by competition between RSLs, thereby increasing the amount of Welsh Government grant required.
- 2.43 The Welsh Government works with public bodies and provides financial support to develop public sector land for use as affordable housing (**Exhibit 5**). It also intends to use some of its own land portfolio as ‘exemplar’ sites. These involve 50% affordable and 50% market housing developments, with contractors building homes to ‘exemplar’ standards. The standards include homes that are zero carbon and use modern methods of construction, particularly off-site manufacturing. The programme is in its early stages with no developments yet delivered.

34 Competitions and Markets Authority, [Summary of CMA market study final report into housebuilding, Wales summary](#), February 2024

35 A stalled residential site is defined as a site allocated within an LDP where development had not started within the expected trajectory given in the LDP, had not started within the timeframe indicated in the relevant Joint Housing Land Availability Study (JHLAS), or is yet to commence and there is no expected trajectory in the LDP or timeframe in a relevant JHLAS.

36 Arcadis (for the Welsh Government), [Research into stalled sites in Wales: final report](#), March 2020

The Welsh Government has improved its use of real-time data to support planning and monitor progress

- 2.44 Historically, the Welsh Government relied largely on the retrospective annual statistical release to monitor progress against the target. While this is the most accurate and comprehensive source, it is at least seven months old when published. The Welsh Government also used information from local authorities' programme development plans, data on spend, and meetings with local authorities. However, those sources did not give a clear real-time picture of overall progress.
- 2.45 The Welsh Government has recently improved its monitoring data. In June 2023, it set up a portal which enables social landlords to provide data on SHG funded homes as they progress. The Welsh Government combines this data with projections for TACP, Leasing Scheme Wales, and Section 106 properties to form the pipeline of projects (see **Exhibit 3**). The data is presented to the Welsh Government's Programme Board. The statistical release is still used as the formal reporting of overall progress in the supply of affordable housing and progress against the target.

The Welsh Government has not done enough to ensure affordable housing investment contributes to wider policy objectives

- 2.46 Investment in affordable housing can have positive impacts beyond simply providing a home that people can afford. However, the Welsh Government did not articulate the wider benefits at the outset of the target period. In October 2022, the Welsh Government produced a 'benefits map' which sets out high level benefits under five categories (**Exhibit 12**).

Exhibit 12: potential wider benefits from affordable housing development that the Welsh Government has identified

Welsh Government benefits map

Economy	<ul style="list-style-type: none"> • Positive impact on jobs, apprenticeships, and training opportunities. • Positive impact on the foundational economy. • Strengthen the financial stability of RSLs and local authorities, helps the RSL sector to grow.
Health	<ul style="list-style-type: none"> • Improved health outcomes of those in social housing by delivering better quality, safe and affordable homes that meets needs now and in the future.
Communities	<ul style="list-style-type: none"> • Support RSLs to operate as anchor institutions in communities.
Climate change	<ul style="list-style-type: none"> • Delivering towards the national aim of net zero carbon.
Eliminating inequalities	<ul style="list-style-type: none"> • Responds to the national need, mission, and overarching priorities for housing around homelessness and ensuring homes meet the needs of all individuals including older people, disabled people, and Black, Asian, and Minority Ethnic people.

Source: Welsh Government benefits map (unpublished)

2.47 During our fieldwork, the Welsh Government provided us with a partially completed benefits realisation plan, also dated October 2022. The plan mirrors the benefits set out in the map. However, it contains few details about how they will be secured and measured.

2.48 For most categories, the underlying assumption is that benefits will flow naturally from providing 20,000 new low carbon social homes for rent. The measure of success is therefore delivery of the target. For jobs and apprenticeships, the plan recognises that such data does not exist but does not set out any steps to explore how they could be monitored.

2.49 The Welsh Government subsequently provided us with versions of the plan updated in October 2023 and June 2024. The key differences are inclusion of a measure of the number of enrolments in vocational education and references to monitoring community benefits.

- 2.50 While there is some overlap, the benefits map and plan do not directly align with the well-being goals under the Well-being of Future Generations (Wales) Act 2015. In September 2023, the Welsh Government published part of its integrated impact assessment which set out at a very high level how the delivery of the target aligns to the well-being goals³⁷. Again, it sets out that the delivery of the target is how it will measure the benefits.
- 2.51 The full, unpublished integrated impact assessment includes an equality impact assessment. It identified positive impacts from delivering the target on specific groups: older people, younger people, people with disabilities and low income households. The Welsh Government did not publish the equality impact assessment. It told us that it was not required to do so. However, public bodies in Wales must publish assessments that identify substantial impacts. The legislation does not specify that this is only required where impacts are negative.
- 2.52 In practice, there are some arrangements to integrate delivery of the affordable housing target with wider objectives. For example, officials working on the target are involved in arrangements for tackling homelessness. And while the SHG appraisal process criteria do not address them (see **Exhibit 11**), grant conditions include a requirement to secure community benefits. The Welsh Government has not monitored that this happens in practice, although the June 2024 update to the benefits realisation plan suggests this will be checked in future. Overall, there is considerable scope to strengthen the approach to integrating the delivery of the target with wider objectives.

37 Welsh Government, [Building 20,000 new low carbon homes: integrated impact assessment](#), September 2023



Appendix

1 About our work

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Audit question, scope and criteria

Our examination considered whether the Welsh Government is making good use of its resources to deliver its social homes target and associated benefits. This report considers progress towards the current target, prospects for achieving it, and related expenditure. It also considers how action on affordable housing is managed and governed. We touched on some of the issues explored in this examination in our recent report on brownfield regeneration³⁸.

During our work, the Senedd Local Government and Housing Committee launched an inquiry into the supply of social housing. Its scope covers many of the areas in our report. We have followed the inquiry closely and evidence provided to the Committee reflects our own findings in many respects.

In developing our audit criteria, we were mindful of the sustainable development principle and the five ways of working set out under the Well-being of Future Generations (Wales) Act 2015. We considered the positive indicators we have developed to support the Auditor General's examination duties under the Act. We also drew on good practice on programme management and risk management from sources including the National Audit Office and the Chartered Institute for Public Finance and Accounting (CIPFA).

Our narrowly scoped examination concentrated on the Welsh Government's main schemes for delivering affordable housing as defined by its target, but also on any other schemes that contribute indirectly to that target. We did not look at:

- the delivery of individual development schemes or services by RSLs or local authorities;
- the management of the existing housing stock by RSLs and how social housing is allocated to occupants;
- policies or schemes to tackle the increase in second homes in parts of Wales; or
- the delivery of integrated support for those who are homeless or at risk of homelessness, through the Housing Support Grant.

38 Auditor General for Wales, Sustainable development? – making best use of brownfield land and empty buildings, January 2024

In scoping our work, we considered the Independent Review of Affordable Housing Supply's 2019 report³⁹ and the Welsh Government's response. The report's 62 recommendations covered areas including affordability and rent control, tenant engagement, land and planning, supply and delivery, and funding arrangements. While we did not specifically seek to assess the delivery of the recommendations, and several fall outside the scope of our review, we touch on various actions that have flowed from them. The Welsh Government accepted all but one of the recommendations.

Audit methods

Document review

We reviewed documentation provided to us and published by the Welsh Government. These included minutes of programme and advisory boards, and stakeholder forums, risk registers, strategies and plans, guidance, and policy papers. We also looked at documents submitted to the Welsh Government by local authorities including a sample of five prospectuses setting out local affordable housing need (see **paragraph 2.11**).

Call for evidence

Open between 3 July and 28 July 2023, we received 41 responses from RSLs, local authorities, charities, representative bodies, and individuals. We had shared the call for evidence through targeted e-mails to organisations, through the promotion of it by representative bodies, and on social media and our website.

The call for evidence invited respondents to reflect on what has worked well regarding the Welsh Government's affordable housing programme, what could have worked better, and any changes that should be made. It prompted respondents to consider various of the themes covered in our analysis in the main body of this report.

Semi-structured interviews

We interviewed officials from several Welsh Government departments, Natural Resources Wales, the Welsh Local Government Association, and Community Housing Cymru. We also conducted follow-up interviews with some call for evidence respondents from local authorities and RSLs, to hear more about their submissions.

39 Independent Panel on Affordable Housing Supply, Independent Review of Affordable Housing Supply, Final Report, May 2019

Observations

We attended the second, third and fourth River Pollution Summits, set up to develop a collective response to challenges around phosphate limits, in March and November 2023 and March 2024.

Data analysis

We reviewed unaudited financial data on expenditure provided by the Welsh Government.

We analysed housing data provided to us by the Welsh Government, notably the data used to develop its pipeline.

We also drew from open data sources such as StatsWales and the Office for National Statistics. In particular, we have drawn from Welsh Government statistical analysis of the need for, and delivery of, affordable housing.

There is a difference between the definition of 'affordable housing' in national statistics and what counts towards the Welsh Government target. For statistical purposes, the Welsh Government uses the definition of 'affordable housing' set out in technical advice⁴⁰. There are some dwellings, notably shared equity, that are included in the affordable housing statistics but do not count towards the target. The Welsh Government's annual [affordable housing statistical releases](#) report on progress towards the target separately from the broader analysis of affordable housing.

In reporting on the construction of new build affordable homes, we used data from the Welsh Government's annual affordable housing provision statistical releases. There is additional [house building data](#) on StatsWales which shows how many homes were built by social landlords. This dataset shows a large drop in the volume of homes built for private and social landlord tenure since the 1970s. While that overall trend is valid, the Welsh Government advises that these statistics may understate the number of properties built by social landlords and overstate the amount of private housing.

40 Welsh Government, [Technical advice note \(TAN\) 2: planning and affordable housing](#), June 2006

Cost of delivering the target and future delivery scenarios

We estimated the potential cost, on top of existing budget assumptions, of delivering the 10,716 homes in the pipeline for 2024-25 and 2025-26. Our estimate builds on data supplied by the Welsh Government.

Projections for delivery of homes funded from SHG and TACP are based on current budgets and an estimate of average grant required per home secured. In line with the data provided by the Welsh Government we created two scenarios: a base case (**Exhibit A1**) and a pessimistic scenario (**Exhibit A2**). The main differences are assumptions on inflation, house prices, the amount of housing delivered without grant funding, and whether SHG funding in 2025-26 secures homes within the year.

Exhibit A1: base case estimates of the funding requirements on top of existing budgets to deliver the remaining affordable housing pipeline projects

Base case	Calculation	Comment
Number of homes left in pipeline	10,716	Number of homes in the pipeline for delivery in 2024-25 and 2025-26.
Less homes funded in 2023-24 and 2024-25 from SHG for delivery by March 2026	3,928	Estimate of homes funded from SHG in 2023-24 (using outturn and actual average grant) and 2024-25 (based on current budget and average grant of £177,861 per home).
Less acquisitions through TACP	838	Based on £50 million budget for 2024-25 budget and notional £50 million budget for 2025-26. Also using Office for Budget Responsibility assumption of slight fall in cost of private market homes.
Less number of properties not receiving capital grant funding	1,590	Based on a Welsh Government assessment that is below historic trends but higher than the number in the pipeline at present.
Less number of properties from Leasing Scheme Wales	770	Based on scheme targets.
Number of home left to be delivered / funded	3,590	
Cost of delivering remaining homes based on average grant rate (rounded)	£640 million	Average grant rate of £177,861 for 2024-25 based on historic trends plus an allowance for inflation of 2.2% based on Office for Budget Responsibility base case projections.
Cost of delivering remaining homes based on average grant rate but allowing for some 2025-26 funding delivering in year (rounded)	£580 million	Assumption that 20% (£60 million) of assumed £300 million SHG budget delivers homes in year.

Exhibit A2: pessimistic case estimates of the funding requirements on top of existing budgets to deliver the remaining affordable housing pipeline projects

Pessimistic case	Calculation	Comment
Number of homes left in pipeline	10,716	Number of homes in the pipeline for delivery in 2024-25 and 2025-26.
Less homes funded in 2023-24 and 2024-25 from SHG for delivery by March 2026	3,888	Estimate of homes funded from SHG in 2023-24 (using outturn and actual average grant) and 2024-25 (based on current budget and average grant of £181,863 per home).
Less acquisitions through TACP	816	Based on £50 million budget for 2024-25 budget and notional £50 million budget for 2025-26. And using market assessments of a slight rise in house prices.
Less number of properties not receiving capital grant funding	1,190	Based on a Welsh Government assessment of the actual number in the pipeline at present.
Less number of properties from Leasing Scheme Wales	770	Based on the scheme targets.
Number of properties left to be delivered / funded	4,052	
Cost of delivering remaining homes based on average grant rate	£740 million	Average grant rate is set at £181,863 for 2024-25 based on historic trends plus an allowance for inflation of 4.5% based on Office for Budget Responsibility worst case projections.

Note: In this pessimistic scenario there is no allowance for any 2025-26 funding to result in delivery within the year.



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Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.