# Delivering More Homes for Wales

Review of recent policy documents

December 2013

Yn unol â'n Cynllun Iaith Gymraeg, mae'r ddogfen hon ar gael yn Saesneg yn unig. Rydym yn ymddiheuro am unrhyw anghyfleustra y mae hyn yn ei achosi.

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## Purpose

1. This paper provides a brief overview and summary of recent policy papers from various organisations which promote different approaches to increasing the supply of affordable housing.

2. The paper is structured according to 5 themes identified by the RTPI (2013) as the most frequently cited issues critical for securing large development schemes: land, infrastructure; finance, leadership and governance; and community engagement. In a similar vein, PWC (2012) identify a 'golden triangle' of issues which will make the difference between whether enough new homes get built or not – the availability of funding, sufficient land supply with planning permission, and rent and asset management flexibilities for affordable housing providers to support new capacity generation.

## Land availability

3. The Association for Consultancy and Excellence (2013) advocate a approach that integrates the process of identifying sites under the development plan process with the process of applying for, and securing outline and then full planning permission, linked through a competitive bidding process that is designed to secure a portion of the increase in land value for the local authority.

4. The model complements broader recommendations from the RTPI (2013) which recommends:
    - Public access to information on who owns land and the options on land; and that
    - Local authorities should take a larger role in land assembly

5. ACE argue that their approach *is based around certainty and optimising the value which can be extracted from land by using principles such as a clear strategic direction, regulatory certainty and encouraging market competition. The model utilise increased land values created by government whilst also encouraging early engagement, private developer participation, encourage competition, embed certainty whilst also minimising the cost to the public sector.*

6. The ACE approach lists 9 key stages, from the start of the process (identifying sites for development) to the eventual development of an individual site:

    - A local authority would identify the types of development it expected within an area and sites for its development blueprint in a process that allows for allow any significant objections and local concern to be dealt with prior to significant developer engagement.
    - Local authorities thus have in place strategic plans which outline areas where development is required in the medium to long term.
    - Land valuations take place and agreements are signed with land owners. In return for signing this agreement, the land owner will be entitled to a percentage of any gain in the land value over that period in addition to the agreed sale price, and if the price were to fall, land owners would still receive the value agreed upon in the original agreement (the differential would be guaranteed by central government to support housing)

- The site assembly plans are published and the local authority would invite bids from the private sector to develop the site(s) with the private developer completing the outline planning phases for submission and final consent.
- The private sector, whilst looking at the local authorities' plan for a site and area ultimately has the expertise to determine profitability, viability, cost and sales potential. These factors will therefore determine how close the bids are to local authorities' blueprints. As such, these blueprints are guides to enable and drive private sector development whilst smoothing the process of planning, consultation, and development.
- Outline planning process would remain relatively unchanged and would continue to be driven by developers. By bringing forward local authorities' involvement in the strategic purpose of the site, there should be minimal local objections and challenges at this stage of development.
- Developers would be invited to submit plans (outline planning) up to 24 months before the transfer deadline. These plans would be evaluated by the local authority and compared to its original vision for the site and the value the developer places on the site accessed. One party would then be selected under a competitive tender process to purchase and develop the land at the market value presented as part of the bid.
- Once the competitive tender process has taken place and a winning bidder is chosen, the transfer of the land (from the land owner to the developer) would take place. The local authority and land owner would then benefit from the differential created by the original sale agreement, with the funds raised being spent on the purposes originally agreed.
- Once the land transfer has taken place, the detailed planning process and development of the site would be undertaken as normal by the developer.

7. ACE argue that the approach has two distinct advantages, covering finance and risk:

8. Firstly, ACE argues that as the model extracts changes in land value over time, and raises money for local authorities and avoids the need for negotiating S106 agreements or CIL. They suggest that this will shorten the time required for developers to form detailed plans, and will remove a significant cost and burden for both parties.

9. Secondly, ACE argues that house builders and developers would still carry the sales risk, with units sold, rented or provided to housing associations or the local authority as agreed. They argue that it is important that developers develop the detailed plan early in the process, place what they see as being a realistic commercial value on the site, in order for them to be adequately compensated and allow for pricing of sales risk.

10. This approach is consistent with other recommendations from RTPI (2013) which advocates that risks around potential future land uplift in land values should be shared more evenly between the local authority, developer and landowner, and that the public sector should dispose of land in a way which takes account of wider community value.

11. Shelter (2013) argue that there is a need to fix the land market so there is enough land available at reasonable prices They argue that not enough land is released, raising costs. Land prices are highly volatile, creating risk for developers, making them reduce supply and raising the cost of new homes. Shelter argue that there are several options for reform which could provide land at lower and more stable costs, including investing public land, Community Land Auctions, and increased use of compulsory purchase. They suggest that measures such as investing public land, introducing Community Land Auctions, and increased use of compulsory purchase *would be vital for sustained long term delivery, in support of other policies*.

12. The City and County of Swansea Affordable Housing Scrutiny Inquiry Panel (2013) call for more publically owned land to be used to subsidise new affordable homes, and acknowledge that there is a need to facilitate land release from other public bodies and from the Welsh Government. The Joseph Rowntree Foundation (2013b)[1] state that the *key to long-term reform to land supply in order to reduce volatility in the housing market is for planning authorities and their partners to become more proactive in the land market, especially in the case of publicly owned land.* The House of Commons Communities and Local Government Committee (2012) recommended that local authorities and all public bodies should consider the potential for making land available for development through entering into partnerships with developers and through *maintaining equity involvement in the development to secure best value for the taxpayer.* The Highbury Group on Housing and the Credit Crunch (undated) argue that local authorities should be *pro-active in the land market, assembling sites and undertaking joint ventures with developers, sharing risk and reward in order to deliver a product which meets community need. This will require more effective masterplanning by the public sector and may require use of compulsory purchase*

13. The Swansea Panel note that as cash subsidies decline so the provision of subsidy through the use of publically owned land will become increasing important. They report that the National Assembly for Wales inquiry into affordable housing looked at this issue nationally and argued that sites that currently have planning permission but have not been developed (as well as potential new sites) needed to be looked at. The Local Government Association (2013) urge local authorities to use their strategic housing and planning role to identify new sites and bring forward public land for development. The Highbury Group on Housing and the Credit Crunch (undated) argue that local authorities should set clear and costed affordable housing targets which allow a land value above existing and alternative use and be pro-active in identifying sites where landowners and developers are willing to work with them to deliver.

14. The JRF (2013b) recommend:

- ***Growth management to*** make green belts[2] more flexible (designating green belt land for housing while extending the green belt elsewhere to compensate).A more proactive planning role is needed. A more proactive planning approach could be extended to land assembly, especially for public land – including land auctions – or where ownership is fragmented. This would almost certainly require greater use of compulsory purchase.

- ***Infrastructure provision*** ahead of development requires funding, and the new Community Infrastructure Levy (CIL) cannot cover everything. Good practice would include a rolling fund for financing infrastructure through loans or equity so that the municipality recoups its investment, which can then be reused.
- ***Incentives*** for local authorities, such as local taxes, are lacking. Section 106 (Town and Country Planning Act 1990) agreements between planning authorities and landowners worked because they were negotiated and delivered locally. The New Homes Bonus provides some incentive, but is unlikely to change attitudes to development, especially in richer areas.
- ***Land value capture*** has been used in England for over 20 years; CIL is a broader approach seen as more transparent and fairer but inevitably limited, especially in the current market. The amount of uplift in land values depends on the extent of constraint, the quality of planning decisions and the expected growth of the economy.

[1] Annex 3 contains land supply mechanisms from other countries, recommended by JRF (2013b)
[2] There are no green belts in Wales

## Infrastructure

15. On infrastructure, the RTPI (2013) argues the need for linking together infrastructure expenditure, policies and planning with policies and planning for housing in order to unlock potential sites, and that local authorities should use existing or innovative funding solutions and utilise central government support through existing funding streams or policies.

16. The Welsh Government's Construction Procurement Strategy guides clients as to how public construction projects should be procured, and clarifies the concepts involved in order to give consistent, cohesive direction to the public sector in Wales. The key issues are:

    - Providing clarity over public sector capital programme spend;
    - Standardising procurement in the public sector across Wales;
    - Implementing a new Procurement Strategy for Construction;
    - Adopting a best practice approach to payment;
    - Undertaking a review of capacity and capability in public sector procurement in Wales;
    - Strengthening the link between capital investment and sustainable benefits for Wales' local communities

17. The Chartered Institute of Housing Cymru (2013) report that the use of social clauses in contracts for refurbishing social housing has generated 3,765 job and training opportunities across Wales since 2008.

## Finance

18. In a survey of 45 Councils in England[3], the Smith Institute (2013b) report that 64% rank "more social housing" as the number one housing priority for their area; 22% ranked "more intermediate housing" as the number one priority; and 7% each ranked "more private housing for rent" and "more private housing for sale" as the number one priority.

19. In the same survey, the Smith Institute report that 93% of Councils surveyed are planning to build new council homes (19% up to 10 units; 43% between 101-500 units; 24% between 501-1,000 units; and 10% over 1,000 units). 75% of these said that they were planning to use HRA borrowing headroom, and 24% from asset sales (figures for S106 below). In terms of managing their HRA account, the Local Government Association, Chartered Institute of Housing and The Chartered Institute of Public Finance and Accountancy (2013) have published principles to guide local authorities and these are listed as Annex 5.

[3] A summary of all responses from this survey is attached as annex 4

20. Nevertheless, many of the papers advocate new ways of financing the supply of additional affordable housing. Shelter (2013) argue that there is a need to open up the market to new delivery agents and vehicles, stating that *a lack of diversity of organisations that build homes has reduced competition and undermined responsiveness to demand, leaving a sector dominated by a small number of players operating on the same business models.* They acknowledge that there is nevertheless a need to attract more private and public investment into affordable housing provision.

21. The Joseph Rowntree Foundation (2013a) also acknowledge that there is a desire to use more state-backed guarantees, encourage competition among providers, sweat existing assets and encourage alternative sources of provider income. JRF (2013a) also consider that opportunities exist to 'blend' different subsidies creatively and encourage solidarity-based co-operation among providers[4].

22. They also consider that *in the longer term, fundamental market failures such as in the land and credit markets will need addressing, and funding programmes for social housing prioritised if rising housing need is to be met. This will need to be part of a clear, overarching policy vision identifying the overall mix of policies, which would also need to include how they are to be delivered and by whom.*

23. The House of Commons Communities and Local Government Committee (2012) identified different potential sources of finance:

- Residential Real Estate Investment Trusts (subject to Government addressing concerns about the distinction between trading and investment);
- Self-Invested Personal Pensions (subject to Government looking in detail at the potential contribution and the risks and benefits for those investing in SIPPS);
- The creation of a National Housing Investment Bank (or the extension of the remit of the Green Investment Bank to include housing);
- Housing Associations to consider the potential of retail bonds subject to a clear regulatory framework covering retail bonds both to address any risks to housing association balance sheets and to ensure that the consumer is properly protected;
- Local Authorities to be enabled to raise finance through issuing retail bonds, and enabling local authorities to have more access to the bond market;
- Housing Associations to enter into equity sharing arrangements with local authorities and developers, and smaller housing associations to work together to raise finance and generate scale;
- Local Authorities to be allowed to trade, swap and pool Housing Revenue Account borrowing headroom to *make best use of councils' borrowing capacity, enabling more homes to be built.*

[4] Six innovative approaches recommended by JRF (2013a) are listed in Annex 2

24. Other studies note several different approaches and sources of finance:

Planning Gain

25. The Smith Institute (2013b) report that 34% of the 45 English Councils surveys planned to use mainly money from S106 receipts or CIL to fund new social housing. The House of Commons Communities and Local Government Committee (2012) recommended that the Government clarified the relationship between CIL and S106 agreements and should ensure *that the introduction of CIL does not lead to a reduction in the number of affordable homes delivered through contributions from developers*. They urged local authorities to take a *flexible approach to affordable housing requirements in planning obligations on a case-by-case basis.*

26. Waite (2013) suggests that property developers argue that it is no longer practical for them to offer significant amounts of social or affordable housing as part of section 106 planning agreements. They are therefore offering Councils commuted sums in place of affordable homes. Waite suggests that the evidence is that Councils are accepting these.

27. He states that supporters of commuted sums say that they can be ring-fenced to social or affordable housing but critics say that this is not necessarily the case, that fewer social or affordable homes are built and that mixed-tenure developments do not result.

28. However, the Local Government Association (2013) cite a case in which Bristol City Council has negotiated a revised Section 106 package that met some, although not all, of the demands put forward by a developer. The revised position incentivised the developer to deliver the development to their timescale by reducing the Section 106 package by around a third (£4.5 million) if various triggers were reached.

Local Government Pension Funds

29. Waite (2013) notes that there is currently a ‘cap’ of 15% on the amount of money local government pension funds can invest in limited partnerships. The UK government launched a consultation in November 2012 that proposed doubling the cap to 30%, so funds could invest more in housing and infrastructure. The House of Commons Communities and Local Government Committee (2012) urged local authority pension funds *to be alert to the benefits of investment in residential property, whilst ensuring transparency and security for their investors*, and expressed the hope that this would “pave the way” for private funds also to invest in residential property. The Future Homes Commission (2012) recommended an independent £10bn Housing Development Fund, financed and owned by local authority pension funds, to enable local authorities using their own land holdings to develop new communities, bringing together planners, developers, local land owners, contractors, and housing associations.

30. He cites a case where Manchester City Council and the Greater Manchester Pension Fund have invested £24m in the construction of 240 new homes. The Housing Investment Fund will choose a contractor that will design and build the homes but without the risk associated with a normal development. The partnership will generate a revenue return from their investment through rents and a capital return through house sales. A property management company will lease and manage approximately 140 of the new homes earmarked for market rent. The remaining 100 homes will be offered for sale. It is hoped that buyers could access lower cost housing through an equity share product.

Social Equity Fund

31. PWC (2012) advocate the creation of Social Equity Funds. They argue that by aligning rents more closely with what people can afford[5] and increasing asset management flexibility on existing stock, housing associations and stock owning local authorities could create additional financial capacity. This capacity could be captured in a ring-fenced Social Equity Fund to support the provision of more new homes.

32. Through financial modelling (details in Annex 6), PWC (2012) conclude that the social equity fund is more cost effective on a short and long-term basis (compared with three other scenarios: continuing affordable rents; a return to higher capital subsidies; and a non-grant 100% market rent scenario). However, more broadly they say that *the scale of the supply challenge is so great that no single scenario provides an answer. The most effective delivery route is a combination of capital subsidies plus greater operational flexibilities for housing associations and local authorities captured within SEFs.*

33. However, they warn that as supply levels rise, the ability of housing associations to finance and service additional debt becomes more restricted. Over time, extra capacity from local authorities will become more and more important in delivering higher volumes of new housing.

New Homes Bonus

34. Waite (2013) also describes the New Homes Bonus in England. This has been paid, by DCLG, since April 2011 to local authorities for every home added to their council tax register, after deducting recent demolitions. The extra homes qualifying for the Bonus may be newly built, conversions or empty homes returned to use.

35. The Bonus guarantees that revenue generated in council tax from new house building will be matched by Whitehall. Councils stand to gain an average of £9,000 for each Band D home built in their area. This would increase to £11,000 for an affordable home.

36. There are distributional consequences between local authorities. Waite reports that largest payment is to Tower Hamlets Borough Council (£16.1million) and the smallest to the Isles of Scilly Council (£30,000).

37. The Bonus is allocated as Section 31 grant which means it is not ring fenced thus enabling councils to use it as capital or revenue or to top up reserves.

38. However, the Bonus is funded by top slicing the core revenue grants awarded to councils each year and, according to Waite, *will ultimately impact on each council's ability to fund core services*

39. The National Audit Office (2013) found that the simplicity of the Bonus calculation and how it is triggered makes it easy for councillors and local authority officers to understand and explain to communities.

40. Waite (2013) comments that *it is not possible to detect any benefits on the measures the bonus was supposed to influence, namely the growth of planning permission for new housing and the output of new homes*. The National Audit Office agrees – their 2013 study found that the Bonus has so far mainly rewarded home creation that was not

[5] The assumption is that rents would be raised annually for a "small proportion of better-off social tents", non-dependant on Housing Benefit, by RPI + 0.5% plus £2, until they reach affordable rent levels

incentivised by the Bonus. NAO comment that local authorities that have benefited from this see the Bonus as a reward for a pro-development stance.

41. Overall NAO concluded that it is too early to tell whether the Bonus will increase new housing. Thus, *overall there is little evidence that the Bonus has yet made significant changes to local authorities' behaviour towards increasing housing supply.*

42. However, NAO report that there is some evidence that the Bonus has given local authorities resources to allow them to protect activities relating to new and empty homes. The Bonus has, for example, been used to maintain local authorities' capacity to identify and bring empty homes back into use. The LGA (2013) report that:
    - South Lakeland Council is setting aside 60% of the proceeds of its New Homes Bonus to be allocated via a bidding process to provide grants to housing associations, private housing developers, community land trusts or similar organisations and town and parish councils.
    - Islington Council is using £700,000 of its New Homes Bonus to unlock a scheme to build for social rent by Islington and Shoreditch Housing Association. The 17 home scheme will include family-sized homes to help alleviate the borough's chronic problems with overcrowding.

<u>Social impact bonds</u>

43. The Smith Institute (2013a) identify relatively novel approaches to funding: social impact bonds; and crowdfunding. They argue that social impact bonds could be a useful vehicle for drawing in investment for capital and revenue, and that they are more likely to attract corporate investors or high-net-worth individuals. They suggest that the model would work most effectively for *clearly defined projects where there is solid evidence that intervention would lead to reduced public expenditure.*

44. They acknowledge that it is hard to visualise a social impact bond structured around investment in general-needs affordable housing,

<u>Crowdfunding</u>

45. The Smith Institute (2013a) argue that there is real potential for housing associations to embrace a crowdfunding approach to smaller affordable housing provision. For example, a housing association could agree with a community land trust that it would pledge 50% of development costs for a number of new rural homes if the local community crowdfunded the other 50% from local residents and businesses.

46. However, The Smith Institute acknowledge that neither social impact bonds nor crowdfunding can deliver on the scale necessary to replace state investment in housing and local services.

<u>Charitable trusts, foundations and philanthropists</u>

47. The Smith Institute (2013a) acknowledges that charitable trusts, foundations and philanthropists are unwilling to fund social housing:
    - they are reluctant to fund areas of work considered to be the government's responsibility;
    - there is a degree of nervousness about taking on housing, with many feeling the issue is "too big" and the cost of making a difference prohibitively high;
    - it is simply not feasible for modern philanthropists to develop thousands of homes.

48. However, they suggest that there is an opportunity for the philanthropy sector and housing associations to work together, and they identify three different approaches:
    - Social housing as a financial investment;
    - Social housing as investment to achieve social goals not solely related to the provision of housing as a social good;
    - Trialling, modelling or demonstrating solutions - social investment can act as a catalyst to innovation and help create scalable and replicable models which make it easier for mainstream investors to follow.

<u>Reducing risk</u>

49. The Local Government Association (2013) acknowledge the need to find approaches to finance that spread the burden and remove some of the risks for potential investors to make sites more attractive to developers. The Smith Institute also note the importance of reducing the risk facing an investor, in order to reduce required financial returns. They suggest options for this:

    - providing greater visibility and certainty over future welfare and benefit payments to tenants, reducing uncertainty and risk around rents;
    - use of better risk-sharing agreements with managers of properties to minimise risks such as voids and bad debts;
    - targeted government guarantee to enhance credit quality, thereby reducing risk premiums; and
    - efforts to improve liquidity and support secondary market activity for smaller bond issues, thereby reducing liquidity risk and investment exit risk.

50. The RTPI (2013) suggest that Government should consider underwriting a certain proportion of any site investment.

### Leadership and Governance

51. The RTPI (2013) identify three issues to change the leadership and governance required to stimulate large scale house building:

    - Local authorities and agencies should be given much greater incentives to work collaboratively across borders
    - Use planners' skills more broadly in the design and delivery of corporate and plans for growth
    - Governments need to explore how major housing developments should be acknowledged nationally and what special delivery processes may assist their delivery.

52. The Future Homes Commission (2012) considered that local authorities can :

    - Lead the creation of prosperous, successful communities with long-term economic, social and environmental benefits alongside attractive opportunities for investors
    - Make the best use of their assets, ensuring the proceeds of new development are retained in the public purse
    - Attract investment to create finance which can be recycled to pay for further developments
    - Provide opportunities for greater returns for their own, underperforming pension funds

- And, where changes to the Housing Revenue Account give a council a significant financial boost, use the money to invest in the infrastructure needed to support development.

53. The City and County of Swansea Affordable Housing Scrutiny Inquiry Panel (2013) call for a strategic partnership forum that will allow the Council to engage with the private sector, voluntary sector, the Welsh Government and the utility companies. The Local Government Association (2013) call for Councils to work with other councils to pool expertise and develop regional, and sub-regional approaches to rural housing. They note that:

    - the ten councils that make up the Greater Manchester combined authority are undertaking an assessment of the land supply 'offer' across the ten authorities and developing a strategy on future housing and employment land requirements up to 2032.

    - Hampshire Alliance for Rural Affordable Housing (HARAH) brings together Community Action Hampshire , HCA, the six rural districts, and New Forest National Park Authority. Working as a partnership they devise common approaches to providing rural affordable housing across the County, fund a team of housing enablers and have selected a long term development partner.

**Community engagement**

54. The RTPI (2013) identify three components to the required level of community engagement for large scale housing:

    - Making the case for large scale housing schemes by emphasising the consequences for current and future generations of failing to build enough houses, and the opportunities represented by large scale schemes to delivery quality healthy communities. The Local Government Association (2013) note the importance of challenging preconceptions and building confidence in an area by linking housing growth to wider regeneration activity;
    - Doing more to ensure that community engagement reaches a wider cross section of the community, including potential future residents. The LGA (2013) call for engaging local residents through formal and informal mechanisms, for example community land trusts and neighbourhood planning;
    - Ensuring that the pre-application engagement process and local plan consultation are comprehensive, straightforward, accessible and represent good value for money. The LGA (2013) notes that Babergh District Council has produced a guide for parish councillors on bringing forward affordable rural housing.

55. The City and County of Swansea Affordable Housing Scrutiny Inquiry Panel (2013) recognise the need to work with landlords to help increase the provision of accommodation for low income families, and call for a  landlord forum for this purpose.

### Other issues

<u>Empty properties</u>

56. The Welsh Government summary (20130 of consultation responses to provisions for Council Tax on Empty Homes showed that 74% of respondents agreed that the Housing Bill should include a power to allow Local Authorities in Wales the discretion to charge more than the standard full rate of council tax on long-term empty properties. 36% of respondents thought that a property should be empty for 12 months before a local authority could use this discretion. The majority of respondents thought there should be a maximum additional Council tax level of 150% or 200%.

Unimplemented planning permissions for housing

57. Analysis by the Local Government Association (2013a) of unimplemented residential planning permissions[6] in Wales shows that the number of such unimplemented housing schemes with planning permissions has fallen from around 440 in 2008 to around 260 in 2013 (a decline of 41%). These accounted for just under 50,00 units in 2008, and around 14,700 units in 2013 ( a decline of 71%)

58. As of March 2013, and on an England and Wales basis, of the total unimplemented planning permission, the proportion of these that were unstarted was 62% for private housing developments and 53% for social housing developments. The remainder of the unimplemented planning permissions (38% private, 47% social) were under construction.

59. LGA (2013a) also report that the time taken to progress a scheme from obtaining planning permission to the completion of the final unit, has increased in the last six financial years; both development phases have lengthened (the amount of time between obtaining planning permission and starting on site, and the time taken from starting on site to completion of the final unit). They report that in Wales in 2012/13 the average time taken for a scheme to progress to completion having obtained planning permission was 26 months, compared to 27 months for England and Wales as a whole.

[6] Unimplemented planning permissions are defined as a) sites with planning approval where schemes have yet to be started on site (unstarted permission) and b) schemes have been started, but where units remain to be completed (permissions under construction).

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## Annex 1: Approaches by Councils in England and Wales

- **Improving access to mortgages and finance for development, including support for local mortgage schemes** - **Sandwell** launched their mortgage scheme in Autumn 2012. It offers up to 95% repayment mortgages with a variable rate of interest, provided wholly by the council. The Council considers the loans to be a good quality investment because they are secured on the property. The **Stevenage First Step Mortgage** enables buyers to secure up to 95% mortgage from Lloyds TSB or Leeds Building Society on existing as well as newbuild properties, with council guaranteeing up to 20% of the loan. Over 20 other councils are offering similar schemes with Lloyds TSB ("Local Lend a Hand Mortgage").
- **Local investment and delivery organisations. Cambridgeshire Horizons** developed a Rolling Fund to stretch the value of capital by deploying funding as loans and equity investment – enabling it to be recouped at a later date to support further investment. Among other projects, to date it has supported two major housing development schemes to the south of Cambridge with both equity and loan investment. Housing delivery in the sub-region is now being managed directly by the county and district councils, following the same approach. **Aylesbury Advantage** was established as a company limited by guarantee in 2004 by the District Council, the County Council, the Homes and Communities Agency, the regional development agency and the primary care trust. Over the seven years to 2011, the company secured and invested almost £50m of public monies to enable the completion of over 5,000 homes by private developers and registered providers. They implemented an investment model which will recycle a significant proportion of these funds as developers repay their loans.
- **Council new build. Croydon Council** is using the new self financing flexibilities to invest in new housing. Phases 1 and 2 of the council's new build programme has already delivered 105 homes on under-used sites round the borough. Phase 3 is now being planned, delivering a total of 40 houses. **Stevenage Borough Council** is using the new self financing flexibilities to purchase 9 three bedroom homes and 12 one- and two-bedroom apartments in a development of 43 properties. Its investment is therefore both securing new social housing and enabling the development of market housing to proceed on a single mixed tenure site.
- **Housing association development supported by councils. Broxbourne Council** contributed land worth £700,000 to enable the development by housing association B3 Living of 22 flats,
- **Making more use of existing stock. Dacorum Borough Council** Hightown Praetorian & Churches Housing Association has transformed an old Inland Revenue building in Hemel Hempstead into a block of 67 apartments. **Wandsworth Council** has pioneered transforming disused and problematic space on estates (like old laundries, store sheds, garages, parking, space under existing residential blocks and boiler rooms) into good quality housing for rent and shared ownership. Development has been financed both through the council's housing revenue account and through a partnership with a housing association, which secured Government grant. The properties are managed by the council.
- **Investing in new homes. Salford City Council** completed 101 new homes across ten sites in 2011, the first new council housing building programme in 25 years. The homes were funded through a successful £8.1 million bid to the Homes and Communities Agency (HCA), with an additional £5.5 million from Salford City Council. They were delivered through a joint venture involving developers and regeneration specialists using off site fabrication techniques. Local people helped to build the homes, some taking advantage of training and employment opportunities.

- **Changing the investment proposition. Sheffield City Council** is considering ways in which it can plug the viability gap to enable development. Dialogue with developers is giving the council better information about how to proceed. A strategy is taking shape in which the Council is prioritising bringing empty homes back into use, using New Homes Bonus income to improve the viability and attractiveness of housing sites, looking into the Government's Help to Buy scheme to enable people to purchase the new homes and using planning enforcement powers to require improvement or demolition of derelict buildings and sites where development is being held back by the poor quality of the local area and low developer confidence. **Stoke City Council** is considering partnership models which involve flexibility over the sale of local authority land in return for an equity stake or a share in the overage
- **Joint working with other councils.** Four councils in **East Kent** (Canterbury, Thanet, Dover and Shepway) set up a single Arm's Length Management Organisation (ALMO), East Kent Housing, for the 18,000 homes they own in total. Each of the four councils still owns their own council housing

Source: Local Government Association (2013)

**Innovative approaches to supplying new homes taking place in Wales.**

- **Devco:** RCT Homes has established a framework and appointed a private developer (Bellerophon) to construct 11,000 affordable homes. Funding of £1bnhas been obtained from Legal and General.
- **Ely Mill:** Ely Bridge Development Company is a social enterprise created by the Welsh Government and Principality Building Society. The aim is to build over 700 homes on the 53 acre brown field site, with over 50% quality mixed tenure affordable houses planned and the remaining available for open market sale.
- **Gwynedd Council and Local Authority Mortgage Scheme:** The Local Authority Mortgage Scheme has been developed by Sector and provides local authorities with an off the shelf product. Sector has arranged an agreement with mortgage lenders who will provide mortgages to first time buyers if local authorities underwrite them.

Source: City and County of Swansea Affordable Housing Scrutiny Inquiry Panel (2013)

**Local economic experiments: Getting housebuilding going**

**Barking and Dagenham Reside** is a special purpose vehicle that has brought in institutional investment for 477 homes. The council will manage and maintain them and guarantee the rental income before gaining full ownership on the expiry of the 60-year lease.

A fifth of the homes will be at close to social rent and the rest will be at 65-80% of market rent and specifically targeted at people in employment.

**Southwark** has ambitious plans to build 11,000 council homes over the next 30 years The first 1,000 homes will be funded by section 106 affordable housing contributions from developers on high-value sites. As a substantial landowner within the borough, Southwark is currently investigating the options for funding the rest of the homes including borrowing within the Housing Revenue Account (HRA) or outside it via a wholly-owned company.

**Cherwell District Council** is encouraging residents to create their own homes with its Build! project. It has secured plots of land plus some long-term empty properties and is inviting bids from people who want to build or renovate 250 new homes and buy or rent them at a reduced price in return for the work they put in.

**Common points:**

- Make the link between housing and physical and social regeneration
- If you're looking just for the upfront capital receipt as opposed to long-term value, forget it. 'The land value must be seen as a long term investment,' says Jones.
- Be pragmatic about rent levels: 'If you're saying "we only want social rent" you won't make things stack up.'
- Be prepared to think differently: 'The tried and tested development agreement working with a housing association is ok but there are other ways of doing things,' he says. 'You have got to be innovative.'
- Look at funding sources inside and outside the HRA and be prepared to blend borrowing, grant, receipts and institutional investment.
- Be prepared to adjust the blend of tenures between social rent, affordable rent, market rent, shared ownership and market sale according to local conditions.

**Scale**

For all these new ideas  there are limits. The scale of it does not compare with where they once were or where housing associations are now. There is no shortage of innovation but it is not having the sort of impact people want. There is nothing that is going to deliver 10,000 homes.

Source: http://newstartmag.co.uk/features/local-economic-experiments-getting-housebuilding-going/

## Annex 2: Transferable international policy examples

Many policies have merit for the UK context, but the following six have particular potential:

**1 *The Spanish VPO ('officially protected housing') developer/occupier new supply subsidy*.** This has provided scale, responsiveness and efficient subsidy but, while means-tested, has been less tightly targeted and has somewhat succumbed to the economic crisis. It is flexible in principle, if not completely transparent. The scheme is readily transferable as it would not require new institutional infrastructure, and could stimulate activity.

**2 *The Australian National Rental Affordability Scheme (NRAS) tax credit application of the US low income housing tax credit model*.** The combination of competition among providers, opportunities to blend subsidy and beneficial place making (designing and managing public spaces through ongoing consultation with the local community) are attractive innovations. NRAS targets moderate-income households, with capped subsidy, and can operate responsively and to scale.

**3 *State-backed loan guarantees on the lines of the Scottish National Housing Trust*,** rather than as a way of generally lowering the cost of bonds (as the new English £10 million fund will do), or *a Dutchstyle guarantee and governance model.* The Scottish model offers tailored outcomes and is only a marginal public finance commitment.

**4 *Policies to assist sustainable home-ownership.*** These include first-time buyer policies that assist with deposits, via the Canadian silent mortgage or adjustment to FirstBuy or NewBuy models, such that the indemnity allows for a slightly higher (or more conservative) deposit percentage than the 5 per cent currently in practice.

**5 *The Danish housing association national surplus fund*.** While based on solidarity principles that may seem alien to the UK, this allows creative use of surplus funds, though the Government may simply offset the fund with lower subsidy. However, this may be a more acceptable way voluntarily to unlock housing association long-term 'free' reserves.

**6 *The Irish model of private renting with a discounted long-lease rent.*** This addresses work incentives and augments affordable supply by binding private landlords into long leases and sub-market rents. This model has grown quickly in Ireland and may act to limit future social security expenditure.

Source: Joseph Rowntree Foundation (2013a) Innovative financing of affordable housing: international and UK perspectives

## Annex 3: Land supply mechanisms in other countries

Measures used in other countries fell into five main approaches that worked in certain contexts. However, planning systems were holistic, including the legal framework, governance structures, incentives and finance. Particular mechanisms used also depended on the nature of the development industry and involvement by different stakeholders, as well as the impact of the economic environment. Hence what works in one country may not readily be transferable to another.

**Growth management**
Many countries used growth management boundaries to prevent urban sprawl and protect agricultural land. To ensure price stability, densities were higher within these boundaries, which are re-examined at regular intervals. Successful urban containment with price stability appeared to require planners to actively monitor land supply.

**Land assembly**
Local authorities in many countries played an active role in land assembly, often together with the use of compulsory purchase powers. New development land would be brought together through local authorities taking a proactive role. Within urban areas, land readjustment typically involved multiple owners 'pooling' land. The municipality would then provide services and infrastructure. Owners receive a share of the uplift in land value following development, after the municipality has recouped its costs.

**Infrastructure provision**
Infrastructure ought to be provided in advance of development, but this requires an effective funding mechanism. France has an employment tax hypothecated on transport infrastructure, while in the Netherlands early infrastructure provision has occurred through municipal land purchase at existing use value and resale at prices which cover the costs. Land readjustment also funds infrastructure. In the USA, tax increment financing has been used extensively to fund inner-city regeneration, including infrastructure.

**Compensation and incentives**
Most countries had local taxes providing significant funds for community benefits. These benefits may be more transparent where the local government unit is small, thus providing greater incentives for development. Evidence of individual compensation was very limited. In the Netherlands, individuals can be compensated for loss of amenity, but this has not been widespread. Several countries used 'density bonuses' or adjustments to compensate developers for potential losses from providing affordable housing on site.

**Land value capture**
Underpinning many mechanisms is 'land value capture' and the use of planning gain, usually for infrastructure provision. Infrastructure, services and affordable housing can be funded from the uplift in land values following planning permission or allowing development. Sharing in some of the uplift is also an incentive for pooling land in regeneration schemes.

<u>Source:</u> Joseph Rowntree Foundation (2013b) International review of land supply and planning systems

**Annex 4: Summary of opinions of 45 councillors with lead responsibility for housing in their council (England only)**

- 64% said social housing is a top priority
- Private housing for sale and rent is a low priority (7%)
- Councillors plan to build new homes under the HRA regime – 93% said they had plans to build new council homes
- New build council housing was the main investment priority (60%) followed by 'decent homes' (18%)
- But the aspirations to build over the next ten years are relatively modest – most councillors hope to build up to 1,000 homes over the next decade
- There were mixed views on whether councils could compensate for the loss of existing homes - nearly 40% said their HRA plans would not make up for loss of stock, but 37% said it would provide additional new homes
- 75% said they would borrow to build under the HRA
- 34% said they would use planning gain to build, and 24% said they would use asset sales
- 73% of councillors said they were very satisfied or satisfied with the HRA reforms
- There were different views on HRA debt management – only 9% said they would seek to increase the level of housing debt, nearly 60% said they wanted to pay off the debt or reduce it
- Councils with less housing stock were far more likely to be working towards reducing debts: 57% plan to pay off all debts and not take on any new loans, compared to those with more than 5000 units (10%)
- 75% said they think the government should abolish the HRA debt cap
- Councils with smaller stock are less keen about abolishing the debt cap (57%), compared with larger councils (86%)
- 78% said that if their borrowing headroom was to double they would use the extra capacity to build additional new homes
- 81% said they feel under pressure to keep rents low
- 77% said they were raising rents in line with target rents
- 64% said they have or would make use of 'Affordable Rent'
- Around 95% of councillors said they were working in partnership with housing associations and other partners

<u>Source:</u> The Smith Institute (2013b) Does council housing have a future? A Smith Institute opinion survey of councillors in England with lead responsibility for housing

## Annex 5: Good Practice Principles to support the Self-Financed Housing Revenue Account

**1. Co-regulation**.
Councillors who govern providers' service delivery are responsible for meeting the regulatory standards and being transparent and accountable for their organisation's delivery of its social housing objectives. The housing authority complies with the principles of coregulation as set out in 'The Regulatory Framework for Social Housing in England from April 2012'.

**2. Financial Viability**.
The housing authority has put in place arrangements to monitor the viability of the housing business and takes appropriate actions to maintain viability
.

**3. Communications and governance**.
The housing authority keeps under review the communications and governance arrangements with regards to the new operating environment and adopts governance arrangements appropriate to supporting viability and accountability of the housing business.

**4. Risk Management**.
The housing authority has in place an effective system for the on-going management, monitoring and reporting of risks to the HRA
.

**5. Asset Management**.
The housing authority has in place arrangements to maintain its assets to maximise their value into the future. The authority complies with the principles of good asset management as they apply to HRA assets.

**6. Financial and Treasury Management**.
The housing authority complies with proper accounting practices including CIPFA's Code of Practice on Local Authority Accounting and CIPFA's Treasury Management in the Public Services Code of Practice

Source: Local Government Association, Chartered Institute of Housing and The Chartered Institute of Public Finance and Accountancy (2013) Good Practice Principles to support the Self-Financed Housing Revenue Account

## Annex 6: Financial modelling

Four scenarios were tested against were tested against the overall
funding costs of providing 170,000 new homes a year and 240,000 new homes a year in England.

- **Continuing Affordable Rent** – with capital grant at an average of £22,000 per home and rents for new homes set at up to 80% of market levels (we have assumed an average of 70% across the country)
- **A return to higher capital subsidies** – increasing capital grant to £60,000 per home and reducing rents on new homes to social rent levels (we have assumed an average of £79 per week)
- **A no-grant, 100% market rent scenario** – all new homes let at a market rent (we have assumed an average of £160 per week) with revenue subsidies rising to compensate for higher rents
- **The establishment of a Social Equity Fund (SEF)**

Key assumptions were as follows:

- the current trends in output were assumed to continue – 50% open market sale (85,000 homes), 25% market rent (42,500 homes) and 25% sub-market housing, including low cost home ownership (42,500 homes).
- Average UK build price of £138,000, with an average market value of £160,000
- Operating costs at 29% of sub-market rents and 21% of market rent levels
- Average market rent £160 a week
- Average social rent £79 a week
- House price and rental inflation of 3% a year
- Average mortgage loan to value of 80% for outright sale and LCHO
- Cost of debt at 6.5% a year
- A gross average market rent yield of 5% a year
- The costs to government, mortgage lenders, housing associations and market rent investors were considered over ten years and in perpetuity.

The results of the modelling showed that:

- 100% revenue subsidy is more effective over the medium-term (requiring government investment of around £15 billion over ten years compared with £23 billion for higher capital grant)
- Higher capital subsidies are more cost efficient over the longer-term (requiring £40 billion government investment in present value terms compared with £53 billion for 100% market rent and £45 billion for Affordable Rent).
- The Social Equity Fund is more cost effective for government on a short and long-term basis.
- An investment regime based on the average level of capital subsidy available during 2008-11 would be more costly for government in the short to medium-term (1-10 years) than the alternative funding models we appraised. But longer-term it would prove more cost effective than Affordable Rent, because Housing Benefit costs remain lower into the future than under other scenarios.

- Capital grant remains vitally important to the future of social and affordable housing. Retaining housing grant post-2015 at current levels or higher, and increasing it as economic conditions ease, would make a very significant difference to the capacity of the affordable housing sector to deliver more homes.

- The costs to government of all affordable homes being provided in the open market and subsidy for those unable to pay market rents coming entirely through Housing Benefit do not appear much different to Affordable Rent over the first ten years. Over both the medium and longer-terms, this is easily the most expensive option for government unless further action is taken to reduce the benefit bill. The only way of avoiding this is for a much higher proportion of tenants to be non-dependent on benefits.

- Capital grants in combination with some other form of innovative investment model will be more cost effective for government than a full market rent based system likely to require heavy and increasing benefit subsidies.

Source: PWC (2012) The Numbers Game: Increasing housing supply and funding in hard times