

December 2014

## Briefing:

# Developing a long-term plan for the next Government

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## 1. Responding to this briefing

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This briefing focusses on our three general election priorities of freedoms, investment and land. It sets out our ideas and current thinking under each of these priorities, which have been shaped by feedback from members over the last few months. We want your views on these ideas:

- Will they help you meet your ambitions to do more?
- Is there anything missing?
- How can they be strengthened?

Please send us your views by Friday 30 January by email to Marcus McPhillips ([Marcus.mcphillips@housing.org.uk](mailto:Marcus.mcphillips@housing.org.uk)). Your views will help us develop these ideas further, address any issues and challenges with what we have proposed, and make sure they are as strong and robust as possible.

We will continue to engage with members through our local and national member groups and special events to help us develop thinking on particular ideas or areas of policy.

## 2. Introduction

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As part of the Homes for Britain coalition, we are calling on all political parties **to commit to end the housing crisis in a generation**. We want the next Government to publish a long-term plan setting out how they will do this within a year of taking office. The Homes for Britain campaign is centred on this single, clear message.

Alongside the Homes for Britain campaign, the National Housing Federation will continue to represent and promote the work of housing associations. We are working to influence Government to secure the best possible operating environment for our members. Behind the scenes we have been working with our members on our contribution to a long-term plan for ending the housing crisis. Building on the work we did with members on our vision for the sector over the next 20 years (*An Ambition to Deliver*<sup>1</sup>), we have brought together our ideas, policy solutions and the changes we would like to see that will make the biggest difference.

We are focussing on three priorities, **freedoms, investment and land**, as we think these are the areas we need to get right in order to maximise our contribution and meet our ambitions to do more. As set out in our recent '*Homes Truths*'<sup>2</sup> report, the housing crisis looks different in different places and in different markets, and we need solutions

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<sup>1</sup> An ambition to deliver – housing associations unbounded - <http://www.housing.org.uk/publications/browse/an-ambi/>

<sup>2</sup> Home Truths 2014/15: Broken Market, Broken Dreams - <http://www.housing.org.uk/media/home-truths/>

that will have the biggest impact in all of those places and in all of those different markets.

We have been talking to members extensively over the last few months to develop our thinking and make sure our ideas will deliver the change we think they will. We have not been talking publicly about these ideas because we need to maintain our focus on getting political parties to commit to end the housing crisis within a generation and reaching the public with this clear simple message. However, we have been talking to politicians and policy makers behind the scenes so they understand the importance and role of housing associations, as have many of our members, and understand we are ready to do more but there are things they should do to help. Our ideas are starting to gain traction and many politicians have already expressed an interest in taking these ideas forward.

This is not just about influencing manifestos, we want to work with the next Government, and subsequent Governments, to make sure the long-term plan for housing places housing associations rightly at its heart.

We want our ideas on freedoms, investment and land to be bold. They are not about tinkering with the current system or making small changes to existing policy. They are about making sure we have a system that works well into the future.

We will bring these ideas together into a plan we will present to the new Government, which will be our contribution to how to end the housing crisis and the role housing associations can play in that. It will be our chance to articulate why housing associations are so important and how we can play a role not just in ending the housing crisis, but also help get more people back into work and provide services that will improve people's health and wellbeing.

### **3. How the ideas will work together to make a difference**

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Our ideas on freedoms, investment and land should not be considered in isolation, they need to work together to deliver maximum impact for housing associations. These ideas are not just about increasing supply, they are about housing associations being able to play the fullest role possible in helping to end the housing crisis in whatever form it takes in their local area.

In some areas the housing crisis is not one of supply or affordability, it is about the quality or suitability of homes or where they are, meaning people don't have access to work and opportunity or are living in poor conditions. To fix this we need investment, strong partnership working and a public commitment to tackle these issues.

In other areas, we need to build more homes to keep up with demand. Some housing associations have little trouble accessing private finance but they need grant to help stretch their capacity. For others, getting access to land is the problem, or the land is so expensive that finance then does become an issue. We need a new approach to land so there is a long term supply coming forward that will support all types of homes, we

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need investment to build the homes, and we need these to work together to build more. There will also be a need to invest in land to bring it forward for housing. This may be to unlock large sites or to make land suitable for housing that would otherwise offer a great opportunity for new development, for example where it is in a good location with infrastructure but needs decontamination work.

For housing associations operating in areas where rents are depressed, they are often competing with private landlords and struggling to make a reasonable offer for tenants because Government rent policy constrains what they can do.

It is vital we secure the changes we need across these areas and that these ideas work together to provide solutions for all these scenarios.

The wider operating environment has a substantial influence on what housing associations can do. For example, the potential for further devolution and the localisation of investment and decision making would present significant challenges and risks and a very different way of doing business for housing associations. We will influence the wider operating environment to maximise opportunities and mitigate the risks for housing associations. Our policy ideas must be 'future proofed' and be capable of operating in a different, and possibly more devolved, environment in the future. Our ideas around freedoms and land are already, to a large extent, based on a very local approach. We are also very clear that housing investment must focus on outcomes that address the local housing crisis, not a nationally prescribed programme.

#### 4. Freedoms and flexibilities

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##### **Giving housing associations greater freedoms and flexibilities will:**

- Allow them to set their own rents within an overall 'rent envelope', so they can better respond to local markets and offer a genuinely affordable rented option.
- Give them greater control over how their homes are allocated, so they can take a strategic approach across all their stock, whilst continuing to prioritise those most in need.
- Lift restrictions on the way they can dispose of, and in turn value, their homes (specifically transferred stock), to release significant additional borrowing capacity
- Help them better target their resources, maximise the capacity in their businesses and increase the supply and / or suitability of their homes.

##### **Why do housing associations' need greater freedoms and flexibilities?**

In '*An Ambition to Deliver*', we began to explore what the housing association sector could look like over the next 20 years. We articulated the enormous strength and diversity already in the sector, but crucially the great potential and ambition to do much more. We emphasised the need to build on our existing strengths of independence, diversity and capacity. We clearly set out the need to break out of narrowly confined

thinking, determined by short-term political cycles, and for housing associations to define their own direction and future.

To realise this vision demands change. Many housing associations feel they are currently constrained from being as ambitious and effective as possible by Government policy. There is no doubt that freeing housing associations from some of the current constraints will help, but equally there is a role for housing associations to take the lead. There are steps we can take, along with Government, to ensure we can significantly increase our contribution to the housing market, helping to address issues of quality, undersupply and affordability, and have an even greater impact on wider society. All of this is at the centre of our need for greater freedoms and flexibilities.

More precisely, this ambition to do more is currently frustrated by the fact that our rental income, the way our homes are allocated and how our properties are valued for lending purposes are either externally controlled or unnecessarily restricted. All of these combine to impact on housing associations' ability to best target their resources, most effectively manage their stock, maximise the capacity in their business and, above all, increase the supply of affordable housing.

There is a plethora of sub-market rents – social, affordable, intermediate, fair – all centrally determined and not linked to the needs of particular housing markets. This compounds the fact that, despite the increased numbers of people renting a home – both affordable and private – there is a lack of a national strategy for renting.

Rents in the affordable housing sector have risen by about 46 per cent over the last decade while average earnings have increased by only 28 per cent. In a large part this is driven by government guidance which determines that rents should increase ahead of RPI (and now CPI) because doing so supports its fiscal policy of moving progressively towards a demand side subsidy system for new homes. The introduction of Affordable Rent, set at up to 80% of the market rate, is likely to accelerate this trend further.

In high value areas affordable rent is unaffordable for low income / not in work households. This is particularly problematic as the profile of people in affordable rent is almost identical to those in social rent, in terms of the proportions in / out of work and in receipt of full / partial housing benefit. Requiring housing associations to charge higher rents risks higher benefit dependency and moving people further from the labour market. It also contributes to pressure on the housing benefit bill.

The present approach to allocating sub-market rented homes is largely based on historic nominations agreements between local authorities and housing associations entered into in a fundamentally different operating and policy environment. This often means people are allocated homes which do not meet their needs. Allocations and nominations agreements made between local authorities and housing associations can hold back housing associations from really effectively managing their stock and making the most of their capacity, reducing their ability to maximise the supply of new homes.

Local authorities, in the discharge of their duties, will normally nominate the household at the top of their waiting list to the housing association when a tenancy is available. Often this household is dependent on benefits. In the case of homes let at an affordable rent of up to 80% of the market rate, the benefit dependency of the household often increases and the distance to the labour market can become unbridgeable. Welfare reform has increased the income collection risk facing housing associations. Mainly housing those wholly dependent on welfare benefits risks undermining housing associations' ability to develop new homes and, ultimately, their overall viability.

Many housing associations are in active discussions with local authorities to ensure agreements can be made in the best interests of the local authority and housing association. We need to build on this local approach and make sure it is the norm in all areas. This may mean taking a more flexible approach to allocations and the proportion of tenancies allocated to households mainly dependent on benefits to pay their rent. It may also involve a parallel discussion about the most appropriate rent. Many of these pressures are also faced by local authorities, but not all local authorities are willing to revisit allocation and nomination agreements. This means many associations are already reviewing their operations in certain areas, for example opting not to develop new homes in areas with restrictive approaches to allocations.

Finally, the way some housing associations can value their housing stock is limited by artificial restrictions and definitions. Housing associations across the country own over 1.2 million homes transferred from a local authority. Section 133 of the Housing Act 1988 sets out restrictions on how homes transferred from a local authority to a housing association can be disposed of, known as the consent regime. The specific consent regime for transferred homes drives the valuation of these homes and means they are valued for loan security purposes at 'Existing Use Value – Social Housing' (EUV-SH). This is only about 30 - 45% of what the home is actually worth and is the lower of two possible valuations for social housing. Other housing association homes are largely valued at 'Market Value Subject to Tenancy' (MV-STT), which equates to around 60% of market value.

The limitation of LSVT homes to an EUV-SH valuation has arisen from the assumption that the Secretary of State would not give consent to a bulk disposal to a body other than another housing association. It is understandable that Government and local authorities would wish to preserve LSVT housing stock as affordable housing; this was what was always envisaged when the stock was transferred. However, the Government and local authorities may not have comprehended the impediment imposed by the existence of the Section 133 restriction and how such a restriction impacts the ability of housing associations to use their latent capacity.

## **What freedoms and flexibilities do housing associations need?**

### **Rents and allocations**

Giving housing associations freedom to set individual rents within an overall 'rent envelope' would enable them to provide a range of sub-market rents that meet a wider

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range of local housing need. This would mean capping housing associations overall rental income at present levels (with an annual increase in the cap of CPI + 1%), with freedom to set individual rents within this. Rents would not automatically increase but could be maximised and minimised depending on local circumstances. As independent businesses, delivering public benefit, housing associations and their Boards have a legal obligation to protect the long term financial viability of their business, so should be able to set prices and have some control over its primary income stream.

This freedom is not designed to increase revenue, but is a strategy to ensure housing associations' resources are better targeted, to reduce business risk and better respond to local housing need. Indeed, one of housing associations biggest frustrations is that they are currently unable to make a genuinely affordable offer to those on low incomes. This approach would improve transparency as it would be conditional on housing associations publishing a rent policy that would be open to scrutiny and challenge.

In an environment where housing associations are accessing increasing levels of private finance, at their own risk, to provide new affordable homes, it is right they have a proportionate influence over who lives in them. Giving housing associations greater control over allocations would allow them to take a more strategic view to allocating and managing their homes across the multiple local authority areas they work in. This would help ensure those on the waiting list are allocated a property which most accurately meets their housing need. Crucially, it would give housing associations greater confidence to invest in new affordable homes and deliver mixed income, sustainable communities, which reflect local circumstances.

Housing associations would continue working in partnership with local authorities to assist them in meeting statutory housing need. Without these partnerships the allocations system would not work at all. We need a more pragmatic approach and a more open conversation between local authorities and housing associations, replicating the good practice already embedded in some local areas. No-one wants an approach to allocations that does not prioritise those in greatest housing need. It is crucial we have a new settlement which better reflects the financial and market circumstances we now have, based on contracts freely negotiated between housing associations and local authorities. This would ensure we allocate affordable homes in a way that secures best value, makes best use of valuable assets, builds effective neighbourhoods and serves the interests of residents.

### **Changing the consent regime which restricts valuations**

As set out above, we are not currently maximising the value of homes transferred from local authorities to housing associations due to restrictions in the Housing Act. Changing the consent regime so homes can be valued at MV-STT would unlock considerable borrowing capacity for the development of new homes at no cost to the public purse. This would help housing associations address the Government's priority to build more homes and meet the challenge to make the most effective use of their existing assets to do so.

The National Infrastructure Plan announcements made by Danny Alexander, Chief Secretary of the Treasury, in December, included a commitment to consult on increasing the capacity of housing associations in relation to these restrictions.

## 5. Investment - a new funding model for housing and infrastructure

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### **Our new funding model for housing and infrastructure will:**

- Increase the scale and effectiveness of public investment in housing and channel it in to housing outcomes
- Aggregate opportunities for greater private and institutional investment at scale, by diversifying risks and returns (replicating and widening the role THFC play currently)
- Address systemic issues affecting housing by removing cyclicalities
- Help housing providers plan long-term by giving certainty and consistency over future funding
- Encourage housing associations to develop their skills and capacity to take on private finance
- Retain the strengths inherent in a regulated sector which make housing associations attractive to investors
- Better join-up investment in house building, land release and infrastructure.

### **Why is a new model needed?**

Pressure on public spending has significantly changed government investment in housing and infrastructure. The 2010 Comprehensive Spending Review saw capital investment in affordable housing cut by 63% – and the 2013 Spending Round continued an equivalent level of funding. This fall in investment has been accompanied by a growth in the number of small, individual funding streams. Combined, the HCA and the GLA have launched and / or administered over 35 individual funding streams during this parliament. BIS, DECC and LEPs also administer other local growth and energy-efficiency funds.

This has implications for housing associations. The reduction in government investment means housing associations now fund up to 85% of development costs themselves. They are borrowing more money and engaging in increased commercial activity – each presenting a different challenge. The former has pushed some housing associations towards the upper limits of their gearing covenants and more quickly uses up financial capacity (i.e. asset cover). The latter raises legitimate questions about safeguarding social housing assets and exposing future plans to market pressures and risks.

The fragmented approach to public investment results in the dilution of funding and economies of scale. It has made it difficult for housing associations to coordinate and leverage the full weight of their investment against public funding. This is compounded by each funding stream differing in terms of criteria, rules, restrictions, return and risk sharing arrangements. Crucially, despite the number of funding streams, they often fail



to accurately reflect the different requirements of the housing challenge and does not get the best value out of public investment or promote innovation.

The housing association sector is regarded as financially strong (though this masks significant variation) and private finance is often readily available. Robust regulation, inflation-linked rent increases, effective cost management and growing market activity have boosted sector surpluses, while retaining lender confidence. In 2013/14, housing associations arranged total new private finance facilities of £5.6bn – 52% from the capital markets, 40% from traditional bank lending and the remainder from other sources.

At a global level there are total facilities of £71.8bn, of which £12.5bn is undrawn. There is sufficient security to cover drawdowns over the next 12 months and there is believed to be a further £25bn of unencumbered assets to support new borrowing. So security may not currently be a constraint to new borrowing, though the rate it's being used is quickening – and balance sheet capacity and debt servicing capabilities are also important.

Notwithstanding this, the potential of housing associations that own the 1.2m homes transferred from a local authority is artificially constrained by the consent regime set out in Section 133 of the Housing Act, as we have set out above.

In the short-term, the combination of credit strength, regulation and a benign financing climate mean few housing associations have problems accessing private finance. However it is important to remember that this is in an environment in which, as a country, we're delivering half the number of homes needed. There is strong appetite for housing association bonds, but the current investor base is relatively constrained. This implies there is little price competition, so bond yields may be priced too high.

There is very little direct institutional investment in (affordable) housing in this country. This is largely the consequence of lower yields in residential than commercial property, the lack of investment opportunities at scale, and concerns over possible reputational risk. The housing sector has yet to get its offer right for institutional investors, in particular they are reluctant to invest in the development phase and assume development risk. Much of the existing private finance is debt, with future potential constrained as housing associations come up against gearing and asset cover limits, and a notable lack of equity financing options.

Housing associations are increasingly diversifying their businesses to cross-subsidise their core social purpose to generate new affordable housing supply. This presents real opportunities but also different risks. Some may expose housing associations to shorter term revenue risks, while others may expose them to liabilities over the longer term. Perhaps the most significant example of this is the growing reliance on commercial activity. Surpluses from sales make up one third of total surpluses.

Whilst housing associations aren't currently wholly dependent on sales revenue, financial forecasts suggest rising expectations of sales income. Business plans are now

more pro-cyclical and exposed to market pressures than before. House price growth is projected to continue, but downward house price adjustment is possible if interest rates rise. And, although prices have tended to rise over the long term, periods of downward price adjustment cause significant delays in sales and falls in income per sale.

### **Investment for housing and infrastructure - what would a new approach to funding look like?**

A new approach to funding housing must address long-term under investment in housing and infrastructure. As a country we need to deliver 245,000 new homes a year, as well as improving the quality and suitability of our existing homes. We estimate simply funding the 'bricks and mortar' alone would require around £39bn of investment. This illustrates the scale of the total funding requirement is very significant and that, even by increasing the level of public investment to a more appropriate level, it is still likely to constitute a small minority of the total funding. This means private finance needs to be 'organised' in such a way to effectively and efficiently deliver scale. As we set out in our vision, we think housing associations could be building 120,000 homes a year of all types and tenure by 2033. This would require around £17bn of finance.

This new approach needs to recognise the economic rationality of public investment in housing – as a way of supporting economic growth, improving labour market dynamics and supporting multiple social objectives. Direct capital investment represents the best value for money for government spending on housing. It is the only way of guaranteeing new housing supply, offering certainty over public spending and improving affordability.

The National Infrastructure Plan announcements made by Danny Alexander, Chief Secretary of the Treasury, in December included plans to extend the Affordable Homes Programme by a further two years, to 2020. We are pleased to have a firm commitment that there will be public funding available for a further two years. However, the current approach is stretching housing association capacity to the limit. We need to increase and make better use of public investment as an immediate priority.

The complexity and fragmentation in the way money is invested must be addressed. It must be targeted more effectively at the outcomes needed to make the biggest difference to the housing crisis, which will be different in different places and in different markets. Bringing public funding for housing and infrastructure together would allow housing associations to lever the full weight of their private investment against any public investment, realise the economies of scale and deliver maximum impact. Funding needs to deliver housing outcomes (linked to locally defined housing priorities), rather than individual programme targets of time-bound investment rounds.

We need to resolve systemic issues in housing investment through greater resilience and removing pro-cyclicality. We need robust, sustainable and predictable funding that will take us through the next 10 and 20 years – one less reliant on the market. The current benign funding environment is unlikely to continue and we need an approach that can help deal with the consequences of this coming to an end – most notably rising interest rates.

The current approach to public investment in housing means some housing associations are in danger of running out of capacity. There is no easy answer to this. There are some measures that will help and collectively they could mean we hit these financial constraints much further down the road:

- Increase the level of public capital investment (which we will continue to argue strongly for)
- Increase the valuation of our stock
- Alternative / unstructured funding options

A new approach needs to recognise this issue and include measures to help address it.

Many housing associations are already exploring or taking up alternative funding options, such as sale and leaseback and non-recourse funding. We have also begun to look at other ideas, such as Housing ISAs. These would aggregate deposits that households make to tax-free housing ISAs. A similar model (Livret A) operates in France and conservative estimates show the potential here could be around £1bn per annum.

As well as a new approach to public investment, ensuring a long-term sustainable 'supply' of private investment will also be key to making sure we have the right funding in place to end the housing crisis. While many housing associations are able to access private finance easily and at competitive rates, more can be done to open up housing opportunities to a wider range of investors. We need to increase ways to access it, lower its cost where possible and improve the liquidity of private finance options. We think aggregating opportunities for private investment– pooling expertise, spreading risk and safeguarding returns – and bringing them together with public investment, would ensure private investment (supported to some extent by government guarantees) is effectively channelled into housing. Such an approach would focus on securing better value for money by joining up housing development and infrastructure investment.

Government should replicate the success of the Affordable Homes Guarantee scheme, which has used the strength of the government's balance sheet – lowering the risk and cost of debt. Further amendments to the guarantee scheme (to cover refinancing and relaxing terms on asset cover and security) would build on existing success and drive additional capacity.

One of the strengths of the current funding environment is the diversity of existing lenders and we must not undermine this. A new approach must complement existing lenders, work collaboratively with the market and fill gaps in existing provision. For example, while we have noted the relative ease with which housing associations can currently secure private finance for 'bricks and mortar', funding land assembly and upfront infrastructure to unlock and bring forward sites is far more challenging. It would need to increase the total quantum of funding, not displace it.

### **How would a new funding model operate?**

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The Federation believes the approach described above requires a very different funding model and we have been exploring the best way this could be delivered. We believe to fully realise public investment and private finance, responsibility for delivering this new model should rest in one place, though this could be an extension of an existing body. The imperative would be to balance commercial acumen with delivering housing outcomes. The body responsible would be held to account, but with clear division between where government input ends and investment decisions begin.

This new funding model would need to be phased in over time. The first phase should consolidate the disparate range of public investment funding streams in a more rational and strategic way by combining them in a single fund, targeted at delivering local housing outcomes. Subsequent phases would focus on the establishment and functioning of the whole model.

In the first instance capital investment in housing through this model would be funded through government borrowing, in the same way any public spending is supported. Additional government spending can be minimised by consolidating all public investment in housing and infrastructure into a single fund – though additional public investment in housing is crucial if we are to properly address the housing crisis. The extent to which the model is capitalised in this way would impact on the potential to aggregate or leverage additional private investment.

In the longer-term, we believe there is potential in aggregating household deposits to tax-free housing ISAs. These would be held by existing lenders, who transfer a proportion of the deposits to be diverted into low-cost funding for housing. There is already significant appetite for tax-free savings products, indeed some already exist but aren't targeted at housing, with the tax-free nature meaning households are able to accept a lower rate of return.

There may also be potential to, offer tax incentives / credits to developers of affordable housing, who in turn could sell them on to institutional investors, who would use them to reduce their own tax liabilities (similar to the successful Low Income Housing Tax Credit system in the US). This would help attract a greater flow of institutional investment and a market for tax credits. It would be a potential way of reducing reliance on debt finance and increasing the development capacity of housing associations in an off-balance sheet, non-recourse way. This would help relieve current pressure on gearing and asset cover covenants.

This new model could improve the flow of private finance into housing simply by aggregating and channelling long-term, private finance (possibly supported by government guarantees) into housing, alongside public investment – by pooling expertise, spreading risk and safeguarding returns. It would better match investor appetite with housing projects in need of investment.

The aim of this new model would be to provide a range of financial interventions, investing on a long and short-term basis, in a broad range of housing and related infrastructure. This would help manage and diversify risk, reduce exposure to particular

markets and provide opportunities to cross-subsidise between high and low risk/return outcomes. This would include:

- direct capital investment, in the form of grant;
- recoverable investment, such as soft loans or equity investment;
- long and short-term debt finance;
- pari passu co-investment, for example gap funding alongside existing lending; and
- a continuation of government guarantees.

This would be used to provide flexible, tailored funding solutions – which will be different in different housing markets. Funding would deliver housing outcomes, including (though not limited to):

- increasing housing supply across a range of tenures;
- bringing back into use and making more effective use of existing / empty homes;
- improving the quality and energy efficiency of existing homes, through retrofit;
- delivering new, and upgrading existing infrastructure, needed to unlock housing development;
- supporting land assembly and CPO, to bring suitable land forward;
- measures to regenerate economically under-developed areas; and
- building resilient communities with access to employment.

Where and how funding decisions are made will depend on the extent to which housing, and housing investment, is devolved in the future but it is vital investment decisions are informed by local knowledge and expertise. Even in the current environment, the most appropriate regional or sub-regional structure – whether that's the HCA, GLA, LEPs, City Region, combined authority, metro area etc. – would play a key role in appraising bids. This would ensure funding is used to help deliver strategic housing outcomes, but also responded to local housing market pressures and priorities. We believe the new funding model and approach we have described here is flexible enough to take account of a more devolved approach to housing funding and decision making in the future. However, in doing so, we clearly need to ensure this focusses on delivering the most appropriate intervention and doesn't simply add further layers of bureaucracy, rules and restrictions.

## **Responding to member feedback**

We have had some very helpful feedback from members across the county on our ideas around investment. Below we have set out the main views and a brief response from us on each of them.

- *Concerns over previous description of a 'bank'?*
  - The term 'bank' can be confusing. There may not be a need for an institution that takes deposits and raises finance independently, but we do need to fund housing differently. We need a model which is robust, sustainable and counter-cyclical



and a more effective and efficient use of funding. There is a need for better aggregation of investment opportunities and a better spread of risk and the protection of returns, particularly if we are to build 245,000 new homes a year.

- *There is not necessarily market failure in terms of investment*
  - When looking at comparable countries, it is clear there has been long-term under (public) investment in housing in the UK – leading to decades of under supply and failure to make the most efficient use of existing homes.
  - By international standards, investment into new and existing homes in the UK is very low. Between 1996 and 2011, just 3% of national GDP was devoted to housing investment in the UK – in Germany this figure was 6%, in France it was 5% and in the USA this figure was 4.5%.
- *Concern that funding isn't currently a problem as the majority of housing associations can access competitively priced finance*
  - It is clear that access to competitively priced finance is not currently the biggest constraint on housing associations delivering their ambitions. It is equally clear that the cost of funds is at a historic low and there is substantial capital market interest.
  - We are currently benefiting from a historically benign funding environment. This will not continue forever, so there is a need for an approach which is sustainable into the long-term, which is more robust and counter-cyclical – that can help regulate the peaks and troughs in funding and safeguard (as far as possible) against future market downturns.
  - While funding may not be an immediate constraint, only half the number of homes needed are being built. Can the existing approach deliver the necessary step-change? Can the current way money is 'organised' and flows into the sector deliver the £39bn of investment needed?

## 6. Local Land Strategies

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### **The introduction of Local Land Strategies will:**

- Ensure land is mapped and coordinated at a local level, ensuring the release of sites matches local needs in full.
- Ensure there is a clear strategy agreed for releasing sites and a fair market price is paid.
- Create certainty for developers and land owners by pre-approving housing through zoning.
- Give local authorities improved powers over stalled sites to ensure schemes get delivered.

### **Why are Local Land Strategies needed?**

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The availability and affordability of land is a significant constraint on delivering homes, particularly affordable housing. While local authorities are required to identify sufficient land to meet housing need, this process is not as effective as it could be due to a range of factors.

Fragmented ownership and control has meant planning for housing and the release of land is not as joined up as it could be. Public bodies such as NHS Trusts own a significant amount of land but often carry out their estate and asset planning in isolation. Current government targets for public land release are arbitrary and don't look strategically at matching release with housing need at a local level.

Local authorities are reliant on landowners bringing schemes forward. There is concern over the amount of land held out of the hands of those who want to develop. This can make it difficult for local authorities to ensure enough land comes forward to deliver the housing outcomes needed.

Historic approaches to restricting development, such as Greenbelt, have also limited the supply of land. While the best use needs to be made of accessible brownfield sites, there is not enough in the right locations to fully meet housing need in many parts of the country. In many cases, local authority housing targets do not fully reflect local need. This increases competition over land and puts pressure on housing providers to overpay for sites in an attempt to outbid each other. This can limit the amount of affordable housing provided as developers seek to claw back costs. This is not helped by weak or vague planning policies and a national policy emphasis on viability and protecting the Greenbelt at all costs.

### **What is the solution to these issues?**

A new approach to bringing land forward in a timely and affordable manner is needed. Better coordination between owners of public land will help ensure the most efficient use is made of sites, such as through co-locating services and facilities or planning neighbouring sites together. By having a better idea of what land is needed to meet strategic needs, public land owners can better identify surplus land that can be released for housing.

To be effective, any approach needs to address private land as there is unlikely to be enough public land in the right locations to fully meet needs. Better transparency around ownership and options agreements will make it easier for local authorities to engage with landowners and allocate sites. Local authorities need to be more proactive and work with land owners to unlock stalled sites and ensure sites identified for housing are completed.

Stronger, clearer planning policies are needed to minimise negotiating down of affordable housing contributions and the inflationary impact this can have on land prices. A sensible approach needs to be taken to blanket policies that constrain development, such as the Greenbelt. Consideration needs to be given to the relative merits of each site and the contribution they can make to meeting strategic needs,

rather than perpetuating historic designations. This will avoid unnecessarily holding sites back from development as there may be more effective ways of achieving the aims of designations such as the Greenbelt.

### **How do Local Land Strategies achieve this?**

Local Land Strategies are different to past attempts at managing land as they take a threefold approach; increasing supply, stabilising land prices and incentivising implementation.

For the first time, Local Land Strategies will ensure all public land is pooled locally and will place a duty on public bodies to coordinate their estate planning processes and agree a strategy for optimising its use, including how and when sites will be released for housing and regeneration.

Local plan housing targets will need to fully reflect housing need. All land in a local area will be reviewed on its merits. Where insufficient brownfield sites exist local authorities will be required to sensibly review greenfield and Greenbelt land to ensure sufficient land is available to meet housing needs in full.

Based on the Local Land Strategy local plans will zone sites for housing. Unlike now, all housing sites will be zoned and will set out clear requirements for each site, including permitted uses, density and the affordable housing required. It will carry the same weight as an outline planning permission. Applications that meet the zoning will be fast-tracked, with reserved matters such as design and traffic impact agreed at officer level.

For public land, the price sites are released at will be set based on the requirements of the zoning. Instead of competing over price, the right to build out the land will be decided based who can deliver the best quality scheme at the agreed price. Time limits for building out the scheme will be a condition of sale, past which the site will be offered to an alternative bidder.

Once a Local Land Strategy is in place, local authorities will have enhanced powers to incentivise developers to bring sites forward. This will include the ability to charge a levy on sites being unreasonably held back alongside streamlined compulsory purchase powers.

### **What difference will it make to housing associations?**

Housing associations will benefit from the increased supply of land coming forward and the improved certainty over development outcomes offered by zoning. Local Land Strategies will provide an agreed framework for the release of development sites, ensuring current best practice becomes common practice. This will include the use of deferred payment or investing land as an equity share.

Setting a price upfront for public land will help housing associations, including small and medium developing members, compete more favourably for sites as they will be able to emphasise their ability to release value for public bodies. The more prescriptive nature

of zoning will also help housing associations compete on buying private land as they will provide tighter control over prices.

## **Responding to member feedback**

We have had some very helpful feedback from members across the county on our ideas around land. Below we have set out the main views and a brief response from us on each of them.

Many members recognise the need for and support the principles behind Local Land Strategies. There have however been some concerns around how Local Land Strategies could be implemented:

- *Concerns over the willingness of public bodies to cooperate*

Projects such as the One Public Estate programme demonstrate the willingness of public sector bodies to cooperate on estate planning and service delivery. We are refining the Local Land Strategy proposal to make the economic case to public bodies of taking a more strategic approach to releasing land and assets. This includes our Autumn Statement ask to Government that best value guidance be amended to ensure wider strategic outcomes are considered in land disposals. We are also calling for a central strategic agency to provide oversight of the Local Land Strategy process to ensure cooperation from public bodies.

- *Concerns over the capacity of local authorities to undertake this work*

A duty will be placed on public bodies and local authorities to prepare a Local Land Strategy. However we recognise sufficient resource and capacity will be required to do this effectively. We have refined our proposals so that as much as possible they fit into existing local authority processes, for example replacing the need to undertake joint housing and economic land availability assessments. The completion of Local Land Strategies can also form part of any discussions over devolution of powers and funding to local authorities to ensure they have sufficient capacity. We are also proposing the strategic agency provides support to local authorities to ensure quality and consistency in Local Land Strategies, and where necessary take over the function from underperforming local authorities.

Planners could play an important in Local Land Strategies. Planners have increasingly moved away from the role of 'master planning' and are now seen as playing more of a development control role, saying yes or no to extensions. We want to see local authority capacity increased and planners taking a more proactive role in long-term proactive planning for housing development.

- *Questions over what is the best spatial scale to prepare Local Land Strategies*

While all local authorities will need to have a Local Land Strategy, they could be prepared by groupings of local authorities at a sub-regional level where appropriate.

- *Concern that setting a price for sites is anti-competitive*

Prices should only be set by mutual agreement with landowners. In practice this is likely to be applied to public land as part of a wider approach to ensuring best value from the release of public assets. The use of zoning will help stabilise the price of private land. We are also suggesting that compulsory purchase is refined so that land is acquired at a reasonable price that reflects the requirement for affordable housing on sites.

- *Concern over stalled sites levies being unfairly applied*

We are clear levies need to be applied sensibly so as not to penalise land owners who intend to bring sites forward but are delayed for a valid reason. Local Land Strategies will need to agree the circumstances under which a levy will be charged. This will include distinguishing between circumstances where the retention of land with permission is an appropriate way of managing and maintaining a development pipeline and where developable land is held out of the hands of those who want to develop.

## 7. Conclusion

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In our '*Ambition to Deliver*' document we set out the role, ambition and potential of housing associations. If we are to achieve this vision and play the fullest role possible in helping to end the housing crisis and have an even greater impact on wider society, then we need change and we need to start building a new relationship with Government.

This general election presents us with the opportunity to begin that process of change. That is why we are setting out our three priorities and three bold ideas that, working together, could be a significant step to getting where we want to be by 2033.

If you have any views on the ideas in this briefing send them by Friday 30 January by email to Marcus McPhillips ([Marcus.mcphillips@housing.org.uk](mailto:Marcus.mcphillips@housing.org.uk)). Your views will help us develop these ideas further, address any issues and challenges with what we have proposed, and make sure they are as strong and robust as possible.

We will continue to engage with members through our local and national member groups and special events to help us develop thinking on particular ideas or areas of policy.