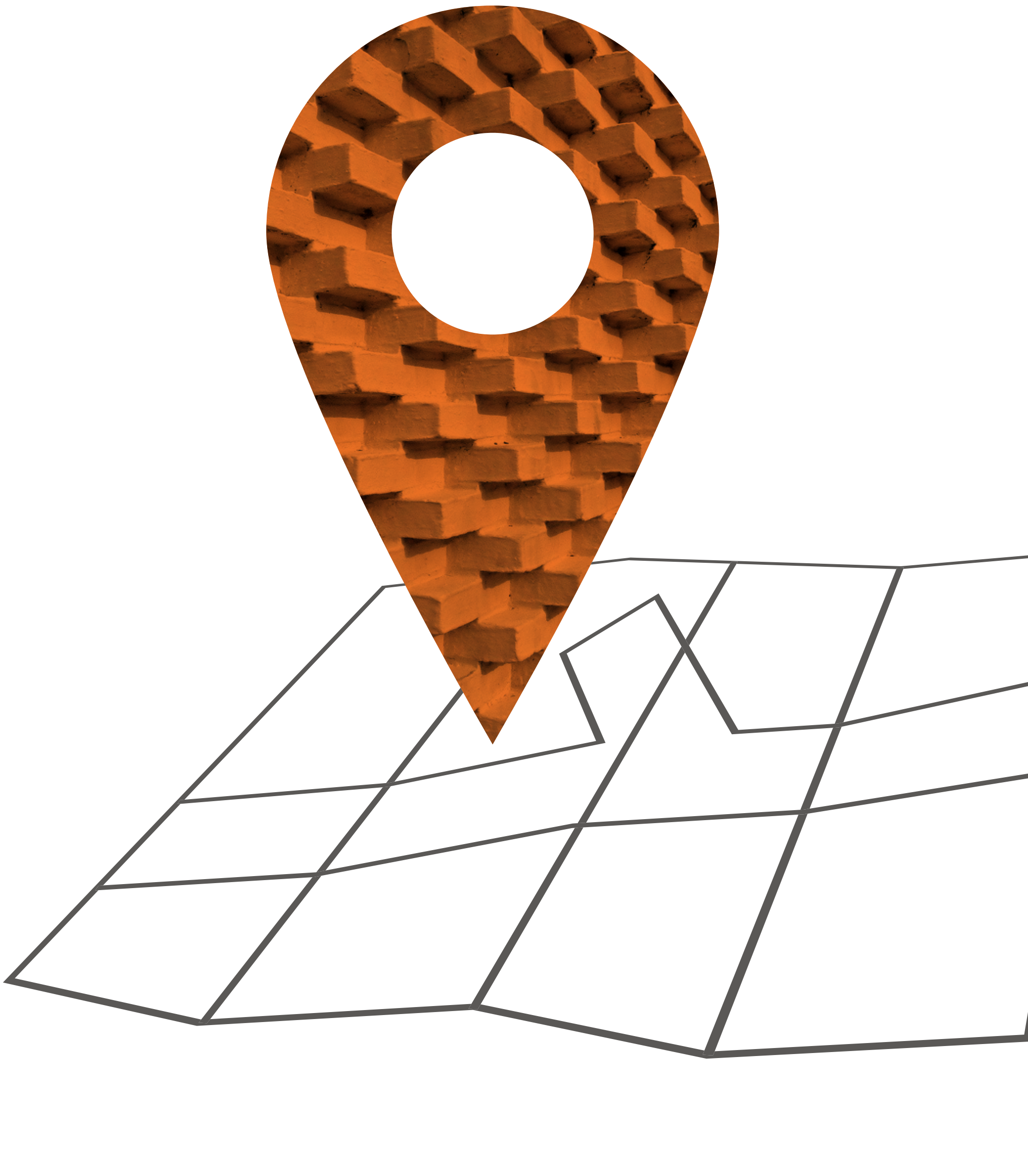
IPPR NORTH

REPORT

CLOSER TO HOME

NEXT STEPS IN PLANNING AND DEVOLUTION



Charlotte Snelling
and Bill Davies

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SUMMARY

60-SECOND SUMMARY

England has not one housing market, but many. If the government is to even come close to hitting its target of 1 million new homes by the end of the current parliament, then the wide variation across the country – the different housing opportunities, challenges and requirements – must be recognised. Devolution – through city deals, local growth deals and, most recently, combined authority devolution deals – has started this process, but with a predominantly economic focus and an arguably partial and piecemeal approach to housing. The agenda must now be pushed further.

A new devolution deal on housing is needed: a two-way process in which newly created combined authorities, under mayoral leadership, commit to ambitious long-term housebuilding targets in return for an expanded menu of powers and resources transferred down from central government.

KEY FINDINGS

A process of devolution in housing and planning is underway. The extent and type of devolution varies across different areas, with some devolution deals going further than others. Across the negotiated deals, examples of notable new powers include:

- brownfield registers and public assets boards, to identify and assess suitable land and buildings for housebuilding opportunities
- spatial planning frameworks, to co-ordinate housebuilding alongside master planning activity for area development and regeneration, bringing in wider infrastructure projects in transport and economic hubs
- mayoral development corporations, to develop place-based regeneration projects
- housing investment funds, to introduce increased finance into the building and construction sector, particularly SMEs, and to help unlock activity on sites
- direct capital grant funding in return for specific housing targets.

These all go some way towards helping local areas shape their housing markets and grow their housing stock. However, there has been a simultaneous tightening of control at the centre, where a series of policies and targets are constraining local authority and combined authority plans. These include:

- a National Planning Policy Framework (NPPF) placing restrictive limits on the release of land
- conditions attached to streams of Housing and Communities Agency and devolved funding, with strict regulations on where money can be spent
- starter homes targets to meet in new developments

- the sale of social housing into the right-to-buy market.

To meet national targets successfully, local areas must therefore be given more powers that can be used to co-ordinate strategic planning across boroughs, tailor housing supply to the needs of their populations, and ensure that housing and developments are delivered to a high standard of design, with a distinctive architectural character.

KEY RECOMMENDATIONS

A deal-making process is required to generate a new devolution deal on housing. This must be two-way, and start with an ambitious offer from the combined authorities and their constituent local authorities, including:

- commitments to support the release of sufficient public land, and to assess suitability for tenure mix across these sites, exploring both the potential in land sales and conversion opportunities of existing public assets
- the development of up-to-date local plans, with mayoral intervention where this process stalls
- ongoing negotiations with government on home ownership and housebuilding targets
- programmes to support SMEs to access and develop sites
- a willingness to pursue opportunities across local authority boundaries that are to the benefit of local and regional areas, as well as national targets.

In return, combined authorities should make new demands on government, which should respond through an improved devolution offer, including:

- **greater flexibility in the pooling and co-ordination of housing funding streams**, allowing combined authorities to gather resources and co-ordinate activity in a way that ensures appropriate tenure mix while still meeting volume requirements
- **retention of stamp duty receipts on all new-build properties**, to top-up housing investment funding
- **a lifting of NPPF land use restrictions** where brownfield opportunities alone are insufficient to deliver the housing supply that is needed
- **powers to set planning fees** to improve capacity in planning departments
- **council tax flexibility** on empty sites and empty homes to accelerate the process of bringing unused homes back into use and putting unused planning permissions into action
- **powers to set design code standards and viability frameworks at a combined authority level**, and to de-risk planning and improve the quality of the built environment.

Mayoral development corporations are an opportunity for piloting new devolution powers and to test models of implementation, and combined authorities with these powers already negotiated should start to explore how these can be used to demonstrate their strategic ambitions and plans for housing.

INTRODUCTION

England is in the midst of a housing crisis. It needs at least 240,000 new homes to be delivered per year, and yet last year only 155,000 were completed (DCLG 2016a). Thus, at a minimum we need to increase housing supply across all parts of England by 85,000 new homes each year.

Brexit puts this ambition at further risk, and brings the fragility of England's housing challenges into sharper focus. It is likely that private delivery will stall, affordable housing commitments be renegotiated, and the already challenging labour shortages in the construction sector could deteriorate if migration policy changes significantly in response to the ending of free movement.

However, responding to the challenges of maintaining, let alone increasing, supply requires not one approach, but many. England does not have one housing market, but multiple. Challenges and objectives differ widely by housing market area: whether these are affordability, poor build quality, a lack of family housing, sustainability, a weak private rented sector, overcrowding, isolation, or wider housing market viability. Devolution is therefore the crucial piece of England's housing puzzle, to enable local authorities and combined authorities to respond flexibly to local circumstances and build housing of the type, number and design required for their populations' needs both now and in the future.

The developing devolution agenda has arguably seen a clear commitment from government to offering local areas more powers and tools to address local challenges across a range of policy areas, first at a city level and more recently through combined authorities. This provides clear opportunities for housing delivery – but equally, it must be pushed further if government is to reach its targets and respond to the threats to our housing markets posed by Brexit. While appearing to recognise that distinct challenges may require distinct responses, the current rules governing housing, planning, sustainability and building regulations have mostly been determined by and from the centre. It is essential that there is further devolution from the centre and more joined-up working across policy areas at the local level, with firm plans agreed on housing delivery and land allocation.

In this report we find that the powers on offer present clear opportunities for local areas to increase supply and shape their housing markets to meet local needs, but that without further changes to both local and central policy, neither local nor central government will meet their ambitious housing goals.

Through our review of devolution in the housing sphere to date, we have identified the following opportunities as central to increasing the number of good-quality homes in the years to come:

- spatial plans for allocating land for housing within wider strategic programmes
- 'brownfield' registers for identifying public land and assets to bring to market
- access to loan finance to get market homes delivered faster.

Combined authorities (CAs) also have at their disposal both powers and funding in areas such as skills, employment and transport which can generate capacity, unlock sites for new homes and provide supporting infrastructure.

However, **our research identifies challenges that will remain if there is not a significant further loosening of national controls over what local government can do to direct housing markets**. In turn, this will affect government's ability to meet its ambition of 1 million additional homes by 2020, and a target of 200,000 new starter homes because:

- public brownfield land is in too short supply to deliver combined authority housing objectives
- spatial strategies can only succeed if they are properly resourced and able to allocate the land needed for local housing targets, while government restrictions on greenfield and greenbelt land use prevent a realistic allocation
- housing markets, especially in the North, still struggle with viability – perhaps even more so following Brexit if the labour market weakens in the coming years – and while devolving housing loans may speed up homes for sale, funding that is targeted only at owner-occupation will not tackle the viability constraints where local residents cannot afford to buy.

There is a need for a new devolution deal on housing. This requires a two-way process. In order to secure additional, more extensive powers, CAs must be ambitious in their offer to Westminster. This will include making firm commitments on land identification and allocation, setting housebuilding targets to meet volume demand, and initiating stock improvement programmes. Design codes can be better utilised and more consistently applied, particularly within the processes attached to Permission in Principle, to ensure that standards in quality and key functionality requirements are met. Mandated design reviews can be used alongside this to bring in independent expertise when assessing planning applications on the suitability and strength of proposed development designs.

In return, the government must work with CAs to minimise local market constraints and to intervene where the market it not working. Rather than merely accepting the limited menu of housing devolution to date, CAs should be bolder in their requests to government for more housing powers in order to ensure their plans are met with successful implementation.

Their immediate asks should be:

- **greater flexibility in the pooling and co-ordination of housing funding streams**, allowing CAs to combine resources and co-ordinate activity in a way that ensures appropriate tenure mix while still meeting volume requirements
- **retention of stamp duty receipts on all new-build properties**, to top up housing investment funding
- **a lifting of National Planning Policy Framework land use restrictions** where brownfield opportunities alone are not sufficient to deliver the housing supply needed.
- **powers to set planning fees** to improve capacity in planning departments
- **council tax flexibility** on empty sites and empty homes to accelerate unused homes and unused planning permissions, with a move towards greater fiscal devolution
- **powers to set design code standards and viability frameworks at a combined authority level**, to de-risk planning and improve the quality of the built environment.

New mayoral development corporations provide an excellent testing vehicle for these new measures. To that end, **we recommend that the government grants combined authorities the ability to pilot these new reforms across a select number of large, complex sites with high housing growth potential**.

Alongside this, the broader devolution agenda and array of powers present good opportunities for expanding CAs' capacity for delivering more homes and supporting neighbourhoods. This will include thinking about:

- developing skills programmes and apprenticeship schemes in construction and design, as well as specialisms such as conservation
- linking housing development plans to transport infrastructure, with more joined-up thinking on how the two impact on each other
- ensuring that design codes emphasise environmental standards to help communities become more sustainable and reduce carbon emissions.

As the housing markets of England enter choppier waters following the vote to leave the European Union, the government and local authorities should seize the opportunity to reforge housing policy in a manner that allows local areas to deliver the homes that they need, and support wider economic growth.

1. BACKGROUND: DEVOLUTION AND HOUSING IN CONTEXT

1.1 NOT ONE HOUSING MARKET, BUT MANY

Devolution has an important role to play in ensuring that policies and programmes are tailored to the specific challenges regional and local housing markets face, and make best use of any opportunities presented by the economic conditions, infrastructure and environment particular to those areas. The challenges that local housing markets present are diverse, reflecting historic housebuilding patterns, land availability, the desirability of the local area, and its ability to create economic opportunities for local residents and inward migrants. To illustrate the extent of these differences, there are a number of key indicators that allow us to compare different housing markets:

- different prices for homes and land
- different levels of new supply
- different tenure patterns
- different quality standards.

Different prices for homes and land

One of the clearest indicators of the desirability of local housing markets is the price that people are willing and able to pay for their accommodation. The average home in London now costs some £534,785, while an average home in the North East is £97,581.[1] What you get for your money in these areas will also differ significantly in terms of the size and quality of the home. Even in areas of very low prices there remain significant local variations – Newcastle homes cost on average £120,679 whereas in Sunderland, the figure is £88,168 (Land Registry 2016).

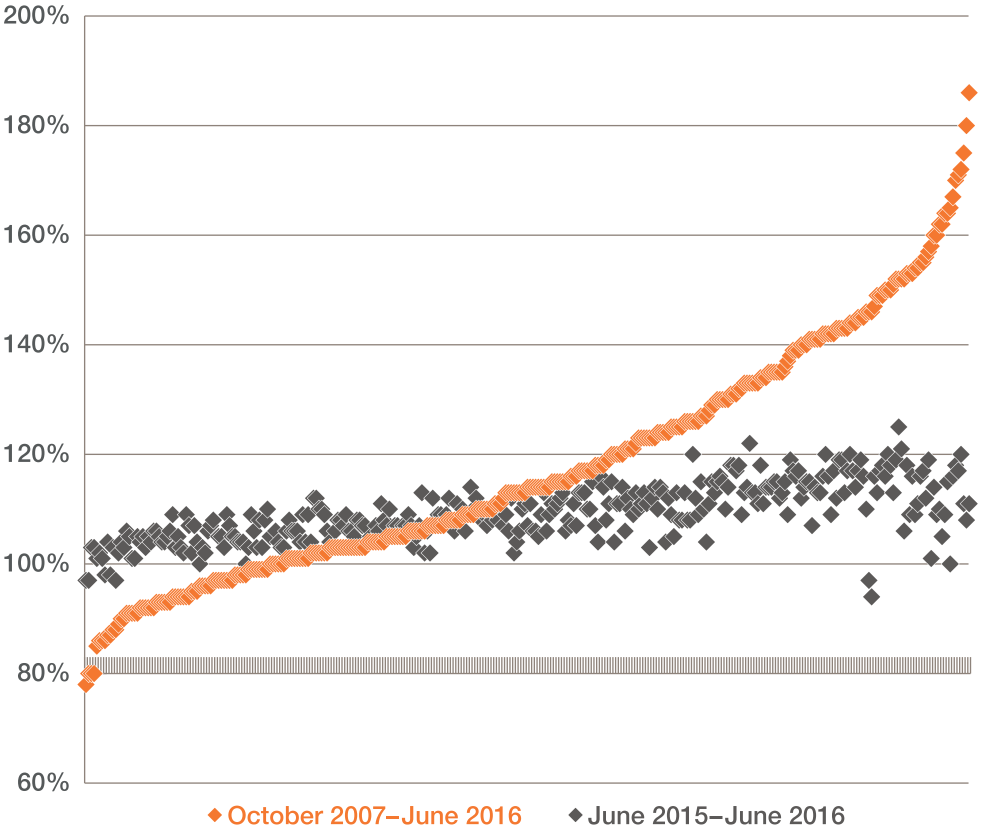
Housing markets have also moved in different directions since the recession. Of the 180 localities included in Land Registry data, some 100 of them have still not recovered from their pre-crisis peaks, and yet others have recovered at staggering rates (see figure 1.1). Figure 1.1 also illustrates how prices have moved in the last year, showing that many of the low-value areas have still seen prices fall despite a picture of overall nationwide inflation.

1 The average for England and Wales is £189,901 (Land Registry 2016).

FIGURE 1.1

Land Registry data shows wide variations in housing markets across England

House price change since pre-crisis peak (100 = October 2007), and on the year (100 = June 2015), by English local authority district



Source: Land Registry, March 2016 HPI statistical report (Land Registry 2016)

Underpinning differences in house prices are variations in the price of land – which in turn impact upon the viability of building new homes.[2] Where land prices are too high, development can be stalled by inability to find a buyer. DCLG's December 2015 land value estimates, for example, show that in Bristol, the cost per hectare of a typical residential site would be approximately £2.6 million, while an equivalent site in Sheffield would have an average cost of only £1.5 million (DCLG 2015). However, even though in some parts of the country residential land is relatively cheap, that does not mean these are inevitably attractive sites for building homes.

First, the price of the land may still be in excess of the expected income from selling the homes; and second, even if the price of land is cheap, the costs of readying the land for housing (for instance, through decontamination) may be prohibitive. Its location and position relative to wider infrastructure – such as transport routes and utilities networks

2 Planning guidance explains that 'a site is viable if the value generated by its development exceeds the costs of developing it and also provides sufficient incentive for the land to come forward and the development to be undertaken' (DCLG 2014a).

– can further offset the benefits of cheaper land. These considerations have a direct impact on where and whether the market will deliver homes. In areas where house prices are falling, a builder risks overpaying for the land and then making a loss on any new homes built, or even being unable to find buyers in a falling market.

The price of land also determines the shape of the industry locally. Areas with high land prices make it difficult for small and medium-sized enterprises (SMEs) to compete in the market, where they are unable to raise sufficient capital to cover these initial costs (Lyons 2014). Throughout a series of roundtables informing this report, the viability of housing development (and thus also its ability to deliver affordable homes through section 106[3]), especially in the northern cities, was a key concern.

Moreover, viability has become a key planning issue – where developers and local authorities often spend great sums of money and time negotiating on developer contributions to infrastructure due to the lack of clarity in the system and the flexibility of 'planning gain' requirements, impacting not only on the number of homes provided, but also on the type of homes provided too (see Brownill et al 2015).

Different levels of new supply

There are major variations in the number of additional homes local authorities (LAs) have managed to deliver in their local area, relative to their household growth in the last decade. Figure 1.2 shows the difference between the number of new additions to the housing stock and the number of new households in the local authority on the decade 2005–2015. The figure shows how a number of local authorities have considerably overdelivered on additional homes relative to their household growth – for instance Leeds has added some 9,000 additional homes beyond the estimated number of new households. Newham on the other hand, which suffers significant overcrowding, has seen household numbers outpace new homes by some 13,000.

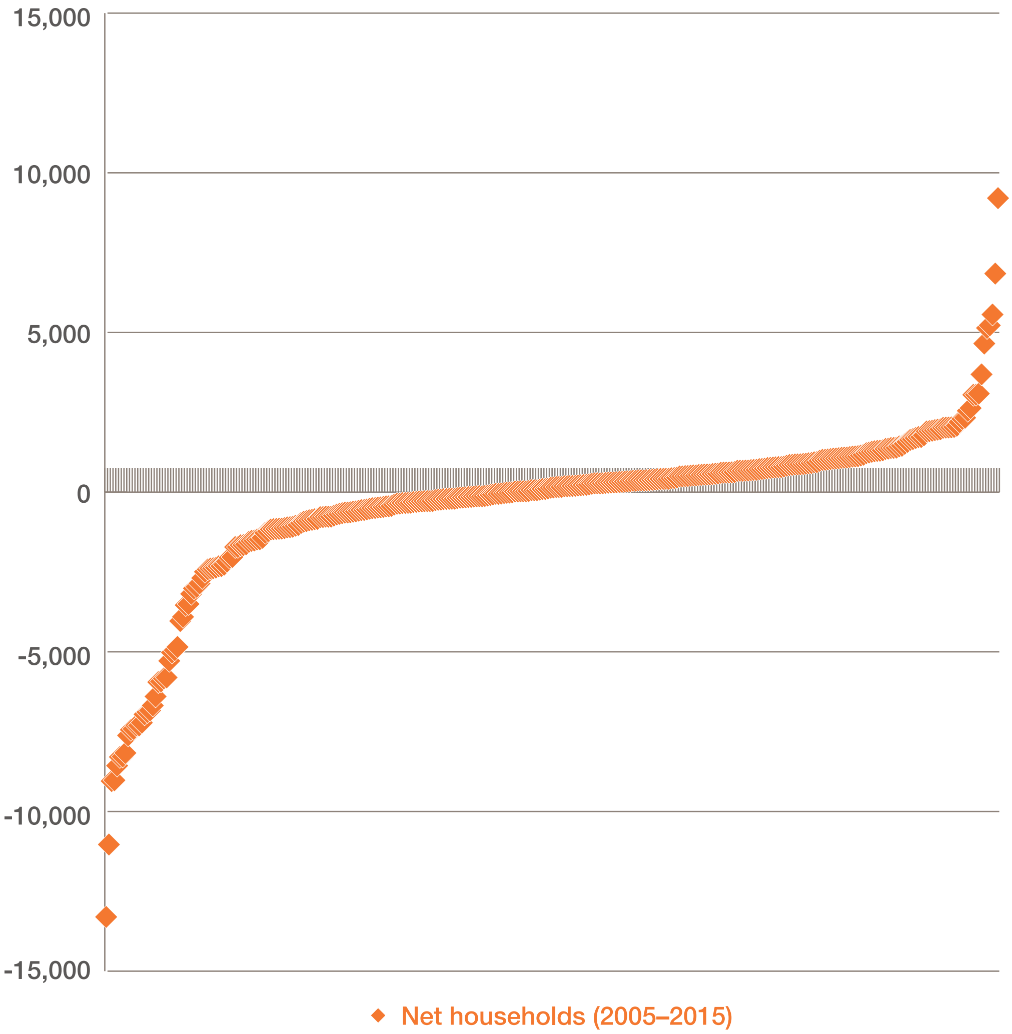
Within these figures are varying levels of success in securing affordable housing, as the total volume of housing will include section 106 contributions to deliver affordable housing.

3 Section 106 refers to negotiations through the planning process to provide infrastructure, whether that is affordable housing, school investment, or other types of infrastructure.

FIGURE 1.2

While some local authorities have delivered more new homes than household growth demands, other areas face overcrowding

Difference between net additions to dwelling stock, 2004/05 to 2014/15, and net new households 2005–2015, by local authority



Source: DCLG, 'Table 122: net additional dwellings by local authority district, England 2004-5 to 2014-15' (DCLG 2016a), DCLG, 'Table 411, Household projections by district, England, 1991 to 2039, 2014 round' (DCLG 2016b)

Different tenure patterns

Whether people own or rent is driven by local factors in both the labour and housing markets, as well as longstanding sociocultural preferences and different areas' demographic profiles. In Newcastle, the private rental sector accounts for a fifth of all households (19.1 per cent), while in Bristol this increases to almost a quarter (23.5 per cent) (ONS 2013). In Sheffield, it is just 15.6 per cent. Meanwhile, the scale of the social rented sector – and who provides housing within it – also differs across the country. In Liverpool and Manchester, between a quarter and a third of households in 2011 were living in social rented properties (27.9 per cent and 31.6 per cent, respectively), yet in the former only 4.8 per cent of total housing was LA-provided. In Manchester, by contrast, LA social rented properties were 13.5 per cent of all stock, demonstrating how the direct role of local authorities in managing and delivering social housing is not uniform.

Owner occupancy also varies. In Leeds, a majority of households (58.2 per cent) are owner occupied, either outright or with a mortgage, while in Cambridge owner occupiers are now narrowly in the minority at just 47.4 per cent (ibid).

Different quality standards

The quality of existing housing stock locally is also widely different. By region alone, there are marked variations in the quality of homes. When last measured in 2010, 39 per cent of homes in the South West of England failed to meet the 'decent homes standard', compared to around 25 per cent in the North East of England (DCLG 2010). During the same period, significant differences were identified in the quality of local authority housing stock; for instance, 10 per cent of LA stock in Melton Mowbray was non-decent, compared to 50 per cent in Tower Hamlets (ibid).

The size of new-build housing is also another area of significant local variation. A 2015 study by the Royal Institute of British Architects (RIBA) found that not only are England's new homes generally shrinking, but that despite lower land prices in poorer housing markets, the homes delivered there are smaller than in more prosperous places. For instance, the research found that the average three-bedroom home in Yorkshire and the Humber is 84 square metres, compared to 94 square metres in the South East and 109 square metres in London (RIBA 2015). These variations in part reflect the mix of homes delivered locally, but, in the case of London, also the application of more generous space standards in the capital's planning regime (ibid).

1.2 CONTROLLING LOCAL HOUSING MARKETS

Changes in the macroeconomy around employment, market confidence and lending practices are clearly significant forces that affect local housing markets – as was clearly evident in the near-uniform plummeting of house prices and corresponding land values across England in the period 2007–2009. There is also arguably little that local government can do to effect major shifts in demand – or, under their current constraints, housing supply – when major housebuilders stop building homes. Local housing markets clearly shift with the economic cycle.

However, while local government is effectively powerless to resist the forces of the macroeconomy, they can positively (or negatively) affect change in their local housing markets to ensure that, when confidence returns to the market, they have the measures in place necessary to drive new supply. LAs can use their borrowing capacity, and that of housing associations, to insulate local development from market downturns and deliver a bedrock of affordable housing, while also employing their powers to improve the quality of local housing, whether new supply or current stock, that is not up to scratch. The following instruments currently at their disposal are critical:

- responsibility for preparing and approving local plans, which means local authorities can determine where new homes should be, including identifying future land opportunities and setting out the types of homes and other developments that should be encouraged in the area

- defining the proportion of affordable housing that can be delivered in an area, including setting affordable housing targets, and even contributions and tariffs, within section 106 planning obligations
- the self-financing of local 'housing revenue accounts' (HRAs): for those LAs that still manage their social housing stock, housing revenue accounts allow them, within limits, to invest in new housebuilding in their local area
- setting council tax rates for local dwellings, to fund local services and set incentives to encourage the efficient use of property
- responsibility for providing council tax support for households on low incomes, from 2014/15 (a measure that was, however, devolved and introduced in the context of an overall reduction of 10 per cent in the council tax support budget)
- autonomy, under certain conditions, to ensure the efficient use of housing stock through council tax premiums on long-term empty properties uninhabited for several years, and setting discounts on second homes; only a minority of LAs have chosen not to exercise these additional powers
- enforcing the Housing Health and Safety Ratings System, giving LAs the powers to act against the owners of dwellings that pose a risk to their tenants or the wider community
- licensing homes in multiple occupation (HMOs) and applying property standards and inspection regimes against larger homes lived in by multiple households, such as student housing, or converted guesthouses.

While local governments enjoy a degree of autonomy, national policy also sets the following constraints on how housing markets are stewarded.

- The National Planning Policy Framework (NPPF) guides and constrains the local plan-setting process, setting tight restrictions on the land that can be used for new housing, particularly greenbelt land, as well as legal duties to co-operate with neighbouring local authorities when agreeing local plans.
- National planning laws prevent local authorities from designating housing land for particular tenures, including for private rented homes.
- Affordable housing requirements are governed by the principle of 'viability': a local authority may require a fixed amount of affordable housing, but a developer can deliver less if they demonstrate that the requirement threatens the housing project.
- Housing revenue accounts are governed by strict borrowing rules set in cash terms by the Treasury, and are coupled with strict rules around the disposal of locally owned social housing.
- Councils must hold a referendum if they propose to raise council taxes by more than 2 per cent, and can access alternative incentives for freezing them (Sandford 2016a).
- LAs cannot impose council tax premiums on second-home owners, even where this is an inefficient use of local homes.
- Property licensing schemes are tightly controlled at the centre, and are at the discretion of the secretary of state.

1.3 DEVOLUTION IN CONTEXT

Since the Localism Act 2011, devolution has shifted from being primarily a concern with the nations of the UK, to a project designed to unlock economic growth in the major cities of the UK.

While the Coalition government was not the first to devolve powers to cities (see Gash et al 2014), it certainly embarked on an accelerated programme of devolution – a policy that has since continued under the present Conservative government.

The first major initiative of the Coalition came in the 2011 Localism Act, via the core cities amendment. This outlined the process by which LAs could propose their own ways for promoting economic growth at a local level, identifying the challenges and opportunities unique to their experiences, and designing bespoke plans for improvement. Through two-way negotiations between central government and LAs and local enterprise partnerships (LEPs) – alongside other local agencies – the result was initially a number of negotiated city deals established to increase local autonomy over financial and planning matters.

These 'deals' combine offers and demands from city partnerships and central government, setting out new funding and governance structures. By working through LEPs and combined authorities, there are also more formalised opportunities for co-operation across local areas and working beyond city boundaries. This collaboration can address issues that extend beyond city centres into their surrounding areas – for example, transport routes, residential developments and industrial hubs. Local growth deals have offered further extensions to city powers in England and been followed most recently by an ongoing series of wider 'devolution deal' negotiations designed to work across combined authorities (CAs) – collections of LAs – and typically (although not always) tied to the establishment of an elected metropolitan mayor to head the CA.

Housing and the city deals

To date, as the opening stage of city-regional devolution, 27 city deals have been agreed. A first wave, signed off in 2012, saw deals made with eight of the largest UK cities (excluding London): Greater Birmingham, Bristol, Leeds, Liverpool, Greater Manchester, Newcastle, Nottingham and Sheffield. For these city deals, government departments committed £2.3 billion of funding to be made available over a 30-year period. The process was replicated by a second wave that began in 2013, which has covered a further 20 English cities and their surrounding areas. In this wave, 18 deals have been negotiated and finalised.[4] Most recently, the first deal beyond England was established with Glasgow and Clyde Valley (August 2014), while plans outlined in the 2015 spring budget made a commitment to further negotiations with areas in Scotland and Wales (Ward 2015). Cardiff, for example, had its own deal announced as recently as March 2016 (HMT 2016a).

4 Black Country; Bournemouth and Poole; Greater Brighton; Coventry and Warwickshire; Greater Cambridge; Greater Norwich; Hull and the Humber; Ipswich; Leicester and Leicestershire; Milton Keynes; Oxford and Oxfordshire; Plymouth; Portsmouth and Southampton; Preston, South Ribble and Lancashire; Southend; Stoke and Staffordshire; Sunderland and the North East; Swindon and Wiltshire; Tees Valley; and Thames Valley Berkshire.

These deals form part of a wider devolution agenda aimed at increasing local areas' control and flexibility to better match new economic policies to local circumstances and grow their economies. Each deal aims to:

- give cities the powers and tools they need to drive local economic growth
- unlock projects or initiatives that will boost their economies
- strengthen the governance arrangements of each city (HMG 2012).

Growth plans, jobs and skills, business development, and infrastructure are where activity has been most focused and where the clearest, most developed agreements can be found. All eight Wave 1 cities agreed policies in 'finance and investment' and 'skills and employment' (Centre for Cities 2014), but these also extended to transport, broadband infrastructure and even carbon reduction plans.

Housing was not a central feature. The National Audit Office (NAO) found that only three Wave 1 deals included housing as a key theme (NAO 2015). Instead, it appears that housing delivery was treated more as a byproduct in the initial rounds – for instance, of the first eight deals, six do make explicit reference to housing commitments, albeit with varying levels of detail. Proposals include the building of new homes – alongside recognition in the Newcastle deal of associated employment in the construction sector with plans for 15,000 news homes creating as many as 30,000 jobs – as well as home improvements in line with environmental and carbon reduction targets, forming part of cities' wider commitments to green economies and energy efficiency targets.[5]

Additional powers to deliver these housing targets were not, however, forthcoming. Provision was established for the creation of boards and agencies – notably, in Greater Manchester (a housing investment board), Newcastle (a joint investment board), and Bristol (a public property board) – designed to oversee housing projects and investment but these were largely extensions of existing platforms. materially devolved.

While Wave 1 may have been a disappointment, housing powers became more prevalent in Wave 2. This may reflect the rapid and growing prominence of housing on the political agenda. Comparable polls in London demonstrate that between 2012 and 2016, ahead of the respective mayoral elections, housing rose from being Londoners' fourth key concern to their top priority (BBC/ComRes 2016). It could also reflect lesson-learning from Wave 1 and efforts to improve the policy coverage of the agreements. There is also evidence of a greater specificity offered in housing targets,[6] and of further instruments to support delivery.

While the deals are in theory bespoke, there are some clear themes evident across both waves.

- **Higher housebuilding targets**, capitalising on additional funding and identification of new development sites.

5 For instance, Birmingham's city deal commits to refurbishing 15,000 homes for energy efficiency, and retrofitting 3,750 properties for low-income groups.

6 Oxford and Oxfordshire, for instance, commits to accelerating delivery of 7,500 homes through the Oxford Housing Programme, while the Preston, South Ribble and Lancashire deal commits to building 17,420 new homes.

- **Greater local control over public assets** to enable a unified approach to planning and development within the built environment. This involves bringing together local agencies and institutions – for example, LAs, the NHS, the Ministry of Defence – to pool their assets and maintain up-to-date intelligence on areas where new housing might be located.
- **New institutional and governance arrangements**, in the form of planning and investment boards, to oversee the management of investment opportunities, maintenance and selling of public assets, spatial planning, and planning processes. With representatives from LAs and the Housing and Communities Agency (HCA), these boards operate through structured partnerships and cross-agency working.
- A focus on **improvements in existing housing stock** to improve energy efficiency and environmental resilience (that is, reducing flood risk).

Housing and local growth deals

The process of local devolution has been advanced further through the initiation of local growth deals. Provided for by the centrally managed local growth fund, each of England's 39 LEPs has confirmed projects aimed at increasing local economic prosperity. These have tended to be more project-specific, and are often output- or results-based, and so set out clear targets – including in the area of housebuilding – against which performance can be judged. Around half of these deals include meeting housing targets by providing loans to named developers through the fund (LGIU 2014).

In addition, all 39 deals include transport plans, often identified as forming part of wider policies to open up new areas for business and industry and for housing developments. The deals have also opened up additional investment: eight deals included increases in the housing revenue account borrowing cap which, in effect, allows LAs to build new homes through increased borrowing potential.[7]

Housing and devolution deals

The most recent stage in devolution, and the core focus of this report, is the negotiation of devolution deals (see annex A). The process is less uniform in terms of timescales and is ongoing, with deals currently being both in the process of being finalised or extended for widening the remit and powers of original agreements. In contrast with city deals – which focus on particular city authorities – and local growth deals – where power is exercised through the LEP – the governance structure of these devolution deals on the creation of combined authorities (CAs).[8] These bring together spatially connected local authorities, typically under the leadership of an elected mayor (elections to be held, May 2017), to establish more regional plans.[9]

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7 These eight deals were those for the South East, Greater Birmingham and Solihull, London, Cheshire and Warrington, Black Country, Swindon and Wiltshire, Enterprise M3, and South East Midlands.

8 To date, only Cornwall has agreed a devolution deal without a combined authority structure.

9 This recognises that a city's economic performance is not only affected by conditions within the city centre itself but also those of neighbouring authorities in which many employees, consumers and service users are located. Transport routes in and out of urban centres are crucial, for example, in ensuring that employees can access key industrial centres. Similarly, as demand for housing increases and available land in urban areas falls, residential planning may need to look beyond city centres, considering more suburban areas and the potential for expansion into the greenbelt. Bringing LAs together into CAs offers governance structures that envisage this process as being better managed, creating a space for localities to negotiate and agree plans and targets under the co-ordination of directly elected mayors, who will step in to take executive decisions where discussions stall.

Since November 2014, 11 devolution deals – 10 bringing together multiple LAs into combined authorities – have been published, covering over 16.1 million people and supporting £246.5 million in funding per year (NAO 2016).[10] However, as a policy still in development, many of these deals have not yet been implemented or signed off, with tensions emerging in some cases between constituent local authorities and also with central government. It is therefore yet to be seen how many of these will work in practice. Precise details are scant and combined authority mayors are yet to carve out their roles or test their powers. Most recently, the North East devolution deal has been withdrawn in response to its constituent LAs failing to come to an agreement. East Anglia's deal has also been divided into a Norfolk and Suffolk deal, and a Peterborough, Cambridgeshire and Cambridge deal.

As a recent briefing paper by the House of Commons library describes, the scope of the devolution deals is very much a 'menu with specials' model, whereby there are a generally narrowly defined list of devolved possibilities, and a few notable exemptions (Sandford 2016b). In the context of housing and planning, this characterisation appears to stand. The following section looks at the opportunities offered by these changes for local government to steer their housing markets – through land and planning measures, investment, and joining up with other policy areas.

10 This does not include London, which is widely regarded as a unique case and not part of the 'devolution deals' process.

2.
NEW POWERS AND OPPORTUNITIES IN LOCAL HOUSING AND PLANNING

The devolution deals have brought forward new mechanisms relevant to housing and planning in three core areas:

- land and planning
- finance and investment
- joined-up powers.

2.1 LAND AND PLANNING

A key feature of the devolution deals is that, in each case except Cornwall's, they bring together multiple LAs into single CAs, with mayors in place to oversee the overall shape and strategic direction of the functional economic area. Within these, significant changes in the management of land supply and spatial planning are crucial to ensuring that housing enjoys a prominent place in these discussions, and that local housing markets prosper.

Local areas must be equipped with sufficient land to meet their housing delivery targets. Identifying sites that can top up existing local plans with more land is critical to narrowing the mismatch between housing need and available land supply, and bringing forward new developments as demand requires. In some areas this mismatch is substantial. For example, the West of England consultation on its strategic plan outlines,

> *'the amount of potential development already identified through existing plans and the potential contribution from other sources, particularly the use of brownfield land. Together this comprises about 56,000 dwellings. The starting point is that when compared against the housing need figure identified by the SHMA of 85,000 dwellings this leaves a potential shortfall of about 29,000 dwellings to 2036'*
> West of England LEP 2015

Greater Manchester's problem is even more acute: its spatial framework describes a land shortfall equivalent to 64,000 homes (AGMA 2015a).

In areas of the country where pressures on brownfield land are constrained, the current suite of devolution creates wider opportunities in two main respects.

1. The delivery of brownfield registers and public assets boards.
2. The strategic planning of housing and employment land across a wider landmass.

Mayoral development corporations, featuring in many of the deals, also offer opportunities for CAs to co-ordinate housebuilding activity through a form of place-based regeneration planning. These have the potential to identify public land and assets for redevelopment within specified geographies, and pursue spatial and design planning through which new housing can be incorporated successfully into new and existing communities.

Public assets boards

The new brownfield registers and public assets boards set up under the devolution deals go beyond simply maintaining a record of publicly owned land and assets. They are designed to support areas in identifying all publicly owned brownfield land sites and, crucially, assessing their operational status in order to scope their future use as housing opportunities. In principle, this is valuable work. LAs typically know what their assets are, yet may often be less aware of the assets held by other public land holders, such as local NHS trusts and the Ministry of Defence, in terms of both their availability and suitability. The yields from these exercises can be useful – London's effort through the London Land Commission, for instance, identified enough land to build around 130,000 homes (LLC 2016). Transport for London's own asset appraisal has identified opportunities for further thousands of homes in and around their transport assets (TfL 2016).

Historic buildings can also be redeveloped for housing, and need not always be demolished in full from the perspective of freeing up land. The old Norfolk and Norwich Hospital site in East Anglia, for example, has enjoyed not only new-builds on the site but also the refurbishment of its iconic Ivory Building into new apartments. Often these kinds of development can attract significant interest from buyers while also maintaining the cultural heritage and architectural distinctiveness of local areas.

Pooling land into a database is not enough in and of itself, but does offer the opportunity to strategically rethink land assets, and for LAs to engage with and offer assistance in the disposal of sites, alongside accessing support from the HCA.

The Bristol public property board

The original Bristol city deal made provision for a Bristol public property board, designed to comprise representatives from the HCA Government Property Unit, Bristol city council, and local business community. As with other boards of this nature, its remit has been to manage £1 billion of Bristol city council assets and an estimated 180 land and property assets in the ownership of a range of other public sector partners (Bristol Property Board 2016).

Work will include ongoing mapping of all public sector assets in the city and identifying surplus assets to be released for development or raise receipts. It provides a forum in which the use of existing property and planning for new stock (residential or otherwise) can be discussed by a range of local stakeholders, and opportunities for unlocking land can be identified.

It will also collect and maintain accurate and up-to-date information on property and performance. In this way, it has the intention of bringing together public sector partners to consider their combined assets as forming a single asset base for the locality.

Yet, the limitations of this are clear. Previous efforts have been frustrated by resources and time constraints. For instance, the London Land Commission has provided only a partial account of the public land assets of the capital, and at present has yet to provide data that is in a format useful for local authority planners, developers or even researchers (LHC 2016).

There are also generally few clear policies attached to the disposal of public assets other than the urgency to see them sold off for homes. Guidance might helpfully be offered on how they can be used: the sorts of densities, or mix of housing tenures – affordable or otherwise – that should be expected on public brownfield sites. If asset registers and boards are to provide speed and clarity to the disposal of public land, then they would also do well to set planning expectations around what should be delivered, including whether a site should be converted and repurposed (in case of heritage assets or pubic estates) where it is in the local public, local architectural, or local environmental interest to do so, or whether it should be fully redeveloped.

There is also a clear focus, under existing systems, on developments that are aimed at home ownership during the disposal or conversion of assets on brownfield sites. More emphasis should be placed on registering the potential of these assets for a range of tenure types to meet the varying needs of communities given that home ownership can still be unaffordable for many, does not always support flexibility in the local labour market, and can discourage integration across social groups.

Spatial planning across wider geographies

Devolution offers opportunities to create longer-term plans for earmarking housing land, and doing so with neighbouring LAs in a strategic way which is mindful of projections on how people will work, live and travel in the future. Spatial planning across areas larger than single LAs better allows for such planning by incorporating plans for available infrastructure, such as transport, and current and future employment needs. It also ensures that land for housing is allocated appropriately in line with these wider plans so the burden of housing supply is spread across LAs and can be addressed through co-ordinated and complementary activities. For instance, building housing now in order to capitalise on the arrival of HS2 in certain northern cities may be premature – the transport connections are not yet in operation – but land will need to be set aside for future developments in these locations.

From a housing perspective spatial planning is especially necessary where the ability to plan for future housing needs is constrained in high-pressure housing markets. It is critical that areas trade with each other over land opportunities to meet mutual housing targets. Thus, a major, and welcome, opportunity through devolution is the ability to develop spatial plans – a feature in seven of the combined authority deals published between

November 2014 and March 2016. The return of pan-authority spatial planning, after the abolition of regional spatial strategies (RSSs) in 2010, is a significant opportunity to entrench a renewed emphasis on sub-regional planning, where housing, employment and environmental sites can be agreed and planned for across wider areas.

While the current NPPF had attempted to force this situation through the 'duty to co-operate' between LAs that are developing their local plans, the emphasis on bilateral negotiations between authorities has not yielded planning at anything like the scale of the old RSSs. As the Royal Town Planning Institute has commented, '[t]he duty to cooperate has worked well in some places, but in nothing like enough places given the importance of strategic issues such as transport, housing and the environment' (RTPI 2014a).

Bringing spatial planning into the geography of CAs creates a tier of planning that is equipped, in theory, to address the important trade-offs necessary when identifying housing sites across the conurbation. Cambridge is one such example, where brownfield land opportunities are far out of step with housing need in the city but pressure on land supply outside the city is much weaker and, therefore, sites for housing land can be identified through working with neighbouring authorities.

Greater Manchester's plan-making process is the furthest along of any CA, but their ability to match housing need with current land supply will be challenging – in particular because their main strategy document cites a land shortfall, identified by the constituent LA members, of up to 64,000 homes (AGMA 2015b). A test for the framework, and the next mayor of Greater Manchester, will be whether they can collectively make some of the challenging decisions around locations for new homes and the density of housing, and face up to the political and legal challenges of developing greenbelt land, within the total geography of the CA.

Case study: Greater Manchester Spatial Framework

Greater Manchester's combined authority has been given the power to initiate, develop and pursue a joint spatial plan which will bring together and co-ordinate local planning activity across the 10 Greater Manchester councils that comprise the GMCA. Its subsequent reach will extend across 500 square miles with the potential to impact upon 2.7 million residents. Its primary purpose is to support local authorities in identifying land and setting a strategic vision designed to boost local economic growth and productivity, in an environmentally sustainable and locally driven way. It is intended to set council targets for housing and employment land use, and within these to locate particular sites where developments should be focused. It is therefore designed to guide investment and activity.

The framework is currently in a process of consultation, with a draft expected towards the end of 2016. A final version will be published in 2017, to coincide with the mayoral election, with the intention of its full adoption in 2018. The NPPF can inform this, but it is also expected that the GMCA will be able to exercise a level of freedom to ensure that the framework reflects the priorities and circumstances affecting member councils.

On housing, there is a common feeling that the GMCA, while being able to provide strategic vision, cannot constitute a single housing area. Instead, there remains a need to consider more local circumstances within the GMCA – with assessments from various responses to the consultation suggesting at least four distinct housing market areas – as well as appreciating housing needs that spread beyond GMCA boundaries (AGMA 2015a). In order to achieve this, attention could be better paid to the Strategic Housing Land Availability Assessment (SHLAA) and Employment Land Study when forming the evidence base upon which the eventual spatial framework is designed.

When thinking about housing need, there has also been a call to ensure that any spatial framework makes use of a more standardised and simplified strategic housing market assessment (SHMA) process, a view echoed in the recent Local Plans Expert Group report (2016). If the overarching plan for GMCA is to be most effective, it will need to apply consistent methodological approaches. Within this, affordable housing and housing mix are areas that should not be overlooked.

Different approaches are currently being considered which will determine the framework's development. At the moment, objectively assessed housing need between 2014 and 2035 is estimated at 217,350 net additional dwellings – an increase of 0.81 per cent every year, amounting to 10,350 homes (AGMA 2015b). This would be a 40 per cent increase on the annual average for 2004–2014, and could mean moving beyond the urban centre and into greenbelt land, according to consultation documents. This figure has been calculated on subnational population and household projections, produced by ONS and DCLG, while also accounting for international migration, and it is deemed most appropriate for establishing current levels of housing need (ibid).

On either side of this option is a more modest projection – 152,784 additional dwellings, calculated solely on currently identified development sites (a need of 7,275 homes annually) – and a more ambitious target of 336,000 additional dwellings. This latter scenario is based on estimates from the 'Housing the Powerhouse' campaign, led by the Home Builders' Federation, which projects a need for 16,000 new homes annually in order to supply not only demographic change but the anticipated economic growth in the GMCA.

As part of current consultations, GMCA is asking the public – local residents, landowners and businesses – for suggestions of possible development sites where local need is most needed and desired, either for housing or employment. In this way, communities will have the chance to influence local planning policies. This represents a wider challenge for strategic planning documents, in that as they mature, they will strip away elements of local authority plans to be ceded to the higher strategic level – and will undoubtedly involve making unpopular decisions to meet local housing targets, and thus carry the appearance of being top-down, without being able to carry community consent. This was one of the principal reasons why the government abolished them. The question will be, even in the absence of top-down housing targets, whether combined authorities can take their constituent members with them, let alone their local electorates.

Opportunities to identify land have the potential to make a huge contribution to tackling the land supply problem, even if it remains fixed within the context of the NPPF, which stymies opportunities to open up other land sources – namely greenfield, greenbelt and other protected land.

A number of additional planning powers are also being conferred on metro mayors within the CA structures. These include call-in and consultation powers, whereby mayors can directly influence and decide upon local planning applications. The intention is to speed up planning application processes while supporting the CA's strategic vision by ensuring that when and where tensions arise between LAs, or there is reluctance to approve applications, the mayor can intervene. They can take unpopular decisions out of the hands of LAs and act as a lightning rod for decisions around planning and land allocation that may be politically controversial in a single LA area, but not across the conurbation. While this call-in power will not inevitably speed up all planning decisions, it may mean that controversial planning applications might go ahead where they would otherwise have stalled.

Despite GMCA enjoying a great deal of housing devolution, it is notable that they have chosen not to negotiate for these powers. In contrast, they feature in the deals published for the West of England, Greater Lincolnshire, East Anglia, Liverpool and Sheffield deals. If the accompanying spatial plan is non-statutory – as is the case in some of these – or is undefined in the deals' published documentation, the strength of call-in powers to alleviate planning delays and backlog remains in doubt. If it is statutory, however, the institution of mayor could, as detailed above, be an important one.

On planning, however, the elephant in the room is that making strategic plans and supplementary planning documents is labour- and time-intensive, and thus comes at a significant cost. This is at a time when local authority budgets are under considerable strain (Cox et al 2014), and planning departments in particular have faced budget reductions of some 46 per cent (NAO 2014).

Mayoral development corporations

In addition to public assets boards and spatial plans, seven of the published devolution deals include a commitment to the establishment of mayoral development corporations (MDCs). Already in operation in London – for example the Old Oak and Park Royal Development Corporation and London Legacy Development Corporation – these include designated geographic areas as centres for regeneration. This therefore involves a co-ordinated and focused approach to development in which both business premises and housing sites are designed in conjunction with each other, with a particular emphasis on the community needs and the potential and opportunities attached to the local area.

Most recently, allied with its own devolution deal, the first MDC outside London has been agreed for the Tees Valley. It has been established to regenerate the former SSI steelworks site and bring new opportunities for growth (DCLG 2016c). These powers will allow CAs to contribute to the overall housing supply targets through concentrated place-based approaches, and provide another model of housing and spatial planning. They could also play a critical role in land assembly because all will have some form of compulsory purchase order (CPO) powers, as in the Old Oak MDC. CPO will be particularly important in the disposal or conversion of brownfield public assets, where ownership of land will permit mayors and CAs to promote a more diverse mix of tenure types on these sites.

However, this needs to be backed up by financial resources, and as yet no additional financial resource has been allocated to support the slow and expensive process of CPO – but nevertheless the £30 million per annum funding pots could be used to this effect – the average price of a hectare of residential land in Sheffield is around £1.5 million, and thus MDCs backed by funding-pot finance could be utilised to address land ownership issues that often hold projects back.

Summary

In summary, the land and planning opportunities of devolution are significant, and in theory will enable combined authorities to fill the planning void left by the loss of regional spatial strategies. In doing so, they will secure long-term co-operation between large areas over future land allocations, complemented by a full appraisal of local authority land assets and MDCs. However, the gaps between brownfield site availability and housing need are so great that both significant inroads into increased density and expansion onto greenfield and greenbelt land are the only means of ensuring that supply can match demand – but both areas, particularly the latter, remain tightly controlled by national planning policies in the NPPF. Without relaxing these rigidities, spatial planning will fail on its own terms.

2.2 FINANCE AND INVESTMENT

Provision is made within all the devolution deals published thus far for a portion of non-ringfenced funding – typically an annual sum of £30 million for 30 years. While this is not specified for housing, this can be borrowed against, and be used to support housing plans. However, there is additional funding and investment, specific to housing, that is presented.

Investment

Investment is a critical piece in the puzzle of how to deliver new homes – and in areas with relatively low effective demand due to low incomes and mortgage access constraints, the private market alone cannot be relied upon to deliver even sufficient market homes, or stretch beyond its core remit and deliver submarket homes through section 106. Northern housing markets in particular struggle due to the lower incomes of residents and more sober mortgage lending since the recession, which combined to curtail the numbers of households able to buy. In turn, the willingness of housebuilders to deliver homes diminishes, and with fewer market homes come fewer affordable homes through section 106.

Manchester city council's recent briefing summarises the challenge well:

> *'The most common approach to securing affordable housing through new development is to use section 106 agreements. However, Government has amended legislation to enable section 106 agreements to be reassessed if the affordable housing element undermines scheme viability. Alongside challenging development viability in the City since the 2008 recession, this has significantly reduced the scope for the Council to negotiate affordable housing through section 106 agreements.'*
> MCC 2016

These viability challenges are reinforced by research from Glenigans for DCLG (2014b), which showed a strong concentration of stalled sites in the north of England, much of which was driven by weak market conditions and difficulties selling homes on sites.

With this is mind, more risk financing (that is, low-cost loans and guarantees), such as housing investment fund capital, may help to coax developers into taking more risks, and with it unlock section 106 commitments to deliver homes for those on low incomes. However, where seeking to deliver affordable housing in the most challenging market conditions, loans will not be enough. Gap funding (that is, unrecoverable grants) may be needed to fill the financing void where sites, or certain tenures (such as affordable housing), are not viable.

Set in broader context, capital funding has fallen sharply over the last decade – previous research by IPPR has shown a 60 per cent reduction in grant funding for housing between 2010 and 2014, making it more difficult to finance the affordable homes that growing cities need (Cooke and Davies 2014) – and it is well known that local authorities do not have the borrowing capacity permitted by the Treasury to bridge the gap between funding needed, and funding available (Griffith and Jeffreys 2013).

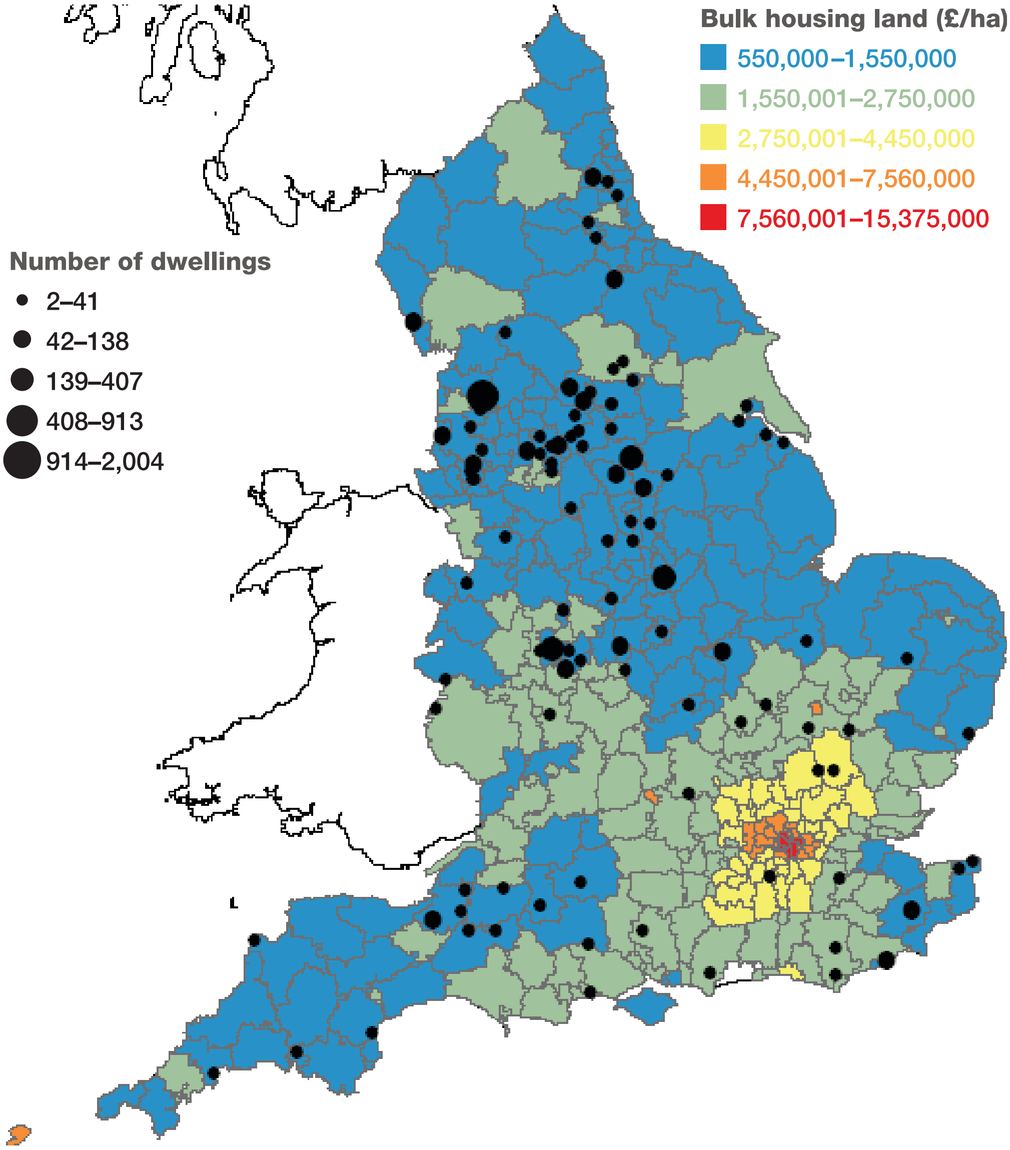
In response, cities have been attempting to bring together their more modest resources and revenue streams to provide both loans and gap funding through local means, and recycling this funding to unlock further housing sites and housing growth.

For instance, the Newcastle joint investment plan will direct both public and private housing finance with the aim of accelerating housing development, aiming to bring forward sites in the next five years which would benefit from public sector support. Funding will come from council resources as part of a future homes fund (including a new homes bonus, community infrastructure levy, council capital receipts from the sale of council assets, and potential of increased council tax revenue). At the same time, the government has agreed to give this joint board a say over the future use of city land and buildings which were previously controlled under the regional development agency.

FIGURE 2.1

There is a high concentration of stalled housing sites in the North of England

Concentration of stalled sites by size and location, 2012



Source: reproduced from DCLG, *Section 106 Planning Obligations in England*, 2011-12 (DCLG 2014b)

The plan aims to produce 15,000 homes across several priority urban sites, reduce the current 8,900 vacant homes by a quarter, address brownfield sites which have not been developed by the private sector, and extend the council's advisory role to help those in the rented sector (including tighter regulation of poorly performing landlords). The sums involved are non-trivial, with Newcastle city council's accounts showing £13.5 million receipts from section 106 agreements, and a further £4.5 million from the new homes bonus (NCC 2016).

Loan finance

However, in the broader devolution deals, gap and loan funding has been limited to date. The two exceptions are Greater Manchester's housing investment fund and the potential devolution of capital funding to East Anglia – the latter an area still under negotiation.

Given that the HCA appears to continue to exert considerable control in both cases, the extent to which this is devolved autonomy is questionable, but it is nevertheless an opportunity to shape conditions, expectations and investments in accordance with local plans and schemes.

Greater Manchester housing investment fund

The housing investment fund is a £300 million loan agreement, set out over a 10-year period, designed to unlock housing through fresh investment where there would otherwise be an absence of funding given risks and caution in the housing market. Its target is the delivery of at least 10,000–15,000 houses over the period (HMT 2014).

It is overseen by the housing investment board, with the mayor having ultimate control within this model, and it guarantees an 80 per cent recovery rate on principal and any interest earned. The fund's success or otherwise is underwritten by the respective councils that make up Greater Manchester, who guarantee a proportion of the 80 per cent of funding, cut between members on the basis of population size.

However, if GMCA is unable to demonstrate a successful balance sheet that would be able to support the agreed repayment schedule to HMT, the loans will move to being administered by the HCA. In this instance, GMCA would retain a role in the fund's design, the profile of any spending, the shortlisting of sites, and marketing, but the final investment decision would rest with HCA. At this stage, it is therefore unclear as to how much power will eventually be exercised by the mayor and how much will be retained by HCA. Nevertheless, it is a move towards increased devolution, with the GMCA having, at the very least, a leading role in the overall design and decision-making of housing investment.

At this stage, applications are being accepted from private sector entities only, with loans not to exceed 60 per cent of development costs and 50 per cent of scheme value. These loans – typically for £1 million or more, albeit with the possibility of smaller-scale projects proposed by SMEs – will then need to be repaid within four years of any work starting. During the 10-year period over which GMCA and the mayor have control over the fund, money returned from early investments can be reinvested into new projects; it will recycle two-and-a-half times.

Significantly, all projects will need to secure the support of the local council in which their activities are to be based before they will be assessed by the GMCA and mayor (GMCA 2015). This again suggests some limits on the overall power of the GMCA since local authority planning departments will continue to determine the appropriateness of any proposal for their local area.

While the fund – launched in July 2015 – is in its infancy and results yet to be seen, the Housing Investment Fund has attracted attention from other combined authorities including Sheffield, Tees Valley, Liverpool and West Midlands. All four have secured commitments from government in their recent devolution deals to engage in ongoing discussions on the creation of their own similar funds.

Gap funding

On gap funding specifically, capital grants are hugely important to delivering homes locally. Grant funding underpins the vast majority of affordable housing supply that dwindling resources from section 106 agreements cannot support – of the 66,000 affordable homes (to rent or buy) built in the last financial year, only 14,000 of them, or 21 per cent, were built without public subsidy (DCLG 2016d).

In the published devolution deals, the East Anglia gap funding commitment is unique in transferring £175 million of gap funding to the combined authority – on paper a significant opportunity. However, its use is tightly constrained. The agreement states that 85 per cent of the capital funding must be spent on shared ownership homes – reflecting the government's future plans for affordable housing investment (HMT 2016b). The combined authority would need to agree specific proposals for spending the money with the government to ensure value for money. As such, it does not provide the autonomy that it at first appears to.[11]

The London mayor already has this power, through responsibility for the GLA's 'share' of affordable housing programme funding. Within reason, unlike in East Anglia, the London mayor has significant autonomy over how and where the gap funding is invested. The delivery capability is significant – the mayor's housing covenant is allocating around £1.25 billion over the next three years to support 42,000 new homes – while other localities continue to have to bid for funds directly to the HCA, resulting in pepper-potting of funding allocations rather than strategic investment in housing markets.

With this precedent, however, and London's existing autonomy over gap funding, other localities could bid for devolved gap funding.

Summary

Investment finance is critical to providing the homes that growing cities need, and the public sector has a strong role to play in ensuring that homes are built – in part because the market cannot alone deliver the homes, affordable or otherwise, that are needed to address demand, but also because there remain significant viability problems. The provision of greater autonomy to Manchester and East Anglia are positive steps towards a more strategic approach to local housing investment; however, the narrow focus of funding on unlocking market housing and discount home ownership will leave those on low incomes neglected, and may not

11 There is also a curiosity to the East Anglia devolution deal, namely that the investment is there principally to relieve pressure on Greater Cambridge's housing market, but Cambridge city council (CC) are not part of the devolution deal – having their own city deal instead. The deal therefore risks creating a free-rider problem, where Cambridge CC benefits from housing investment outside its geography, but without having had to make specific deals and offers to the government to access the funding.

result in significant increases in supply given the lack of effective demand that is evident, particularly in northern cities.

2.3 JOINING UP HOUSING WITH OTHER DEVOLVED POWERS

A third area of interest corresponds with the devolution deals' wider settlements and the opportunities for joined-up services. In particular, housing plans and opportunities have been seen in discussions of transport and skills and employment. Therefore, while the powers given to the CAs under the banner of housing have been limited to date, the other measures at their disposal are significant, and thus open up avenues to delivering housing by using other instruments.

Transport

Central to this joined-up approach is their increasing autonomy over local infrastructure. Transport in particular is a critical driver of housing growth. A report by the Royal Town Planning Institute has argued that 'transport infrastructure, and especially its funding, is often one of the major causes of housing or commercial developments being stalled or rejected on viability grounds' (RTPI 2014b: 17). Improving the accessibility of sites is critical to making them work, and for the new homes built on sites to be desirable. HS2's arrival in Leeds is expected to help unlock around 5,000 new homes around the station site (Savills 2015), made possible in part by higher density policies around commuter hubs. Viability, a particular challenge for parts of northern housing markets (NHC 2016), can also be significantly improved through the provision of transport infrastructure – research by Nationwide Building Society, for instance, found that house prices in areas near Manchester metro stations enjoyed a significant premium (Nationwide 2014).

With more control over local transport infrastructure funding, and 30-year investment pot funding delivering a possible borrowing capacity of £900 million, significant new investments in local transport can be used to unlock unviable and remote sites, and bring forward more land than would otherwise have been the case. For instance, Greater Lincolnshire is expected to produce a strategic infrastructure delivery plan to identify the infrastructure needed to support new housing projects, and proposes to pay for these projects using their devolved infrastructure fund. There will be a joint commitment between Greater Lincolnshire local authorities who will stump up around £100 million to secure the delivery of new housing between 2016 and 2036 against further devolved infrastructure and local growth fund cash, and capital receipts from developers.

As well as designing in 'heavy transport' to unlock sites, the bridging of transport and housing finance offers opportunities to use public investment in new and innovative ways. For instance, designing sustainable transport into housing schemes to reduce investment in traffic management – such as car-pooling, no-car neighbourhoods and new cycle lanes – will be important and support greener neighbourhoods. Similarly, encouraging mixed-use developments, rather than single-use sites, could also decrease current pressure on transport infrastructure.

A more ambitious approach in future would be linking up deals on transport infrastructure spending to ambitious housing delivery commitments. The logic for doing so in growing areas is clear – if transport and wider infrastructure is critical to unlocking homes, then infrastructure offerings should be linked also to the provision of new housing. Discussions in the West of England as part of this research centred on the feasibility of increasing a locality's housing offer in exchange for a bigger proportion of infrastructure spending. This could work in one of two ways:

- a locality within a CA could allocate disproportionate amounts of land for housing within the CA conurbation, in exchange for a larger cut of the CA's transport infrastructure funding, or
- the CA as a unit could bid into future rounds of national transport infrastructure funding, in exchange for agreeing to 'overplan' for housing in their area (and in doing so, taking pressure of neighbouring geographies).

In either case, localities should not just commit to a headline housing target, but also demonstrate that they had earmarked sufficient developable land as a condition of bidding for funding. Such a move might be particularly important for commuter areas outside of major urban centres, such as London, which would be able to capitalise on the affordability pressures in the capital by promoting more plentiful supply of less expensive homes in their area in exchange for promoting better commuter links.

Skills and employment

The capacity of the construction sector, in terms of both personnel and the competitiveness of the sector, had been highlighted as a major national challenge to delivering the homes that England needs (see Lyons 2014; LHC 2016). The particular challenge here is a significant labour shortage in the construction industry, reported across all regions of the UK (CITB 2015) coupled with a declining number of SME builders, and construction firms being unable to compete in a consolidating housing market dominated by the major housebuilders.

The current powers that CAs have, or that are due to come into force, present a clear opportunity to bring together different strands of devolution and make a difference. This is particularly evident in skills devolution – for instance in Sheffield, where post-19 skills funding has been devolved in its entirety – and in Work Programme co-commissioning, where the CA will have both an input and investment opportunity in the design of the government's next major national welfare to work programme. Not only can these two areas of skills and welfare-to-work be brought together (something lacking for some time: see Davies and Raikes 2014), they can also be brought in to address local skills shortages in key construction sector trades by structuring employment support towards helping the unemployed access these positions.

One example, Cardiff's city deal (HMT 2016a), commits to a regional 'housing plus' strategy in which it will bring affordable housing sector providers together into a network which looks not only at housing supply but sets out plans for additional benefits in training, construction apprenticeships, energy resilience, and job creation.

Combined authority skills budgets could thus easily be adapted to the needs of the local housing market, whether needs are primarily focused on the building of new supply, preservation of historic buildings, or redevelopment of empty homes. A bespoke approach could be adopted in Birmingham, host to around 3,800 long-term empty homes (DCLG 2016e), which has both a wider empty homes strategy as part of its regeneration programme, and also has pooled investment funding for employment, housing and infrastructure. In bridging the two, for instance, they could follow examples from Huddersfield, where local organisations have bridged funding for restoring the empty homes grant with the now defunct future jobs fund, to train up unemployed locals to recondition empty homes (see HACT 2015)

FIGURE 2.3

Reconditioning, rather than demolishing poor-quality homes and ageing estates, may be a more sensible and locally appropriate approach
Darbishire Place (RIBA Stirling Prize 2015 finalist) shows how empty sites can be brought back into use while staying true to areas' architectural heritage

Architects: Niall McLaughlin Architects
Photographer: Nick Cane

Skills training might also be applied to reconditioning poor quality homes. In Leeds, for example, 33 per cent of private housing fails to meet the decency standard, while the figure is as high as 67 per cent for converted flats (Leeds city council 2011). Reconditioning, rather than demolishing them, may be the sensible approach, given research showing that at least two-thirds of the city's existing stock will still be in use in 2050 (Leeds city council 2009). This kind of conservation architecture, supported through further education and apprenticeship opportunities, might be appropriate locally. Cities including Hull, Liverpool, Bradford and Glasgow all have huge potential in their historic buildings which can be supported in this way – even ageing estates such as the Turner Prize-winning Granby 4 Streets project in Liverpool, and Darbishire Place in Whitechapel, London.

As well as new powers over the supply of labour to support housebuilding, the demand side can be manipulated too. For instance, supplementary planning guidance beneath the strategic planning frameworks could drive a wider use of local construction labour through section 106 agreements.

Other areas for consideration

The following areas present strong opportunities for increasing housing supply.

- Devolution of health funding, as seen in Manchester as part of a wider public service reform. This can include leveraging in new funding for homes from health services, such as for extra care homes, and using local NHS land through the public assets boards to drive the development of supported housing, with a view to reducing pressure on acute care (see Davies 2014).
- Public assets boards being used to define policies for land disposal that would break up large public sites into discrete plots which the major builders are typically not interested in pursuing. Where access to finance is an issue, the local authority could support the SME builder to apply for HCA funding for shared ownership or starter homes to provide affordable housing on the site, or indeed make wider use of 'build now, pay later' approaches so that the land costs are repaid to the local authority on the sale of the site (see HBF 2015).
- Land disposal through asset boards could also be geared towards different housing products that aren't competing in the homes for sale market (that is build-to-rent, shared ownership, older people's housing, and so on), or alternative products in the homes for sale market, such as custom build, which has a limited foothold in the UK market (DCLG 2011). CPO powers can also be used to give CAs and mayors greater say over how land is used, and in particular promote a more varied mix of tenure types.

Summary

Devolution to LAs and CAs has seen a range of powers in housing policy transferred. As the above discussions and table 2.1 below illustrate, consistent features of the published deals drawn from the 'menu' are the presence of public land commissions and assets boards, subregional spatial strategies, and mayoral development corporations. The only 'specials' evident in the deals are Manchester's current housing investment fund, and East Anglia's proposed access to grant funding. Nevertheless, while much of the detail of the deals needs to be hammered out, and while a number of them have fallen through, the contents of these deals show that housing and planning have gained a lot more prominence than was evident in either city deals or local growth deals.

TABLE 2.1

Housing and planning powers included in combined authority devolution deals (published between November 2014 and March 2016)

	Public land commission/ joint assets board	Housing loans	CPO powers	Mayoral development corporations	Planning call-in powers	Consultation on strategic planning applications	Capital grant	Spatial strategy
Greater Manchester	Agreed	Agreed	Agreed	Agreed				Agreed
Sheffield	Agreed	Under discussion		Agreed	Agreed			Agreed
North East*	Agreed		Agreed					Agreed
Tees Valley	Agreed	Under discussion		Agreed				
Liverpool	Agreed	Under discussion	Agreed	Agreed	Agreed			Agreed
West Midlands	Agreed	Under discussion	Agreed	Under discussion				
West Yorkshire	Agreed							
East Anglia	Agreed			Agreed		Agreed	Agreed	Agreed
Greater Lincolnshire	Agreed			Agreed	Agreed	Agreed		Agreed
West of England	Agreed		Agreed	Agreed	Agreed	Agreed		Agreed

Key	
Agreed	(orange)
Under discussion	(yellow)

Source: Sandford, 'Devolution to local government in England' (Sandford 2016b) (see also annex A)
*Note: In September 2016, the North East devolution deal was withdrawn in response to its constituent LAs failing to agree a deal.

In many respects, however, it is some of the other aspects of devolution that are potentially more exciting for the housing sphere than the devolved housing policies themselves. The greater autonomy over transport investment has huge potential for ensuring the spatial plans work to unlock new housing growth areas. The autonomy over skills funding is similarly exciting in that it can, where needed, be used to resupply the dwindling construction workforce needed to build the new homes CAs are planning to build. However, even where spatial plans and transport autonomy, for example, are in place, the potentially good results are not automatic – London's transport plans typically back areas that are already growing, rather than using them to stimulate viability in areas of new potential. This is in part because of the challenges of demonstrating both the housing and transport benefits of investing in riskier areas, against those that are guaranteed to see quick returns.

2.4 ONGOING CONSTRAINTS

What continues to be lacking in the housing devolution sphere are measures that will truly unlock the human and financial resources needed to deliver new good quality, appropriate and affordable homes in all markets.

Critical to the debate must be widening the 'menu with specials' approach and a new devolution deal for housing which includes the instruments CAs and LAs need to build new homes, namely: land supply, resourced and efficient planning decision-makers, investment to finance housebuilding, and development sector capacity.

Reviewing the deals, these elements are only partially present. Getting the government even close to its target of 1 million homes by 2020 will require action across all fronts, not just action on providing for spatial plans or allocating housing loan finance. Critical challenges to local housing markets are:

- the National Planning Policy Framework preventing the strategic release of land needed to build local housing – as is the case in both the West of England and GM spatial frameworks
- the loss of capacity and personnel in planning departments to make quality and efficient decisions – apparent in all areas, but reinforced by data showing a 46 per cent reduction in planning department budgets (NAO 2014) and a 37 per cent reduction in planning personnel (RTPI 2015).
- the viability of local housing markets and the lack of finance and fiscal measures to unlock stalled sites (see DCLG 2014b).
- strict regulations around how streams of HCA investment can be spent, and by whom.

But it is not only omissions from the devolution deals that are making it challenging to realise both local and national housing objectives. Rapid shifts in government policy are also potentially undermining the devolution agenda. In particular, the government's 2016 Housing and Planning Act includes multiple examples of the central state consolidating power over housing policy, irrespective of the effects of these measures on local housing markets, leading the Royal Town Planning Institute to conclude, shortly before the law was passed, that:

> *'The Bill still confers significant new powers on the Secretary of State… It is possible that some of the proposed new powers will in some areas subsequently be devolved, but in general the increase in the powers of Whitehall remains extraordinary. If people in localities are to be brought behind the concept of increased housing development, this seems a strange way to achieve this desired outcome.'*
> RTPI 2016

Alongside new measures devolved to the local level have, therefore, been the introduction of new constraints which may make it harder, not easier, to deliver on local plans, and restrict the ways in which LAs and CAs are able to determine their priorities and pursue activities appropriate to the needs and opportunities in their areas (see table 2.2).

From the illustrative examples in table 2.2, it is clear that the government's approach to date can at best be characterised as contradictory, and if it wants to work with local and combined authorities going forward as partners to meet their ambitious targets, then the inconsistencies of national housing policies will have to be addressed in future reforms.

TABLE 2.2

New local powers and new local constraints

New local power	Constraint
Devolution of HCA funding (East Anglia)	New capital focused principally on shared ownership
Housing investment fund (GM circa £300 million)	Social rent cut to put £277 million out of Manchester housing revenue account
Mayoral power to 'call-in' planning applications (Sheffield)	Secretary of state reserved right to call-in significant planning applications
Mayoral capacity to issue supplementary planning guidance	Local planning budgets reduced some 46 per cent over last five years; personnel down 37 per cent
Opportunity to explore single viability framework (West of England)	20 per cent of new homes are set aside to be starter homes
Establishment of spatial planning framework (all)	Secretary of state and planning inspectorate to write incomplete local plans
Identifying future housing land through CA level spatial planning (all)	Further constraints announced on use of greenbelt and greenfield land
Establishment of public assets boards (all)	Sale of one-third of high-value LA homes: right-to-buy extension

As it stands, a number of the measures outlined above – including starter homes, council housing asset sales, and the right-to-buy extension – will arguably have a much more profound effect on local housing markets than the suite of measures devolved through the city deals and combined authority agreements.

The wider macro framework may also be changing too. It remains to be seen what the impact of Brexit means for the many housing markets of England, but if Brexit leads to a fall in employment, incomes and, with it, house prices, this is going to make an already challenging environment considerably worse. In most respects falling house price values will likely make it more difficult to deliver the homes that localities need, reliant as they are on the contribution of major builders developing homes for sale at a time when selling them in a falling market will prove more difficult, and the risks of not building homes on sites outweigh the risks of building homes that won't be sold.

If anything, therefore, Brexit provides a critical opportunity to review how housing policy is made and, in particular, how it can be made to ensure that local housing markets have the tools and funds to insulate themselves from future housing market cycles, by widening the pool of developers and widening the types of housing so as to make what is being delivered less reliant on rapid shifts in the macroeconomy, or rapid shifts in Westminster policy.

The limitations of brownfield registers

Brownfield registers and public assets boards offer examples of where, in their present format, aspects of devolution will fail to meet the housebuilding needs of local areas because they are not far reaching enough, and are constrained by land use restrictions decided upon in Westminster.

A more comprehensive review of brownfield assets is likely to disappoint. Work by the London Land Commission identified enough public land for only 2.5 years of required supply, and much of this was still being used for other useful pursuits like land for employment (LHC 2016). A report by Shelter and Quod found that around half of London's 'brownfield' land earmarked for redevelopment was currently in use for employment (Quod/Shelter 2016). Not only that, but much of the brownfield land in existence already has homes on it. The report states:

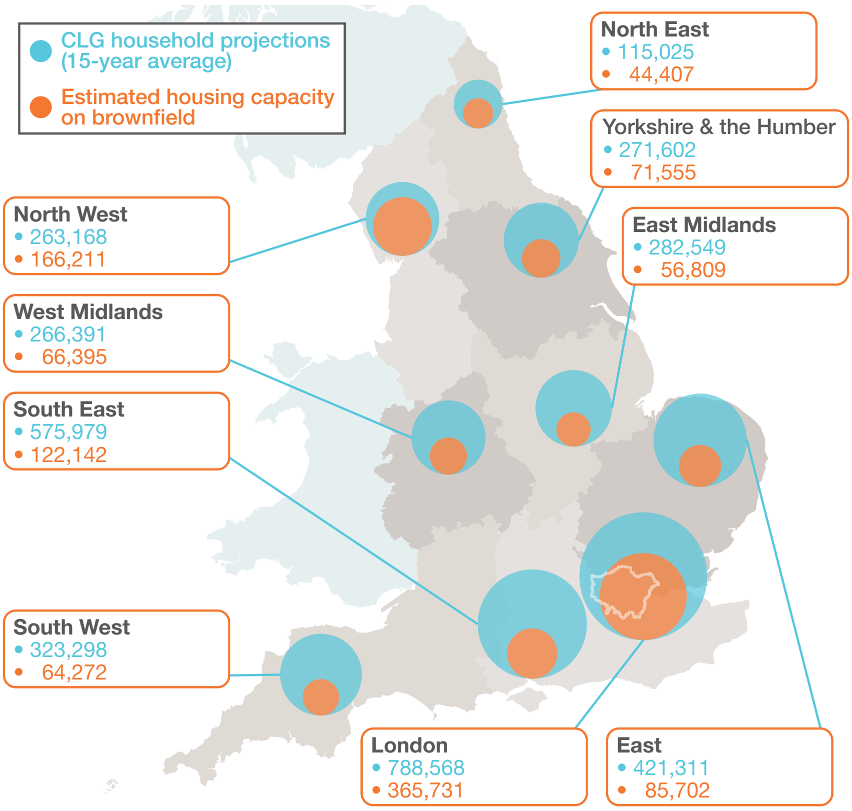
> *'There is practically no significant "derelict" land in London, and when we talk about "brownfield" what we really mean is simply any land that's previously been developed. And about two-thirds of that already has housing on it (although the formal definition of brownfield was recently changed to exclude gardens).'*
> Quod/Shelter 2016

Critically, overreliance on brownfield land will prove inadequate. It is important that in identifying land for homes, employment land is not sacrificed because building homes for places where there is not enough work is a problem, which is already apparent in various parts of the UK. Nevertheless, building economic centres which do not provide enough neighbouring housing – so as to make areas attractive as places to work and live – will also struggle. The two types of development must be complementary.

FIGURE 2.2

There is not enough brownfield land to meet the scale of housing demand

Brownfield land availability across English regions



Source: NLP, *Brownfield land solution?* (NLP 2014)

Building homes on land where homes already exist may involve long and painful CPO negotiations that will not only take lengthy periods of time but, given that homes may need to be knocked down in the process, the net additional homes on the site may be fewer than on greenfield sites.

This reflects the fundamental challenge in the current national land supply debate – simply, there is not sufficient brownfield land (let alone public brownfield land) nationally to offer the land necessary for the scale of housing requirement needed. A study by Nathanial Lichfield and Partners of brownfield sites identified in the national land use database confirms this, and reveals a 'capacity of c.1m when needs over the next fifteen years are for 3.3m new homes. Even if there are further sources of untapped potential, the national gap is likely to be very significant'. More problematically, that 'brownfield capacity is not concentrated in locations with the highest levels of housing need' (NLP 2014).

Responding to these constraints is not straightforward. Lacking sufficient brownfield capacity, local and combined authorities are thus faced with the challenge of identifying greenfield sites. This brings about both political and legal difficulties. On the former there is the question of whether the CA can politically deliver the release of greenfield and greenbelt land for development – not least because of the wide geographical coverage of CAs, some individual authorities are likely to be disproportionately affected by greenfield land release. A further challenge is the constraints of the National Planning Policy Framework, which is powerful in limiting greenfield and greenbelt use from an environmental standpoint, but unhelpful if spatial plans are to genuinely meet housing need.

2.5 ANALYSIS: NEITHER SUBSTANTIAL NOR SUBSTANTIVE DEVOLUTION ON HOUSING AND PLANNING

For all of the opportunities that have come with devolved housing measures – some of which are significant – the menu of powers enjoyed by combined authorities is narrowly drawn, and reflects more closely the priorities of government than the challenges in local housing markets. This is witnessed in:

- the focus of land supply on public, brownfield sites and maximising the use of state assets
- the preference for providing loans, rather than grants, to drive the provision of more market housing, irrespective of whether 'affordable' housing or social housing are required – in the one case in which a grant may be provided, this prioritises home ownership, irrespective of the specific tenure demands of the area
- limited restructuring of planning policies, and indeed central power over planning policy potentially being consolidated through amendments to the NPPF – for instance, starter homes will apply a tariff on local authorities, meaning their ability to negotiate section 106 affordable housing will be severely limited to any viable demand above and beyond the starter homes quota; planning department capacity is also being left

largely untouched, despite having been cut by 46 per cent through fiscal consolidation, placing further resourcing burdens on city regions

- design, and building regulations, as well as space standards, do not feature heavily, if at all, and there does not appear to be any additional finance available for regeneration of communities or innovative neighbourhood planning
- with the exception of business rate retention, property taxes – which could offer opportunities to shape markets, incentivise investment and rationalise housing consumption – are not on the table (except business rates).

Furthermore, in nearly all cases the government will retain a strong presence on any decision-making organisation that administers specific funds and enacts devolved policies. For instance, all investment funds (loans and grants), public assets boards and spatial planning bodies will include a strong representation of central government appointees – in most cases officials from the HCA – who will have voting rights and oversight responsibilities as CAs and LAs look to influence their preferences.

As a result, in reviewing the content of the devolution deals published to date, they bear the hallmarks of piecemeal reforms to achieve specific government goals, and offer neither substantial devolution to transform housing markets, nor substantive autonomy of housing investment and policy functions that will deliver on local or national targets.

3.
CONCLUSIONS AND RECOMMENDATIONS: A NEW DEVOLUTION DEAL ON HOUSING

Local government's involvement is crucial if the government is to meet its commitments to build 1 million new homes and, within this, 200,000 new starter homes. They know their local sectors, can work directly with planners and developers, and are well placed to stimulate local housing markets.

Devolution therefore offers one of the best opportunities for meeting national targets. Yet within the constraints of national policy, around planning, land supply and investment resources, its reach and influence remains tightly constrained. The macroeconomic context also has a strong influence over local housing markets.

This needn't be the case. In other public policy areas devolution has more successfully recognised the importance of local economic growth, fostering economic resilience – through local growth deals, for example – and the negotiation of city and devolution deals within plans for economic development. This includes skills programmes, enterprise zones, innovation hubs and business support.

The emphasis on the 'northern powerhouse' is a clear demonstration of this, with devolution to northern cities being discussed primarily in terms of economics and the contribution they can collectively make to meeting Treasury objectives. There is still much scope for further devolution – even in these 'northern powerhouse' areas there is still evidence of a piecemeal and partial transferral of power – and yet with the economic focus at the centre, there is perhaps a clearer drive moving this agenda forward.

For housing, however, a new housing devolution deal is needed in order to meet government housing targets and ensure success in the economic objectives of devolution. It will require a two-way deal-making process, comprising an ambitious combined authority offer on new homes and, in return, a new package of devolution powers to support CAs to achieve and extend these goals.

The following section suggests some future terms of a new deal for housing devolution, based on matching central government priorities in exchange for reducing some of the rigidities and barriers that national housing policy creates.

3.1 THE COMBINED AUTHORITY OFFER

Convincing central government that CAs can deliver national objectives will be critical if further devolved powers are to be agreed. It demands a clear statement of their ambitions to create successful and resilient local housing markets that can meet current and future resident needs. They will need to commit to specific outcomes around housing delivery, and prove through their strategic planning processes that they have the local capacity to deliver.

The key to a new devolution deal is dependent upon a combined authority offer, and they should therefore set out the following.

- A firm commitment to **release enough public land, and identify sufficient private land, to meet their housing needs target in their spatial plans**. This must include having local plans of each member authority approved by a fixed date (with a CA mayor to intervene where the process stalls).
- **Clear proposals to increase use of existing buildings, through home improvement and conversion programmes** – for example, retrofitting and refurbishing – to bring public assets identified through brownfield registers back into use.
- **A commitment to meet government home ownership targets within the area** (not on a site-by-site basis), including specific targets on starter homes should these remain a national priority.
- **A commitment to speed up planning processes**, through reducing the number of restrictive planning conditions, adopting permission in principle, reinforced through the provision of model design codes.
- **Measures to support SMEs**, for instance through breaking up larger sites and adopting a 'build now, pay later' approach to selling public land.
- Details of **how their housing commitments will interact with other economic development powers** – this might include combining housebuilding targets with devolution of skills and employment, looking to develop expertise within the local workforce through apprenticeships and further education in construction and design, as well as in specialisms such as conservation and heritage architecture.

Meeting the above commitments will ensure that when further powers and resources are transferred down to combined authorities, they will have the land and the strategy to quickly go about delivering the homes promised.

3.2 EXPANDING THE MENU: THE WESTMINSTER GOVERNMENT OFFER

In return for more ambitious housebuilding targets and dedicated programmes for improving current stock, CAs should be asking for an increased government offer over housing powers and finance.

The powers CAs should seek in exchange will be contingent on the specific local challenges in their housing market, and their ability to influence these through existing and additional devolved measures. These should, however, confront the current rigidities of the national policies and funding streams, and work to maximise certain existing powers the government has devolved. Specifically, they should involve three key elements.

1. **Powers to deliver full spatial plans.**
2. **Resources to unlock development.**
3. **Powers to ensure quicker, better planning consents.**

Powers to deliver full spatial plans

Combined authorities will need to clearly set out the available brownfield land in their spatial strategies, through brownfield registers and public assets boards in order to demonstrate the full local capacity of existing land opportunities. In doing so, asset boards will need to be tasked with ensuring that their public land is disposed of, and where possible used to initiate different types of development (like homes for rent) that are less reliant on changing economic conditions, or volume housebuilders, to ensure that homes are built as quickly as possible.

Yet, given the clear limits of existing brownfield capacity, a great deal more land will need to be identified to ensure that statutory spatial plans can identify and develop the land necessary to deliver the housing targets within them.

Recommendation: Where complete brownfield registers have identified insufficient brownfield land to fulfil the housing needs of spatial plans, combined authorities should be granted **increased flexibility over NPPF land use restrictions** – namely loosening greenfield and greenbelt restrictions.

Identifying new housing growth areas on undeveloped land will require co-ordination among member authorities, but also leadership from mayors to cut through disagreements, and, where necessary, the use of mayoral development corporations and 'call-in' powers to ensure that the plans underpinning the statutory spatial plans are a) ready, and b) fully reflect local housing need.

Achieving spatial planning with statutory status is important to ensure a long-term co-ordinated vision across a CA that can set out guidance on locations for activity, tenure type requirements and design standards. While many of these powers are currently within the remit of LAs to pursue, incorporating these into an overarching plan, covering the CA in its entirety, can be more appropriate for ensuring national targets are met while still matching the needs of local areas.

This may require the softening of other elements of the NPPF. For example, **requirements on starter homes, instead of being taken at the site or even local authority level, could be spread across the CA and located where the supply will be met with homeownership demand**. In other areas, social or private rental accommodation might be more appropriate, and local plans should be allowed to reflect this.

Unlocking housing growth areas also relies on infrastructure being in place, or at least being under construction with a clear timescale for completion. Some infrastructure – such as HS2 – inevitably requires a longer-term outlook. Other areas such as utilities, broadband and cycle routes can be implemented within shorter periods. Ensuring CAs are able to co-ordinate plans in these areas with their housing objectives is vital – for example, designing travel-to-work routes around new developments, but also in directly delivering the infrastructure for the site.

This is where wider funding streams are a critical part of the equation. For example, financing from local growth fund deals and the circa £30 million annual devolution budgets could be used in part to support housing developments, alongside a proportion of business rates following the introduction of business rates retention.

Pooled housing investment funds

Gap funding remains a major problem in certain housing markets, and yet there are already a range of funding streams available that could be invested in building new homes. Lacking is the power to pool and co-ordinate spend of this funding at the CA level to reflect local challenges.

Recommendation: To ensure investment streams work appropriately to overcome local viability and affordability constraints that are holding back housing growth:

- CAs should do **a deal to pool funding streams** in a shared commitment between local and national government to unlock large sites and regeneration programmes. The pooled funds should combine:
  - starter homes land remediation grant
  - shared ownership HCA funding
  - new homes bonus payments
  - housing investment fund finance (such as that in Greater Manchester)
  - stamp duty receipts from new-build homes
  - other revenues from council tax premiums.
- The collective pool of **funding should be based around specific supply commitments**, but HCA restrictions on how budgets are spent should be removed.

A key government contribution will be existing HCA funding, which includes **devolving both starter homes land remediation funding, and shared ownership funding**, worth an estimated £40,000 per home. Both are potentially substantial, but are currently restricted in the type and tenure of home they fund – easing these restrictions is essential, especially for sites where viability and the delivery of affordable housing are major challenges.

These collective funds could be used to: unlock infrastructure on stalled sites; support a wider range of tenures where the mortgage market will not provide the finance to support new market sales; and support different types of development (such as rental homes) that are more insulated from changes to the national or local economic situation. The potential gap funding from the HCA programmes that could be devolved to CAs is set out in table 3.1:

TABLE 3.1

Potential capital funding at the combined authority level 2016–2021

	Population	Population share of HCA funding 2016–2021*
Bristol	1,104,300	£95,555,000
Greater Manchester	2,733,000	£236,486,000
Liverpool	1,517,500	£131,309,000
North East	1,952,400	£168,941,000
Nottingham	1,115,700	£96,541,000
Sheffield	1,365,800	£118,182,000
West Midlands	2,808,400	£243,010,000
West Yorkshire	2,264,400	£195,938,000
England	*54,316,600*	*£4,700,000,000*

Source: HCA, Shared Ownership and affordable homes programme 2016-2021 (HCA 2016), IPPR calculations
*Note: rounded to the nearest £1,000.

In exchange for agreeing the devolution of national funding streams and relaxing their restrictions, combined authorities should, following the example of Newcastle's future homes fund, commit their own housing revenues to a rolling housing investment fund.

This should include future **reinvestment of new homes bonus payments** – equivalent to six years' council tax for each new home (and potentially future council tax receipts from the development). These are significant sources of housing funding – worth £980,000 in Burley, and over £6 million for Cambridge in the latest round of allocations (DCLG 2016e). These are already a core part of the Newcastle homes fund, and should be a key part of local investment commitments.

The government should also **allow combined authorities to retain stamp duty receipts on new-build properties**, to be reinvested in the pooled investment pot. The benefit of this approach is that, outside of London, the sums contribute relatively little to national revenues (see LHC 2016), but could prove significant if retained at the local level, in terms of increasing the potential revenue for housing budgets and incentivising further investment into new developments, and thereby providing a virtuous circle of housing income.

For example, in 2014/15 stamp duty on residential properties yielded £33 million in Birmingham, from a total of 14,979 transactions, reflecting an average stamp duty income, per transaction, of £2,203. While in Sheffield, 8,806 transactions raised £19 million, an average stamp duty income per transaction of £2,158 (HMRC 2015). Although the total yields vary, demonstrating that inequalities are being experienced across the country on the number and value of transactions, they nevertheless highlight a useful source of income which could support local authorities in achieving the government's housing targets.

The reinvestment of stamp duty receipts into local developments can generate more capital for expanding the ambition of a site, or even raising stamp duty thresholds at the bottom end of the market to reduce barriers to home ownership – a change that would require new legislation, but could feasibly be piloted on a large development as an alternative to other demand-side products such as Help to Buy and lifetime ISAs.

Recommendation: Council tax offers a further potential funding stream for building new homes – but a number of changes will be necessary to steer housing markets. As such, government should allow combined authorities:

- the **power to provide fixed-term council tax breaks or discounts on new properties** to attract residents to housing opportunities in new developments and alternative locations within the local area
- the **power to increase council tax premiums on second homes and empty properties** beyond the current limits, to increase the efficient use of property locally (for more details, see Davies 2014).

LAs would be encouraged to contribute income from any revenue-raising changes to council tax into their pooled funding pot. In addition, any income from the sale of public assets identified through brownfield registers should be reinvested into the building of more homes.

Collectively, these measures could provide significant additional funding for developments – an example on a 100-home site is set out in table 3.2.

Finally, combined authorities should be diverting some of their single pot allocations of £30 million a year into their housing investment funds, to provide early funding for infrastructure on struggling sites. Given that this enables a borrowing capacity of some £980 million, the investment potential of this fund is significant. However, in order to encourage local authorities to be even more ambitious, **government should commit to top up single pot funding further for areas that are willing to 'overplan' for their housing requirement**, where they are coterminous with localities that are struggling to meet demand. In particular, these areas should be made eligible to bid for additional capital funding for transport and other infrastructure investment cash.

Powers for securing quicker, better planning consents

Setting comprehensive spatial plans and efficiently processing planning permission requires fully resourced planning departments to identify and allocate land for development, and deliver an efficient, quality service for local developers.

To reverse the sharp reductions in planning funding (NAO 2014) and personnel (RTPI 2015), planning departments should be able to charge more for their services – while recognising the distinct planning cost challenges facing SMEs.

Recommendation: The government's offer to combined authorities should include allowing them to **set planning fees locally** to refinance their planning departments.

Initially, the government could offer the power to set planning fees within bandwidths – in other words to increase planning fees within a range of plus/minus 10 per cent of where they are presently set. A combined authority could then opt to increase fees for large developments, while decreasing the costs for SME builders, and thus lowering barriers to entry.

Improving the speed and quality of decisions must also come with clearer guidance on what is an appropriate development, especially in light of the risks associated with permission in principle and starter homes. So, coupled with powers to set planning fees and tax unbuilt homes should be the ability to set a series of standards that planned developments would be expected to meet: these can reflect design standards across local plans – and the functional requirements detailed in these, relating to vehicular access and street furniture – but also be tailored for specific sites where appropriate.

It can encourage more place-based planning and the development of sustainable communities in which local economic growth is supported, and there can be further confidence in new properties being able to match the expectations of homebuyers, and so stimulate demand. At the same time, changes to the planning system directed from the centre – notably permission in principle – need underpinning by this form of guidance to make sure the quality and character of local areas is not undermined.

Recommendation: **Combined authorities should use planning guidance to apply design codes for both starter homes and permission in principle** to ensure housing quality specifications are met in accordance with local needs and the character of the local area. Alongside this, **mandated design reviews should be explored as a way of bringing in independent expertise to assess planning applications early and inform the decisions of the local planning authorities on the suitability and strength of designs**.

Applying expected standards through design codes will serve to speed up the planning process by providing clear guidelines for architects and planners against which their applications will be assessed. Developers can enjoy more certainty over the types of plans which will be approved at the technical details consent stage of permission in principle, and rule out options early which are likely to be rejected. This could be especially significant for SMEs and small sites, where the upfront resourcing costs associated with planning applications can be a deterrent.

In addition, CAs could look to use and **extend the devolution of powers to set up mandated design review processes** to complement the use of design codes and a master-planning approach. These are already recommended by the NPPF and can be used to make sure more attention is paid to the quality and suitability of proposed designs at the earliest of stages, informing local planning authorities as they consider applications. Made up of architects, urban planners, engineers and other specialists, they are an independent voice on any project (Design Council 2013).

The constant arguments over whether a development is viable or not is slowing down development and diminishing the number of affordable homes provided through new developments (Brownill et al 2015).

Speed and predictability in the planning system will be improved through having a clear set of rules to assess viability across the combined authority area, and providing a viability framework alongside design codes will bring even more certainty to the planning process. As such, government should allow for the provision of a single viability framework across a combined authority. Here, developers must set out the proposed costs of the project, including any planning obligations, the likely return on their investment, and possible risks.

Recommendation: **Government should allow for the provision of a single viability framework across a combined authority** to add certainty to the planning process, including publishing viability assessments in the public domain, coupled with comparable metrics, such as build material, labour and marketing costs.

At present, viability frameworks operate at the local level but in the new devolution deal, in return for housebuilding commitments, CAs should be able to design single viability frameworks which operate across their constituent authorities. To provide further certainty, any mayor with 'call-in powers' over local planning applications should set out clear rules on when they will, and will not, call-in applications over viability.

Finally, as is evident from the DLCG/Glenigans data set out in chapter 2 (DCLG 2014b), achieving a target number of planning permissions is not sufficient to ensure that the homes are built – and landowners and developers face few incentives in the planning system to turn their planning permission into homes. As such, the government should allow local governments to charge a levy on unbuilt permissions, with a view to both increasing the speed of development, and discouraging speculative planning consents.

Recommendation: Combined authorities should have the **discretionary ability to charge council tax on unbuilt homes** to accelerate building rates.

Summary

Collectively, these measures will give teeth to the powers that the government has already passed down through the devolution deals, and ensure that there is the land, planning and financial capacity to unlock many more of the homes that both the government and CAs need to confront the national housing crisis.

Below, we set out a method for piloting this approach on a large site-by-large site basis, under the rubric of mayoral development corporations.

3.3 PILOTING NEW POWERS BY PLACE: TOOLING UP THE MAYORAL DEVELOPMENT CORPORATIONS

Piloting the use of these powers could be easily done on large, contained regeneration sites. Large sites remain a challenge nationally – while they dominate numbers in terms of planning permissions, and have the potential to deliver significant housing growth, their delivery tends to be slow, being locked up in planning, land assembly and delivery issues.

Within the geographies of CAs, however, large sites like these also represent a significant opportunity to pilot new devolved powers and test models of implementation.

Building on the principles of mayoral development corporations (included in a number of the devolution deals), a combined authority would identify a challenging opportunity area and earmark it for special planning and investment treatment – such as London's housing zones.

The MDC would offer a range of co-ordinated activity on these sites, including master planning, land remediation, infrastructure investment and targeted housing investment.

Delivering this kind of plan for a place will not be cheap, and thus to achieve this kind of master planning repeatedly at scale will demand either: a) risk to be taken on future revenues for the site, or b) adjustments to planning fees in order to invest in the long-term capacity of local planning departments.

TABLE 3.2

Example of 100-home sites revenues

		Revenues		
	Number of new homes	SDLT (£150k average price)	Council tax, annual (band C)†	New homes bonus (B and C * 6 years)†
Market sale	40	£20,000	£56,000	£337,000
Starter homes	20	-	£28,000	£169,000
Private rented sector	25	£125,000	£35,000	£211,000
Affordable housing (as s106)	15	-	£21,000	£158,000
	100	**£145,000**	**£141,000**	**£875,000**
Total				*£1,160,000*

Sources: DCLG 'New Homes Bonus Provisional Allocations 2016-17, England' (DCLG 2016f), DCLG 'Table 7: 2016 to 2017 Council Tax (average Band D) and % change on 2015 to 2016, individual local authorities' (DCLG 2016g), HMRC, UK Stamp Tax statistics 2014-15 (HMRC 2016)
†Note: rounded to the nearest £1,000; totals may not add up due to rounding.

Pooled funding, as proposed above at the CA-wide level, however, can be used (see table 3.2) and invested into building an appropriate mix of tenure and developments at the volume required. Wider infrastructure funding can also be brought into these MDCs to co-ordinate transport, environment and utilities planning alongside housing.

A proportion of the homes would be eligible for grant subsidy too, as table 3.3 illustrates.

TABLE 3.3

Example of 100-home site grant funding

	Number of new homes	Estimated grant
Market sale	40	-
Starter homes	20	£760,000
Private rented sector	25	-
Affordable housing	15	£450,000
	100	**£1,210,000**
Total		*£1,210,000*

Sources: NAO *Financial viability of the social housing sector: introducing the Affordable Homes Programme* (NAO 2012), Savills *Spotlight: Shared Ownership*, DCLG *Starter Homes: Unlocking the Land Fund* (DCLG 2016h).
†Note: rounded to the nearest £1,000.

FIGURE 3.1

Building locally specified design codes into the planning process should help make sure that good design is at the heart of place-based zones
Abode at Great Kneighton (winner of the RIBA National Award in 2015) demonstrates the benefits of design codes in supporting the development of new and attractive places to live

Architects: Proctor and Mathews Associates
Photographer: Tim Crocker

Having demonstrated their ability or otherwise in delivering pooled investment, master planning and government outcomes on a large site, the case for wider devolution of these powers, and for further devolution, would be supported by site-specific examples.

However, this method could equally be used by combined authorities to stimulate a string of regeneration projects, where the revenues generated from one MDC can then be used to shift attention to the next regeneration area. For instance, the cash generated from successful schemes could be used to fund compulsory purchase orders, exercised by combined authority mayors, to buy up further local land opportunities, and start the investment and regeneration process over again – for instance, a hectare of land in Sheffield would cost roughly the same as the collected revenues from the 100-home size example above.

Buying up a new site would enable the combined authority to have an increased say on the design, tenure mix and size of new developments to ensure they meet the objectives of their overarching planning strategy.

Finally, building locally specified design codes into the planning process should also help make sure good design is at the heart of these place-based zones. These will encourage innovation and new modes of construction while ensuring the appropriateness of the architecture to the existing built and natural environment in which the development will be located. This again will demonstrate how extensions to the devolution deal can be implemented in a way which meets both volume and design targets.

3.4 DEVOLUTION BEYOND COMBINED AUTHORITIES

For all the understandable focus on combined authorities, the future housing devolution agenda should not be limited to them alone. The devolution deals negotiated and published so far cover only 16.1 million people, and therefore delivering England's housing need will have to account for the many housing markets beyond these CA areas.

Government policy has recognised the valuable role for housing at other levels of government, both LEPs and city deals, and there is much within both the current 'menu with specials', as well as in our recommendations, that could logically be offered to areas outside combined authorities. MDCs, for example, while operating at the CA level, as pilots will demonstrate the potential of locally focused regeneration in addressing the UK's housing challenges, as in the two following examples.

- Areas that are willing to 'overplan' for their housing requirement, where they are coterminous with localities that are struggling to meet demand, should be eligible to jointly bid for additional capital funding for transport and other infrastructure investments.
- Localities that can identify specific large sites within their area should be able to bid to government to set up local equivalents of mayoral development corporations, and with this instrument bid for pooled HCA cash in exchange for specified outcome targets. Flexibility over tax receipts could easily be applied at this level to create Newcastle-style rolling housing investment funds.

Indeed, generally, the only powers that ought logically to be off-limits for non-CA areas are the spatial planning tools and the benefits that come with it – for these additional powers to set spatial plans, to 'call-in' applications, and set supplementary planning guidance, smaller localities should continue to be required to self-organise either around LEP or travel-to-work areas.

3.5 SUMMARY

England's housing market is in crisis. Put simply, it is not delivering enough homes, nor is it achieving the appropriate mix of tenure to meet the needs and expectations of its residents. There is not one housing market, however, and many of these targets and commitments need to be tailored to the opportunities, challenges and requirements of local areas. Devolution offers the best opportunity for doing this.

This idea has not been missed by recent governments, and a process of devolution – across a range of policy areas – has been moving forward. Yet, with a primarily economic focus and the continued presence of centrally governed polices that are setting constraints on the planning and housebuilding activities of local authorities, this has been piecemeal and partial at best.

What is needed is a new devolution deal on housing. As this report has argued, this will be a two-way process. Combined authorities must devise new and ambitious targets for housebuilding, with clear long-term plans on how they will build and regenerate communities in which housing targets can be successfully realised. In return, CAs will ask government to respond with new and extended powers – in areas of pooled funding, fiscal flexibility, spatial planning and design – without which they will be unable to achieve these goals.

The government has a target to build 1 million new homes, including 200,000 starter homes, over the course of the next parliament. Devolution can provide the means and the tools to achieve this.

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ANNEX A: COMBINED AUTHORITY DEVOLUTION DEALS

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